THE EVOLUTION OF POLICY ISSUES TO IMPROVE SMALL FARMER AGRICULTURAL CREDIT PERFORMANCE AS PERCEIVED BY DONOR AGENCIES

BY

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WARREN HALL

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Students who take Agricultural Economics 660 are duly forewarned. To understand the relationships linking "Food, Population, and Employment" considerable reading is necessary. Additionally I think it important that students have the opportunity to develop a major research paper. This requires even more time, both theirs and mine. Enrollment is therefore limited: by the number I can handle and by the number of students willing to put up with such unreasonableness.

But the results are a joy. I am privileged to work with a select few, and they by term's end have the satisfaction of having accomplished something significant. Initially to encourage the student to do his best, I offered publication in the Staff Paper series as bait. Increasingly this is no longer necessary; the papers stand on their own merit and warrant wider distribution.

In the present contribution, David Bathrick focuses on small farmer credit, one of the more widely proclaimed solutions to the many problems facing traditional producers in developing countries. Mr. Bathrick identifies a growing concensus among donors as to the reasons behind the limited success of credit schemes to date, and suggests guidelines for avoiding these in the future. He see credit as but one component of a package designed to totally alter the economic and agronomic environment of the peasant. His conclusions are less controversial than they would be expensive; but perhaps the choice is between large investments with some waste and minimal gestures from which little would be expected.

The author would welcome comments and these should be addressed to:

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Ms. Darlene Jennings and Mrs. Lillian Morse typed the manuscript and prepared the graphics. We are in their debt.

Thomas T. Poleman

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THE EVOLUTION OF POLICY ISSUES TO IMPROVE SMALL FARMER AGRICULTURAL CREDIT PERFORMANCE AS PERCEIVED BY DONOR AGENCIES*

David Bathrick

PART I - AGRICULTURAL CREDIT AND SMALL FARMER DEVELOPMENT

> Whether viewed in the context of prevailing food grain shortages, or of the concern for the small farmer and the reduction of poverty among the rural poor, or of the new initiatives aimed at increasing the flow of investment for agricultural production in the developing countries - agricultural credit might be considered not just timely but of urgent concern.
>
> William C. Baum
> World Bank

A. Recent Reassessing of Agricultural Credit Programs

Beginning ever-so-slowly in the 1950s and more increasingly in the 1960s, lesser-income countries and donor agencies such as the World Bank, the United Nations' Food and Agriculture Organization (FAO), the Inter-American Development Bank (IDB), the Agency for International Development (AID), and private foundations, have in varying degrees directed their attentions and resources to the development and improvement of agricultural credit institutions as a means to improve the conditions of the traditional subsistance farmer. In the late 1960s, it gradually became apparent that only in rare cases did large numbers of small farm subsistance producers participate in institutionalized credit systems. Increasingly, other common characteristics were reported such as the credit institution's inability to cover operating costs thus requiring subsidized support and recuperate large amounts of outstanding loans, (1). Resulting from the growing frequency of these problems, the increasing amounts of capital investments and the unquantified amounts of technical assistance being provided to these institutions, and the important role traditionally held by development thinkers that agricultural credit was the panacea for development, donor institutions began to critically reflect on their experiences in order to determine the possible reasons for this rather spotty performance.

Beginning in 1973, AID initiated the most comprehensive evaluative review of agricultural credit yet undertaken by any institution. Sixty-three evaluations and studies were conducted on AID and non-AID funded agricultural

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*In slightly modified form this paper was first submitted as part of the requirements for Agricultural Economics 660: Food, Population and Employment, Fall Term 1978/79.

credit program in 36 countries which provides the "largest collection of field studies ever assembled . . . ." (2, p. 35). The results of these studies and evaluations were later compiled in a 20-volume series (3). Subsequently, between 1974-75, similar but less-exhaustive reviews of the subject were undertaken by the World Bank (4), the FAO (5), and the Rockefeller Foundation (6). All reviews identified a series of policy "issues" which credit institutions should consider in improving small farmer credit performance.

B. Changing Roles Associated With Agricultural Credit

As quoted from Gordon Donald (7, p. 17);

> Financial credit is the most universal and flexible transferable form of economic resources: with cash obtained via credit one can buy anything that is for sale. While goods and services could also be transferred to desired parties by administrative allocation, the transfer can be more easily effected by credit and with much greater freedom of choice and efficiency.

Though in the 1950s limited amounts of "financial credit" in the form of agricultural production credit began to be provided by donors, small farmer development as a governmental priority was low in comparison with the development of other sectors. The prevailing development strategy directed resources for major capital investments, particularly those concentrated in urban areas, or to support the large commercial farmers who usually produced cash crops for exportation. Except in the case of the Republic of China, and to a lesser degree South Korea, small farmers were for the most part excluded from institutional credit. (Refer to Table 1.) This exclusion resulted because of the 1). prevailing low-interest rate structure, there was no incentive for commercial banks to fund these "higher risk" investments; 2). much higher administrative costs that were associated with the supervision of small loans in remote areas; and 3). low-level of technology employed by the small producer.

Traditionally small farm credit programs had been justified to counteract the "usury" rates charged by informal money lenders. This lending practice was felt to be a principal constraint inhibiting development within the small farm sector. Accordingly, if low interest credit could be provided through "competing" credit institutions, farmers would immediately adopt commercial production practices. Sizeable production increases would result in increased farm family income.

L. J. Walinsky summarizes this commonly-held view (8, p. 145):

> Farmers in the developing countries are generally hampered by high interest costs for short-term crop loans, usually from small-scale private money lenders, and by the almost complete lack of sources from which they can borrow the longer term loans they would need to purchase draft animals and equipment, upgrade their stock, reclaim acreage, execute soil conservation measures, build barns, and financing similar capital needs. High cost loans constitute a major charge against their current income from money lenders and depresses their living standard. The unavailability of longer-term credit prevents them from improving and expanding their output. Both limitations can be overcome by a well designed agricultural credit program, at the core of which would be an agricultural bank.

TABLE 1

Farmers Receiving Credit from Institutional Sources,
in Selected Countries
(Percentage of all farm families)

Country	Percentage	Country	Percentage
Africa			
Ethiopia	1	Sri Lanka	14
Ghana	1	Thailand	7
Kenya	12	Turkey	23
Morocco	10	Viet-Nam, Republic of	21
Nigeria (Western)	1	Latin America	
Sudan	1	Bolivia	5
Tunisia	5	Brazil	15
Uganda	3	Chile	15
Asia		Colombia	30
Bangladesh	15	Ecuador	18
China, Republic of (Taiwan)	95	Guatemala	2
India	20	Honduras	10
Jordan	8	Mexico	15
Korea, Republic of	40	Nicaragua	20
Malaysia	2	Panama	4
Pakistan	5	Paraguay	6
Philippines	28	Peru	17

Source: World Bank, Agricultural Credit Sector Policy Paper, May 1975, p. 71

Resulting from the above-mentioned evaluations of agricultural credit undertaken by the donor agencies, it was determined that though there was an important role for agricultural credit, its role had, in the past, been over-simplified. There are a series of other complementary issues which must also be considered if an improvement is to be made in the economic and social status of the small producer. Those other considerations include: 1). an available improved technology beyond the traditional technology levels which the small farmer will readily utilize; 2). the presence of feeder, farm-to-market road systems; 3). the availability of quality modern agricultural inputs when needed; 4). out-reach extension services qualified to assist these farmers; and 5). favorable marketing and storage services and facilities to respond to the increased production. Though agricultural credit is an important "accelerator" in rural development, other supportive factors must also be considered all within a more comprehensive framework (3, vol. XX, pp. 16-21; 4, pp. 31-35).

The traditional view that the provision of low-interest credit was the key to economic development for the small farmer has been rebuked. Consequently, the design and implementation of institutional credit programs has been made an exceedingly more complex developmental undertaking.

C. Small Farmer Emphasis - Why?

The dramatically increased interest by lesser-income countries and donor agencies in rural development evolves in part from recent rethinking regarding development strategies, combined with the growing concern for increased food production.

Firstly, the anticipated "trickles" that were to be distributed to the lower economic portion of the population of the countries that pursued massive capital investment development strategies undertaken in the 1950s and 1960s were, in most examples, too insignificant to measure. This was particularly so in the rural sector where only a small number of export-commodity producers received financial assistance from credit institutions. This practices tended to perpeturate a "dualistic" agricultural structure composed of a small number of "modern" producers, who prospered, while the much larger "traditional" semi-commercial subsistance farmer, received little, if any governmental assistance. The prevailing development strategy helped to spark a large, and in some cases, massive migration to urban areas where gainful employment was seldom obtained.

Many viewed with optimism the introduction of the "green revolution" technologies as this was to provide an "unparalleled opportunity to break the chains of rural poverty" (9, p. 264). It was thought that the introduction of these new technologies for use by the small producer might serve as the catalytic element to stimulate a dramatically improved rural and national economy. Resulting from the studies of agricultural development originally documented in Japan and the Republic of China, and then verified in most other courntries, it became generally accepted that the small producer obtained more productive yields per hectare planted than those of the larger. If the small holder could increase his productive capacity through the introduction of new technologies, this increased yield could hopefully be transferred into increased income, thus providing him with a greater purchasing power. The increased effective demand would generate the need for increased goods and services at the village, particularly at the market-town level. Increased employment opportunities for all, including the non-farm rural-poor sector would be generated. A more enduring basis for national development would evolve (10, pp. 10-14).

Beginning in 1972, this growing concern for increased equity and employment generation thru agricultural development received much more attention. Resulting from the world fear of severe food shortages, many felt that given the greater productivity of the small farmer, he offered the best hope to produce the basic food needs required by the lesser income countries while at the same time, bring about increased national development (11, p. 37; 12, p. 143; 13; 14, p. 9).

S. Wortman provides a good summary of this view (15, pp. 35-36):

> All of this [new technology] is aimed at generating the main ingredient for rural development: increased income for large numbers of farm families. Until their purchasing power is increased through on-farm or off-farm employment there can be no solution to the world food problem. Extending science-based, market-oriented production systems to the rural masses can enable the developing countries to substantially expand their domestic markets for urban

industry. As farm families attain larger disposable incomes through increased agricultural profits they can become buyers of goods and services, providing more jobs and higher incomes not only on farms but also in rural trading centers and in the cities. What I am suggesting, in other words, is that the improvement of agricultural productivity is the best route to economic advancement for the agrarian developing countries.

Donor agencies, particularly the World Bank, AID and IDB have committed their resources to the support of improving the social and economic conditions of the world's rural poor. Particular emphasis in their agricultural lending portfolio has been directed to credit.

During the much-acclaimed speech by Robert McNamara to the Board of Governors of the World Bank in 1973, he mentioned the role of agricultural credit as one important factor to facilitate small farmer participation in the use of the new high-yielding variety technologies.

To quote McNamara (16):

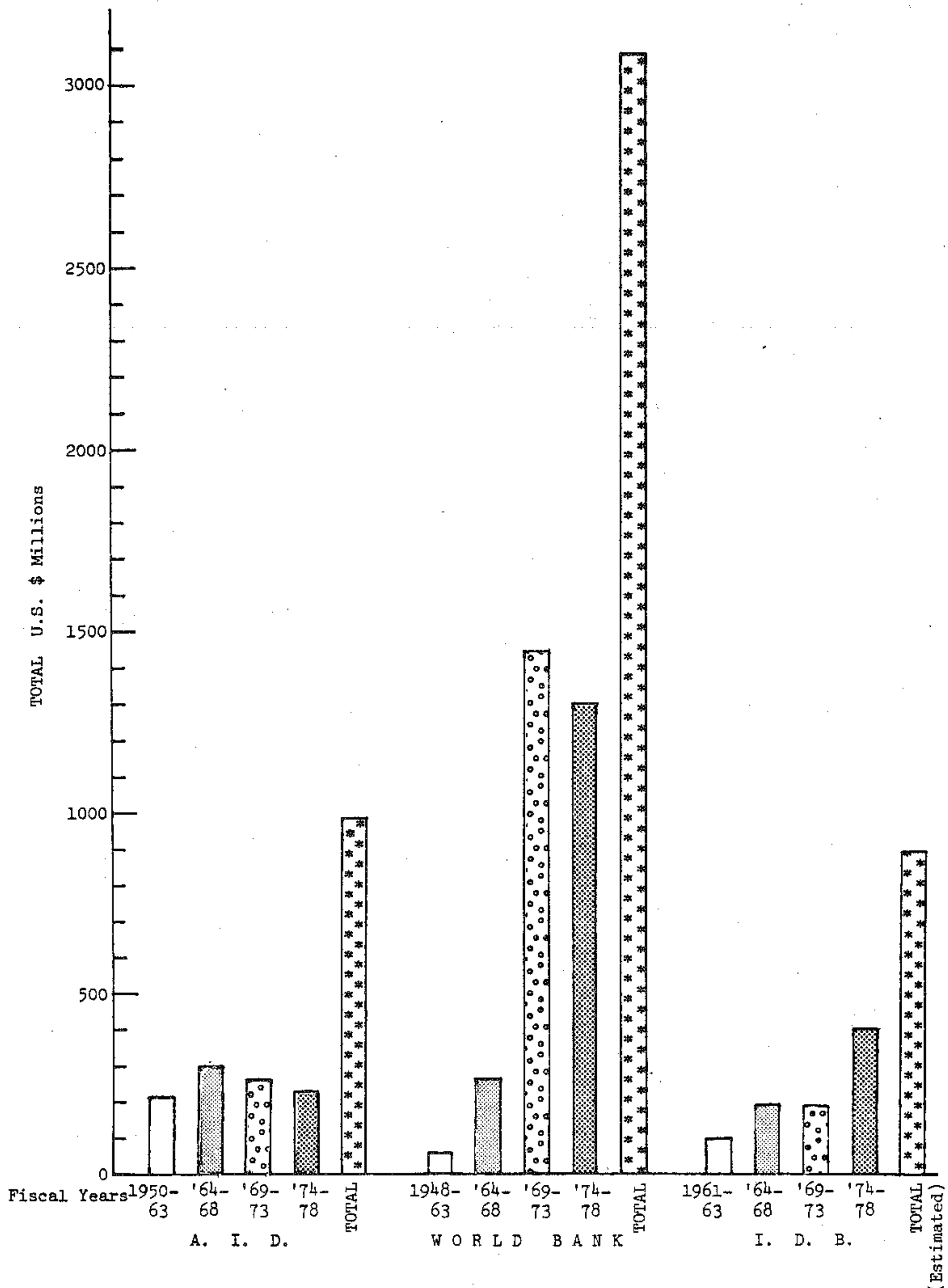
> The miracle of the Green Revolution may have arrived, but for the most part; the poor farmer has not been able to participate in it. He simply cannot afford to pay for the irrigation, the pesticide, the fertilizer ...... For the small holder operating with virtually no capital, access to credit is crucial. No matter how knowledgeable or well motivated he may be without such credit he cannot buy improved seed, apply the necessary fertilizer and pesticide, rent equipment or develop his water resources. Small farmers generally spend less than 20% of what is required on such inputs because they simply do not have the resources.

D. Brief Overview of Donor's Agricultural Credit Lending Activities

The World Bank has estimated the total outstanding amount for instiutional agricultural credit lending in the developing world at approximately $15,000 million (4, p. 5). This total has been supportive of only the "formal" credit system, and therefore excludes the much larger amounts provided from "informal" sources such as local lenders, neighbors and family members. Included within this total is the estimated $5,000 million that has been provided by the World Bank, AID and IDB. Chart I provides an overview of the capital assistance funding provided during the last 30 year period by these three donors.

Though not til the early 1970s did the World Bank place a significant interest in agricultural credit, since then, it has become the principal donor. Included within the Bank's $3,000 million is a portion for administrative and technical assistance "non-capital" costs. As will be discussed later, it is only recently that the Bank has given a special priority to the small farmer.

