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*THE AGRICULTURAL EXTENSION SERVICES*

*IN WEST MALAYSIA*

# BETTER FARMING FOR BETTER LIVING

*by*

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# THE AGRICULTURAL EXTENSION SERVICES IN WEST MALAYSIA

## Introduction

West Malaysia covering an area of about 51,200 sq. miles (Malaysia, 128,308 sq. miles) is essentially an agricultural country. Of the 32 million acres total land surface, only about 19% (6 million acres) is agricultural land devoted mainly to rubber, padi, coconut, and oil palm. Another 6% of the total is occupied by urban and mining land. The reserve of potential agricultural land totals about 10 million acres.

About 70% of West Malaysia's population of 8,035,530 people are rural, most of whom are engaged in agriculture for their livelihood. Production in agriculture constitutes about 30% of the gross domestic product.

## Historical Retrospect

Agriculture in West Malaysia is based on plantation agriculture and the smallholders sector. Services for the development of agriculture by the Department of Agriculture have been initiated as early as 1905, when the Department was inaugurated. In 1929, the Department comprised the following branches:-

Research

Field (Extension)

Education

Publication and Agricultural Economics

A number of changes in the organisational setup have taken place since then, the major change being establishment of the Agronomy Branch in 1952, the main function of which was to conduct field experiments formerly undertaken by either the Field or the Research Branch.

Further major organisation changes took place in 1962 when the Department of Agriculture became integrated within the Ministry of Agriculture and Co-operatives. With this integration, a clear division of responsibilities between the Division of Veterinary Services and Agriculture on the question of animal and crop production was delineated. All research and extension work on all classes of animal became the responsibility of the Division of Veterinary Service. In the same year also the College of Agriculture which forms the major component of the Education Branch was transferred to the Council of the College of Agriculture, an authority of the University of Malaya. The responsibility of maintaining the 17-months certificate course for extension workers at the Schools of Agriculture remains with the Education Branch. An achievement which has been accomplished in the development of the Department of Agriculture is the complete Malaysiansation of the staff after 1964. There has also been a significant increase in the staffing of the Department, with only 13 Division I officers in 1957, today this figure has increased to 123. The total staff number increased from 597 in 1957 to 1,386 in 1966.

## Present Organisation

The Ministry of Agriculture and Co-operatives was integrated in 1962. It now comprises the Division of Agriculture, Co-operative Development, Fisheries, Drainage and Irrigation, Veterinary Service, Food Technology and the Federal Agricultural Marketing Authority. The policies adopted by the Ministry are:-

(1) to provide for self-sufficiency in essential foods by increasing the quantity and quality;

(2) to fully develop and exploit all agricultural resources and to intensify the diversification of agriculture as a means of broadening the base of our economy;

(3) to raise the standard of living of the farmers by making available marketing and credit facilities;

(4) to promote agricultural research to foster agricultural education and to utilise to the maximum all human resources for a sound agricultural development.

The Department of Agriculture, which is headed by the Director, is entrusted with responsibilities for agricultural research, field investigations, education, development and extension activities. It comprises the following branches:-

Research

Agronomy

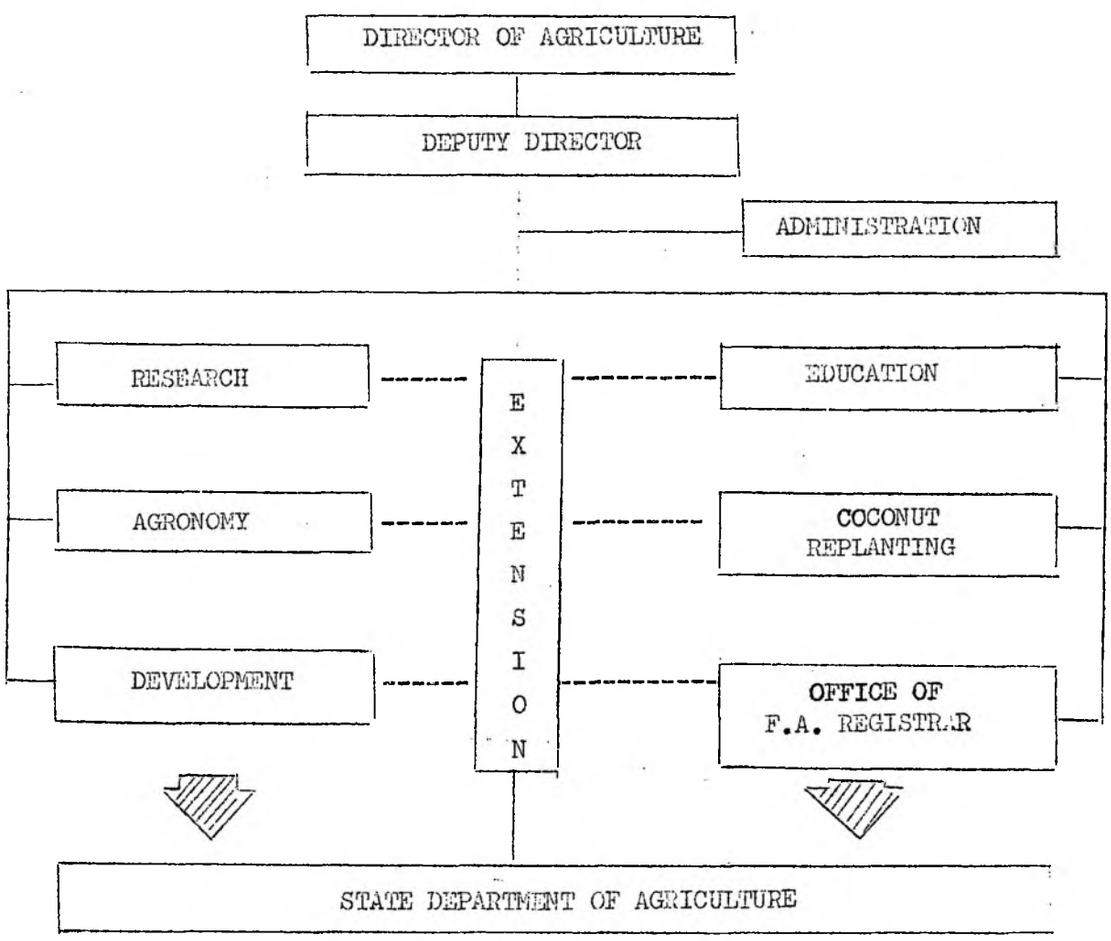
Development

Extension

Education

Coconut Replanting

The organisation chart of the Department is as shown below:-



the establishment of the schools of Agriculture; Farm Mechanisation Training Centres as well as the various subsidy scheme, such as fruit rehabilitation, padi fertiliser and other subsidy schemes for crop improvement and diversification.

## THE AGRICULTURAL EXTENSION SERVICES

The EXTENSION BRANCH of the Department of Agriculture consists of the Assistant Director's (Extension) office at the Federal level and the Department of Agriculture in the 11 States in West Malaysia. The Extension Service is concerned with the provision of informal education for the development of adult farmers, home makers and youths in the rural areas. The basic philosophy in extension education or in extension work is "to help rural people help themselves". To this end, the ultimate aim of the Extension Service is to bring about desirable changes in the attitudes, knowledge, understanding and skills of the rural people to enable them to improve their socio-economic and cultural well-being. The specific objectives of the Extension Branch are:-

(1) to increase the knowledge and improve the skills and managerial competency of farmers so as to enable them to farm more efficiently and increase their income;

(2) to place opportunities before rural people whereby they may develop all their native talents through work, social life, leadership and recreation for betterment of rural homes and families and the rural community;

(3) to increase the aptitude and competency of rural adults and youths and to encourage them to assume leadership and community responsibilities;

(4) to build a rural community proud of its occupation, independent in its thinking, constructive in its outlook, capable and efficient in its action,

RESEARCH conducted by the Research Branch includes the following activities:- breeding and selection of high yielding varieties of padi, oil palm, coconut, maize, fruits and vegetables; soil fertility and nutrient requirements of various crops; soil testing and investigation; pesticidal residues; fertiliser and chemical analysis; plant diseases and pest control and quarantine measures.

AGRONOMIC trials and investigations on various crops are carried out by the Agronomy Branch. Adaptative trails are conducted at the various agricultural stations located in the eleven States and these are geared towards ascertaining the adaptability of various crops to local climate and soil conditions.

The EDUCATION Branch is responsible for the development and operation of the schools of Agriculture. It provides training for Junior Agricultural Assistants or the Mukim level extension workers. The schools of Agriculture at Serdang and Bumbong Lima have an intake of about 100 students per school annually from the various States for the 3-year certificate course.

COCONUT REPLANTING is the responsibility of the Coconut Replanting and Rehabilitation Branch which was set up in 1963. It undertakes to rehabilitate and replant unproductive coconut holdings with high yielding planting materials and it also advocates the more up-to-date methods of farm management.

The DEVELOPMENT Branch, which was recently established, is entrusted with the responsibility of co-ordinating, planning and evaluating the various agricultural programmes under the 5-year Development Plan. The areas covered by this Plan include research and agronomic studies and establishment of new research stations;

self-reliant in its approach with a love of the home, the community and the nation in its heart.

The current Extension Services are divided into the following categories:-

A. Extension Educational Services

(1) Planning, implementing and evaluating the extension educational programme for adult farmers, home makers and youths in the rural areas.

(2) Disseminating the latest research findings to farmers and assisting them in the adoption of modern technologies.

(3) Creating an awareness among farm people of their basic needs, available alternatives and resources in solving their problems.

(4) Securing a participation and involvement of local leaders in planning and implementing a programme of change for farm families.

(5) Providing opportunities and learning experiences for adult farmers and rural youths in developing their leadership capabilities so as to fully contribute towards agricultural development.

(6) Organising the clientele into adult groups of farmers and home makers and rural youths as effective extension media for channelling implementing and accelerating the extension programmes and other Government services.

B. Agricultural Services

(1) Providing facilities to farmers for enhancing the implementation of the agricultural development

programme, such as fertiliser, machinery, farm equipments, planting materials, insecticides and seeds.

(2) Implementing the various subsidy schemes, such as fruit rehabilitation, fertiliser subsidy, double cropping, etc. as specified in the agricultural section of the 5-year Development Plan.

C. Rural Development Activities

(1) Assisting in the planning of integrated district rural development programme.

(2) Participating in the conduct of civic courses (or tata raayat) of rural people and local leaders.

(3) Participating in the organisation and execution of community development (gerakan maju) competions, campaigns and shows.

(4) Assisting kampong (village) committees in the planning and implementation of the agricultural projects and other related activities.

(5) Stimulating and organising rural people in self-help (gotong royong) projects related to agricultural development.

D. Regulatory Services

(1) Assisting Government agencies in functions concerned with agricultural matters such as:-

(a) soil survey;

(b) land inspection concerned with application of gun licenses and change of expressed conditions;

(c) processing of application for rice mills, loans provided by other agencies.

