

PROPOSAL FOR AN AGRICULTURE

CREDIT PROGRAM

IN THE

HELMAND VALLEY

By

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Kabul, Afghanistan
1966

INTRODUCTION

Under the jurisdiction of the Helmand Valley Authority lands of the Helmand Valley are being developed for increased production. Two dams have been built, providing a constant year-around supply of irrigation water to approximately 300,000 acres of irrigable land. Primary distribution and drainage canals have been built to service most of this area. Soil classification, cadastral survey, research, and extension education programs are established and their improvement is being assisted through AID technical assistance.

Agriculture, as practiced by the farmers and settlers of the Valley, is primitive, and the literacy level of the farmer is very low. Although some improved practices that would contribute to the farmer's welfare are now apparent to him, he is, in a majority of instances, unable to adopt them because of the absence of the necessary capital resources. There is no system of institutional credit available to farmers in the Valley. The only credit available to most farmers is that provided by money lenders, viz., landlords and merchants. The cost of this capital is so high that it is used only in the case of dire need of providing the food and clothing for subsistence. This cost is much greater than any prudent farmer would pay for risk capital to be used for market production.

It is fully recognized by officials of the HVA and AID that future progress in the development of agriculture in the Helmand Valley will, to a large degree, depend upon the development of a sound system of institutional credit that will serve both landowner and tenant to the extent that he will be able to improve his living standard and contribute to the supply of produce for the market.

Many reports and papers in recent years have fully analyzed this situation. This report will not attempt to restate the situation but will be directed to recommendations for a solution to the credit problem. Annex A to this report is a list of suggested reports and papers dealing with various development programs in the Helmand Valley.

CREDIT PROPOSAL

The Agriculture and Cottage Industries Bank which was organized in 1954 operated for a few years with policies and procedures that have proven unsuccessful. In recent years its lending activities have been limited to a very narrow sector of the agricultural needs. The Bank is at the present time studying ways and means of reorganization and capitalization. It is an institution that could offer the fiscal mechanism for a credit program envisioned by this report, and the system proposed for the Helmand Valley might contribute to the future operational policies and procedures for the reorganization of the Bank.

It is therefore proposed that:

1. The Agriculture and Cottage Industries Bank establish a branch at Bost with field offices as needed to service a pilot project area. The Bank will assign the best management staff available to the branch.
2. A memorandum of understanding will be prepared and signed by appropriate officials of the Bank, HVA, and USAID establishing the responsibilities of each in the implementation of the credit system.

3. The policies governing the operation of the Bost branch will be approved by a policy committee composed of the President of the Helmand Valley Authority, the Manager of the Bost Branch Bank, and General Director of Agriculture.

4. An initial capital fund of 15,000,000 Afs. will be established as a loan fund for the operation of the Bost Branch. This fund will be separate and apart from other capital funds of the Agriculture and Cottage Industries Bank. The fund may be made available from resources of the Afghan Government, Agriculture and Cottage Industry Bank, The Helmand Valley Authority budget, and from PL 480 funds as provided in the memorandum of understanding. Additional funds will be required depending upon the success of the system and the desirability for expansion. It will be recognized that loans from this fund will be made under experimental policies and procedures and that losses in the first year's operation may exceed that which would be expected after adjustments were made based on first-year experience.

5. The system of operation by the Bost Branch will be a supervised credit system. A supervised system of credit means that credit will be extended with farm management guidance which includes planning, sound operations, establishing improved practices, supervision of operations, and the keeping of production and cost records. Loans are to be based primarily on potential income and debt-paying ability rather than collateral available and financial net worth. Mortgages will be taken on crops, livestock, equipment and real estate to the extent possible to protect the Bank's interest.

The organization of the Bost Branch will be in keeping with the policies established by the Policy Committee. It should serve as an example of modern business practices, including the clear assignments of responsibility and personnel management that will assure timely service to farm applicants. Loan officers should be employed by the Bank who know and understand sound farm practices as reflected in an application and farm plan. Field supervisors must be employed who are sympathetic to farm problems and can be trained to plan and service sound farm loans.