CHART 1. TOTAL AGRICULTURAL CREDIT CONTRIBUTIONS FROM PRINCIPLE DONORS*



*Sources: Agency for International Development, History of AID Program in Agricultural Credit (Volume XVIII, June 1975), p. 3; A.I.D., Agricultural Development Policy Paper (June 1978), p. 25; World Bank, Agricultural Credit Sector Policy Paper, May 1975, pp. 72 and 18; and InterAmerican Development Bank, Participation of the Bank in the Development of Agriculture in Latin America, 1977, pp. 25-26.

The AID contribution, though much smaller, is significant for its long duration and extent of attention directed to the small farmer which is "unique" among aid donors (7, p. 50). The total does not include the large quantities provided for technical assistance and grant-funded commodity assistance supportive of institution-building activities.

The IDB has made a significant contribution to Latin America and the Caribbean region, and has had a continued interest in assisting the small farmer.

E. Purpose of Research/Project Methodology

The purpose of this research is to trace the development of various inter-related experiences by the major donors which have, over a lengthy period, led to the evolution of commonly-held policy issues intended to improve the performance of small farmer agricultural credit programs. Given the more complex role now expected of credit programs for the small producer, it is timely to learn how the various issues were developed and the actions taken by donors subsequent to the issuance of these new policy statements.

In order to initiate this study, correspondence was conducted with all donor institutions requesting from them their data related to past funding levels, studies and documents related to agricultural credit policy issues, and operational documents related to agricultural credit. All agencies were extremely supportive of the research, patient with the many follow-up requests made, and except for the World Bank, generated the data requested. Primary reference materials are usually from the donor's materials.

It will be observed that particular attention has been given to the work done by AID. This results from their longer association with the small farmer and their poineer evaluative work which identified the major policy issues which most other donor agencies subsequently adopted.

By emphasizing credit, it should not be inferred that other factors and issues have lost their importance for fostering rural development. There are many considerations related to political will, effectiveness of the extension service, cooperative management, land tenure patterns, etc. all which are important and related to credit. However, since credit is one of the more complex of developmental services and is the "big ticket" item in the lending portfolio for donor agencies, a special review is appropriate.

PART II - THE AGENCY FOR INTERNATIONAL DEVELOPMENT

AID and its many predecessor agencies[1/] have for some time worked in assisting lesser income countries in developing and supporting agricultural

1/ In 1942 the Institute for Inter-American Affairs (IIAA) was formed to provide technical assistance to increase local food crops in Latin America. Beginning in 1950, the IIAA and other agencies were combined to form the Technical Cooperation Administration (TCA) which was created to implement President Truman's Point IV Program. Later, in 1953, the TCA and Mutual Security Agency were combined to form the Foreign Operations Administration (FOA), which lasted two years until the International Cooperation Administration (ICA) was organized. AID was formed in 1961. When mentioning AID, references is also made to this long history of technical and financial assistance provided by predecessor organizations.

credit projects, most of which have had a small farmer focus. From 1950 to 1972, AID provided more than $700 million to fund a variety of agricultural credit activities. Of this total, the actual US dollar amount lent was $270 million. The remaining balance being either US dollar grants, or from local currencies generated from Title I PL 480 food sales, counterpart funds, or assigned-currencies generated from commodity import programs. Since 1973, an additional $275 million has been provided, making a total of around $975 million extended as capital assistance for agricultural credit development. In addition, between 1950 and 1972 an estimated 900 person years of technical assistance was provided.

A. Early Institution Building Activities

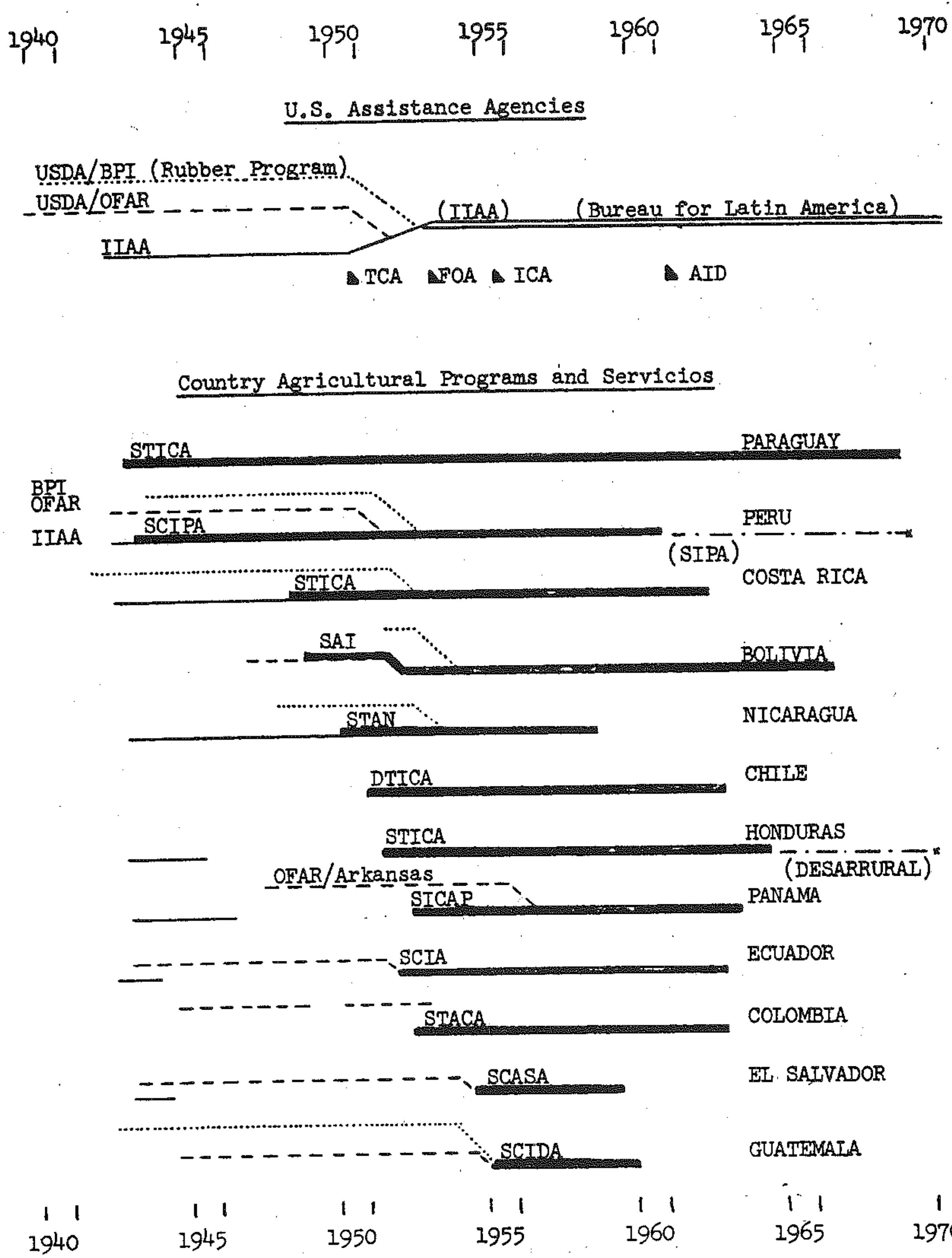
During this period, emphasis centered on providing U.S. technical experts in agricultural credit and to a lesser degree, cooperative credit to conduct surveys, draft legislation, and initiate institution-building activities with a variety of banking, cooperative credit union, and agricultural cooperative federations. In addition, these advisors assisted in the design and implementation of new credit activities and in some cases, in the actual administration of these projects.

In Latin America, where most of the early activities were concentrated, the credit assistance provided usually came after the establishment of agricultural research and extension *servicio* programs supported by US scientists and extension personnel from the IIAA. In 11 of 12 Latin American countries, the *servicio* units served as the initial agricultural extension institution (17). All agricultural credit advisors assigned to the *servicios*, assisted in managing the pilot credit projects, usually following the "supervised credit" system as executed by their US employer. The first of the *servicio* units was created in Paraquay in 1943. To illustrate the various periods of activity of each *servicio* per country, refer to Chart 2.

By the early 1950s, most countries had their own commerical banking system or an agricultural development bank which provided the credit needs for the larger producers. In the vast majority of countries, there was no institution working with the small holder.

Given the growing interest in small farmer credit coupled with the limited experiences, in 1952 the Technical Cooperation Administration and the US Department of Agriculture organized a six-week "International Conference of Agriculture Credit and Cooperative Credit." Sixty four representatives from 34 countries attended. The meeting is important as it illustrates the thinking of that period. Three observations regarding the literature developed during this conference are provided: 1). Though there was a growing interest in the developing world in credit systems for the small producer, apart from the early efforts at supervised credit introduced by the US advisors, there were few experiences to share. 2). Within the US, there was limited experience in developing small farmer agricultural credit models other than the supervised credit system developed by the Farm Security Administration (FSA). 3). Because of the foreign participant's interest in the supervised credit model, and the absence of any suitable alternative experiences, an emphasis was given to this model. Of the readings selected for the conference participants, except for one article on peasant farming in Asia, no detailed mention of credit programs in developing countries was made (18, pp. 1-11). Further, it was observed

CHART 2. U.S. AGRICULTURAL ASSISTANCE AGENCIES AND SERVICIOS
Twelve Country Study Area



Source: E. B. Rice, Extension in the Andes, The MIT Press, 1974, p. 57.

that only a few of the authors had conducted any foreign development experience related to agriculture credit. 2/

The Conference succeeded in stimulating much interest in agricultural credit, particularly in the supervised credit approach.

The delegates recommended (20, p. 52):

> That studies be made of the possibility of establishing supervised credit institutions in countries that do not yet have them, since supervised credit provides an effective means of insuring the improvement of farming conditions and the standard of living of the small farmer.

Because of the growing interest in this model, and as most advisors had been employed by the FSA, or the Farmer's Home Administration (FmHA), they usually introduced the supervised credit model, as the institutional model. The supervised credit model was developed by the FSA as a means to respond to the growing needs of a large number of marginal farmers, who during the agriculture depression of the 1920s and 1930s required urgent assistance.

The system was designed to provide eligible farmers with basic credit needs and necessary supervision through the local county supervisor, usually a college graduate knowledgeable in agriculture. The farmer, with supervisor assistance, was required to first prepare a "farm and home plan." The security of the loan rested mainly on the prospects of a successful execution of the financial plan. The borrower was required to keep accurate business records and to cooperate with the supervisor in farm and home planning. The important element for a successful lending program depended on well qualified, sufficiently motivated supervisors.

This point is stressed in an FmHA bulletin (21, p. 14):

> Herein lies the crux of the problem of the supervision program - namely the problem of getting enough trained personnel capable of discharging the duties of supervising a public investment in farm credit secured in part by the quality of the borrower's character and promise. The FmHA Act requires that all supervisors must be graduates from a recognized agricultural college with a B.S. degree. It has been difficult to attract such men to the program because of more lucrative opportunities elsewhere.

The cooperative credit institutional model received lesser attention (except for work in the Philippines and Iran) until the bigger push on cooperatives, particularly in Latin America, that began in the 1960s. Strongly supported by Senator Hubert Humphrey, the 1961 Amended Foreign Assistance Act

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2/ I conducted a review of the experiences of those agricultural economists who presented papers at this Conference. According to the biographic sketches of the professional journal for agricultural economists, none of those listed in the readings index had any foreign developmental work prior to this conference. (19).

gave a legal mandate for AID to "encourage the development and use of co-operatives, credit unions and savings and loan associations" (22, p. 1).

In response to this legislation and also to the increased resources resulting from the "Alliance for Progress," USAID missions in Latin America began exploring the development of new cooperative initiatives. This "working partnership between US cooperatives and their government" (23, p. 30) was in affect a mandate for the transfer of the US cooperative model to other countries.

B. Capital Assistance Initiated

Resulting from the preparatory activities undertaken during the 1950s, an institutional basis had developed from which larger amounts of capital could be administered. This work, combined with the initiation of the Alliance for Progress, resulted in a noticeable increase in capital assistance funding to agricultural credit. During the 1950s, the capital assistance provided to agricultural credit averaged less than $15 million per year. During the 1960 period, the average amount provided was above $40 million, and in the early 1970s to the present, figures have varied between $30 and $70 million averaging above $40 million. To demonstrate the rise and declining of emphasis in the provision of technical assistance, and the large capital amounts provided in the 1960s, refer to Chart 3.

Supportive of the Alliance for Progress, AID's early capital assistance activities emphasized the Latin American region. New credit programs were initiated in Mexico and Venezuela, but more noticeable, was the dramatic expansion of activities earlier initiated in the other countries. During the 1960s, some 60 percent of AID's total capital world-wide assistance was assigned to the Latin American region (24, p. 4), with Brazil, Chile, and Mexico being the major beneficiaries.

During this period, the budget designated for East Asia was a lesser amount, with Korea and the Philippines receiving the larger share. Within the Near East area, almost all capital assistance was provided to Turkey, with Iran receiving large amounts of technical assistance. With the independence movement in Africa, small programs began to be initiated. 3/

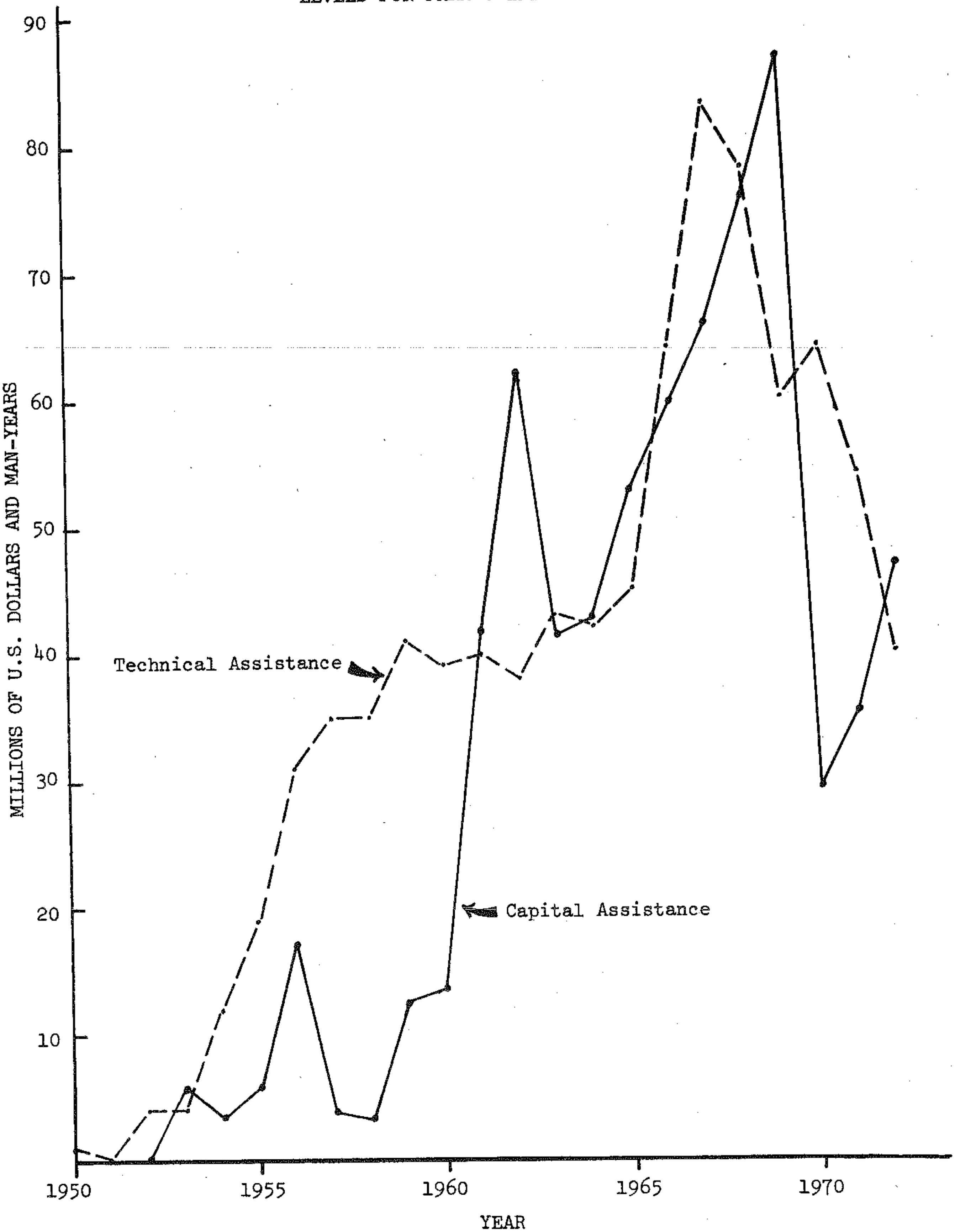
It was during this period of rapid expansion and large investment that problems began to be identified.