(2) Assisting in the selection and recruitment of candidates for land schemes.

(3) Enforcing the agricultural pests and diseases ordinance and other regulations.

(4) Representing the Department in various Government regulatory bodies, such as Drainage Board, Padi Planters Board, Sawah Committees, etc.

Organisation of the Federal Extension Office

The Federal Extension Office is headed by the Assistant Director (Extension). Basically, it has the main function of strengthening the extension programmes in all the States by providing in-service training, extension materials and information, organising farmers as well as to co-ordinate the activities of the various State Agricultural Officers with respect to the overall agricultural development in the country. The major functions of the Federal Office may be classified into 4 major areas:-

(1) Extension programmes;

(2) Farmers' Association;

(3) Information and publication; and

(4) In-service training of extension workers.

I. Extension Programmes

In extension programmes, the Extension Officers are concerned with the formulation of programmes for adult farmers, home makers and rural youths. Currently, the emphasis of the extension programmes is on the adult programmes. Beginning 1967, the aim is to integrate home economics and rural youth development into the overall extension programme. The extension programme for adult farmers is already integrated with Farmers' Association. The aim is to provide an integrated extension programme directed towards the development of farm families.

(a) Home Economics Programme

It is felt that since home economics and rural youth programmes have a direct bearing on agricultural development, this should best be integrated into the functions of the extension service. To this end, the present home economics programme is being expanded to cover home gardening, food nutrition, home management and home improvement. The philosophy of extension in the home economics is, "creating better homes for better living". Objectives of the home economics programme are as follows:-

(1) to develop an awareness and understanding of the relation of the farm holdings to the whole of agriculture and the place of agriculture in the total economy.

(2) to assist farm housewives in the intelligent selection of consumer goods and services so as to better manage their homes.

(3) to improve the nutritional and health status of rural people, through planned home food production, preservation and consumption based upon dietary needs.

(4) to encourage an interest in reaching higher level of education for children andadults as equipment for achieving a more enriched life.

(5) to develop a recreative ability of rural home through improvement of homes and compounds and recreation and other individual, family and group activities that will add to the satisfaction of rural life in the homes and community.

(b) Youth Programme

Likewise, in the area of youth programme the aim is to extend the extension activities to cover leadership development, training in agricultural community efforts, home economics and

recreation. The specific objectives of the youth programme are as follows:-

(1) to moblise the latent resources and efforts of rural youth for the betterment of agriculture and the farming community.

(2) to develop competent, dynamic and continuous rural and agricultural leadership.

(3) to develop in youth, the competency and skills in agriculture and agriculturally related activities and to create more interest in the intelligent choice of farming and related vocations.

(4) to strengthen the rural education by providing practical "learn-by-doing" extension programme and to prepare and equip the rural youth in their role as future farmers and home makers of this country and for their future participation in the various land development schemes.

(5) to help rural youth appreciate the values of research and learn scientific methods of making decisions and solving problems.

(6) to assist rural youth in recognising the importance of scientific agriculture and home economics and their relations to our total enonomy.

(7) to encourage members in the development of individual and group farming programmes and to utilise their "influence" in bringing about change in the attitudes of rural communities.

(8) to orient andfamiliarise the rural youths in the concepts and operations of farmers' associations which may eventually be an important institutional framework in the rural society.

(9) to develop character, train for useful citizenship and instil in youths and love of rural life.

(10) to encourage the development of organised and co-operative effort in the betterment of rural life.

2. Farmers' Association

Farmers' Association in West Malaysia was initiated in 1958 as a single-purpose organisation. It primarily serves as a medium for extension work and for channelling government aids and services. However, this form of organisation was found to be inadequate for promoting the social and economic well-being of farmers.

A new concept of multi-purpose farmers' association embracing the "package" approach whereby several functions and services are fully integrated, has now been adopted. These services include supplies, credit, marketing and extension. To this effect, the Farmers' Association Act was passed by Parliament in March, 1967 whereby the operation of the multi-purpose farmers' association became completely legalized.

Under the new setup each area Farmers' Association which is made up of a number of small agricultural units has a general manager, a board of directors and officers covering the following functions:- administration, credit, extension, economics and accounting.

The role of the extension services in the farmers' association development is to provide the initial leadership and technical guidance necessary for the effective operation of the area Farmers' Association. For this purpose, the Department of Agriculture has established the office of the Registrar of Farmers' Association at the Federal level with officers concerned with the respective sections.

At the State level, the State Agricultural Officer generally also assumes the role of the State Supervisor of Farmers' Associations. For the initial supervision and guidance of farmers' associations, an Agricultural Assistant and five Junior Agricultural Assistants are assigned to each area Farmers' Association to function as General Manager and heads of its 5 sections. The aim eventually is for the area Farmers' Association to employ its own staff to carry out the functions, now executed by the Agricultural Assistants and Junior Agricultural Assistants.

Under this new system of multi-purpose farmers' association, it is now possible for the extension workers to plan an integrated programme based on the needs and problems of local farmers. On the basis of a socio-economic survey carried out in the area (mukim) of the farmers' association, it may be possible to develop an agricultural production plan to include the credit requirments of farmers, their farm supplies and equipments, arrangement for marketing, facilities, transport and warehousing as well as to plan programme for extension teaching activities.

Facilities provided by the farmers' association can also be utilised for the implementation of projects under the youth and home economics programmes.

By providing the necessary requisites for agricultural production coupled with the appropriate technical know-how in a group situation, it is possible to accelerate the adoption of new technologies by farm families.

3. Agricultural Information and Publication

The main function of the extension services is to disseminate agricultural technology and to provide a ready

exchange of information (and problems) between the farmers and the research stations. It is, therefore, necessary for the Federal Exfension office to continuously supply the extension workers with extension materials in order to keep them ahead with the farmers and abreast with the latest technologies. This office maintains close co-ordination with the Research and Agronomy branches in securing the information and providing them with new problems confronted by the farmers.

Technical guidance is provided through the publication of handbooks, leaflets, circulars as well as the production of extension teaching materials and visual aids.

4. In-Service Training

As a means of providing technical guidance and up-dating the extension workers, a number of in-service training centres are held annually in the various States. To accelerate agricultural development, it is important that our extension workers continue to have opportunities to learn, develop new skills and increase their specialised competence as long as they are in active service.

The goal of in-service training, therefore, is to:-

(1) fill in gaps in the previous preparation;

(2) develop abilities to carry out the extension programmes;

(3) stimulate continued growth of extension personnel.

The specific objectives of the in-service programme are:-

(1) to equip extension workers with new technologies and research findings;

(2) to increase their knowledge and develop new skills in problem solving and in working with local leaders and farmers;

(3) to provide an opportunity for exchanging ideas and experience useful in the conduct of extension work;

(4) to provide an understanding of the problems in extension work in the various states and the means of solving these problems;

(5) to foster better attitudes towards extension work and towards other personnel.

Workshops, short courses and seminars are also organised from time to time as means of up-dating the technical competence of the extension workers. Specific subject-matter areas covered include teaching techniques, extension, farm management, home economics and food technology.

Organisation and Functions of the State Extension Services

Agricultural extension work in the States is the responsibility of the State Departments of Agriculture. It is administered by the State Agricultural Officer who is administratively responsible to the State Government but technically responsible to the Assistant Director (Extension). He is assisted in the supervision of extension work by the circle agricultural officers (in the bigger states only). The district is the administrative unit of extension with the Agricultural Assistant as the supervisor for extension work. Within each district, there are a number of Junior Agricultural Assistants who are the front line extension workers, haveing direct contact with farmers.

Generally, the extension worker (J.A.A.) covers two to four mukims and encompassing about 1,000 to 4,000 farm families. They normally reside in the kampongs (villages). These extension workers provide technical guidance to adult farmers and rural youths. A number of femal J.A.A.s also carry out extension programmes in home economics.

Activities of the State Extension Services

The main activities of the State Extension Services may be itemised as follows:-

(1) Carrying out result and method demonstrations both in agricultural stations as well as in the fields.

(2) Providing short courses on various aspects of agriculture both at the Rural Agricultural Training Centres as well as in the ampongs.

(3) Organising and conducting meetings, and discussion groups with farm leaders, either through farmers' associations or other rural institutions.

(4) Helping farm leaders and farmers in planning and implementing agricultural projects.

(5) Making individual visits and providing technical guidance to individual farmers (follow-up of extension teaching).

(6) Organising campaigns and competitions on specific agricultural techniques, practices and projects.

(7) Conducting field days, tours, visits, agricultrual shows and fairs.

(8) Providing publicity through the Mobile Extension Unit, agricultural leaflets, Berita Pertanian, radio and other mass media.

(9) Organising groups of farmers into farmers' associations and helping them in the development of the associations.

(10) Developing leadership skills among local leaders by providing them with learning experience and exposing them to group activities.

(11) Providing recommended planning materials produced at the agricultural stations.

(12) Providing agricultural requisites and inputs and helping to distribute these to farmers.

(13) Assisting farmers in securing services, such as tractor ploughing, supplies and marketing, through the private sector and other Government agencies.

(14) Implementing and supervising the various subsidy schemes under the 5-Year Development Plan.

(15) Participating in the planning and implementation of Rural Development projects.

(16) Attending meetings of various organisations concerned with rural development and conducting civic courses for kampong people.

(17) Carrying out soil survey, land inspection for land schemes, change of land titles, and application of various loans.

(18) Participating in the selection of candidates for various land schemes and providing technical assistance to the settlers.

(19) Carrying out surveys and collecting agricultural datas for various purposes.

(20) Compiling statistics and writing various types of agricultural reports.

## Budgeting

Since the extension work is the responsibility of the State Governments, expenditure for establishment and maintenance of the Extension Services in the States is borne by the respective State Governments.

However, funds for the development programmes, such as the various subsidy schemes are partially provided by the Federal Government and the State Governments. The Federal Establishment is maintained by the Federal funds.

## Personnel

### (a) Recruitment

Personnel of the extension services may be categorised into 3 divisions:- I, II, III.

Division I officers are federally recruited and come under the Federal Establishment. However, when they are posted to the States, their salaries are paid by the State Government. All Division II and III officers are recruited by the respective States and are placed on the State Establishment.

Recruitment of Division I officers as well as technicians in different division employed in the Federal Establishment is undertaken by the Federal Public Services Commission in conjunction with the Director of Agriculture, while recruitment of Division II and III officers is done by the State Public Services Commission.

### (b) Qualification and Training

All Division I officers are holders of degrees in Agricultural Sciences (B.Sc. Agri., B.Agr.Sc. or B.Hort.Sc., etc.) A number of officers also possess Ph.D. and M.Sc. degrees. Training for Division I officers is done either at the University of Malaya or other universities in oversea countries. Division II officers are diplomates of the College of Agriculture, Malaya which runs a 3-year diploma course in General Agriculture.