The operation of the pilot credit system will be the sole responsibility of the Bost Branch Bank in keeping with the policies established by the Policy Committee. Policy and operation procedures will be developed for this Branch without regard to present policies of the Bank except as they may pertain to basic laws of the country or the Charter of the Bank. This operation will be carefully coordinated with other agricultural programs of the Valley. In the first few years of operation loans should be made for short and medium-term purposes only. In future years plans should be developed for the making of long-term loans to enable farmers to acquire or improve land resources. Short-term loans for one year or less will be for annual operation purposes. Medium-term loans up to five years will be made to enable farmers to acquire capital items, such as power, machinery and livestock. The credit system will be featured by the following procedures in the loan-making process.

1. Resource Guides

Prior to loan making in the pilot area resource guides will be developed for each district served by a field supervisor. The guides will reflect recommended cropping systems, production costs, average yields, and return. The development of these guides will be the responsibility of the Bank with the assistance of agriculturists and outstanding farmers of the different districts. The guide will be used by the Bank supervisors as a tool in the development of realistic farm plans that will serve as a basis for the extension of credit.

2. Application for Loans

A simple, one-page application form will be developed that will be submitted to the Bank by the applicant farmer as his official request for loan service. The application will identify the farmer, his location, his financial status, and will reflect his request for a loan. The applicant will secure an application from the district supervisor in his district who will assist him, as needed, in filling out the application. (Sample Application Form, Annex B)

3. Eligibility Committees

An Eligibility Committee will be appointed in each district by the Policy Committee. The Eligibility Committee will be composed of the Extension Agent in the district and two outstanding farmers of the district. The Eligibility Committee will meet on call by the district Bank supervisor to consider applications for eligibility. Honesty, integrity, industry and background experience should be the basic criteria considered. The Bank supervisor will notify applicants who are determined ineligible.

4. Farm Plan

A farm plan will be developed by the Bank's field supervisor with the applicant who has been determined eligible by the Eligibility Committee, and will determine the soundness of the proposed plan of operation. The plan will reflect the crop and livestock production and expected return. It will also reflect production and family living costs, the loan requirement, and repayment schedule. (Sample Farm Plan, Annex C)

5. Loan Approval

The Bank's district supervisor will write his recommendations in the appropriate place on the application and submit it with the farm plan to the Branch Bank for approval or disapproval by the loan officer of the Bank. Applications should be handled expeditiously so that credit will be available in time to meet the farmer's needs.

6. Loan Disbursement

Loans generally will be dispursed in kind or by purchase certificates that will be honored by supply facilities established for the project, other supply facilities, or merchants.

7. Supervision and Servicing

The Bank's district supervisor will prepare a file folder for each borrower in his district. It will contain a copy of all documents pertaining to the loan, such as the application, farm plan, and disbursement and collection record. In addition, the folder will contain a form for recording the visits made to the farm, with notes as to progress being made

by the farmer in keeping with the plan of operation. Visits to farms should be made as often as needed to assure proper use of items provided in the loan to advise the farmer on practices agreed upon in the farm plan. The supervisor will also assist the farmer in keeping his records up-to-date.

8. Collection

Borrowers will be required to pay their debts to the Bank in accordance with their agreements in the farm plan and their ability to pay. When borrowers have acted in good faith and have made every effort to pay their indebtedness but cannot pay because of circumstances beyond their control, future servicing action will be consistent with the best interest of the borrower and the Bank.

9. Year-End Analysis

At the end of each crop year the Bank's district supervisors will schedule meetings with each farmer borrower for the purpose of analyzing the year's operation. Discussions should be concerned with the success or failure of practices, cropping pattern, actual income as compared to planned income, financial position as compared to that at the beginning of the year, and the credit requirements of the farmer for the coming year. A special report form will be prepared to record pertinent information on borrower progress. A tabulation of the results of this analysis exercise will serve as a measuring device for the success of the total lending program, the objective being a general improvement of the financial position of the farmer.

10. Eligibility

Landowners, tenants, or groups of farmers may be eligible for a loan.

Should this proposed program be initiated, it is suggested that an administrative budget be provided that will enable the Post Branch Bank to staff fully its office, employ supervisors needed, and provide adequate transportation for its employees. This budget should be provided by the Agriculture and Cottage Industries Bank but may be supplemented by RGA and USAID.

The selection of a pilot area should depend on its location, productive capacity, and its being representative of credit problems in other areas of the Valley. It is recommended that Shamalan district be used as the first and pilot area for the credit program.