C. Early Warnings of Possible Problems

In order to get outside feedback in this new area, AID early determined that "an analysis of progress for the development and improvement of agricultural credit institutions and services" was required (25, p.1).

3/ The geographic distribution for small farmer agricultural credit funding activities has changed considerably from what it was during the 1960s and early 70s. Of the total amounts authorized for lending activities, over the period FY 1976-78, 48% has been for LA, 34% for Africa, and Asia with 17%. AID/DS/DIV/DI, "AID Small Farmer Credit Projects" (November 14, 1978).

CHART 3. TOTAL ANNUAL CAPITAL AND TECHNICAL ASSISTANCE LEVELS FOR FARM CREDIT*



*Source: AID <u>Spring Review of Small Farmer Credit</u>, Vol. 18, June 1973, p. 5.

Ohio State University was awarded the research project contract and initiated activities in 1964. Field research was conducted in Brazil, Colombia, Ecuador, and Peru - with a terminal report issued in 1968. From their findings, it was clear that agricultural credit models could not be replicated and that provision of credit to small producers was far more complicated than had been thought.

Quoting their conclusions (1, p. 11):

> "supervised credit" is too readily and to generally propounded. That the absolutely low interest rate, because poor farmers cannot pay more, has virtually become dogma. That despite admonitions to the contrary, direct transplantation of domestic programs and standards still occurs.

In addition, they reported, "Institutional agricultural credit programs have not been notably successful, either in accomplishing developmental objectives or in meeting the minimum criteria of institutional viability" (1, p. 4).

Further illustrative of the problems brewing, was the meeting of AID agricultural credit technicians in Latin America held in Guatemala in 1966. They met to analyze their problems and to "develop some clear-cut principles and recommendations on which all would agree which, if put into practice, would hopefully improve the effectiveness of agricultural credit programs in the recipient countries" (26, p. 2).

D. AID's Preliminary Evaluation on Agricultural Credit

In order to explore in detail specific developmental issues, AID had previously conducted intensive "Spring Reviews" on land reform, high-yielding varieties of wheat and rice, intermediate credit institutions, and population programs. AID determined that a similar "Spring Review" on small farmer credit programs would be appropriate. To manage the numerous and diverse credit activities undertaken over a 25 year period, a preliminary evaluation based on a review of past activities was first initiated. Forty two "Country Summary Reports" were completed describing the various activities undertaken in countries where agricultural credit projects had been conducted.

Briefly summarized, the record of these credit programs in reaching small farmers was mixed, and where had he been well served, usually only a small number of producers were able to participate. As will be observed, the mere establishment of a credit institution or cooperative to provide credit was insufficient. Apart from the institution, there were numerous complex institutional, economical, social and political factors that were too often glossed over in the design and implementation of these projects. Looking in retrospect, the broader perspective required, was in most cases lacking, and common traditional myths on structure and procedure prevailed (24, pp. 15-21).

To facilitate my review of the 42 country reports, I prepared a summary review which condenses the relevant comments contained from all Country Summary Reports prepared for the evaluation (24). (Refer to

Annex I for the Summary review.) The more relevant conclusions from these summaries, are now combined with the findings of E. Rice, Coordinator of the Spring Review.

In 22 of the 42 countries, 15 of which were in Latin America, a supervised credit program was initiated by a US credit advisor. The natural tendency of these advisors was to "transplant" the supervised credit system. However, it was observed that highly-trained professional supervisory personnel were not that plentiful and that given the low client to supervisor ratio, supervisory costs were high. Rice observed that; "overhead costs of supervised credit are necessarily high ... and this, together with the relatively high risk of default found in small farmer credit programs, threatens the financial viability of the operation..." (24, p. 14). Also this model proved ineffective for rapidly processing large amounts of loan applications.

Often times the emphasis was directed to developing the credit institution, with little attention to the necessary integrated support services.

As presented by Rice (24, p. 14):

> Only in the last decade does one find good examples of integrated production credit programs which incorporated an institution building component designed exclusively to serve the purpose of the production program. The more typical example is the credit institution which is created and brought to maturity, with the help of US advisors, for the purpose of providing loans, not for raising the level of production. But the development purpose was often articulated in terms of the immediate function of a bank to make recoverable loans - rather than in terms of expected impact of loans on farm activity. It assumed that credit was essential to farm development, and that lending levels correlated with production levels.

As earlier mentioned, resulting from efforts by Senator Humphrey, the US cooperative sector was extended the opportunity to actively promote cooperatives overseas. If for no other reason than to reduce the administrative costs associated with supervised credit, cooperative development activities were thought to be attractive. Unfortunately, the record indicates that enthusiastic and overly-committed advisors often became too involved with creating "their" cooperatives and were not sensitive to the management limitations and poor educational levels of the members the cooperative was to assist. Partly due to the high degree of faith held by these cooperative advisors, "the record of high number delinquency rates and co-op closures seemed to have gone unnoticed..." (24, p. 17). Few challenged the appropriateness of these models in a developing country.

Other country report observations are provided:

1). Except in India and Pakistan and some parts of Africa, AID played a major role in assisting countries by conducting surveys of their agricultural credit needs, drafting appropriate legislation, developing organizational units, and by providing seed and working capital needs. In 23 countries new credit programs were initiated to provide credit assistance to the small producer sector which here-to-for had no access to institutional credit.

2). In some of these projects, the middle sized farmer benefited rather than the small farmer. However, in almost thirty of the countries studied, there was a definite small farmer bias. AID projects have clearly had a long association with the small farm sector.

3). One concluding observation, concerns the supportive actions by the other donors who later provided capital to many of the AID-fostered credit institutions. For example in Latin America, except for Chile, Colombia, and Costa Rica, the major institutions AID helped to develop later received additional financial assistance from either the IDB or World Bank. This same trend has prevailed in Asia and Africa.

E. Development of Policy Issues for Small Farmer Credit

In undertaking the Spring Review research activity, AID field employees, national agriculture credit officials, and contracted consultant experts, mainly from US universities, were employed to conduct a series of studies of specific AID and non-AID supported agricultural credit activities in selected countries. Beginning in March 1972, over 60 separate project evaluation reports from 37 countries, were developed. Twenty one "Analytical Papers" on specific themes were developed from the information derived from the above reports. These papers were developed by various experts contracted from universities (16), 4/ AID (3), and the IDB (1). When the drafts of the analytical papers were prepared, some of their authors and AID/Washington staffers traveled to conduct ten regional and country-level workshops with AID field and national-level credit officials. The group returned to Washington where various policy conclusions were developed. During the regional meetings and to a greater degree in Washington, representatives from the World Bank, IDB, and FAO participated. Altogether, this one year task produced 20 volumes of studies.

In keeping with the evolution of issues theme of the research, only the major policy issues as identified in the Spring Review will be discussed. Each will be followed with back-up supportive material.

Interest Rate Structure - "Interest rates applied in small farmer projects are generally much lower than rational economic policy would dictate. If they were raised from, say, the five per cent level to the twenty per cent level, there would be few losses in terms of program goals and some major gains" (28, p. 29). The prevailing opinion was that the low levels of interest do not approach market rates, the shadow prices calculated in planning excercises within the countries, or non annual inflation rates (28, p. 5). The business of providing small amounts of borrowed capital to farmers distant from the credit institution and who need technical assistance and loan supervision activities requires

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4/ The university specialists who authored Analytical Papers are; Dale Adams-Ohio State University; Chester Baker-University of Illinois; John Brake-Michigan State University; Richard Eckaus-Massachusetts Institute of Technology; Cynthia Gillete and Norman Uphoff-Cornell University; Claudio Gonzales-Vega-Stanford University and University of Costa Rica; Millard Long-Harvard Development Advisory Service; Marvin Miracle-University of Wisconsin; Judith Tendler-University of California; and Ronald Tinnermeir-Colorado State University.

that small farmer credit be an expensive banking proposition. In addition, the usually high losses from tardy loan cancelations, has over time impaired the fund's ability to expand and serve a wider small farmer clientel. Of the many disadvantages resulting from low interest rate policies, the most compelling concerns the viability of the institution itself. The actual value of credit available for relending to the small farmer sector is reduced each year thru inflation and depleted resources. Alternatively institutions employ a "selection up" process to get at the less-risky commercial operators.

Gonzalez-Vega concludes; "The lower the interest rate charged on loans, the lower the proportion of the lender's portfolio, ceteris paribas, that will be devoted to small farmer credit (27, p. 23).

Resulting from G. Donald's participation in the workshops, his subsequent review of the various country programs, and using data generated by the World Bank, he attempted to determine a "feasible" interest rate range. He based this rate on; 1). a very conservative value for the institution's administrative costs at ten per cent of the annual value loaned, 2). an estimated three per cent to repay the public capital fund borrowed from the government for lending purposes, 3). a five to ten per cent allowance for default losses depending on the lending institution's experience, and 4). the appropriate factor for inflation (7, pp. 108-112). Based on these estimates, under very positive conditions, an organization charging less than 18 per cent must either look for continued outside assistance, or not plan on continuing operations with the small farmer over a long period.

Concerning small producer reaction, Donald anticipates (7, p. 113):

> We may summarize that the farmer who can contemplate borrowing from a money lender would prefer this kind of insitutional rate if the accompanying condition and services were not too unfavorable; and that the difference between such a rate and the prevalent 6-12% rates would not be too great to deter most farmers from using such short term credit for buying agricultural inputs when these were thought to be reasonably productive. The interest paid on a six to nine month loan for fertilizer at 1 1/2 to 2% a month, for example could easily be less than the probable net gain from using it.

Subsidies - As the Spring Review identified two separate but interrelated points, for brevity I have combined both:

"Subsidies for small farmers can be justified on several grounds, but it is a mistake to use the credit mechanism as a vehicle for subsiding" (28, p. 22). Though certain subsidized services should be provided, the consensus was that relaxing the banking institution's responsibility on loan repayment services destroys the institution's financial viability. As discussed in the workshops, there are technical assistance, educational, research, and marketing services, etc. not directly related to the institutions financial operations which are traditionaly subsidized. (28, p. 107). These types of services should remain separate from the bank's operational ledger.

The other subsidy-related issue (28, p. 30):

> There is a stronger argument for subsidies to institutions which supply credit than for subsidies to farm borrowers. This suggest that while interest rates to farmers may be raised, interest rates to commercial bank and other financial institutions should be lowered on an incentive to expand their small farmer participation.

Traditionally, agricultural lending institutions are required to pay low interest rates from the central banking or foreign donor institution from where the money is loaned. If this practice was to be altered and initial interest rates began to approach the market level, the chances for creating a viable credit institution are limited. Given the opportunity costs for public capital expenses, this at first might not be a "profitable" venture for the government. However, assuming the alternative possibility of fostering a sound development organization, a concessional interest rate is important for the institution's long range well being.

Limitations on Participation - "The commercially non-viable farmers present a problem with which the Spring Review is unable to cope." (28, p. 38). The questions of further defining farm "viability" was a much discussed point at the regional workshops. Usually the "production-oriented" planners stressed the point that non-agricultural opportunities should be developed for the more "non-viable" sector, while the more "welfare-oriented" officers defended the need to search for appropriate agricultural solutions. The challenge of addressing the needs of the marginal small farmer are incredible and the possibilities for agricultural development for the landless farm laborers, garden plot farmers, etc. are obviously limited. As will be observed later, the question was clarified later as institutions were encouraged to include the most marginal of farmers within their programs.

Technical Supervision - "The technical supervision of the use of new technology is agreed to be an essential component of most small farmer credit programs" (28, p. 31). This extension function is particularly important for the introduction and diffusion phase of new technologies to the traditional sector inexperienced with the application of modern inputs. Without the availability of a new technology, the use of credit is questioned. Technical supervision should now be better structured, perhaps along crop lines (28, p. 31).

Generation of Savings - "Financial savings may be generated in rural sectors at rates much greater than commonly thought and their accumulation is highly desirable. The experience in Taiwan, Zambia and elsewhere provides evidence to support this hypothesis" (28, p. 31). Workshop participants agreed that given the long-range development objectives within the rural sector, additional capital requirements must be generated. Savings programs within the credit institution could be an effective means to capture local savings. Dale Adams mentioned in his paper the possibilities of generating rural savings if interest rate incentives were raised in both urban and rural banks for rural re-lending programs (29, p. 4). Obviously deposit interest rates and security considerations would have to be improved before increased working capital could be generated.

Graduation to Commercial Banks - "Graduation policies are necessary for small farmer credit programs which give special services, privileges and subsidies to the small farmer for a period of time calculated to bring them to commercial viability. When that position has been reached, and assuming that the normal commercial banking system is prepared to deal with them, the successful small farmer must be graduated out of the special program to make way for new clients. In general, however, small farmer credit programs fail to graduate clients" (28, p. 32). As low interest rates rarely cover administrative costs, government sponsored agricultural credit programs "generally operate at a loss" (30, p. 13), accordingly, governments are usually required to provide operational subsidies ranging from 25 to 100 per cent of the program's total revenue. These subsidies tend to support the more prosperous "less-risky" producer since the bank is forced to look to other "less-expensive" clients in order to reduce government subsidized operational costs. Since over time the larger producer requires less attention, less government subsidy to the bank is required. Therefore, if the institution adopted the policy of moving over time those small producers who have developed a positive credit rating from the government subsidied project to the more commercial sector, the subsidied program for small farmers could be expanded to reach new clients. Under the "graduation" approach, the spread effect would be maximized.

Loan Default - "Loan default and delinquency rates in small farmer credit are generally higher than would seem acceptable. But we are uncertain about the relative importance of each of the alledged causes. Thus corrective action is difficult to design and the most obvious policy - to intensify collection methods - is unlikely to succeed" (28, p. 25).

Annual overall delinquency rates of 20 to 30 per cent or more, though common, are not universal in agricultural lending. There is some evidence to indicate that default rates are higher for medium and large farmers who, because of "political immunity" are relieved from re-payment responsibilities. Thus if credit was restricted to small farmer only, default rates might well be lowered. This point should be considered in the context that unlike before, there is usually an available improved technology to increase repayment capacity, other supportive services are now present, and government institutions have a greater priority to expand services in rural areas, all of which tend to reduce loan default among small farmer sector. Though large loan default rates are a major impediment to mounting a broad-based small farm program, enough institutions with default rates below 20 per cent indicate that the problem is manageable and can be controlled.

Consumption Credit/Loan Collateral - Two other issues identified which require additional study, concern the role of consumption credit and loan collateral:

1). "Consumption credit appears to have no role in small farmer credit program that emphasize production objectives, but that judgement may be both incorrect and politically unacceptable" (28, p. 32).