Division III officers are employed by the Department of Agriculture in the respective States and then sent for training at the schools of Agriculture, which provides a 3-year certificate course in Agriculture.

In-service-training which is provided in the form of short courses, workshop, meetings, conference and tours are arranged for most extension personnel. In addition, officers are also given opportunities to undertake graduate studies in various fields of agriculture in oversea universities.

## Extension Methods Used

In carrying out the extension programme aimed at bringing about socio-economic changes among the rural communities, the extension workers utilise a combination of extension methods which can be categorised as follows:-

### Individual Approach

Farm and home visits;

Office calls;

Personal letters;

### Group Approach

Method demonstration;

Result demonstration;

Meeting and discussion with Farmers' Associations and other rural organisations;

Tours and field trips;

Farmers' field days and short courses;

Exhibits; agricultural shows and competitions.

### Mass Approach

Mobile extension units

Film

Colour slides

Pictures

Posters

Charts

Newsletters

Bulletins (Berita Pertanian)

Handbills

Leaflets

Circulars

Press

Radio

Television

A Look into the Future

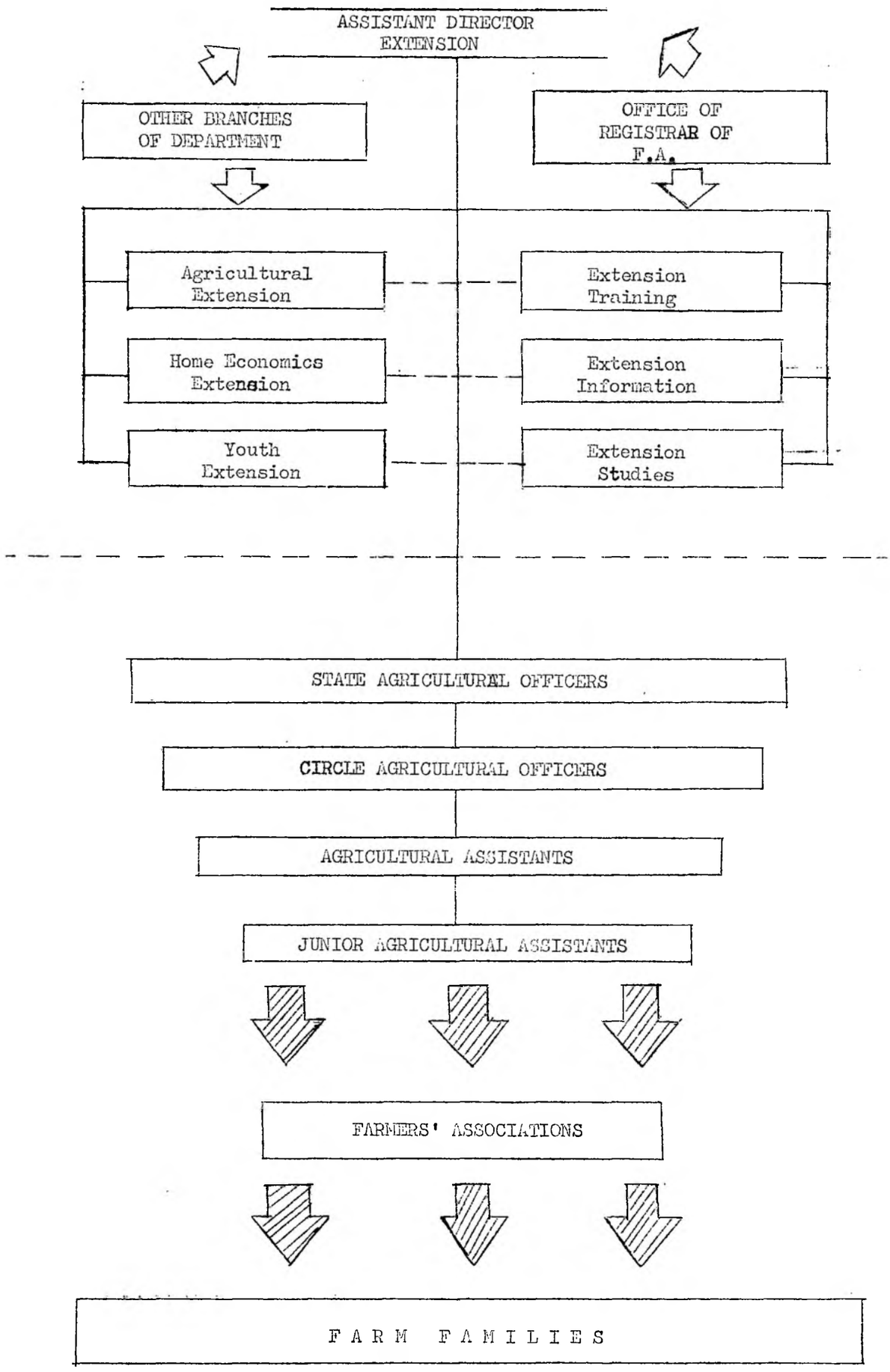
Extension work in the past was not directed to the development of farm people per se; rather it was essentially geared towards specific aspects of agricultural production. This piece-meal approach does not give a dynamic impact on the development of rural communities.

The current emphasis on Extension is on an integrated approach where a balanced programme for adult farmers, home-makers and youth is geared with agricultural development. Thus Extension should look into the development of the farm family as a whole and take into consideration the socio-economic needs of rural communities.

Progressive Extension should aim at broadening the knowledge and skills of rural people in agriculture and home-economics as well as giving them a sense of involvement through group-action in Farmers' Associations. This will ensure the complete synchromization of the infrastructures and services rendered by Farmers' Associasions and the technology provided through Extension, which will produce more fruitful results on the ground. Extension workers will have to orient farm families to this new concept of integrated Extension-cum-Farmers' Associations for more dynamic agricultural development. It is also expected that they will play a bigger role in the future in moulding a new rural society that is self-reliant, and progressive in its efforts to enhance its social and economic well-being.

Extension Branch,
Department of Agriculture,
October, 1967.

Appendix I




Organization Chart of the Agricultural
Extension Services

# CREDIT SERVICE

*by*

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(FARMERS' ASSOCIATION TRAINING MATERIAL)

# Credit Service *

by

Liao Hsing Chia

## I. Objectives

1. Encouraging members to save money and deposit their savings in the farmers' associations.
2. Accommodating members with loans for production purposes and daily needs.
3. Supporting the business activities of the other sections of farmers' association with operating funds.

## II. Activities

1. Deposit service. Accepts deposits from (1) members, (2) non-members, and (3) government or private institutions.
2. Loan service. Lends necessary funds to members.
3. Consigned financial service. Becomes agencies for public treasuries, financial institutions and other concerning organizations.

## III. Characteristics of F.A. credit service

1. The small farmers are a class of people who have little chance to borrow funds (capital) from ordinary financial institutions due to their relatively low credit-standing, and the sum of loan needed is usually small. Through the farmers' association, farmers accommodate each other with deposits and loans on favourable terms to secure and improve their production and life.
2. Since credit-standing of individual farmers is relatively low due to their small subsistence farming, consequently their income is low and their ability to repay loans is comparatively poor, an attempt needs to be made to raise their rate of credit-standing by pooling together their endeavours and enterprises through an organization, The individual farmers' ability to secure loans and their potential capacity to repay the loans would be strengthened and their credit-standing would be

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* This paper is a revised version of the first paper on "Credit Service", an F.A. training material prepared by Mr. Min-Hsioh Kwoh, 1966.

better recognised as a group (Farmers' Association) than as individuals. However, the ability of an F.A. to secure loans from others (trustworthiness) usually depends on its financial condition, management, personnel in charge of the management, and the degree of credit-standing of the members. Especially when a loan is to be obtained by the F.A. from a banking institution for reloan to its members the trustworthiness of the F.A. is measured largely on the repayment capability (credit-standing) of its members, because the trustworthiness of the F,A. and that of its members are inseparably related to each other. Every F.A. member, therefore, should do his best to keep his promise for repayment of a loan he has borrowed so as to maintain a high degree of credit-standing of the F.A.

3. By and large, in most F.A.s a tendency can be observed among the member-farmers that those who want to borrow from the F.A.s are more than those who can deposit their savings in their associations. Most F.A.s, therefore, need to obtain source of funds from outsiders such as government, banking institutions or non-farmers, especially in the early stage of their development, to develop credit service.

When the productivity and income of member-farmers increase through the help of their association, their savings in the F.A. can become an important source of credit fund. Farmers should be encouraged to deposit their money in the F.A. rather than in other institutions so that an outflow of rural capital is prevented and rural financing can be improved.

4. Costs of credit business in F.A.s, are usually higher than those of other banking institutions because of a small sum of loans or a small sum of deposits by a large number of farmers live scattered in the F.A. area.

5. There is more risk in farm credit than in most other lines of business credit because of their low level of farming techniques, small size of farming and the uncertain and unpredictable nature of the agricultural industry which depends fully on the vagaries of Nature such as flood disaster, drought or seasonal effect on farming.

6. Generally, farmers need longer term and lower rate of interest than merchant or manufacturer.

IV. Principles for Implementation

1. Deposit and loan services only serve members.
2. Deposit service may serve non-members upon special approval of the Registrar of Farmers' Association.
3. Inter-section loan should be limited, and interest should be paid at the rate of borrowed loans from banking agencies.
4. Entrusted services shall be confirmed by written contracts between parties concerned.
5. For profitable and economic services, funds borrowed from banking agencies should be encouraged instead of only depending on the financial source of members' deposits.
6. Unnecessary cash shall be redeposited in banking agencies to meet anticipated demands from depositors and to gain interest income to protect farmers' association from loss of interest payment to depositors.

V. Conditions for Good Credit Service

1. The soundness and trustworthiness of the farmers' association.
2. A reasonable interest rate. In principle, for deposit from members or non-members interest rate should be as high as possible, and for loans to members as low as possible within the permit of relevant regulations.
3. Sufficient amount of cash in hand for daily transactions.
4. Individual members' interests (e.g. amount of deposit and loan) strictly kept confidential.
5. Close co-ordination and integration of activities of various sections in the F.A. and with higher level F.A.s.
6. Continous members' education on F.A. to win members understanding and support.
7. Fair treatment to all members.

VI. Co-ordination with Other Services

1. Credit section extends production loans to members.
2. Extension workers provide technical assistance and advice to the borrowers and supervise the use of the loan.
3. Economic section supplies the inputs the borrowers need to buy, If loans are made in kind, economic section prepares and supplies the goods for credit section.

4. Economic section also handles the transportation for delivery of inputs and for sale of farm products produced by the borrowers.

5. After selling the farm products, the amount of principal and interest of loans will be deducted from the proceeds and the remaining amount will be deposited in the credit section under each individual members' account.