OBSERVATIONS BEARING ON THE DEVELOPMENT OF A CREDIT PROGRAM

The political and economic atmosphere within the area being considered for the development of agricultural programs will affect the degree of success and the rapidity with which programs develop. This does not mean that we should postpone the development of a credit program until all possible impediments are removed or contributing programs are fully developed, but we do need to note unfavorable factors for future consideration of the responsible people.

1. It would be desirable to have a National Cooperative Act administered by a Department of Cooperatives. Such a department would have two primary functions, viz., promotional and regulatory. The promotional section should help in organizing cooperative societies where an established need exists, train local leaders in cooperative and business techniques, conduct programs

of education on cooperatives for members and the general public, and generally create the climate for cooperative development through favorable legislation and the encouragement of a healthy public attitude toward cooperatives. The regulatory section would register cooperative societies, audit operations, arbitrate disputes, handle liquidations, and insure compliance with the Cooperative Act.

Although cooperatives may now be legally organized, a National Act and a responsible department would lend stability and a public consciousness of the opportunities offered through cooperative effort. For developing countries cooperatives have played an outstanding role in securing services needed by rural people. It must be remembered, however, that constructive cooperative development is slow and that the mere organization of a number of cooperatives does not in itself constitute a movement. There must be cohesion, a collective will, a spirit of working together for the common good, and a desire to grow and prosper. This atmosphere does not now exist among farmers, therefore, it has not been recommended to choose this method of development for credit at this time. A beginning in the development of cooperatives or farmer associations may be desirable in the area of input supplies and marketing.

2. Land reform in the Helmand Valley should be a subject of continued study. In so doing, property rights of present owners should be fully recognized and reasonable tenure and crop sharing should be assured to tenants.

3. Credit worthiness of applicants for credit from any institutional credit system depends on factors affecting capacity to repay. Factors over which a farmer through good management and industry can exercise control are: (a) type of farm operation; (b) production, yield, and quality; (c) size of business; (d) intelligent planning; and (e) control of disease and insects. Factors over which the farmer has little or no control are: (a) the cost and availability of his supplies; (b) natural factors (weather); and (c) markets.

The careful screening of credit applicants for honesty, integrity and management ability is an essential practice in sound loan making. Background experience is usually an essential of management ability. The practice of selecting settlers for farm units in the Valley who have not had background experience in the Valley or similar areas will likely result in their being ineligible for institutional credit.

If production goals are to be met the Government should exert every effort to regulate fairly the factors over which the producer has little or no control. Weather cannot be controlled, but supply and marketing are factors that can be regulated. Cooperative effort by the producer can control, to a degree, these factors if such can be done in a favorable atmosphere. The present system practiced in Afghanistan of using export agricultural commodities as a source of revenue not only penalizes the producer but acts as a disincentive to produce a product badly needed in quantity for foreign exchange earnings. One of the factors to determine the soundness of a loan is the return that can be expected in the market place.

4. Another condition necessary for the functioning of a sound credit system is a good farmer education program. Every means of communication should be used to bring to the farmer the results of research and proven practices of production. Lines of communication can only exist when confidence and respect exists between those communicating. Present Extension Education efforts will have only limited success under the present system of assigning the Extension Agent responsibilities of regulatory actions by the Government.

5. Consideration should be given to the development of incentive programs that would encourage producers to grow products needed for domestic and foreign markets.

6. A study should be made to determine an economic-size unit for settlers. Future units should be gaged by these findings and ways and means for adjusting present holdings found. Credit might be used to accomplish the latter.

IMPLEMENTATION

The implementation of a credit program for the Helmand Valley may follow the suggested plan or some variation depending on the willingness of the various agencies to participate. If the officials of the Helmand Valley are determined in their desire to develop a credit system, USAID could offer valuable assistance in technical support for the endeavor. The participation of the Agriculture and Cottage Industry Bank in such a development program could be replaced by another established or new institution should the Bank choose not to expand at this time.

Should the HVA decide on an immediate development in the credit field and desire the assistance of USAID in that development, they should take steps to: (1) establish responsibility within the organization of the Authority for credit; and (2) advise USAID of its desire for assistance.

Recommended USAID technical assistance for the development of a credit program as proposed by this report would be as follows:

1. One full-time credit advisor to assist the HVA and a banking institution in the development and implementation of the program.
2. One consultant for up to ninety days to assist in the development of policies, procedures; and loan forms. This consultant should be available approximately six months after the arrival of the first advisor.
3. One full-time credit advisor to work with the field staff of the credit institution on loan making, supervision and the servicing of loans. This technician should be available as soon as field staff employees are recruited to assist in a training program on field operations.