It was felt that given scarce institutional funding available, capital resources should be provided only for productive activities. However, emergency and consumption activities can be defended as a legitimate part of farmers needs. Having access to a loan for these needs permits his current liquid balance "emergency fund" to be invested in savings account or farm needs. It also ties the client closer to the credit institution as he sees the many benefits a good relationship provides.

2). "Collateral was another factor given too little attention in the Review" (28, p. 32). The difficulties of providing credit to untitled small farmers who secure a loan by mortgaging their harvest might be insufficient collateral. This is especially so if low technologies are employed. However, it was noted that repayment rates were higher in other programs where no collateral was required.

Institutional Issues - A series of "institutional issues" were also identified and are summarized below:

a). The institutional form of the credit organization, i.e. commercial or agricultural bank, cooperative, et. al. seems not to matter as much as the a) economic opportunities associated with the use of credit, or b) policy issues mentioned above which confront all institutions.

b). One notable characteristic observed in those countries where a large portion of the potential clients have been reached, is the institutions' capacity to handle with minimum cost relatively large number of clients. More efficiency is obtained through; i) a decentralized operation, ii) grouping farmers whenever possible for credit-related transactions and technical training, iii) using those institutions already possessing an outreach system to the rural areas, iv) obtaining accesses to private institutional money markets and developing attractive terms to these marketeers, and v) providing for the capturing of local savings.

c). Private cooperatives can provide outstanding features such as local participation, group sanctions against delinquency, and multiplication of scarce technical training and would appear to have an important role in any credit program for small farmers except for two important problems - the shortage of local management and the fear of certain governments in local organization.

d). The evidence suggests that group activities characterized by some measures of compulsory participation have a greater degree of success.

e). One proposal mentioned which has more relevance in Asia, for reaching large numbers of small farmers is to involve the local "money lender" from private financial sector in the process as a means to reduce administrative costs.

f). A greater awareness needs to be made of the various institutions providing credit to understand their particular attributes and where possible, combine them in a mutually-reinforcing system rather than treat each as an isolated alternative.

g). Credit institutions which work within an integrated program with extension and marketing institutions have better overall success.

h). Credit institutions take some time to develop and mature. During the first 10 to 20 years, financial weaknesses and program short falls were common even in those institutions which eventually reached a position of respectability.

i). Newly-created credit programs are often handicapped by being burdened with partially incompatible program goals, with no established priorties.

j). All small farmer credit programs need to create a self-evaluation mechanism to measure progress and impact toward the achievement of multiple goals.

k). Not withstanding the argument for demanding that institutions continue emphasizing equity considerations, it is essential that they remain viable and survive as a financial intermediary. The institutions often-criticized concern for debt repayment is legitimate (28, pp. 23-28).

Thus concludes the development of a complex series of issues, intended to improve small farmer credit projects. Many of these, particularly the issue of interest rates, are controversial topics which, if presented to the uninitiated could create political turmoil. Efforts to form the educated constituency of ministers of agriculture, development officers, bank presidents, et. al. will now be discussed.

F. Implementation of the New Doctrine

By nature, bureaucracies are usually slow to respond to new guidelines. The peculiarities of AID, with its Washington staff monitoring distant missions who must be respectful of local traditions and responsive to political issues makes this generalization even more correct. Upon completion of the Spring Review, the Foreign Assistance Act of 1973, which mandated AID to place particular emphasis on improving the social and economic conditions of the rural poor majority was approved. This legislation probably forced AID to respond even more quickly than they might have in analyzing the issues that had been identified in the Spring Review, and to put these points in an operational format for field mission activities.

In May 1974, a 45 page Washington-prepared instruction, "Guidelines on Project and Program Planning for Small Farmer Credit" was despatched to assist missions in designing and evaluating small farmer credit programs. The guidelines were based on AID's own assessment of the Spring Review process. AID basically agreed with the various issues stated with only one important difference noted regarding the maximization of opportunities for the more marginal small farmer to participate in the credit programs. The other issues were presented in a more consolidated and useful format, a summary of which is located in Annex 2.

To effectively introduce these guidelines so different from the traditional views previously held, a lengthy re-education process to convince mission and national credit personnel and political figures of the merits of these new policies was required. Except for group credit and the integration of extension service with credit, most of these new policy issues had not been employed by the lesser-income country credit institutions. To assist missions in initiating these new matters with governments, funding was provided for Ohio State University to 1). conduct several regional workshops to discuss specific aspects of small farm credit with national credit officials and mission personnel, 2) the publication of a quarterly Newsletter on Rural Financial Market Research and Policy which informs US and foreign credit officials on various innovative country activities and research projects, 3). undertake research projects and

4). prepare a listing of qualified consultants to assist in design and evaluation of small farmer credit programs and periodic bibliographic listings. 5/

In order to condense the over 6,000 pages of evaluation and study material that was generated during the Spring Review, Gordon Donald was contracted to prepare a shorter publication for dissemination to AID missions and for country credit officials. In September 1976, several copies of Donald's book, Credit for Small Farmer in Developing Countries (7) were released for distribution to foreign and domestic institutions.

Helping indirectly in the dissemination of this new doctrine was the attention increasingly being directed to small farmer credit. During this same period, both the World Bank and FAO had released position papers on agricultural credit which followed generally the same conclusions and issues AID was attempting to promote.

Though mass acceptance of all these issues has not been observed, some progress appears to have been made. A recent evaluation undertaken by AID Washington attempted to demonstrate the incorporation of the Spring Review findings within the design of new projects. They listed 18 "issues" (no regard to priority was established) as presented in the Spring Review, and then reviewed 17 randomly selected small farmer credit project justification documents in order to determine the frequency of issue adoption. Incorporation was determined by a "yes" or "no" reply. Using this procedure, in 69 of the instances, projects were following the guidelines and in 171 they were not. In the most controversial issue of all, i.e. interest rate structure, four of 15 projects had positively addressed this matter (31, pp. 4-8).

Comment

Though not the principle spender, AID has had a long association with small farmer credit and resulting from this experience has served all credit institutions in suggesting ways to improve their performance of providing credit for small farmers. Much has been learned regarding the inherent complexities associated with these projects. The orthodox views previously held by many development professionals have been shattered. However, given the complex number of issues identified, and their experimental status much closer attention should be given to determining the actual degree of adoption and more important, their appropriateness. It appears that there is great need to undertake time-consuming studies at the farm level to determine the utility of these approaches on farmer's income and at the institutional level to determine effects on institutional solvency. Those projects now being initiated which have incorporated a high degree of Spring Review issues should be carefully studied so that the "results" "lessons learned" from these experiences can be documented and the shared with a wider audience.

5/The contract with Ohio State was again renewed, and in addition to the above, they are conducting research on group lending, methodologies of measuring credit productivity, guidelines for assessing rural financial markets, and as they have done since the mid-1960s, contemplating new "issues" to improve rural financial markets.

PART III - THE WORLD BANK

A. Overview of Early Agricultural Credit Activities

The World Bank is a group of three institutions, two of which provide developmental capital assistance - the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD initiated operations in 1945, and until the 1960s, made little investment in agricultural credit. The IDA was established in 1960 to provide similar developmental assistance as the IBRD, but concentrates its resources exclusively on those 30 plus countries with annual percapita income of less than $520. IDA provides soft interest-free credits with 10 year grace periods, and 50 year maturities with a small additional amount to cover administrative fees. For purposes of this discussion, both institutions have been grouped.

Unlike AID, who began its initial activities in the mid-1940s by providing advisory assistance to fledgling credit institutions, the World Bank has tranditionally not provided supporting technical assistance, but rather maintained a distanct financial monitoring relationship with their projects.

The World Bank is now the largest donor contributor for agricultural credit having provided a total of over $3 billion. However, it was not til the period 1964-68 that expenditures began to increase, averaging about $25 million per year. During the period 1968-73, $350 million per year was made for agricultural credit (7, p. 5) and in 1972, the Bank surpassed AID as the donor providing most credit. In 1973, agricultural credit exceeded the total value of any other agricultural project component and has since maintained that position within the Bank's portfolio (32, p. 282).

The larger producer, especially the producer of over 100 hectares, has been the traditional participant in the World Bank's agricultural credit program. Lending for large scale livestock operations has always been the most important of credit activities, constituting one third of the Bank's credit portfolio (4, p. 25).

Quoting the Bank (4, p. 6):

> The World Bank's initial objectives - to increase agricultural production through the economical use of resources and to develop agricultural credit institutions - resulted, at the outset, in a concentration on commercially viable farms and related enterprises. Recently, however, the emphasis in the allocation of World Bank resources has increasingly shifted in favor of small farmers.

The first "small-farmer" loan was made in 1971 (7, p. 6) but since then, increasing attention has been noted. This traditional exclusion of small producers from the World Bank's activities was because they felt that the limited technological improvements available at the small farmer level did not permit sound investments to be made.

Again quoting from the Bank (4, p. 25):

> Credit was not regarded as a practical means for dealing with the problems of subsistence farmers and agricultural laborers.

However, the technological improvements of recent years have changed the economies of small-scale farming, making it possible for once marginal farms to become viable and credit worthy enterprises.

From 1971 to 1973, $241 million were loaned to small farmers producing on 5 hectares or less. Chart 4 provides the most recent distribution available of World Bank lending by size of farm unit. According to that display, this initial small farm activity for the Bank represents 24 per cent of the Bank's agricultural credit activity loaned during the period 1969-1973. India received 77 per cent of the total $242 million for small farmer, lending during this start-up phase (4, p. 74). No loans for the Latin American small farmer sector were noted.

The World Bank has in many instances provided additional agricultural credit capital assistance to those credit institutions AID initially organized or assisted. In comparing the Bank's list of institutions with the tables located in Appendix 1, 18 of the 28 institutions the World Bank assisted prior to 1973 were with institutions initially supported by AID. Given the Bank's orientation during this period, the direct beneficiary was probably different from what AID was promoting. But the presence of the earlier created local institution did permit the provision of increased amounts of credit for the agriculture sector.

B. Assault of Rural Poverty - Nairobi Pledge

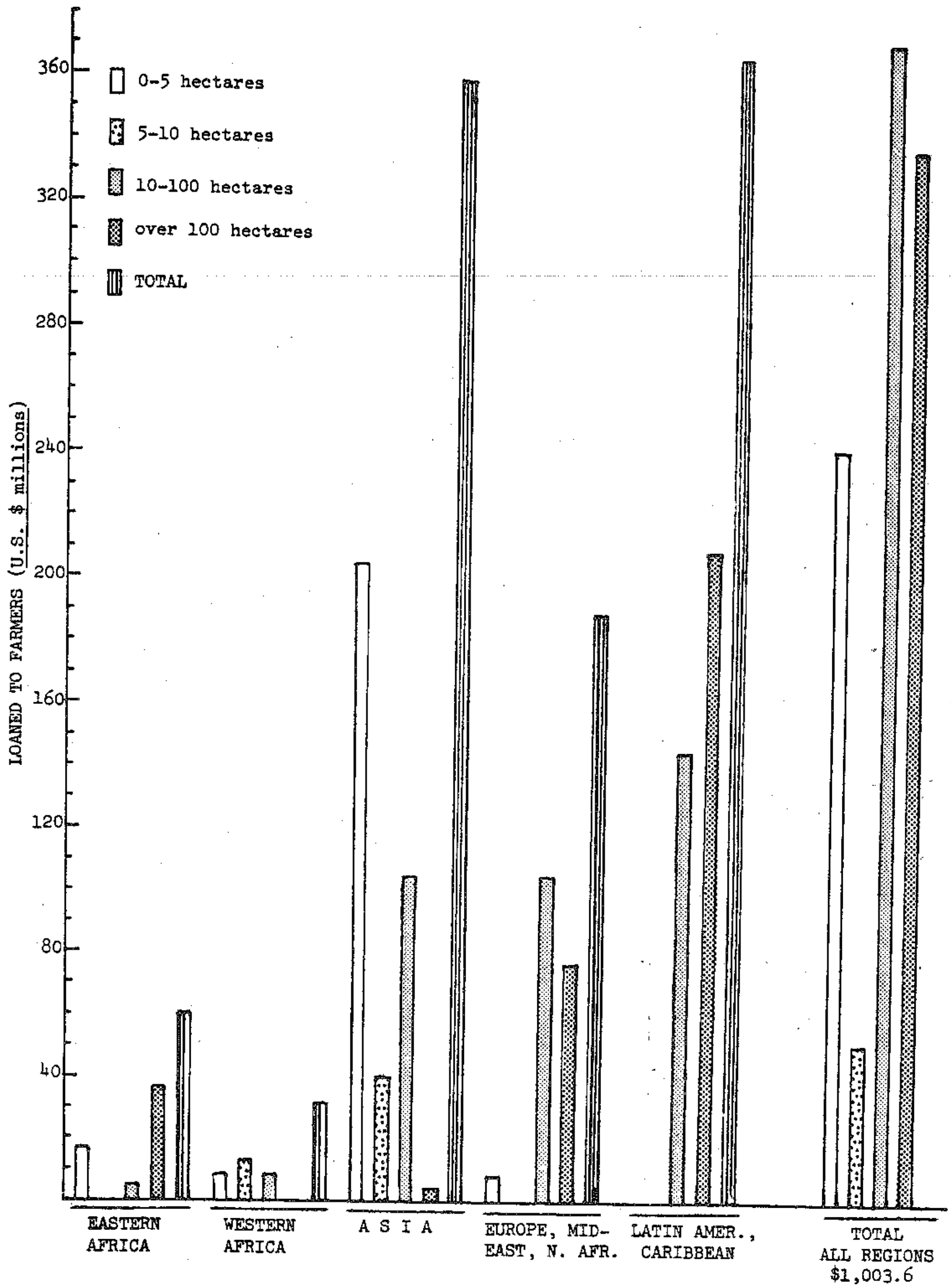
The recent emphasis by the World Bank on improving the productive capacity of the small farmer was dramatically emphasized in 1973 at the Nairobi Conference. At the annual meeting of the Board of Governors of the World Bank and International Monetary Fund, the Bank's President, Robert McNamara emphasized the improvement of the social and economic well-being of the rural poor and placed a major goal during the 5 year period 1974-1978 of increasing small farmer productivity by doubling the annual average output by small farmer producers from two and one half to five per cent annual production increase.

Quoting him (16):

> The development programs I have discussed....can all be initiated quickly by governments and will make a major contribution to the goal of a 5 per cent growth rate in the output of small-scale agriculture by 1985.
> ....without rapid progress in small-holder agriculture throughout the developing world, there is little hope either of achieving long-term stable economic growth or of significantly reducing the levels of absolute poverty. 6/

6/ Also, refer to earlier quote on the importance of agriculture credit also made during this speech (p. 5).

CHART 4. WORLD BANK FARM LENDING OPERATIONS BY SIZE OF FARM UNIT, FY 1969-73*



*Source: World Bank, Agricultural Credit Sector Policy Paper, May 1975, p. 74.

This concern led to the provision of a sizeable budgetary increase for agricultural development during the period 1974-78. The $3.3 billion budgeted for agriculture during 1969-73 was increased for 1974-78 to $4.4 billion. Further, some 70 per cent of the agricultural loans to be developed during this period would contain a component for the small farmer (32, p. 316).

Given the increasing attention by the World Bank for small farmer credit, a review of the Bank's policy statement will be conducted.