6. When members purchase goods from the economic section, the payment can be offset with the deposits in their accounts.

VII. Major Accounts Used for Credit Service

1. Deposits. Including current (check), saving (passbook), call, time deposits, and inter-section transfer.

2. Loans. Including unsecured, secured and inter-section loans.

3. Cash on deposit. Cash deposited in banks or post offices.

4. Cash on hand. Funds kept available to meet request of depositors for withdrawals and of deposits received but not yet redeposited in banks.

5. Borrowed loan. Loans borrowed by credit section from banking agencies for business operations. This includes short-term loans and long-term loans accounts.

6. Internal current account. Funds transferred from credit section to the economic or the extension sections for their use as operating capital or for facilities procurement. Under the account of credit section, it is entitled "inter-section loan" (when a loan is made to economic section). Under the account of economic or extension section, "inter-section transfer" (when economic section or extension section deposits its money in the credit section). In preparing the composite balance sheet the amounts of such accounts ought to be offset with one another.

## B. Deposits

I. Types of Deposits

1. Current (check). Subject to check withdrawal.

2. Saving deposit. Subject to passbook withdrawal.

3. Call deposit. F.A. shall be notified before the withdrawal.

4. Time deposit. Deposits withdrawn on a fixed time.

II. Principles of Operations

1. About 70% of the deposits shall be issued out in the form of loans.

2. Total amount of cash on deposits and cash on hand shall be not less than 20% of the total amount of deposits in the F.A.

3. The funds used for inter-section loan shall not be over 20% of the total amount of deposits in the F.A.

4. The call deposit and time deposit shall be encouraged to stabilise the F.A.s' financial status and capacity.

5. When the amount of time deposit is considered to be sufficient to meet the need of F.A. for members, more saving deposit may be encouraged to reduce the cost of funds.

III. Depositing Procedures

1. Eligibility

Any members, non-members and government and private institutions are eligible to deposit their savings in the farmers' associations.

2. Application

An applicant must fill out an application form together with a signature card and submit them to the credit section for processing.

3. Screening

The application for current (check) deposit shall be screened by the credit man. He studies through applicant's financial situation and farming operation to determining the requirements of a check deposit.

4. Receiving deposits

Credit man draws up a slip according to the voucher made by depositor and conveys the slips together with the voucher to the cashier through the staff concerned for checking and recording, and then the cashier collects and keeps the cash or check and deposited it according to the slip and voucher.

5. Certificate issue

Upon receiving the cash or check deposited, the cashier signs on the slip. Based on this slip, the credit man shall fill up a certificate such as current deposit passbook or receipt, or time deposit slip, and conveys it to the staff concerned for his signature and record, and issue the deposit certificate to the depositor.

6. Application for Withdrawal

When a depositor applies for his deposit's withdrawal, the credit man shall check the amount he applies and his signature with the records and cards which are kept in the files of the association, and draws up a slip together with the relative documents and conveys them to the general manager through staff concerned for the manager's approval (by signing on the slip).

7. Payment

After the approval of the general manager, the slip and relative documents are sent to the cashier who will check and pay to the depositor either with cash or check.

8. Simplification of Procedures

Upon the approval of general manager, the cashier may make payment in advance after the depositing amount and signature have been checked by the credit man, and then sends the slips and documents to the staff concerned later for the necessary actions.

9. Records

Return all the slips and relative documents to the credit section after necessary procedures, and then send to the accounting section for entry at the end of each day.

## C. Loans

I. Types of Loans

a. According to the security

1. Secured loan. Loans are secured by collateral security.

2. Unsecured loan. Loans are secured by two personal guarantors instead of by collateral security.

b. According to the term

1. Short term loan. Within one year.

2. Medium term Loan. One to five years.

3. Long term loan. Exceeding five years.

c. According to the purpose

1. Agricultural production loan.
2. Farm implements loan.
3. Land purchase loan.
4. Land improvement loan.
5. Farm processing loan.
6. Farm marketing loan.
7. Consumption loan.
8. Inter-Section loan.

II. Principles of Operation

1. Loan should be used mostly for agricultural production and related purposes.

2. It should be made to the right person who is really in need of a loan.

3. The borrower must be a member of F.A. unless otherwise specified by contract under entrusted service.

4. At the early stage of development of agricultural production loan program, loan should be made in kind (inputs) and repaid in kind from the farm products harvested.

5. Loan must be made in adequate amount/quantity, at the appropriate time under suitable term. However, the maximum amount of loan for each member shall be determined according to the limit decided by the Members' Credit Standing Screening Committee of the association.

6. The use of loan must be closely assisted and guided by the F.A. through the co-ordination of various sections.

7. The repayment schedule of the loan shall be determined by the time of harvest, the frequency of harvests, and the value of produce.

8. Big amount of loan which exceeds twelve months are in principle to be repaid in instalments according to farming seasons and borrower's repayment capability.

9. The interest rate of the loan shall be determined taking into consideration the prevailing market rate, the operating cost and the estimated profit of the farm for which the loan will be used, etc.

10. Lending method and procedures must be convenient to farmers.

11. Farm credit programme should be a part of entire agricultural development scheme in the F.A. area. It should be carried out in a manner such that it matches with the agricultural development policy of the government.

12. Efforts must be made to attain high efficiency in the operation of loan service so as to reduce the cost of operation to the lowest minimum possible.

## III. Lending Procedures

1. Eligibility

Any member of farmers' associations who needs money for agricultural production, or related purpose, or daily needs is eligible to apply for a loan.

2. Application

An applicant must fill out an application form where the purpose, amount, term, repayment source, repayment schedule, guarantors or security of the loan are stated, and submit it to the credit section for processing.

3. Investigation

Upon receiving an application, the credit section shall despatch its credit man to visit the applicant at his farm to collect detailed data regarding his family status, equity, (financial condition) farming status, farming plan and the collateral security if it is a secured loan, and put down the findings in "Record of Farm Visit".

4. Screening

Results of the farm visit and the information gathered from other sources are carefully studied by the credit man together with records submitted by the Members' Credit

Standing Screening Committee and recommendations are made to his superiors on the amount, the term and the repayment schedule of the loan. The chief of the credit section studies the reports and recommendations and submits them with his own comments to the general manager for final decision.

5. Payment of Loan

When a borrower has signed a loan contract with the farmers' association, and the credit man finds all necessary procedures in order, he makes out a voucher to debit the borrower's account for the amount borrowed and credit his passbook deposit account for the same amount (when a loan is made inccash). Depending on the borrower's need, the payment of a loan may be divided into instalments which are to be paid according to the progress of the borrower's work involved.

When a loan is made in kind the credit section will prepare a voucher requesting the economic section to supply the items of loan to the borrower.

Upon receiving the application of the borrower and the approval of the general manager, the farmers' association may pay a loan to the borrower in one lump sum after signing of a contract. The amount for secured loan shall be in the limit of 70% of price of the collateral security.

6. After a loan has been given to the borrower a follow-up service should be done by the credit man to supervise the borrower on the use of the loan for the purpose approved.

7. Repayment of Loan

Ten days before a loan is due, the farmers' association sends a reminder to the borrower asking him to pay the principal and interest. If the borrower is unable to repay the loan due to difficulties beyond his control, he sends a written application for extension of term and obtains approval from the farmers' association. Such extension shall be allowed only once, the maximum extension period is only for six months.

When loan is repaid in kind the repayment is to be received by the economic section. The economic section will act as an agent entrusted by the credit section to handle, market and reduce the principal and interest of the loan.

8. Punitive Interest

When a borrower fails to repay on time as originally agreed upon or again fails when the loan is further extended the loan is considered delinquent, and a punitive interest may be charged additionally. The farmers' association makes every effort to collect a delinquent loan from the borrower and his guarantors through informal persuasion, arbitration or through legal action.

9. In case of delinquency of a secured loan, the association may notify the borrower to sell his collateral security on a fixed date. After clearing the principal and interest of the loan with the fund derived from the sale, the balance will be returned to the borrower. If the fund derived from the sale cannot cover the debts, the deficits will be collected from the borrower.

## D. Ratios for Analysis

Some ratios for analysing and measuring the operational efficiency of the credit service are shown below:-

1. Ratio of loans to deposits

$$\frac{\text{Outstanding loans}}{\text{Outstanding deposits}} \times 100$$

The farmers' associations may extend loans to their members up to a safe percentage of 70% of the deposits.

2. Ratio of Inter-section loans to deposits

$$\frac{\text{Inter-Section loans}}{\text{Outstanding deposits}} \times 100$$

For the purpose of protecting the depositors' benefit, the reasonable standard of inter-section loans shall not exceed 20% of the deposits.

3. Ratio of cash to deposits

$$\frac{\text{Cash on hand + cash in banks}}{\text{Outstanding deposits}} \times 100$$

To meet requests of depositors' withdrawal the total amount of cash on hand plus the total amount of cash deposited in bank shall be not less than 20% of the total amount deposited in the F.A.

4. Ratio of overdue loans

$$\frac{\text{Overdue loans}}{\text{Outstanding loans}} \times 100$$

A higher ratio of overdue loan shows poor management. The farmers' associations shall be advised to make careful screening of the applications and to get back all the loan on time.

5. Cost in handling deposits

a. Direct cost

$$\frac{\text{Interest payment for deposits}}{\text{Accumulated deposits per year}} \times 100$$

b. Interest cost

$$\frac{\text{Overhead expenses + other expenses for deposits}}{\text{Accumulated deposits per year}} \times 100$$

The total of both the direct and indirect costs are the daily cost of one dollar's deposit handled. The F.A.s should do their best to reduce the cost of handling deposits in order to gain as much profit as possible for further expansion of the credit service.

# GUIDE FOR OPERATION OF SUPERVISED FARM CREDIT

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# Guide for Operation of * Supervised Farm Credit

by

Liao Hsing Chia Abdullah bin Ujang

## I. General Provisions

1. What is credit

Credit is the ability to secure money, goods or service of another person/institution in return for a promise to pay for such money, goods or service within a specified period.

2. Interest

When a farmer borrowers a loan, he is expected to pay the lender something for the use of the loan. This is called interest. Instead of interest the term "service charge" may be used.

3. What is supervised farm credit

A form of agricultural production loan extended to farmers instituted under a supervised programme to ensure the proper and effective utilisation of the loan.

4. Objectives of supervised farm credit programme

(1) To enable farmers to utilise the loan at reasonable rates and terms for the purposes of purchasing agricultural inputs such as fertilisers, insecticides, seeds, planting materials, agricultural equipment, etc. with the aim of increasing farm production and raising the income of farmers and thereby improving their standard of living.

(2) To guide and assist farmers in improving their skills in the effective and efficient use of loans by combining agricultural inputs so obtained from the loans with modern agricultural technology and marketing services within an institutional device.

(3) To train and educate farmers in the concept and practice of commercialised farming and improved farming practice by assisting them in the sound and proper institution of agricultural loan through proper farm planning and budgeting, effective technical guidance and supervision, and better farm management practices provided under a sound extension programme.

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* This paper is a revised version of the First Paper on "A Scheme for Supervised Farm Credit" (Preliminary Draft) by Mr. Koh Theam Hee and Mr. Liao Hsing Chia, 1967.