A training program should be developed on a continuing basis for employees of the East Branch Bank. The program should include on-the-job training as well as training in the U.S. and third countries.

Darrel A. Dunn
June 4, 1966

ANNEX A

Reports and papers on development in Helmand Valley

1. Economics of Agricultural Production in Helmand Valley
By-Ira M. Stevens, Bureau of Reclamation
K. Tarzi, Helmand Valley Authority
2. The Helmand Valley, An Overall Review
By-John S. Benz - E.N. Holmgren
3. Paper - Draft of loan request to IDA. Includes a history
of Agriculture and Cottage Industry Bank.
4. Agriculture Development in Afghanistan
Robert R. Nathan Associates Inc.

Paper prepared for use of Ministry of Planning in preparation
for Third Five-Year Plan - 1965
5. Agri-Facts
Faculty of Agriculture
6. Afghanistan
Marja Irrigation Drainage and Settlement Project.
By-The Helmand Valley Delegation
7. Proposed Incentive Program for Helmand Valley
By-Ira M. Stevens, Ag. Economist
U.S. Bureau of Reclamation
8. Proposal for Immediate Steps in Plan of Action for Developing
a Helmand Region Rural Credit Program.
By-Raymond T. Moyer, Ag. Economist
J.G. White Engineering Corp.
9. A General Plan For an Agricultural Credit Program in Afghanistan
By-Edwin C. Johnson
Agriculture Credit Consultant.

Name _____

Father's Name _____

Application, ANNEX B

Location _____

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Ages of Persons
in Household

Husband

Wife

Sons

Daughters

Others

Years of Experience Farming _____

Amount Borrowed Last Year _____

Jiribs Owned _____ Rented _____

From Whom _____

Name of Landlord _____

Income Last Year from:

Term of Rental Lease _____ yrs.

Crops _____

Share of Crop Produced _____

Livestock-Lvstk Products _____

Inputs by Landlord _____

Other Income _____

Inputs by Tenant _____

Total: _____

FINANCIAL STATEMENT

What I Own

What I Owe

Kind of Property:	What I Own		Name/Creditor	Due Date	Interest Rate	What I Owe		Unpaid Balance
	Jiribs	Value				Annl. Pymt.	Behind Sched.	
Farm			Debts on R.E.			Afs	Afs	Afs
Other R.E.								
TOTAL R.E.								
Livestock--Kind:	No.	Value						
			Total Debts on Real Estate					
			Debts on Chattels					
TOTAL LVSTK:								
Machinery-Equip.:								
			Total Debts on Chattels					
			Other Debts					
TOTAL M & E:								
Seed & Supplies								
Growing Crops								
Feed								
Cash on Hand								
Other								
Total Other Prop:						Total Other Debts		
Total Owned						Total All Debts		

For what purpose do you need a loan?

Date _____ Signature of Mark _____

Committee Certification:

For the loan requested, we certify that the applicant has the character, industry, experience, and ability to carry on a farm operation, and in our opinion will honestly endeavor to accept supervision in doing so.

Signed: Eligibility Committee

Chairman

Member

Member

Supervisor's Comments on Application:

Date: _____ Signature _____

ANNEX C

FARM PLAN

NAME _____

OWN _____

RENT _____

SHARE _____

FROM Day ___ Month ___ Year ___ - TO - Day ___ Month ___ Year ___

CROPS GROWING OR TO BE GROWN						
Kind	Jeribs	Yield/J	Rent	Used on Farm	To be Sold	Value

Total = _____

LIVESTOCK AND LIVESTOCK PR

Kind	Produced	Used on Farm	To be Purchased	To be Sold	Value

Total Value Sold _____
 Other Income-Labor _____
 Total All Income _____

9/1

FARM EXPENSES

Home Expense	Amount	Amount To Be Loaned	Balance for Year					
			Total All Income					Afs
			Total Farm and Home Expense					
			NET INCOME					
			Loan Repayment					
			Estimated Reserve					
Total Living Expense								
Farm Expense								
Total Farm Expense								
Total Exp. and Loan								
Capital Goods to be Purchased								
Total Loan								
			First Year	Second Year	Third Year	Fourth Year	Fifth Year	

REPAYMENT OF LOAN

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-17-