C. Agricultural Credit Policy Issues

As discussed earlier, the World Bank participated in the discussions of the Spring Review, particularly in the concluding sessions on credit policy issues and related matters. In 1974, the Bank began to conduct its own assessment of past credit activities. In conducting this review, Millard Long, one of the consultants contracted for the Spring Review was contracted to compile the data generated from the Spring Review with that of the Bank's in order to produce what Donald termed the "most comprehensive assembly of statistical data that has been published to date" (7, p. xi). Some this data and other reports were incorporated into the Bank's Agricultural Credit Sector Policy Paper which was published in 1975. This document briefly describes the World Bank's past activities and quite succinctly outlines the various policy issues concerning the Bank. No background description on how these various assumptions and issues were made is provided. 7/

This document commits $1.300 million for agricultural credit over the five year period 1974-78, "almost half of the total or around $650 million allocated for small farmers" (4, p. 18). For purposes of comparison, this is similar to what AID authorized in a ten year period of intensive small farm credit activities. Clearly a major financial contribution to capitalize small farmer credit institution was pledged. However, when compared with the Bank's 1972-74 lending levels for small farmer credit, almost the same annual levels over a five year period are maintained. The other $650 million for agricultural credit will be programmed to credit for medium and large-scale farmers "in order to help increase the world's food production." This credit is needed as the "evidence suggests that larger holdings up to 50 hectares are also short of credit for production purposes" (4, p. 3).

The four credit policy issues identified by the Bank include; 1). eligibility criteria and security requirements, 2) the level of interest rates and the merits of interest subsidies; 3) repayment performance, and 4) credit channels.

7/ When queried regarding how these various issues for small farmer credit were developed (considering the Bank's minimal experience in the area), I was told by the Bank that this information could not be provided. Therefore I conclude that because of the Bank's participation in the Spring Review and access to the data generated, the consulting services provided them by the Ohio State University group and their hiring of E. B. Rice, architect of the Spring Review exercise, much of the basis for their conclusions was generated from the Spring Review process.

Eligibility and Security

Instead of the traditional land title requirements as a collateral loan security, which has tended to exclude small farmers who seldom possess certified title, the Bank emphasizes that repayment capacity should now be based on the appraisal of the productive capacity of the investment. For longer-term credit, however, a collateral request would be acceptable. There needs to be less complex procedures for obtaining credit. In this regard, more attention could be given to a greater reliance on self-management and the use of farmer groups to police loans (4, p. 9).

Interest Rates

According to the examples provided, the total real costs for an efficient credit institution would be between 15 and 22 per cent. A case, quite similar to that made in the Spring Review that interest rates be raised accordingly is provided. However, the implementation of that policy is somewhat different in that greater flexibility is provided.

Accordingly, the World Bank expects (4, p. 13):

> ....to work toward a long-term objective of positive interest rates which reflect the costs of lending. There are obvious difficulties in any single organization - such as the World Bank - seeking interest rates on a particular project that would be different from those charged by the same or by a competing borrowing institution on other similar projects. The difficulties are compounded if many external lenders have accepted the principle that borrowing institutions should lend at subsidized interest rates. The Bank's attitude will be influenced by a project's overall potential for raising the productivity of large numbers of small farmers and for achieving a satisfactory economic return.

Repayment Performance

Repayment problems are associated with both the large and small agricultural borrower, though over time, it is observed that most loans will eventually be canceled. Closer supervision will possibly address the problem, however, maybe the increased costs make that an inappropriate decision. To reduce administration costs, perhaps supervision should be under a collective responsibility arrangement (4, p. 15).

Credit Channels

As observed when this issue was discussed in the Spring Review, there is no one best way to reach a large number of small farmers. The World Bank has listed a series of suggestions to assist national institutions in developing more effective credit institutions.

As presented by the Bank (4, pp. 17-18):

1. The institution must encourage acceptance of its role in assisting small farmers and make itself readily accessible at the village level.

2. It must view credit as part of a package to improve small farmer productivity, have specific proven technology to do so and ensure that the inputs required are available.

3. The institution should take into account the advantages of providing credit in kind for purchased inputs. This would relieve the smallholder of further transactions with which he may be unfamiliar and provide the institution with some assurances that the credit is used for the purposes intended.

4. Credit, especially credit in kind, must be timely. If provided too early or too late, it leads to diversion and loss.

5. The basis for selecting smallholder borrowers should be credit-worthiness but the criteria need not be as restrictive as for larger borrowers. The important elements should be the reputation of the individual within the community, the technical feasibility of the proposed enterprise in his own farm situation and the expected cash flow generated.

6. The prospects for repayment of loans are greatly enhanced by group responsibility for individual liabilities. Given the cohesiveness of most rural communities, when the village cooperative society or farmers' association has a stake in an individual's performance, it is difficult for him to withstand the pressure of his peers and avoid his obligations.

7. Institutions should understand that, for small farmers, especially loans and repayments need to be carefully scheduled to meet periods of liquidity shortage and surplus as they arise. This will make supervision much more effective and orderly.

8. Institutions will need to exercise considerable flexibility in rescheduling repayments when unexpected circumstances, such as drought or other disasters, occur. Under such conditions, it may also be necessary to be flexible in regard to lending criteria.

9. The institution must commit itself to continuity of operations, recognizing that performance, in the initial stages, may be inadequate. It will take time and discipline to develop effective credit programs for small farmers.

10. Finally, the authorities should recognize that much remains to be learned about small farmer credit. A process of trial and error on a limited basis may be quite in order, in many circumstances, to provide guidelines for wider application. Ultimately, the program should be conceived as one providing continuing and increasing financial support to the farmer for the evolving process of modernization.

D. Follow Up to Nairobi

Unfortunately there has been only limited information provided by the Bank during the five year period since the initiation of this bold venture. Only the most general statements have been made with no specific data on the operations of small farmer credit included.

For example, the only comment made about agricultural lending in a recent five year post-Nairobi report, was that all the agricultural lending "targets" were surpassed by some 35 per cent (33, p. 1) and some additional general information (33, p. 5) as quoted below:

> At least 75 per cent of the 363 projects approved during the five-year period contain a small farmer element or component. Moreover, of the total volume of agriculture and rural development lending during fiscal 1974-78, over 50 per cent is accounted for by 210 rural development projects which, by the Bank's definition, are those projects in which more than half of the direct benefits are expected to accrue to the rural poor.
>
> ....The Bank is involved in a number of innovative approaches to this crucial problem, but much remains to be understood and further tested.
>
> ....The impetus to rural development remains small and patchy in relation to the scale of a problem; but a beginning has been made, and the experiences acquired will be valuable to governments in tackling the many formidable challenges still ahead.

Comment

Resulting from the Bank's interest in small farmer credit and their commitment to some of the same issues identified in the Spring Review, I was hopeful that more detailed information on agricultural credit would be provided. According to the Bank, no detailed report on the progress made in implementing the Bank's new small farmer credit strategy has been prepared.

The Bank's position and experiences on these issues is most important. They could have more to share than any other institution, and give their financial leverage, have more of an impact in bringing about change than any of the other donors.

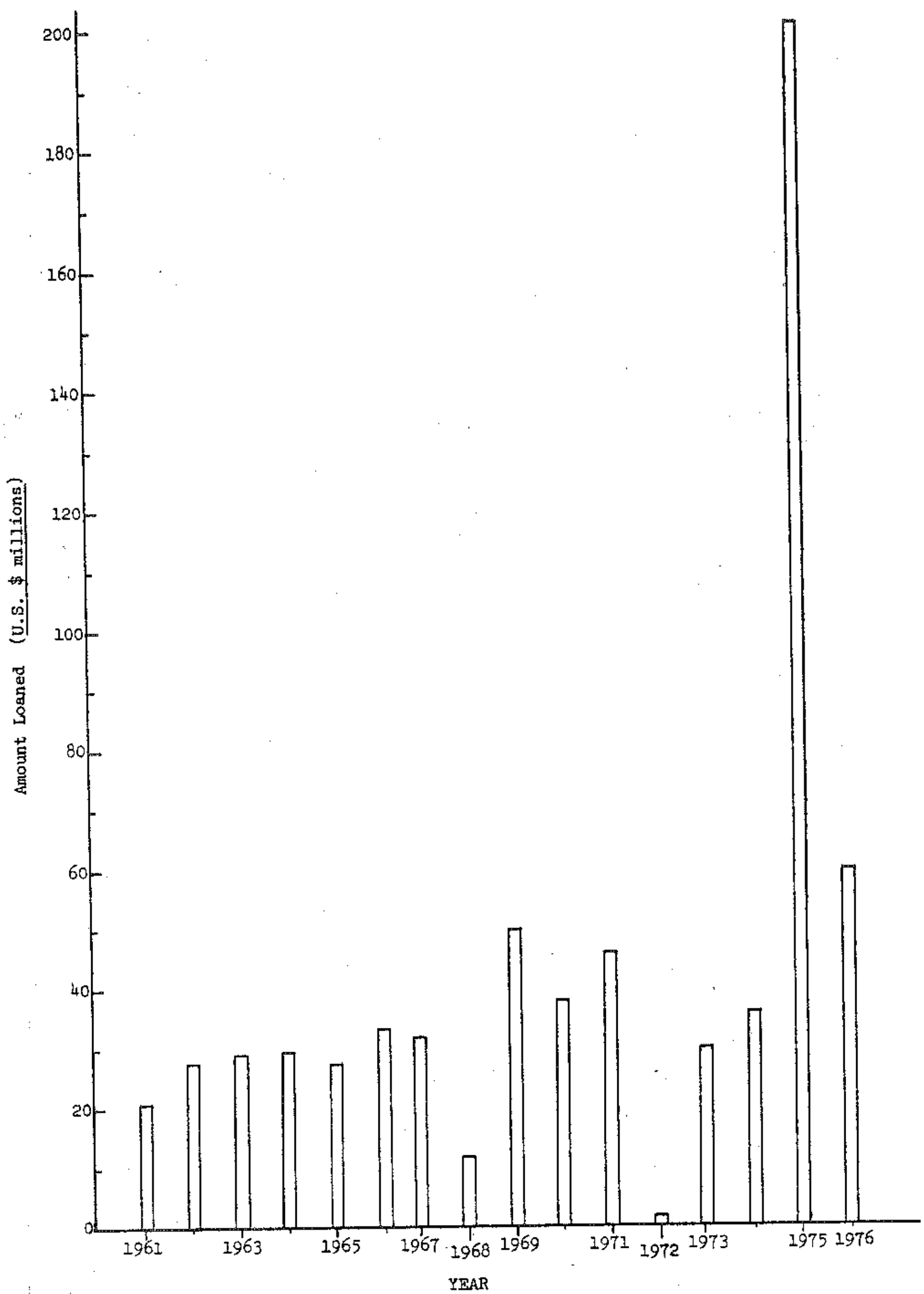
PART IV - INTER-AMERICAN DEVELOPMENT BANK

The IDB was founded in 1961 as part of the Alliance for Progress Program and has received considerable US Government support. Originally, 21 American nations were signataries of the Agreement, but since then, six other recipient countries have affiliated.

The IDB was the first of three other regional development banks. Though the African Development Bank and the Asian Development Bank have made investments in agriculture, since only the IDB has made a major contribution in the area of agricultural credit - especially towards the small farmer - no mention is made of the other institutions. (7, p. 5).

Unlike the World Bank, the IDB began early in providing capital assistance in agricultural credit. As noted in Chart 5, except for the noticeable unexplainable differences in 1972 and 1975, lending for agricultural credit has ranged from $12 to $60 million, averaging about $36 million over the

CHART 5. AGRICULTURAL CREDIT LENDING AUTHORIZATION LEVELS, INTER-AMERICAN DEVELOPMENT BANK, 1961-76*



Source: Inter-American Development Bank, Participation of the Bank in the Development of Agriculture in Latin America, April 1967, pp. 25-26.

eighteen year period. From 1961-78, an estimated total of $880 million has been allocated for agricultural credit. Credit and irrigation are the leading lending categories, each having received almost 30 per cent of the capital fund (34, p. 2) designated for agricultural development.

The orientation of the credit program has been to try to correct domestic food supply deficiencies which in the past have been observed (35, p. 13). The principal recipient countries were Argentina, Mexico and Brazil, all receiving fifty five per cent of the total. Though the credit recipients have not been small producer focused, the IDB has "given considerable emphasis to smaller farmers in the credit programs it supports" (7, p. 5).

As stated by the IDB (36, p. 14-15);

> The diversity of requirements is illustrated by the broad spectrum of farm projects which the IDB has supported to foster greater production, productivity and employment and a more equitable distribution of income in the rural areas of Latin America. The Bank's agricultural lending ranges from large-scale mechanization programs in Argentina to construction of thousands of small irrigation facilities in Mexico, to land settlement and agrarian reform projects in a number of countries to agricultural credit programs for low-income farmers in all of the countries of the region.

Comparing the material prepared on Annex I, (though admittedly incomplete regarding "Other donor activities"), up to 1972, the IDB had provided capital assistance to all institutions originally sponsored by AID except for those in Chile, Haiti, Brazil, Costa Rica and Dominican Republic.

I have been informed that the IDB has produced no policy statement regarding their credit programs nor any more detailed comparative data than that provided above. Considering the Latin American emphasis by AID and the World Bank, no unified stand on issues is possible without a position from the IDB.

PART V - FOOD AND AGRICULTURE ORGANIZATION

The FAO was organized in 1945 with a basic objective of "encouraging greater production and better distribution of food and to improve nutritional standards, especially in the less developed regions" (37, p. v.). The FAO has no lending capital. However, as it has been active in providing substantial amounts of technical assistance to agricultural credit institutions, cooperative development agencies, and related agricultural development activities, and provides assistance to the World Bank, its position is very important in relating to countries requesting assistance and implementing projects.

A. Supervised Credit Emphasis

The first FAO document on agricultural credit, the Manual of Supervised Agricultural Credit in Latin America was published in 1955. The manual was the result of the "First International Panel on Experts on Supervised Agricultural Credit" held December 1953, in Asuncion, Paraguay. Since at that time, supervised credit programs had been initiated in Brazil, Honduras, Paraguay, Venezuela and were being studied in Guatemala, Haiti, Nicaragua, Panama and Peru, there was a need to assist these efforts in developing appropriate systems to provide credit to small producers. There was hope that this sytem might be a model to continue replicating. It was thought that through its introduction, "the ignorance and backwardness of rural communities will be reduced more and more and the goals set namely: greater farm production and higher living standards for the farm family approached" (38, p. 47).

A complete description of the various organizational and operational aspects, responsibilities and training of supervisory personnel, was included in the manual. In providing the various suggestions concerning the operational aspects of this type of program, one is informed of the anticipated increased social and educational costs associated with loan supervision and education which would have to be defrayed from government revenues.

Quoting from the manual (38, p. 13):

> The administrative and supervising costs of a social and educational program should be considered in the same light as those of any other public services expenses. On the other hand, loan funds should be placed under the regular loan recovery system and differentiated only in the technical planning of the work and the terms and condition of repayment and in the greater freedom in setting of interest rates. The ideal would be flexible terms ensuring maximum recuperation of outstanding loans and the extension of the educational and advisory services to the greatest possible number of borrowers.

Another FAO manual concerns the linking of the supervised credit system with agricultural extension and cooperative development activities which were studied in Brazil, Mexico and India. Given the high support costs associated with the supervised credit system, and the technical extension limitations, it was believed that if other countries used the "proven successful" techniques observed in the three countries studied, improvements would be noted.

The manual mentioned (37, p. 1):

> The system opens new opportunities to small farmers who have little or no tangible assets to give as security for the loans normally granted by credit institutions. It also increases the possibilities, through constant guidance and technical advise, of the adoption of better farming practices, the achievements of improved production and higher income for the farmers, and the implementation of government agricultural policies.

During this period the FAO also prepared the only donor produced (I saw no others) text-like reference guide for agricultural credit officials at all levels. Such points as the financial aspects of credit, characteristics of the rural communities, project promotion, costs of credit, loan security, various credit organizations, i.e. commercial banks money lenders, etc., and the various details associated with cooperative credit, supervised credit, and traditional bank credit were all presented in detailed form (39).