(4) To improve the operating procedures and practices of farm credit programme of farmers' association.

(5) To assist in the establishment of a proper and integrated system of agricultural credit programme and to develop a permanent and dependable source of lending fund in the credit section of farmers' association.

5. Resons why farmers' association is the most suitable agency to handle a supervised farm credit programme

(1) Any agricultural credit programme should not be operated too far away from the reach of the farmers. It is argued that the agricultural credit institution cannot be operated effectively if it is too remote from the rural community or farming communities. One of the advantages of handling supervised farm credit through farmers' association lies in the fact that the F.A.s are organized at "grass root" level, that is, in principle, one in each Mukim. Having its office and staff closer to farmers the F.A. will know better the farmers through frequent contacts and provide more efficient and effective service on the extension and collection of farm loans. The F.A. staff know and understand the farmers not merely as a creditor but more important as a farmer. For the successful implementation of a supervised credit programme, it is not enough just to have credit-worthy farmers but more important to have productive and hard-working farmers to ensure more productive use of loan.

(2) It is further argued that smallholders' farm credit programme cannot bring forth the most effective results especially in the developing country, unless it is combined with farm extension, farm supplies and marketing. Since each F.A. embraces a multi-phased functions combining the vital services, such as extension, credit, supplies and marketing which are integrated and closely linked to give full impact to farming efficiency, the supervised farm credit programme could be best and effectively implemented through the F.A.

(3) The F.A. is a farmers' self-owned, self-governed and self-managed organisation. As a socio-economic institution it lends itself perfectly to the concept of Area Development and JAYADIRI. It provides the vehicle for group action of small farmers from which they enjoy the benefit of improving their production as well as life activities, thus government burden on financial support to farmers can be lightened.

(4) Because Farmers' Association has integrated and multi-purpose functions, it lends itself to dynamic economic activities resulting in rapid capital formation and eventually develops the members own source of credit fund, which can be re-loaned to members at low rates of interest. This will quickly reduce the farmers' dependence of credit on the public sector.

6. Characteristics of farm credit

There are some differences between the farm credit and other lines of business credit:-

(1) There is more risk in farm credit than in most other lines of business credit because of the uncertain and unpredictable nature of the agricultural industry which depends fully on the vagaries of Nature such as flood disaster or drought.

(2) Seasonal effect on farming which is still much far beyond the control of the present day science. When Nature says "Padi is ripe today", the farmer must harvest and market them before they spoil, regardless of the sale price.

(3) Generally, farmers need longer term of credit than merchant or manufacturer.

(4) The users of farm credit are the class of people who are generally considered poor risks. Besides their farming business itself, which has to depend on Nature, their actual or potential capacity to repay their loans is considered poor due to small size of farming, low level of farming techniques, etc.

7. The guiding principles for the operation of supervised farm credit programme

The guiding principles for the operation of supervised farm credit may be summarized as below:-

(1) Loans must be made to the right person who is really in need of the loan for agricultural production and related purpose.

(2) The borrower must be a member of F.A. unless otherwise specified by contract under entrusted services.

(3) There must be fair treatment to all members.

(4) Loans must be made in adequate amount/quantity, at the appropriate time and under suitable term.

(5) The use of loans must be closely assisted and guided by the F.A. The F.A. should provide the borrower with such extension services as improved farming techniques and techniques of farm management so as to ensure that:-

(i) the borrower has a sound farming plan to make an effective and good use of the loan for agricultural production base on the adoption of progressive farm practices;

(ii) the borrower has an ability to carry it out; and

(iii) the use of loan will bring the returns expected and at the same time, ensure the lenders of better repayment for their loans.

(6) Besides farm extension, the supervised farm credit programme must also be combined with such activities as the supplying of inputs and marketing of farm produce in order to bring forth high efficiency and productive results. Ideally these activities should be handled under one organisation i.e. farmers' association so that they are integrated and closely co-ordinated to help borrowers to make the best use of loans.

(7) At the initial stage the loans must be made in kind in terms of agricultural inputs and repaid also in kind from the farm products harvested.

(8) Lending method and procedures must be convenient to farmers.

(9) Loans must be given directly to farmers.

(10) Borrowers should be allowed to extend the repayment of loans when failure to make the repayments is due to forces beyond the control of the borrowers. Wherever possible they must also be allowed to repay their loans in instalments in line with the harvest season. (Under such circumstances, the F.A. should ensure that the borrowers genuinely suffer from crop failure, which should be confirmed by investigation and be recorded).

(11) Efforts must be made to attain high efficiency in the operation of loan service so as to reduce the cost to the lowest minimum possible.

(12) Rural saving must be promoted through the operation of the supervised farm credit programme in co-operation with marketing service so as to build up a financial fundation strong enough to expand loan activities and to support agricultural extension as well as supply and marketing activities.

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(13) Supervised farm credit programme should be a part of entire agricultural development scheme in each area. It should be carried out in such a manner to match such agricultural development policy and can be used as incentives for such schemes as double-cropping of padi, agricultural diversification, introduction of new farming techniques, etc. which are aimed at increasing farm productivity and farmers' income and geared to accelerate the entire programme of agricultural development.

(14) During the experimental period particularly in the early stages, when attempts are made by the farmers' associations to serve a large number of farmers all the losses resulting from a loan programme should be guaranteed by the government until the F.A. has built up a strong membership, cash reserves against bad debt and has accumulated sufficient experience. (A bad debt fund can be established by the credit institution such as Agricultural Bank and guaranteed by the government during the experimental period of the programme).

8. Types of loans

(1) According to the security:

(i) Unsecured loan. Loans are assured by personal guarantors.

(ii) Secured loan. Loans are secured by both mortgage and guarantors.

(2) According to the term:

(i) Short-term loan. Usually within one year.

(ii) Intermediate term loan. Usually one to five years.

(iii) Long-term loan. Usually exceeding five years.

(3) According to the purpose:

(i) Agricultural production loan.

(ii) Land purchase loan.

(iii) Land improvement loan.

(iv) Daily needs loan (consumption loan).

(v) Farm marketing loan.

(vi) Inter-section loan.

9. Credit Instruments

(1) A promissory note:

A written agreement which promises to pay on a certain date a specified sum of money, borrowed at a specified rate of interest or a note given as an evidence of debt, (loan contract, loan receipt).

(2) A mortgage:

A mortgage is a legal document which the borrower gives with a promissory note as security for debt. When a borrower has his house mortgaged to the bank for a loan, he gives the bank a lien on the house.

A real estate mortgage involves immovable property such as land and buildings. A chattel mortgage involves movable property such as livestock, farm machinery and household equipment.

10. Other credit terms

(1) Security:

A guarantee to secure the repayment of loans. A real estate mortgage or a chattel mortgage is a kind of security for the loans (vs. personal security). If the borrower does not repay the money he has brrowed, the lender may sell the security to recover his loan.

(2) Collateral:

Another kind of material property - often refers to stocks and bonds - pledged to the lender as security for the loans borrowed.

11. Publicity and education

The nature of Supervised Farm Credit loans is not exactly the same as that of ordinary credit loans. To inform all farmer-members of the objectives, contents and procedures of the Supervised Farm Credit Programme, publicity and education are necessary, especially at the initial stage. The following measures are suggested in the conduct of such publicity and educational programmes for the farmers' association.

(1) Posting of publicity bills or posters:

Bills or posters may be sent to each member through the small agricultural unit or posted on walls in the main centers of each village. The wording of bills should draw the farmers' interest and be clear, simple and easily understood.

(2) Holding of meetings:

To supplement the publicity from bills and posters, the association should make use of members' plenary meetings at each S.A.U., prayer meetings, and other public gatherings. In these meetings, the association can explain and answer questions about the Supervised Farm Credit Programme. This also gives the association an opportunity to get members' reactions to the programme. The time and length of meetings should be carefully selected so that work will not be affected.

12. Members' credit standing committee

According to the Farmers' Association Regulations 1967, Operation of Supervised Farm Credit Programme a special committee, the Members' Credit Standing Committee shall be set up in each area farmers' associations. It is absolutely essential that all area farmers' associations participating in the Supervised Farm Credit Programme set up this committee to carry out its responsibility, among other things, the screening of members' credit-standing in accordance with the Regulations. In addition to the chairman of the board of directors, the general manager and chief of the credit section, the committee should also consist of other influential F.A. members or non-members of different social positions and backgrounds. With variety in the membership of the committee, the association can draw on opinions from different sources to better the operations of the Supervised Farm Credit Programme.

## II. Lending Procedures

1. Application

(1) An applicant must fill in an application form (the first half of Form 1) to indicate the purpose, items/types, quantity/amount, guarantors or security of the loan, and submit it to the credit section for processing. The credit section may fill in the form for applicant if asked by illiterate member.

(2) In order to avoid unnecessary confusion, misunderstanding by farmers and to save each other's time all farmer-members should be informed of the following by way of meetings or publicity:-

(i) objectives of loan;

(ii) qualifications for application for loan;

(iii) conditions under which loan will be approved or disapproved;

(iv) procedures;

(v) maximum amount of loan;

(vi) interest rate;

(vii) maximum term of loan;

(viii) other terms.

(3) The applicant should obtain a guarantor's consent before he submits the application.

(4) The second half of Form 1 will be filled in only after the completion of farm visit.

(5) For members' convenience, loan application forms may be deposited with the chief of each small agricultural unit.

2. Farm Visit

(1) Meaning and purpose of the farm visit

The main purpose of the Supervised Farm Credit Programme is to provide farmers with suitable term production loans at reasonable rates of interest, that improve their farming operations and side-line production, increase their income and develop the rural economy. In its relationship with the borrowers, the association should place more emphasis on its role as a "helper" rather than its role as a creditor. It is not enough for the association to pay attention only to the members' credit-standing; the association must also understand the borrowers' home (family), financial and farming status to help solve farm problems and give the necessary technical assistance.

The farm visit is a fundamental step in meeting these needs. The farm visit must yield a wide range of information relating to the applicant's credit-standing, repayment capability and farming operation. Additionally, the farm visitor is expected to study the applicant's farming plan, use of loan, repayment plan and sources of repayment. The credit man in charge must make the farm visit. If necessary, extension workers may give assistance on evaluating the farming operation.

(2) Collecting information:

To complete the Record of Farm Visit (Form 2), the credit man must collect the following information either directly or indirectly from the farm visit.

(i) Family status

The farm visitor must determine who in the family is the actual "decision-maker" on farming operations. The one-household-one-member system is adopted in our farmers' association. In this case, a household refers to a household or group that is "financially living together" rather than a census-registered household. For example, if two or more families are registered as one household on a census register, but are actually financially independent of each other, they should be regarded a different household. The reverse should be true of households registered as separate but living as a financial unit. The "others" column should include those who serve in the armed forces, children, and persons who are aged, maimed or otherwise unable to work. Also, note should be made of any persons in the household having a bad reputation, record, character, etc.