B. Agricultural Credit Review

FAO representatives participated in the regional workshops held during the Spring Review and also in the final sessions held in Washington. Their participation in the Spring Review appears to have been more than any other donor institution.

Beginning in January 1973, the FAO held a series of regional seminars in various parts of the world on small farmer credit systems and in 1975, contracted for the preparation of a special study "Agricultural Credit for Development" which was completed by the Cassa di Risparmio delle Provina Lombarde (CARIPLO).

The conclusions of this study are provided (40, p. 239):

> ....credit institutions have failed to make their full impact on food production in LDCS because agricultural credit had often been given in isolation from other support services and is frequently limited to non-food export crops. In addition, a shortage of trained personnel and qualified management or inadequate services together with the vulnerability of credit institutions to political interference, also limit their effectiveness.

Resulting from the problems observed during reviews and the need to focus more attention on credit, the FAO organized the "World Conference on Credit for Farmers in Developing Countries" held October 1975 in Rome. This conference was attended by over 400 representatives of ministries concerned with agricultural credit, agricultural banks, cooperative banks, central banks, and commerical savings banks, from 104 countries. This was the largest conference yet held concerning agricultural credit.

Given the problems associated with future world food demands and present rural poverty in his welcome address, the Director General of the FAO, A.H. Boerma stated (41, p. 3):

> Governments and financial institutions have to face up squarely to the problem of how best to reconcile safe and well tried banking practices with the need for concentrated measures to serve the rural poor, most particularly the small farmer. What is required is political committment from governments and the necessary financial support from central bank to assist agricultural and cooperative banks in resolving what ever conflict there may be between sound loan policies and the social objection of credit program.

Using the CARIPLO report and the reports from the regional conferences, a series of themes were studied by various working groups from which papers were presented. From these papers, a lengthy series of concluding recommendations were approved. The various subjects from which specific issues evolved include: 1) integration of credit operations with related development services, 2) assistance to small farmer, 3) monitoring the development of adequate credit arrangements to serve the small farmer of the developing countries, 4) interest rates subsidies and inflation, 5) mobilization of domestic savings for agricultural development, 6) central banks, 7) maintenance of operational efficiency, 8) expanding the flow of funds through national credit institutions, 9) training, 10) farmers representation, 11) regional approaches in agricultural credit, 12) regional agricultural associations, 13) international agricultural credit bulletins and bibliography, 14) international credit advisory assistance, and 15) organization of a Scheme for Agricultural Credit Development (SACRED) to provide follow-up to the various recommendations from the conference.

In comparing the policy guidelines agreed to with the credit policy issues prepared by AID and the World Bank, except for the loan default problems raised by both the World Bank and AID, and the "graduation" issue as presented by AID, the FAO conference endorsed all other points. Basic approval regarding the ever-controversial subject of interest rates was provided.

Quoting the recommendation on interest rates (41, p. 16-17):

> Noting that diverse opinions are held in the desirable order of magnitude of interest rates, thus the proponents of high interest rates maintain that the interest, especially on seasonal loans is in any case a small proportion of farm expenditures and that concessional rates cause allocative difficulties in that without strict supervision loaned funds are siphoned off into other sectors, on the other hand, occasional interest rates to farmers are seen as providing a channel for income redistribution to farmers and may encourage borrowing for long-term investment in farming, the conference recommends:
>
> (a) that interest rates should as far as possible, be realistic in relation to levels of inflation within a country.
>
> (b) that if institutions responsible for granting credit to small farmers are forced to charge concessional rates at early stages of development, then these institutions' administrative and borrowing costs should be subsidized in order to ensure their viability, and the burden of such subsidy be borne by the large farmer or by other sector of the economy.
>
> (c) that if loans to farmers are subject to interest rates based on the opportunity cost of capital, then governments should subsidize small farmers through the provision of better infrastructure and farm services, or by making available inputs and equipment at low costs.
>
> (d) that FAO research the subject of interest rates for agriculture lending in order to provide member countries with more appropriate criteria to formulate credit policies.

C. Follow-Up Action

In order to provide an institutional base from which follow-up activities related to the various recommendations generated during the Conference could be done, the delegates recommended the creation of a Scheme for Agricultural Credit Development (SACRED). In June 1976, an ad-hoc consultation meeting was held in Rome with 23 countries represented to further define SACRED. A series of "Lines of Collaboration" were developed and transmitted to the Director General for his approval. Later in 1976 SACRED was officialized by the FAO Council and it was agreed that the FAO Office would serve as its secretariat.

To provide SACRED with a world-wide out-reach system, four Regional Agricultural Credit Associations for Asia, Africa, Near East - North Africa and Latin America were created and yearly meetings have since been held. At the inauguration of the first meeting of the Asia Association, the FAO Director General remarked (42, p. 5):

> To accelerate the flow of international assistance to the agricultural credit sector, FAO has embarked on the "Scheme for Agricultural Credit Development" (called SACRED). In the context of FAO's overall agricultural credit program , the Regional Agricultural Credit Associations and SACRED are two basic and mutually supporting elements. SACRED is designed to secure a greater involvement of aid agencies and banks of the developed countries in building up the agricultural credit institutions of the developing countries. The Regional Associations are seen as a self-supporting mechanism to be managed by the financial institutions of the developing countries themselves for their mutual support and strengthening.

As of March 1976, 60 financial institutions, government aid agencies and private foundations have received correspondence affiliation (43, p. 12).

Activities described in their first Agricultural Credit Newsletter indicate that they have developed a series of training aids for agricultural credit, conducted studies on the role of central bank and agricultural credit, conducted training seminars, etc. (42, p. 6-7).

D. Comment

Recent FAO activities resulting from the creation of SACRED, at first glance, appear timely and appropriate. It appears that in the short period SACRED, working through its Regional Associations, has initiated the type of world forum from which a contribution in the implementation of the "issues" earlier can also be monitored.

PART VI - FOUNDATIONS

In the area of agricultural credit, the Rockefeller Foundation[8/] has had more activity than any other foundation. Research on their "Puebla Project" and a special report on credit have been commisioned.

8/ The Rockefeller family supported the now-defunct American Association for Economic and Social development which did play an important early institution building role in developing supervised credit projects in Brazil and Venezuela. The Brazilian Project - "ACAR" was probably one of the must studied of all small farm credit programs.

Carrol Streeter's research on agricultural credit in the "Puebla Project" and other development projects concluded (44, p. 46):

> Several of the experiences mentioned in this report show that when small farmers get credit on fair terms, as well as competent help in using it - when they are made to realize that getting a loan next year depends on how they repay this year - they turn out to be acceptable risks. Their record is surprisingly good.

A detailed study of credit was conducted by Leonard F. Miller, Agricultural Credit and Finance in Africa. This 1977 study extracts much of the themes and issues developed during the Spring Review, and applies them to the agricultural credit experiences in Africa. The major issues earlier defined in the Spring Review related to loan defaults, administrative costs, technical supervision, integration of support services, group lending, rural saving promotions, etc. are discussed within the African context.

Regarding the issue of interest rates, Miller concludes from a survey of small farmers in Nigeria (46; 26):

> Sixty-five per cent of the 249 farmers queried indicated they would be willing to pay 15 per cent per annum. Significantly, 21 per cent indicated they would be willing to pay 30 per cent. The mean rate of interest for all farmers who would be willing to borrow was 21.4 per cent. These results are not suprising in view of the high rates many farmers are now paying for their informal credit.
>
> Farmers are not asking that production credit be cheap, but rather that it be timely, expeditious, and dependable. Their complaints about formal lenders are much more likely to arise from the costly formalities and uncertainty involved in obtaining loans, and from the failure of the credit institutions to deliver the loan funds at the time the money is needed to carry on farming operations. It is to these areas that credit agencies need to direct their efforts if they wish to satisfy small farmers, rather than to whether they charge 15, 18, or 21 per cent interest for short-term production credit. The rate of interest charged becomes a much more critical factor on longer-term loans but for some time to come agricultural institutions will need to devote most of their limited funds to meeting farmers requirements for short-term and in some cases for medium-term loans.

PART VII - CONCLUSION

This record documents the special interest donor agencies recently have directed to the improvement of small farmer agricultural credit systems. Except for the IDB, all have reflected on their experiences and similarly developed more appropriate "issues" intended to increase the well-being of small farmer credit recipients. The resulting broad conclusion is that the task of providing credit to small farmer is a far more complex activity than before envisioned.

Though there is basic agreement among most of the donor agencies concerning key "issues", an interesting point is that resulting from the FAO World Conference, there is an "acceptance" of these same issues by the agricultural and credit officials from lesser-income countries. Seldom have donors and officials reached such a high degree of common purpose.

My concern is to maximize the existing potential generated from this sense of unity in order to better insure and improve performance of both credit institutions and client productivity. I contend that more can be done by the donors to educate officials on the merits of most of the issues of this "new doctrine," encourage their acceptance, test their validity, and assist them in their implementation. There are, however, unfortunate differences that don't easily permit all donors to actively pursue this more "united front." AID for example, might have encouraged more acceptance in some countries of the new doctrine, but given its bi-lateral status and lower funding levels compared with the World Bank, it can exert pressures only to a certain point. On the other hand, the World Bank is under much pressure to move large amounts of money in areas where the absorbative capacity is limited. It is, therefore, difficult to take the time required to educate and exert the necessary pressures on institutions to make policy changes. And as the IDB has no public policy on credit, a common donor position on any one issue in Latin America and the Caribbean is impossible.

If all donors could demonstrate a more common front, a greater chance for issue acceptance and exchanges on the merits of these issues might be possible. For example, there is now a sufficient number of first-generation "new-doctrine" projects that could be exhaustively studied. The results could be exchanged within the donor community so that a better appreciation for the appropriateness of these various alternative approaches could be obtained. Through the use of existing and improved project data-collection systems, information on the costs and benefits of various delivery systems, collateral and variable default rates, interest rate structure and institutional viability, etc. could be obtained and analyzed to determine the effects of certain issues, the importance of others, and discard or develop new ones. Information concerning the almost untouched area of credit management systems could be shared so as to develop the innovative operations systems required to improve institutional performance. It is hoped that the more donor institutions take the initiative and can more positively assist those governments and credit institutions willing to implement the new doctrine, a firmer foundation for long range rural development will be created.

It is not to say that donor agencies can re-create the rural structure of a country nor should they try. It is clearly a government's responsibility to make the necessary structural adjustments required. Hard decisions by the government itself must be undertaken. However, in those countries where an interest in small farmer development has been expressed, a combined effort by donors can provide great service by informing political leaders of the background associated with these issues and hopefully demonstrate that where these approaches have been employed, tangible improvements have been observered.

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ANNEX 1. AID AND PREDECESSOR AGENCY'S AGRICULTURAL CREDIT ACTIVITIES:

SUMMARY REVIEW, 1950-1972*

REGION: LATIN AMERICA

Country a/	Initial Credit Activities		Description of Principle Activities	TOTAL U.S. PARTICIPATION					Observations	Other Donor Activities c/
				Technical Assistance in Person-Years (PYs)	Financial b/					
					Grant		Loan			
	Year	Agency			$	Local Currency	$	Local Currency		
Paraguay	1942	STICA	Joint US/Paraguayan Cooperative Service Agreement for agricultural development signed. Provided for US technical assistance (TA),including one Farm Home Administration (FmHA) Advisor.						STICA organization absorbed into Ministry of Agriculture in 1966.	
	1943	Credito Agricola de Habitacion (CAH)	CAH organized to provide TA in cooperative development and credit. Much US TA provided to organize CAH. Credit system chosen was supervised credit model of FmHA.						CAH was first supervised credit institution in Latin America. Peak period mid-50s provided loan to about 7,200 small farmers annually. CAH operation plagued by poor administration lack of funds, poor loan collection, and by 1958, basically had ceased operation.	
	1957	Mennonite Colonization	$1 million Loan for agricultural credit as part of colonization project.	FY 1943-1972 27 PYs		.3	10.	2.4 b/		
	1961	National Development Bank (NDB)	With inactivity of CAH, AID-sponsored team's recommendations led to creation of NDB. AID provided technical assistance for supervised credit and loan of $3 million and later loans in 1969 of $5 million.		Total $12.4 b/				NDB became principal institution for farmers and cooperatives requiring credit. AID resources mainly went to medium-sized farmers.	1963 IDB Loan to NDB of $2.9 million for supervised credit 1967 IDB loaned additional $6 million
	1966	Cooperatives	TA to various coop federations, particularly credit unions.							
El Salvador	Early 1950s	SCASA	Joint US/Salvadorian operation with US TA being provided in extension, research, education,etc.							
	1951	Caja de Credito	TA provided to Caja and later to assist in the creation of new supervised credit program - Administracion de Bienestar Campesino (ABC)							
	1961	ABC	ABC created as public supervised credit agency to address problems of small farmer. TA and $8.9 million loan for credit provided 1964.						By 1969, AID loan almost fully disbursed, but sub-loan delinquency rate was at 50%. No subsequent loan provided. Small medium, and large farmers benefited.	To fully capitalize AID effort, IDB loaned $2.5 million
	1971	FEDECACES	TA to savings and loan credit cooperative initiated, and $2 million loan later provided.	FY 1961-1972 16 PYs		.6	10.9		Some small farmers benefited but mainly to urban sectors, where credit union members resided.	
					Total $11.5					

*Source: Data extracted from country summaries of the US Agency for International Development, "History of AID Programs in Agricultural Credit" (Spring Review of Small Farmer Credit, Volume XVIII, June 1973), pp. 33-176

a/Ordering of countries based on actual initiation of credit programs.

b/Totals in US$ thousands

c/The listing is not complete as it includes only those projects cited in above source and from World Bank, Agricultural Credit Sector Policy Paper, (May 1975) p. 82

REGION: LATIN AMERICA

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				Technical Assistance in Person-Years	Financial					
					Grant		Loan			
	Year	Agency			$	Local Currency	$	Local Currency		
Panama	During World War II		Agriculture research activities							
	1952	SICAP	Similar structure created as described above in El Salvador							
	1953	Instituto de Fomento Economico (IFE)	Began initial activities with TA to IFE. In 1965 $965,000 portion of loan designated for small farmer credit assigned to IFE, and 1969, $1.7 million loan also to IFE signed.						Studies determined that 10% of farmers had received credit by 1970 - small farm emphasis for crops and livestock	1969 and 1972 IDB provided $7.7 million total loan for farm and livestock loan to small and medium sized farmer.
	1956	Credit Union League Federation	TA to national credit union movement initiated, and later, TA to support Regional Credit Union Office for all Latin America from which TA provided in support of national credit union federation. Panama Federation received $1.8 million loan in 1971, of which $138,000 for agricultural credit.	FY 1953-1972 28PYs	Total	$2.7	1.7		Credit Union movement has been mainly urban-sector directed - middle and poorer classes have benefited.	
Peru	1942	SCIPA	Similar structure created as described above in El Salvador							
	1954	Agriculture Development Bank (ADB)	From SCIPA TA and $290,000, some pilot supervised credit programs were initiated. Funds managed by ADB. 1961 ADB merged supervised credit for land reform project - $9 million and in 1964 - $6.6 million and in '66 - $9 million provided both for supervised credit. Nothing further provided due to political problems.						Though organized in 1931, ADB did nothing for small farmer sector til began managing SCIPA, Vicos and Puno project funds in mid 50s.	IDB provided loans to ADB
	1970	ADB	Loan activity to ADB reinstated to assist in area affected by earthquake. Supervised credit loan of $5 million, plus in 1972, $5.1 million for rehabilitation in flooded areas.	FY 1954-1971 15 PYs	Total	.3 $29.1	28.8		ADB supervised credit project put effort to incorporate small farmer.	
Bolivia	1948	SAI	Similar structure organized as mentioned above in El Salvador							
	1955	Banco Agricola de Bolivia (ABA)	Contract made with US consulting firm to manage $2 million supervised credit project for medium and large scale farming in eastern Bolivia. Fund administered by SAI until 1963 system and fund absorbed by BAB. Extensive TA provided to BAB in early 60s to prepare it to absorb supervised credit fund. In '64 $3.7 million loaned and followed by $6.6 million in 1966. Commodity focused, supervised credit loans were provided.	FY 1955-1972 55 PYs	Total	.9 $21.2	13.	6.3	Active agricultural lending activities began here sooner than in most countries because of food shortages observed after Land Reform of 1952. Though chartered as a development bank and required to give attention to small farmers over the years 3.5% of total BAB portfolio directed to this sector. Because of BAB's orientation, AID looked for other institution.	In 1973, World Bank began lending to BAB

REGION: LATIN AMERICA

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Country	Initial Credit Activities: Year	Initial Credit Activities: Agency	Description of Principle Activities	TOTAL U.S. PARTICIPATION: Technical Assistance in Person-Years	Financial: Grant $	Financial: Grant Local Currency	Financial: Loan $	Financial: Loan Local Currency	Observations	Other Donor Activities
cont. Bolivia	1966	FENACRE	Cooperative Credit Union Federation received portion of 1966 loans to begin experiment with other institutions to direct credit to small farmer.							
	1972	Central Bank	Agriculture Rediscount Fund to refinance selected agriculture credit operations of private banks, credit unions and BAB to finance specific commodities in priority geographic areas supported by $7.2 million loan in 1972.						As larger farmers would probably gain easier access to this fund administered by comercial banks, $1 million of fund allocated for small farmers use exclusively.	
Guatemala	Early 60s	SCIDA	Similar structure organized as mentioned above in El Salvador							
	1955	National Agricultural Bank (NAB)	TA and seed capital during 1955-59 period to a new unit created to implement a supervised credit program within NAB to support colonization project. $1.4 million provided.	FY 1956-1972 55PYs	1.4	.2	7.		Reluctance by NAB to adjust lending policies to accomodate needs of small farmer led AID to push for transfer of project to Ministry of Agriculture.	When transfer of AID fund from NAB made, IDB provided loan of $2.5 million in 1963
	Mid 60s	COOPS	Coop development TA provided which resulted in creation of two semi-autonomous units for extension and credit to two coops. This project received $2 million from ag. sector 1970 loan.		Total	$8.6			Small and medium farm directed	
Honduras	1951	STICA	Similar structure created as described above in El Salvador							
	1956	Banco Nacional de Fomento (BNF)	Technical consulting teams to BNF led to initiating assistance in design of supervised credit program. No funding assistance provided by US however til 1968 when $6 million sector loan signed.	FY 1963-1972 10 PYs	.5		6.		Originally mainly serving small farm sector, but has gradually expanded to serve wealthier clients. 10% of national small farmers' sector have gotten credit.	IDB supported supervised credit program of BNF with $7.6 million in 1963. World Bank began assistance to BNF in late 60s.
	1968	Cooperative Credit Union and Agricultural Cooperative Federation	Resident TA provided and resulted in obtaining $1.5 million from 1968 sector loan.		Total	$6.5				
Chile	Mid 1950s	STICA	Technical service structure similar to El Salvador description as above						DTICA not that impressed on the merits of supervised credit	
	1958	Banco del Estado	DTICA credit advisor worked in creating supervised credit program in Chillon. Banco del Estado personnel received assistance and worked in pilot effort							
	1961	CORFO	$5.4 million to CORFO to expand its agricultural credit programs.							

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				Technical Assistance in Person-Years	Financial					
					Grant		Loan			
	Year	Agency			$	Local Currency	$	Local Currency		
cont. Chile	1964	IMPORA	About $200,000 granted to IMPORA to lend to rural cooperatives for relending to member farmers.						Limited TA provided during a period when a piecemeal strategy developed.	
	1965	Cooperative Development Bank	To fund newly created coop bank to reloan to members.							
	1968	-----	From Ag sector loan, $11 million designated for farm credit program.	FY 1959-1962 6 PYs	.2	5.4	12.5	49.1	Very small activity due to political position of US gov't All ag development programs terminated in 1970.	
					Total	$67.1				
Haiti	1956	-----	AID helped establish supervised credit programs which terminated in 1962.	FY56-62 5 PYs	.1		1.2		The limited assistance provided was not small farmer focused.	
					Total	$1.3				
	1958	Bureau de Credito Agricole (BCA)	Technical assistance and $300,000 seed fund to assist newly-created BCA. Funds supported two pilot rural development projects.							
Brazil	1953	SERVICIO	Similar structure created as described above in El Salvador							
	1957	ABCAR/ACAR	Coop and credit advisor along with others contracted personnel worked with ABCAR (federal extension system coordinating with state system With ACAR, the state unit in Minas Gerais, Rockefeller assistance and US TA developed a supervised credit model which ABCAR tried to replicate nation-wide with limited success.						ACAR organized in 1948 by Rockefeller Group (AIA). AID advisor assigned to Paraguay assisted them in organizing supervised credit model. Small farmer orientation. Became the most studied of early supervised credit projects.	
	1963	National Coordination of Rural Credit (CNCR)	Massive injection of capital and TA in institution's supervised credit program. Large inputs, $80 million in 6-year period, resulted in major structural changes in ag. credit system of CNCR.	FY 1958-1972 38 PYs				82	USAID pressured for more small farmer focus in 1968, but by then, limited leverage as only small amount of funds remaining	
					Total	$82.				
Guyana	1959	Ag Credit Project	TA was provided to help establish small farmer supervised credit program using funds from Colonial Credit Corporation to undertake pilot rural developmental projects in two areas.	FY 1959-1963 5 PYs					Since independence in 1966, no agreed-upon plan yet finalized regarding small farmer credit assistance.	
Colombia	1959	STACA	Servicio structure created as described above in El Salvador and included component for supervised credit for small and medium-sized farmers TA, and $700,000 local currency loan assisted.						Initial supervised credit activity. Many STACA-trained personnel later joined INCORA	
	1963	INCORA	To the land reform agency - INCORA, TA assisted and later, a $10 million to provide production credit for small farmers participating in land reform program extended. In 1966, an additional $8.5 million was loaned.	FY 1960-1972 27 PYs	.1		38.	35.7	From 1964-70 a total of 45,000 small farm borrowers received under project. Difficulties observed in coordinating banking and extension services with INCORA.	
					Total	$73.8				

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REGION: LATIN AMERICA

Country	Initial Credit Activities: Year	Initial Credit Activities: Agency	Description of Principle Activities	TOTAL U.S. PARTICIPATION: Technical Assistance in Person-Years	Financial: Grant $	Financial: Grant Local Currency	Financial: Loan $	Financial: Loan Local Currency	Observations	Other Donor Activities
Costa Rica	1948	STICA	General technical assistance in research, extension etc. as earlier described for El Salvador was provided.							
	1961	National Bank of Costa Rica (NBCR)	TA and $5 million provided to NBCR which was expanded again in '63,'67 and '71. Central Bank relends to comercial banks who in turn lend to small farmers who have never received credit. NBCR provides an incentive guarantee fund.	FY 1960-1971 18 PYs	Total	$22.3	22.3		About 15,000 small and small to medium-sized farmers in the 1971 growing season received credit.	
Venezuela	1962	Banco Agricola y Pecuario (BAP)	AID's only major agricultural project except for war time research and development was the $10 million supervised ag credit project to BAP	FY 1963-1977 11 PYs	Total	$10	10.		Supervised credit model replicated from similar Rockefeller model transplanted from Brazil was used at AID's urging.	
Mexico	1946	SERVICIO	Structure similar to El Salvador created.							
	1962	FONDO	AID surveys and recommendations regarding rural sector problems resulted in small farmer ag credit program being created. TA and initial $20 million loan in 1962 followed by another $20 million in 1963 to FONDO. FONDO created to promote the participation of private banking system in agricultural financing.	FY 1962-1967 7PYs	Total	$40	40.		Project slow to catch on as banks reluctant to lend, but after 18 months, rapid fund disbursement noted. Between '67 and '70, over 30,000 small farmer clients.	IDB followed in 1968 with $20 million and $32 in '71 and IBRD provided $25 mil. in '65, $65 mil. in '69 and $70 million all to FONDO.
Nicaragua	1948	STAN	Structure similar to El Salvador created.							
	1963	Banco Nacional de Nicaragua (BNN)	Marketing and supply coop activities of BNN supported with TA and $337,000.							
	1964	Land Reform Agency (IAN)	Supervised credit project developed for colonization project with IAN. TA followed by $2 million loan in 1966. Because of administrative problems of IAN, credit fund transfered to BNN.	FY 1962-1972 10 PYs	.1 Total	$10.5	10.4		Administrative problems by both IAN and BNN led to deobligation of $1 million from loan.	1963 IDB provided BNN with $7.6 mil. for rural credit project. World Bank assistance provided in '70 to BNN.
Ecuador	1942	SCIA	Technical services unit similar to El Salvador created.							
	1962	DACP	Technical assistance provided to link viable credit union operations with national savings and loan federations. Component of this activity worked on small farmer associations. Large injection of TA provided.						This model has been replicated by contractor-CUNA in other countries. Under this program by 1972, 17 farmer coops were participating.	1973 World Bank began loan activity
	1962	Banco Nacional de Fomento (BNF)	TA supporting new supervised credit program resulted in preparation of $3 million loan directed to small and medium farmer which was never negotiated.	FY 1964-1972 22 PYs	.8 Total	$12.5	11.7		BNF was not desirous of changing orientation to supervised credit to small farmers, and so idea continued with other institution. IDB provided $2.6 million in 1963.	

ANNEX 1. AID AND PREDECESSOR AGENCY'S AGRICULTURAL CREDIT ACTIVITIES: SUMMARY REVIEW, 1950-1972*

REGION: LATIN AMERICA

Country	Initial Credit Activities		Description of Principle Activities	TOTAL U.S. PARTICIPATION					Observations	Other Donor Activities
				Technical Assistance in Person-Years	Financial					
					Grant		Loan			
	Year	Agency			$	Local Currency	$	Local Currency		
Cont. Ecuador	1963	Cooperative Bank	Lengthy TA followed by capital assistance - $1.200 million loan in 1955						Loan to all type of coops but a large share made to farmer coops	
	1968	Central Bank	Resulting from problems with BNF, during loan negotiations in 1972, a similar supervised credit program developed to be administered by Central Bank. Focus on cooperative organization $8.3 million lent.						Central Bank project encouraged private bank participation in lending.	
Dominican Republic	1962	Supervised Credit Project	Began studying feasibility of providing TA and financial assistance. Beginning in 1966, massive TA and a series of loans in support of supervised credit program for those small farmer uneligible under comercial banking system.	FY 1966-1972 53 PYs	Total	$20.8	10.5	10.3	No prior small farmer agricultural credit activities, mainly because of unstable political situation. 6% delinquency rate observed.	
				REGIONAL TOTAL: $432.3						

REGION: ASIA

ANNEX 1. AID AND PREDECESSOR AGENCY'S AGRICULTURAL CREDIT ACTIVITIES: SUMMARY REVIEW, 1950-1972*

Country	Initial Credit Activities: Year	Initial Credit Activities: Agency	Description of Principle Activities	TOTAL U.S. PARTICIPATION: Technical Assistance in Person-Years	Financial: Grant: $	Financial: Grant: Local Currency	Financial: Loan: $	Financial: Loan: Local Currency	Observations	Other Donor Activities
Republic of China	1949	Joint Comission on Rural Reconstruction (JCRR)	US assisted with the reorganization and expansion of the farmer associations fostered by the Japanese, and in the rapid development of ag credit institution. US provided operational budget. First full time advisor arrived in 1953 and assisted with farmers' associations. From 1953 on, estimated $1 million per year provided in support of credit program.	FY 1956-1969 9 PYs	Total	$12		12.	Cooperative development advisor had difficulties in some cases of adjusting to the more centralized and authoritarian farmer organization program which conflicted with their view of independent member-controlled coop organized in the US.	
Turkey	1950	Agricultural Bank (AB)	Resulting from earlier joint studies, concluded that in order to maintain satisfactory food levels, food production would have to be doubled. $1.6 million local currency grant provided. Later in '60s to develop a more responsive credit program for farmers and to improve the administration of the AB. TA, training and capital for credit and marketing fund provided. Later determined that supervised credit would be the methodology. This initiated in 1966, but had been practiced on limited basis before.	FY 1962-1968 14 PYs	2.1 Total	$44.7	3.5	39.1	From 1963-71 supervised credit program funded 28,285 loans, averaging 3,500 loans per year, 4% of Turkish farmers. Loans to those farmers with some collateral.	
Philippines	1951	Rural Banks & Ag Coops	TA sent to help design bank credit legislation and help establish Rural Bank and coops						AID's involvement in credit institution in Philippines probably exceeds any other country. Early advisors identified and developed organizations which served as basic institutions to which subsequent assistance would be provided.	
	1952	Rural Bank	Based on above work, seed capital of $8.1 mil. extended. Rural Bank is to later play the principal role in small farmer credit.	FY 1952-1972 39 PYs					Progress quickly noted and small farmer focus prevailed.	
	1952	Farmers Cooperatives (FaCoMas)	FaCoMas were supported by the Cooperative Financing Administration to which AID provided TA and loan assistance.		2.1 Total	7.1 $22.4		13.3	Resulting from over-expansion, problems with the member coops, and other problems, in late 50s coops were in desperate situation	
	1966	Rural Bank	Supervised credit loan with small farmer focus signed. This new project with Rural Bank basically replaced farmer cooperative credit system.						Rural Bank is now the principal small farmer credit agency.	World Bank began loan activities o/a 1970
VietNam	1951	Ministry of Agriculture etal.	1951-56 a substantial amount of credit loaned in support of irrigation, fishing, etc. but no one credit agency suitable.							

ANNEX 1. AID AND PREDECESSOR AGENCY'S AGRICULTURAL CREDIT ACTIVITIES: SUMMARY REVIEW, 1950-1972*

REGION: ASIA

Country	Initial Credit Activities: Year	Initial Credit Activities: Agency	Description of Principle Activities	TOTAL U.S. PARTICIPATION: Technical Assistance in Person-Years	Financial: Grant $	Financial: Grant Local Currency	Financial: Loan $	Financial: Loan Local Currency	Observations	Other Donor Activities
Cont. VietNam	1955	National Ag Credit Organization (NACO)	Mission TA to assist government in a credit and cooperative project led to creation of NACO to develop effective rural credit program.							
	1967	Ag Development Bank (ADB)	Created new ag bank, replacing NACO. Modeled after Rural Bank in Philippines. Large loan support provided to implement supervised credit program.	FY 1955 1972 81PYs	Total $28	14		14	All program had small farmer focus. US support to credit began to wane in 1969 with gradual lowering of TA staff. US had basically developed the program, operational systems, provided training, commodities, etc.	World Bank provided loan to ADB in 1973.
Iran	1952	Crown land Distribution	Cooperative development project in farmers in Crown Land Area. TA provided to organize coops and to develop ag credit system.						Cooperative credit framework developed which served as model for Bank Oman for many years. Small farmer orientation.	
	1954	Village Council	Nation-wide community development project started with ten 3-men teams contracted to work at provincial level, one advisor per team was an ag credit advisor.	FY 1952 1966 65 PYs	Total $2.8			2.8	Small farmer focus.	
	1958	Agricultural Bank	TA to Bank in developing staff and organizational procedures in order to address expanding needs in agricultural credit. Expanded to include work with other institutions in developing more comprehensive ag credit and cooperative development project. Local currency loan of $2,850 million helped to establish supervised credit program in 1964. Mission closed in 1967.						Resulting from these activities in 1963, Agricultural Credit and Rural Development Bank (ACRDB-later reformed as ACBI) and the Central Organization for Rural Cooperatives (COR) created.	World Bank loan to ACBI began around 1970.
Cambodia	1953	Mutual Agricultural Credit (MAC)	From the Regional Indo-China Office in Saigon, $1 million granted to support French-established MAC's program directed to support credit union.							
	1956	Royal Office of Coops	MAC replaced by new Coop Office and capital and TA assistance provided til closure of Mission in 1964.	FY 1958 1964 7 PYs	Total $1.5	1.5			Efforts made to establish provincial-level credit coops and support multi-purpose village coops	
Thailand	1953	Cooperative Bank	$400,000 counterpart fund loan provided to cooperative Bank to fund revolving fund for local member coops. TA soon provided and worked on developing new model coop bank, prepare legislation and establish new bank - BAAC.						BAAC developed to respond better to needs of coop sector.	
	1966	Bank for Ag and Ag Coops (BAAC)	TA, commodity and other assistance provided. 1971 two PL480 loans of $13.5 million developed.	FY 1955 1972 27 PYs	1.2	.3		1.3	By 1971,214,900 borrowers noted, usually middle sized producers	World Bank began providing support to BAAC around 1970
	1966	Amphus Form Groups (AFG)	In response to new rural development programs in north east, new ag credit program developed to provide credit to local AFGs, $1.2 million in assistance provided.		Total $2.8				AFGs later created as coops. 1,000 loans per year was average coverage.	