(ii) Farming status

A thorough understanding of the members' present farming status and future plans is a key point in making the Supervised Farm Credit Programme a success. While size of farm is an important element in determining farm returns, the amount of income is determined largely by the scope and method of farming operations. The credit man must know, as near as possible, the farmer's present status and future plans for the use of his land and other farm resources. With this information, the credit man should be able to project changes in the farmer's income and capital requirements and evaluate repayment capability, sources of repayment, etc. Information obtained on the member's present farming operations and future plans should answer the following questions. What is the present operational state of the land, including self-owned and rented-in land? Types of crops planted? What crops will be planted during the next season? Their acreage? Expected harvest time and yield? What is the present state of livestock production? Future plans? Types of animals? How many heads? Any side-line production? Is there any processing of farm products?

(iii) Financial condition

A borrower's financial condition (income and expenses status) indicates the soundness of his business, ratio of income to expenses, efficiency of management, etc. This information is necessary to judge the borrower's present use of capital, future need of capital, credit-standing, and repayment capability.

Usually farmers do not keep records. And because of their conservative attitude it is difficult to determine a farmer's actual financial condition. Due to the difficulties in determining a farmer's financial condition, the sections on financial condition in Form 2 are simplified. It includes only three principal items, estimated annual income from farming and non-farming, estimated annual expenses for farming and non-farming and the balance between income and expenses during current/coming year. The figures should be obtained based on the above (ii) farming status.

(iv) Unusual outlays during last year

"Unusual Outlays During Last Year" is designed to supplement the difficulty in obtaining detailed income and expenses information from farmers. Every extraordinary expenditure of a significant amount should be listed. These include: expenditures for marriages, funerals or other ceremonies; outlay for building a new house; expenses for hospitalization and operations; or investment of self-owned capital in land, shops, etc. When the amount of unusual outlays is exceptionally large, it will naturally affect the borrower's financial condition, resulting in an imbalance of income and expenses.

(v) Main assets

Main assets include immovable property such as land, building and movable property such as equipment, livestock, implement, etc. The total value of these assets shows the value of borrower's property that could be used for the purposes of loan redemption. Though it is not an asset item, rent-in land is included under Main Assets. It is included to indicate the total operated acreage. Small numbers of poultry, such as ducks, chickens, etc. need not be included. Also, small farm tools or furniture of insignificant value may be omitted. However, large items

such as motor-cycles, radios, refrigerators and television which are not of daily necessity but reflect the farmer's living standard, should be detailed in the remarks column.

(vi) Main liabilities

Main liabilities include both debts in cash and kind. Under this item names of creditors must be given. If there is more than one loan from the same creditor, list each one separately. If the member has borrowed from the association, list the association as creditor, even if the association was relending borrowed money. When the association has made a loan on consignment and the farmers' association is not directly responsible for collection, name the original institution as creditor.

(3) Analysis and utilisation of the information

Collection of information is not the final purpose of the farm visit. The information is meaningless if it is not properly analysed and used for screening the loan application. The record of farm visit is to be analysed by the credit man, chief of credit section and general manager. The analysis of the record of farm visit should yield satisfactory answers to the following questions:-

(i) Is the family labour sufficient to meet the farming needs? Is there any surplus labour or under-employment?

(ii) Are there too many persons in the family unable to work?

(iii) Is the farming plan sound and practicable?

(iv) Is the actual income derived mainly from farming or other sources?

(v) Is the farmer's income enough to cover expenses? How much is the surplus or deficit?

(vi) What is the proportion of self-owned land to self-operated land? How many acres are leased-out? How many acres are rented-in?

(vii) Is utilisation of land and equipment efficient?

(viii) Is the farm well equipped?

(ix) How successful are the animal and poultry breeding programmes?

(x) What is the estimated total value of the main assets? How much is readily convertible into cash?

(xi) What is the ratio of the main liabilities to the main assets that are readily convertible into cash (liquid assets)? Is repayment of debts a problem?

(xii) Does the borrower have many expensive luxuries or other household goods which are not considered essential for daily necessities?

(xiii) Where the unusual outlays for consumption or production purposes? If for consumption purposes, are they too heavy a burden?

(4) The others:

(i) The order of priority for investigating loan applications shall not be based on the chronological order in which an application is received. Priority for investigation shall be based on the degree of urgency for each classification. In any case, the processing time for each application from receipt to notification of screening results, should not be more than five days.

(ii) The farm visit should be conducted during the farmer's leisure hours. The farm visit should be planned beforehand and be conducted in such a manner as to save the farmer's time. The investigation should conduct the farm visit in such a manner as to gain the farmer's co-operation and confidence.

(iii) Since a credit man has to look after both the office duties and field work, a monthly schedule of field work should be arranged in consultation with the extension section to co-ordinate their activities and obtain assistance in the supervisory work. In addition, the credit section must arrange its field work so that a credit man or other person is always available to carry on the office duties.

3. Screening and Determining Terms of Loans

Provision 45 of the F.A. Regulations require the credit section to investigate the credit-standing, financial condition, farming operations and plans, need for funds and repayment capability of each loan applicant and recommend approval or disapproval of loans. To be approved each loan application should go through three gates (persons). In cases where there are only the general manager and section chiefs, there will be only two gates or persons.

Each loan application must be studied and receive the recommendations of the credit man in charge, the chief of credit section, and the general manager. The general manager has the final authority to approve or not approve a loan. This authority requires the general manager to screen each loan application carefully and impartially to make an objective and unprejudiced judgement.

On what basis is a loan approved or disapproved? What determines the amount, terms, repayment schedule, etc. of each loan? The main principles and points are outlined below:-

(1) Eligibility

The borrower must be a member of the association unless otherwise specified under entrusted service. The loan must be used for agricultural or side-line production. Unless these conditions are met, no loan can be approved. Any loan under the supervised Farm Credit Programme cannot be made for a farmer's living expenses. This includes educational, medical and other expenses which have no direct connection with production. Since there is a limited source for farmers' associations' funds, especially at the initial stage, it is impossible for the association to grant every type of loan needed by the farmer-members. Loans must be limited to those activities that help increase farmers' production and income.

(2) Economic consideration

An applicant's plan for use of a loan must clearly show the purpose, necessity, and beneficial aspects of the loan. It is often difficult to determine whether a loan is actually necessary or beneficial. To determine if a loan will be necessary or beneficial, one must consider the presence of factors that will influence the success of the loan.

Consider an example of a farmer applying for a loan to purchase poultry. To make this loan a success, the farmer must have adequate poultry houses, an economic number of poultry, sufficient labour, technical know-how of a low cost source of feed, a dependable market, etc. If any of these factors is absent, the operation will probably be unsuccessful. And a loan for this purpose would be neither necessary nor beneficial.

Another example would be that of a farmer applying for a loan to purchase insecticides. The association must consider whether the loan will be necessary or beneficial. The factors influencing this will be the actual crop infestation, the types of insecticides needed, area affected, etc.

The association must study the applicant's family labour, physical facilities, financial condition, present farming operation and any other factors that may influence the necessity or beneficiality of a loan. The following steps should be taken to determine whether a loan is beneficial or necessary:-

(i) study the truthfulness of the loan application;

(ii) study the suitability of the plan for loan use to meet the needs of the farming operation;

These two steps can be undertaken during the farm visit and study of farming plan and operation facilities.

(iii) study whether the investment will help the farmer maximise his returns or hedge against losses.

This step requires thorough investigation. Except when a loan is to hedge against losses (for example, a loan to enable an operation already in progress to continue), all loans should help the farmer to maximize his returns. The farmer's investment in crops, livestock, poultry and side-line production must be investigated. The relationship between a farmer's cost of production and the present and future market prices must be determined. If a loan is proposed in a case where costs exceed market prices, the loan will certainly not be beneficial, much less, maximize profits. In cases such as this or even when a small profit is expected, the association should attempt to persuade the farmer to change his plan to one that will yield greater profits. The farming techniques, family labour, land and facilities of the farmer must be adequate. Once again, the associations responsibility is not just to evaluate the loan application. It must also help the farmer develop a better plan for loan use or improve his present one. Loans for investment in land or expansion of farm facilities must be made only where the investment will yield a return greater than the interest and depreciation costs. If a loan is proposed for the purchase of land, the returns to the farmer from the land must be greater than the interest on the loan. If a loan is proposed for purchasing a water pump or power tiller the additional returns or the reduced costs from using the equipment must be greater than the interest on the loan and the depreciation costs. Another consideration will be whether the size of the machine is large enough or too large for the farming operation. In recommending the type of machines, consideration should be given not only for the workability of the machines but also whether spare-parts are readily available. (For the first few years, loans will only be made for production purposes. Loans for purchase of land and equipments should not be considered yet).

(3) The credit-standing of the borrower and guarantors:

Generally, a man's credit-standing can be measured according to the so-called three "Cs" - capital, capability and character. Which is most important of the three? It depends on one's point of view. However, the capital factor is usually emphasised. On the other hand, a man of wealth is not always a man of trust. Smallholders would have little chance to get or enjoy the benefits of farm credit if the capital element is unduly emphasized and harsh guarantee terms are required. Therefore, in screening a loan applicant's credit-standing, it is proper to put together the three elements, using them to supplement each other.

A borrower's or guarantor's capital position can be estimated from the Record of Farm Visit. Capital is the balance between assets and liabilities (i.e. Capital = Assets - Liabilities). Using the farm visit survey (Form 2), the subtraction of total main liabilities from total main assets (excluding rent-in land) gives total capital. Since this method of estimating capital does not take into account cash, goods on hand and other small asset items, the actual capital amount should be larger.

In addition to a borrower's total capital, the structure of his assets should be considered. A borrower's financial structure refers to the relationships between his current and fixed assets, his current and fixed liabilities, and his self-owned capital. For example, consider two extreme cases of farmers A & B, each having total capital of M$10,000. All of A's assets are current. That is, they are either cash or securities. But all of B's assets are fixed. They are land equipment, etc. Obviously, A's repayment capability is greater than B's. A could pay his debts in cash immediately. B could pay only after disposing of his fixed assets. This is because A has got more liquid assets such as cash, goods on hands, etc.

On the farm village level, things that can be easily converted into cash are goods on hand (farm products or side-line products) and livestock. Land is usually the most difficult to convert into cash quickly. Houses would be the next most difficult to convert. A farmers' association must consider all these factors in judging a borrower's repayment capability. The guarantor's financial condition must also be investigated and recorded in the member's information card. A visit to the guarantor should be made, especially if it will be the first contact.

Capability refers to the borrower's ability to manage and administer his farming operations. The capability of a person is usually determined by his physical strength, health and intellect (mental capacity). This can be judged from the result of the farmers' previous farming activities. If the result of his previous farming activities has been satisfactory, (e.g. if he consistently year by year obtained good or above average harvests for his crops) then he could be deemed as a capable farmer.

Character is difficult to define. Generally, a man's character can be judged from his sense of social obligations, morals and ethics. If he is a man of sincerity, thrift, magnamity, kindness, gentleness, etc. his character must be good. It is most difficult to determine character directly from the borrower. A person's character can be judged indirectly from his neighbours' opinions or from his reputation. However, information should be obtained from as many sources as possible. The character and capability of the borrower's family should be considered too. The borrower's and the guarantor's past record of loan repayment should be investigated.

In order to obtain the above-mentioned information the association should complete members' information cards and members' credit-standing screening records and make good use of them. Considering all available information, the credit man makes his comments on the borrower's credit-standing in the proper column of the application form. Marks such as "A", "B", "C" are usually used to show the degree of credit-standing.

(4) Result of study of proposed use of loan

After careful study the credit man shall fill in the "Investigator's Findings and Recommendations" column (see Form 1) including the following:-

(i) borrower's purpose/plan for use of the loan (e.g. for off-season padi, purchase of a power tiller, etc.);

(ii) how the purpose/plan will benefit the borrower or bring better returns;

(iii) estimate of the total amount/quantity required to complete the proposed plan;

(iv) how much is to be borrowed from the association;

(v) when the loan is needed and for how long;

(vi) any other necessary comments including any changes in the plan for loan use as a result of the farm visit, repayment schedule, repayment method, etc.

(5) Plan on total amount of capital required

The borrower must indicate the total amount of capital necessary to complete his farming plan or project. Then he must indicate how much of this total amount he has to borrow from the association. The total amount of capital required may be estimated from prevailing costs. The amount to be borrowed from the association depends on the amount the borrower can provide on his own.

(6) Maximum amount allowable

A borrower's loans, either secured or unsecured, must not exceed the maximum amount allowable for all members as set by resolution of the Members' Representatives Assembly. These limits apply to the total amount borrowed by an individual, not to each individual loan. The Members' Credit-Standing Screening Committee fixes the amount allowable for each member according to members' credit-standing.

(7) Secured or unsecured

Under the Supervised Farm Credit Programme farmers' associations may, if necessary, make a secured loan which requires borrower to give his real estate mortgage to F.A. as security to guarantee the repayment of loan. The amount for secured loan shall be in the limit of 60% - 70% of price (value) of the real estate security.

Whether a secured or unsecured loan is made depends on the maximum amounts allowable for each type set by the Members' Representatives Assembly and the borrower's credit-standing. If the total amount of a loan applied for is greater than the total allowable for either secured or unsecured loans, the amount must be allocated between secured and unsecured loans. For example, a members' credit-standing on unsecured loan is $200 but the F.A. agrees to give him a $500 loan. In this case he can borrow up to $200 without security and the remaining amount of $300 with security. More unsecured loans should be provided because most smallholders lack sufficient collateral for secured loans.

(8) Term

According to the regulations the maximum term for farm credit loans is five years. The association may make loans with term less than five years. The actual term of a farm credit loan depends on the actual time period used, harvest times, repayment capabilities, etc. Loan term must be made in accordance with provision 49 of the regulations governing

Operation of Supervised Farm Credit Programme by area Farmers' Associations. The repayment schedule for various types of loans shall be determined according to the following criteria:-

(i) For production of crops: To be determined according to the length of period before harvest, the frequency of harvests and the value of produce.

(ii) For production of livestock and poultry: To be determined according to the length of period before the selling of produce, the frequency of such sale and the value of produce.

(iii) For side-line production: Same as (b).

(iv) For purpose of construction of farm equipment, machinery and installation (fixed investment): To be determined, according to the amount of a loan as follows:-

| | | |
|---|---|---|
| Less than M$200 | - | up to one year |
| M$ 200 - 500 | - | up to two years |
| M$ 500 - 1,500 | - | up to three years |
| M$1,500 - 3,000 | - | up to four years |
| Exceeding M$3,000 | - | five years |

(v) Instalment repayment: Loans under (d) which exceed twelve months in term are in principle to be repaid in instalment according to farming season and borrowers' repayment capability.

(9) Interest rate

This is to be determined by the Registrar of F.A.s from time to time. Payment of interest is in principle to be made with the principle for short-term loans. The interest for instalment repayment loans is to be made with the instalment repayments.

4. <u>Provision of Loans</u>

(1) Notification of approval or disapproval

(i) After screening and final approval or disapproval of each loan by the general manager, the association shall inform the applicant promptly of the results. There are two types of notification forms (see attached Forms 4 and 5) to be used. One form (Form 4) indicates approval of the loan. The other form (Form 5) indicates that the loan is not approved. When a loan is not approved, the farmers' association must give a brief explanation why the loan was not

approved. When a loan is approved, the association shall arrange a suitable date for the applicant to present himself at the association to complete the necessary loan procedures.

(ii) The first time a borrower obtains a loan from the association, it is necessary to request the presence of the borrower and his guarantors at the association to sign the loan contract. The contract should be signed in the presence of the credit man in charge. Also, the association should obtain sample signatures of the borrower and guarantors for future reference. There should be a sample signature card for each member of the association. The sample signature card should contain the date and place where the sample signature was obtained. The cards should be filed in alphabetical order. Besides, for convenience, the association should also obtain the borrower's sample signature in the appropriate space (below left corner) of Loan Account Ledger of Individual Borrowers' card.

(2) Preparation of loan contract agreement

When the applicant arrives at the association, the credit man arranges the terms and method of repayment (in one lump sum or instalments). Care must be taken in drawing up a loan contract. (See Form 6).

(i) All writing must be neat and clear.

(ii) On the contract, the amount of the loan must be written in the appropriate language and in Arabic numerals.

Example: M$265.31
Two hundred sixty five dollars and thirty one cents.

(iii) No arbitrary revisions in the contract are permitted after it has been drawn up.

(iv) If any revisions are made, the borrower and guarantors must acknowledge such changes by a signature on the loan contract.

(v) The credit man must check the approval of each guarantor by either a direct visit or a confirmation of the guarantor's signature from the associations' records.

(3) Payment of loan in cash

After the loan procedures have been completed, payment of the loan shall be made immediately or when the borrower needs the loan. Each borrower shall be requested to open a current deposit account in the association's credit section when he obtains a loan. If a loan is made in cash, in principle, payment shall be made by crediting (depositing in) the borrower's deposit account. A pass book is prepared to credit for the amount. The words "paid from Supervised Farm Credit" shall be written in the particulars column of the borrower's pass book. This will strengthen the loan contract and reduce the chances of corrupt practices or abuses.

The borrower may withdraw the money when he needs. Since a loan is made in cash the payment is done by cashier. If a loan is given to a borrower directly without going through pass book the credit man draws a slip (Dr. unsecured loan, Cr. cash) to inform the cashier to pay the borrower. Depending on the borrower's need, the payment of a loan may be in one lump sum or divided into instalments which are to be paid him according to the progress of work involved. Wherever possible, this should be practiced.

(4) Payment of loan in kind (padi)

If a loan is made in kind the credit section will prepare a voucher for requesting the economic section to supply the items of loan (input materials) to borrowers (Form 8). The borrowers get the items of loan from the economic section's warehouse or economic section may deliver the materials to borrower's farm gate and charge some service fee. All the input items must be prepared by economic section in advance. When items of loan have been extended to the borrowers the economic section prepares a voucher for notification of goods supplied to borrowers (Form 9) informing the credit section of the goods supplied. Thus, while the responsibility to screen and approve a loan belongs to credit section, the responsibility for supplying items of loan (materials) belongs to economic section. There must be close co-ordination between the credit and economic sections so that the smooth operation of the Supervised Farm Credit Programme can be attained.

5. Supervision

Supervision is a vital part of the Supervised Farm Credit Programme. Loans and their supervision are like a pair of scissors. Neither can function properly if one side is missing. A loan without adequate supervision will be ineffective. It will result in increasing burdens for the borrower and increasing difficulties for the association.

Supervision can be divided into two major parts. One part is inspection on the proper use of the loan. The other is technical guidance on loan use. Inspection on proper use of the loan is the responsibility of the credit man. Technical guidance should be carried out jointly by the credit and extension sections.

(1) Inspection on the use of loan

The purposes of inspection are to check:-

(i) if the loan is being used for the purposes intended;

(ii) whether the farming operations are carried out as planned; and

(iii) if there is any wastage in using the loan.

The inspection on the use of the loan should be carried out within one month after the loan is extended. If the inspection shows that a loan has been improperly used, the association (credit man) shall urge the borrower to make the necessary corrections. If, one and a half months after the loan has been extended, the borrower does not use the loan or continues to use the loan improperly, the association must take immediate action (except in special circumstances) to collect the principal and interest, according to term number five(5) of the loan contract.

(2) Technical guidance on the use of loan

The success of the Supervised Farm Credit Programme depends to a great extent on the technical guidance given on the use of individual loans. Usually it is stated that the main factors of production are land, labour and capital. But a successful operation calls for another important element. This element is management skill. For example, assume that two farmers A and B have equal quantities and qualities of the production factors land, labour and capital. They use these factors to produce the same crops. Will their production be the same? No, not if they use their land, labour and capital differently. Production will vary, depending on the skills in combining and utilizing of land, labour and capital. In other words, the managerial skill

or decision-making ability to combine and utilise land, labour and capital is another important factor of production. Technical guidance should be directed towards the important factor of farm management skills.

A farmer may purchase land, equipment, planting materials, labour, etc. But he cannot buy farming techniques or farm management skills. A farmer can acquire these skills only by experience, study and instruction. One of the major objectives of the Supervised Farm Credit Programme is to help farmers improve their farming techniques and management skills through the extension of loans. Technical guidance may conducted in several areas.

(i) Guidance on the use of the loan. For example, with a seed loan, technical guidance should help the farmer select high quality seeds and use improved planting and cultivating methods. Technical guidance with a poultry loan should enable the borrower to select an improved variety of birds and use good husbandry practices. Guidance on selecting a dependable model and using proper maintenance practices should be given with a power tiller loan. Technical guidance of this sort is the minimum that an association can undertake. Without such guidance an effective level of loan use will not be attained.

(ii) Guidance on the whole farming operation. The guidance will cover the whole scope of the farming operation. This involves providing general agricultural knowledge, assisting the borrower to make a good farming plan (how to best utilise his land, labour and capital) and presenting profitable alternatives.

(iii) Synthetic guidance. The association may provide technical guidance not only on the farmer's farm production but also on family and rural life (which may be called synthetic guidance). This type of guidance attempts to assist the farmer in improving every aspect of his life such as improvement of home sanitary condition, family planning, family budgeting, etc. Technical guidance of this sort is quite large in scope. It requires the association to mobilize considerable resources. Due to the limited human resources of farmers' associations, synthetic guidance cannot be undertaken at the present time. However, this is the level to which the association should aspire.