REGION: ASIA

ANNEX 1. AID AND PREDECESSOR AGENCY'S AGRICULTURAL CREDIT ACTIVITIES: SUMMARY REVIEW, 1950-1972*

Country	Initial Credit Activities: Year	Initial Credit Activities: Agency	Description of Principle Activities	TOTAL U.S. PARTICIPATION: Technical Assistance in Person-Years	Financial: Grant $	Financial: Grant Local Currency	Financial: Loan $	Financial: Loan Local Currency	Observations	Other Donor Activities
Jordan	1954	Arab Bank	$100,000 grant deposited in Chase Manhattan Bank to serve as guarantee for ag sub-loan repayment to the Arab Bank.	FY 1958 1970 16 PYs	1.5 Total $3	1.		.5	Resulting from this project an other AID-supported projects, T developed draft legislation to combine several institutions into one unit which resulted in formation of the A.C.C.	
	1960	AAC & COOPS	TA and local currency grants provided between 1960-64, but war activities curtailed AID's activities til 1968 when financial assistance again provided.						Small to medium-sized producer was target group	1965 IDA $3 million to AAC and AID continued TA support.
Pakistan	1954	----	Beginning in 1954, limited TA to develop ag credit program arrived. In 1967, local currency loan considered. No solid program from AID assistance developed.	FY 1955 1957 2PYs					Though large assistance provided to irrigation, ag machinery land levelling, ag. extension, and ag. universities, no real ag. credit program developed.	
Korea	1955	Nat'l Ag Coop Federation (NACF)	Since its initiation til 1969, AID has supported NACF with TA and substantial capital assistance. US team recommendations led to the passing of the Ag Bank Act and the Ag Coop Association Act which served as the legal basis for NACF. TA also developed models for village coops that later received credit.	FY 1955 1969 31 PYs	Total	86.8	14	72.8	NACF has always been principal focal point for providing rural credit and source for input supply and marketing activities. Small farmer orientation. In 1962, the 20,000 village coops began consolidation 1,500 zonal coops to provide full range of services.	Around 1970, World Bank began assistance.
Bangladesh	1957		TA related to farmers associations and credit coops. No real program developed, but later began considering financial assistance to replicate Comilla project.	FY 1957 1967 5 PYs					As in Pakistan, limited interest in ag credit specifically though AID assisted in a variety of other ag development activities.	
Afganistan	1959	Agriculture Cottage Industries Bank (ACIB)	Prior to 1959, lending to ag producers not within large farmer category non-existent. AID TA team's recommendation led to reorganization of ACIB and pilot project in Kabul and Helmand Valley. Required reorganization legislation not provided, thus no further activity.	-						
	1966	Helmand Valley	Complementing Helmand regional development project was TA and local currency loan to provide credit thru Regional Ag Bank. Regional Ag Bank organization improved further, and additional local currency loan provided.	FY 1961 1972 8 PYs	Total	$ .6		.6	High loan repayment records noted. Small to medium producer benefited.	

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REGION: ASIA

Country	Initial Credit Activities: Year	Initial Credit Activities: Agency	Description of Principle Activities	TOTAL U.S. PARTICIPATION: Technical Assistance in Person-Years	Financial: Grant $	Financial: Grant Local Currency	Financial: Loan $	Financial: Loan Local Currency	Observations	Other Donor Activities
Nepal	1960	Village Development Program	Supportive of Village Development program was grant assistance to Department of Coops to support cooperative credit project.						Only credit institution providing assistance available to small farmer.	1970 IBDR began assisting project.
	1964	Cooperative Bank	TA to assist Cooperative Bank. However by 1966 high default rates and declining interest in coops by government resulted in creation of new Ag Development Bank.	FY 1965 1968 7 PYs		.2				
					Total $.2					
India	1965	Ag Refinance Corporation (ARC)	TA provided in credit-related matters since 1955. Initial project activity was grant to ARC which provided refinancing of loans for central and state land mortgage banks, cooperatives, and commercial banks.						Not specifically small farmer oriented.	
	1969	COOPS	TA team undertook large number of ag credit studies, but little government interest detected. Thus, concentrated activities within cooperative sector. Since war with Pakistan, only limited activities except for local revolving fund with voluntary agencies.	FY 1955 1961 6 PYs		12.7				
					Total $12.7					
Laos	1965	Agricultural Development Organization (ADO)	AID ag credit support initiated with creation of semi-autonomous ADO responsible for developing input and commodity markets and ag credit system. Basically US administered.	FY 1966 1971 45 PYs	2.5	1.4			Project response to war situation and thus activities affected by security conditions	
					Total $3.9					
					REGIONAL TOTAL $221.4					

REGION: AFRICA

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Country	Initial Credit Activities: Year	Initial Credit Activities: Agency	Description of Principle Activities	TOTAL U.S. PARTICIPATION: Technical Assistance in Person-Years	Financial: Grant $	Financial: Grant Local Currency	Financial: Loan $	Financial: Loan Local Currency	Observations	Other Donor Activities
Libya	1954	National Agricultural Bank (NAB)	Farm credit advisor arrived to conduct preliminary ag credit survey. Based on recommendations submitted, he assisted in drafting legislation which led to establishment of the NAB. In 1955 NAB capitalized with a $2.8 million grant. American team of advisors remained til 1962.	FY 1956 1962 23 PYs	2.8 Total	$2.8			During latter phase of program AID mission applied pressure for NAB to exert more attention on farmer cooperatives as originally agreed to in project agreement. Gov't continued policy resulting in tendency to concentrate on larger farm units Mission closed in 1961.	
Tunisia	1958	Banque Nacional Agricole (BNA)	Agricultural credit activity initiated based on recommendations from consulting team which called for establishing BNA. BNA to incorporate existing credit coop structure. Plan approved in 1959. Much TA provided, and in 1960 $ 2 million loan and follow on loans extended. Limited TA also to credit unions provided.	FY 1960 1968 12 PYs	Total	2.5 15.4	6.5	6.4	AID basically responsible for laying ground work for developing agricultural credit system Project averaged about 22,000 small producer loans per year. Also in '63 coops supported and growth impressive til '67. Since then, not so good. Difficulties observed in getting French speaking advisors.	World Bankbegan lending in 1970s.
Nigeria	1959	Western Nigeria Credit Corporation	Government requested AID to furnish consultant to study credit situation and make recommendations on the type and structure of credit institution best suited for Nigeria. Study made 1960-62. Later permanent advisor arrived to develop administrative procedures, to train officials and to draft necessary legislation.	FY 1963 1972 22 PYs					TA emphasis was on supervised agricultural credit as employed by FmHA. AID played the decisive role in initiating ag credit program.	
Kenya	1959	Ministry of Agriculture	First effort at ag credit tried to couple credit with the development of cooperatives. Ministry received grant of $250,000.	FY 1970 1972 7PYs					First effort unsuccessful. Limited interest in small farmer credit.	
	1968	Agricultural Finance Corporation (AFC)	Former Governor of FHA visited and recommended that permanent TA team should be provided to assist newly-formed AFC.		.2 Total	.3 $.5			AFC has evolved as principal public ag credit agency. More concerned with capital needs of larger farmer.	IBRD and European Banks have also provided principal assistance.
Ethiopia	1961	Development Bank of Ethiopia (DBE)	Agricultural credit activity initiated with $2 million loan to DBE.	FY 1968 1976 2 PYs					AID program not continued due to bank's poor performance and reluctance to promote small loans.	IBRD interested.
	1968	Ethiopian Investment Corporation (EIC)	$1 million loaned to EIC to which a portion went to short term credit of small farmers.		Total	$2.4	2.4		Not aimed at small farmer.	IBRD preparing loan of $11 million.
	1971	Financial Intermediaries Reorganiza- Committee(FIRC)	FIRC organized to merge both of above bankers, Former Governor of FHA visited new organization and recommended establishment of new supervised credit program.						Nothing became of proposal.	

REGION: AFRICA

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Country	Initial Credit Activities: Year	Initial Credit Activities: Agency	Description of Principle Activities	TOTAL U.S. PARTICIPATION: Technical Assistance in Person-Years	Financial: Grant $	Financial: Grant Local Currency	Financial: Loan $	Financial: Loan Local Currency	Observations	Other Donor Activities
Tanzania	1960	Local Development Fund	During early 1950s, $200,000 grant to Colonial government to provide seasonal crop loans. By 1960, serious loan repayment problems observed, and AID and World Bank Mission sent. Recommendations led to creation of Agricultural Credit Agency.						Agricultural credit activity mainly tied to cooperatives.	
	1962	Agricultural Credit Agency (ACA)	US granted $350,000 to ACA for use in revolving fund.	FY 1964 1970 12 PYs	.2	.4				
	1963	Coop Sector	TA extended to cooperatives. From this experience, new regulation to improve coop institutions was developed.		Total	$.6			All programs have had small farmer focus. National Cooperative and Development Bank Act prepared and cooperative bank created.	$5 million from IBRD loaned in '66 and in '70 another $9 million loaned
Uganda	1960	Farmer Loan Plan	FmHA consultant arrived and developed basis for the creation of "Progressive Farmer Loan Scheme Ag credit provided until 1964 when closed down.							
	1965	Ag Coop Development Bank	After chartering of bank in 1964, much cooperative development TA, especially cooperative management assistance provided, and two small revolving funds created.	FY 1963 1972 19 PYs		.5			Bank later closed due to malfeasance.	
	1971	Uganda Cooperative Development Bank (UCDB)	Much TA provided prior to establishment of UCDB, and to supporting cooperative development agencies.		Total	$.5			Prior to 1961 no production credit available. Ten yers later, approx. 50,000 small farmers were receiving seasonal loans.	1972 World Bank began lending.
Moroco	1962	Cuisse Nacionale de Credit to Agricole (CNCA)	Resulting from recommendations by two US credit consultants, CNCA established. A new supervised credit program was organized for the small farmer sector, government-controlled farmers' association, and more progressive farmers.	FY 1960 1968 12-PYs		.2		24.4	French gov't had provided 40-50 person-year of assistance. Prior to arrival of consultants credit focus directed mainly to large farmer. Under new program 200,000 small producers per year assisted. Difficulties encountered in getting French-speaking advisors.	IBRD capitalized their effort with $10 million in 1965, $24 million in 1972 plus IDA provided $10 million in '72 and the German Development Bank in '72 loaned $3 million.
					Total	$ 24.6				
	1966	Operation Fertilizer	Substantial financial assistance provided to revolving fund to increase production of cereal grains.							
Ghana	1966	Agricultural Development Bank (ACB)	To assist ADB improve its organization and operation to extend credit, TA provided along with participant training and local currency loans beginning in 1969	FY 1967 1970 4 PYs				3.5	Because of progress made, TA was later removed. ADB is increasing flow of credit to small farmers.	
					Total	$3.9				
					REGIONAL TOTAL			$50.4		

ANNEX 2 - SUMMARY OF AID's INSTRUCTIONS ON Small Farmer Credit Project Design

Distribution of Credit - "It is now established AID policy to concentrate support of agricultural credit programs on small farmers. Missions can provide funds either to programs which lend exclusively to small farmers or to institutions which have small farmer credit programs so long as in the latter case the total amount of increased lending to small farmers will be at least as great as the funding to be applied by AID" (46, p. 17). During the Spring Review the consensus was that given the limited resources of the land-scarce small farmer, in most cases he should be excluded from credit assistance. Recent thinking has changed this issue. Though potentials might be limited, a means should be found to reach him. The manual encouraged the mission and local governments to be flexible in determining the "viability" of the small farmers eligible for these programs and to look for other criteria than merely minimum land size as a selection factor.

Interest Rates - The consensus was that the present low rates are economically unjustifiable and that in most cases, should be increased to 12-15 per cent plus the going rate of inflation (46, p. 24). In this context, low-interest subsidized rates, like all other subsidies, should be given in the form of services such as extension, and not in the form of subsidized inputs which are often received by a more priviledged group not needing the subsidy.

Default

Given the demise of agricultural institutions, often times brought about by high rates of default and the many sound justifications for default associated with these high risk projects, AID Missions "should (a) attempt to learn the truth about repayments; (b) ascertain as well as possible the reasons for non-repayment when the figure is high; (c) work out with the agency a program for improving performance; (d) develop a system to monitor performance (46, p. 27).

Supervision - The supervised credit system led to too much individualized supervision which, of course, was costly in relation to the amounts loaned. However, to the extent that this service can provide useful information, supervision is usually an effective complement to credit. The degree of supervision to the degree of unwantable interference is counterproductive. The working assumption is that farmers are essentially rational. Therefore not only should supervision be reduced, but also, a case can be made for the provision of consumption credit (46, p. 29).

Economic Efficiency - Given the high costs associated with credit program, if administrative costs which in most cases have to be subsidized, can be reduced, the institution can broaden its lending to the small producer. To conduct this usually difficult task, a "low cost delivery system" needs to be designed. There are no easy remedies, but the grouping of farmers to lower loan processing, approval, supervision, extension and repayment offers a possibility. The decentralization of operation to facilitate loan processing and monitoring, plus the possibility of using savings and informal leaders and other entities formulating rural capital could be contracted to improve the flow of finance can also be explored to reduce administrative burdens (46, p. 32).

The "Institutional" related issues associated with small farmer credit also received attention.

Alternative Delivery System - Though no one institutional system studied in the Review was cited as superior to others, there was consenus that greater attention needs to be directed to organizational development and improved management. Accordingly, group credit is often preferred to 1). reduce loan administrative costs, 2). lower default rates, 3). facilitate savings mobilization and 4). assist in loan monitoring, their actual track record has been mixed - particularly cooperatives (46, pp. 34-38).

Package Approach to Credit - Given the many development constraints in the rural area, the provision of credit exclusively is not the solution. Other considerations such as a more porductive technology, availability of quality inputs on a timely basis, market accessibility, etc. are common complementary services that must be considered to make credit profitable. Whether this is provided by one or a series of private or public institutions must be carefully studied to assure their timely provision (46, pp. 40-41).

Graduation - For sound equity reasons, the graduation of the small farmer from the more subsidized to less-subsidized programs must be considered. Obviously the institutions are reluctant to continually loose good clients and recruit those usually not eligible by the other institutions. Though difficult, it should be understood that a permanent association with a subsidized program is unhealthy for rural development (46, pp. 42-43).