When the credit man visits the borrower for follow-up services (supervision), he shall record his findings on the record form (Form 9). The record should show when or if the borrower has completed use of the loan as proposed. It should indicate the present state of loan utilization and any special technical guidance needed by the borrower. In supervising farm credit loans, the credit man should obtain technical assistance from the extension section.

## III. Collection of Loans

The Supervised Farm Credit Programme is not a relief measure. Loans that are made must be collected back. If the association fails to collect its loans, the programme will fail. For this reason, the loan collection ratio is used to measure the success or failure of a lending programme.

Fifteen days before a loan is due, the farmers' association sends a reminder (see Form 12) to the borrower asking him to repay the principle and interest. Under the supervised farm credit programme, such a repayment may be made in cash or in kind depending on the system as set by the F.A. In the initial stage of operation, it is generally recognised that collection of loan in kind seems easier. The procedures for collecting loans in cash and in kind are as follows:-

1. Collection of loans in cash

When loans are repaid in cash borrowers go to credit section where the credit man draws a slip (Dr. cash, Cr. unsecured loan; Dr. cash, Cr. interest income), together with the application, loan receipt and other documents, to inform the cashier of the amount of repayment. The borrowers then pay the money to the cashier. The slip, after it has been signed by the cashier, is then sent back, together with other documents, to the credit man for recording in the borrower's individual account ledger (Form 7) after which it is sent to accountant and in turn to general manager for their approval, signature and record. The loan contract (receipt) shall be returned to the borrower immediately after the borrower has completed his repayment.

2. Collection of loans in kind (padi)

When loans are repaid in kind (padi) it is the responsibility of the economic section to receive and handle the padi. The quantity/value of padi received from a borrower could be more or less than the amount of loan he has to repay. The economic section, therefore,

will receive the padi as deposits (individual consignment goods by borrowers); at the same time acts as an agent entrusted by the credit section to handle, reduct, and market the padi for the repayment of loan and interest that are to be collected by the credit section.

Padi received by the economic section must be based on standardized one. If the padi which is sent to F.A. is below the standard, shrinkage costs must be reducted from the padi. To do so any padi received by the economic section must be inspected, weighed and graded according to the system and criteria set by the F.A./government authority. The steps of collecting padi are outlined below:-

(1) Applications for inspection of padi

(i) In principle, the padi producer shall apply to F.A. for inspecting, receiving and storing his padi. The application is made by signing in the "Padi Inspection and Receipt Voucher" (see Form A for economic section) at the time when the applicant sends his padi to F.A.

(ii) The F.A. shall prepare and make out the Padi Inspection and Receipt Voucher in respect of each padi owner. In case the padi is sent by the person other than the padi owner himself still write the name of padi owner in the "name of applicant" column of the voucher and ask the padi deliverer to sign in the voucher for the applicant. Also, write the name of the deliverer in the "padi delivered by" column in the voucher for checking later.

(iii) When more than two varieties of padi are sent by one owner the record of padi shall be kept separately in more than two vouchers (Form A).

(iv) The voucher shall be prepared in duplicate, original and copy. The original is to be given to the padi owner as receipt and the copy to be retained in the F.A. as slip and counterfoil for recording and checking, etc.

(2) Inspection of padi

Inspection of padi shall be conducted for the following matters according to the criteria set by the F.A./government authority:-

(i) moisture
(ii) percentage of impurities
(iii) percentage of spoiled padi

(3) Weighing

(i) Every bag of padi must be weighed and recorded in the "Result of Inspection and Weighing" table of the voucher (Form A) and obtain the total weight.

(ii) Kati shall be used as weighing unit all through.

(iii) Reduction of tare (weight of gunny sacks).

(iv) Based on the results of inspection (percentage of moisture, impurities, spoiled, etc.), the padi inspector grades and determines the depletion rate according to the grading system set by F.A./government authority, and then determines the net weight of padi according to the depletion rate. The total net weight thus obtained and shown in the Padi Inspection and Receipt Voucher represents the quantity of clean and standard padi that is deposited in the F.A.

(v) "Dollar Valuation" may be computed according to g.m.p. (guaranteed minimum price) of $16/pikul or according to present market price if there is no g.m.p. provided.

(4) Record of padi transaction in the Padi Inspection and Receipt Voucher

The Padi Inspection and Receipt Voucher is, in addition to application, inspection and weighing of padi, also used as receipt and record of change in the padi quantity. When the padi recorded in the voucher is for repayment of loan, the economic section may, in order to save accounting and book-keeping, reduct the repayment quantity straightaway from the figures shown in the "Total net weight" column. (The quantity of padi to be reducted for repayment of loan may be written before hand in the "Remark" column of the voucher Form A). Write the quantity of padi to be deducted in the "Withdrawal" column of the "Record of Padi Transaction" table, (Form A) then obtain the balance between the total net weight and the quantity of withdrawal and record it in the "Balance" column. This balance, if any, indicates the padi owner still, after the repayment of his loan, has some padi deposited in the F.A. When he wants to withdraw or sell it, he must produce the receipt (Form A) to F.A. for the transaction and recording. In case of deficit balance, after the reduction of loan repayment, the economic section shall inform the credit section of such a deficit (Form E). The same record must be kept of such a transaction in the Record Book for Individual Padi Owner (Form B) as well as in the general ledger of economic section. This entry is made according to the copy of Padi Inspection and Receipt Voucher.

(5) Book-keeping and accounting procedure for transaction of padi

(i) Records of individual padi depositor

Padi, like cash and other goods in the F.A., shall be treated as one of asset items. Any change in the quantity of padi shall be recorded both in the detail ledger such as"Record Book for Individual Padi Owner" (Form B) by economic section and in the general ledger to be under the control of the accounting section.

Upon receiving the padi, after the Padi Inspection and Receipt Voucher has been filled in, the economic section shall open a padi deposit account for each individual padi depositor, in the "Record Book for Individual Padi Owner" (Form B), and enter the book according to the information of Padi Inspection and Receipt Voucher. The account number for padi owners may be given in the order of their delivery of padi.

(ii) Records of padi in the F.A. warehouse

The economic section (in charge of the warehouse) shall keep the records of padi received, disbursed and the quantity outstanding everyday using the Daily Record Book of Padi Receipt and Disbursement (Form C). Such entry is made also according to the Padi Inspection and Receipt voucher. The account titles to be used for the recording of padi here are "consignment goods" and "consignment goods payable". The details of accounting procedures are explained in Chapter V Miscellaneous.

When the padi that has been collected is sold or disbursed the economic section (in charge of marketing) draws a Padi Disbursement Voucher (Form D), with the final approval of the general manager, to inform the staff of the economic section in charge of the warehouse to disburse the padi. Records of such a change in the quantity must be kept daily in the Daily Record Book of Padi Receipt and Disbursement (Form C). The entry of the book shall be made according to the Padi Disbursement Voucher drawn.

(6) Transaction between economic section and credit section

(i) Notification of loan collected in padi

Since loans are extended in the form of goods and collected in kind (padi), which are actually undertaken by the economic section, it is necessary that the economic section informs the credit section of the results of the collection of loans and the related transaction at each pause of work. The "Voucher for Notification of Loans Collected and Transacted" (Form E) as suggested here is to be used for this purpose. The form indicate, among other things, the value/sold, price of padi that has been repaid or deposited by the individual borrowers to show whether the amount paid is sufficient for repayment of loan. This figure is obtainable from Form B.

(ii) Notification of reduction of amount advanced by economic section

Also, since the goods supplied for payment of loans were advanced by the economic section, the amount advanced and the commission to be charged can be deducted from the value or sale price of deposited/paid padi. The remaining amount, (reduction of advance and commission from deposited padi value as shown in Column D of Form E) belongs to credit section. Upon receiving the voucher for notification of loans collected and transacted (Form E), the credit section will draw a slip to record the change of account payable and account receivable between the two sections, and also enter in each of individual loan accounts in the credit section according to Form E.

3. Extension of Loans

(1) Procedures for extension of loans

The association should aim towards 100 per cent collection of its loans. In actual practice this target is rarely obtained. Overdue loans will occur even though the Supervised Farm Credit Programme provides low interest loans with favourable terms and strict supervision with technical guidance. A certain amount of slow repayment and default is inevitable. The association must try to keep this as low as possible.

Failure to repay a loan on time may be due to forces beyond the control of the borrower. Or, the failure may be the fault of the borrower. Forces beyond the control of the borrower include:-

(i) natural disasters (calamities);

(ii) disease or insect damage resulting in partial or complete loss of crops; and

(iii) serious illness of the borrower or borrower's family, requiring medical expenses to be paid with money set aside for repayment of the loan.

When failure to make the repayments is beyond the control of the borrower, the association may grant an extension. However, the borrower must request an extension giving reasons why an extension is needed. Form for making such a request should be available in the F.A. (Form 9). Too much pressure by the association may force the delinquent borrower to repay the loan by borrowing from another source at a much higher rate of interest. The borrower must make the request at least 10 days before the loan is due. However, such extension shall be limited to once only for the same term as before (till next harvest). Upon receiving an application for an extension of a loan, the credit section shall send the credit man to investigate the situation. The credit man should ascertain if the reasons given for delaying the repayment are true and also the degree of any crop losses, etc. proposed term of extension and proposed method of repayment. The credit man then submits his findings and recommendations through the chief of credit section to the general manager. If the reasons given for an extension are not satisfactory, the association should not permit an extension. The association must inform the borrower immediately of the approval or disapproval of an extension. The forms to be used are the same as those used when informing a borrower of approval or disapproval of a loan (Forms 4 & 5).

(2) Overdue loans

When a loan becomes overdue the credit section must make an immediate attempt to persuade the borrower and guarantors to make prompt payment. If the loan is overdue because of the borrower's carelessness or negligence, one or two visits by the credit man will usually persuade the borrower to make the necessary payment. However, if the borrower shows no intention of repaying, attempts at simple persuasion are not enough. When a borrower's lack of sincerity is obvious, the association should take immediate legal action to collect the loan. In cases, such as this, leniency by the association will encourage other borrowers to disregard their responsibilities.

As mentioned earlier, a certain amount of overdue loans are inevitable. It is difficult to determine a point beyond which overdue loans are unacceptable. The association must consider both the percentage or relative amount of overdue loans and the absolute amount of overdue loans. In general, the total amount of overdue loans at the end of each month shall not exceed 5 per cent of the total amount of loans outstanding. The association shall make every effort to collect an overdue or delinquent loan from the borrower and his guarantors through informal urging, arbitration or legal action.

(3) Punitive interest

When a borrower fails to repay his loan on time as originally agreed upon or extended later, the loan is considered delinquent, and a punitive interest may be additionally charged.

In case of delinquency of a secured loan, the association may take legal action to sell his collateral security on a fixed date. After clearing the capital and interest of the loan with the fund derived from the sale of the collateral security, the balance will be returned to the borrower. If the fund derived from the sale cannot cover the debts, the F.A. may collect the deficits from the borrower and his guarantors.

Borrowers and guarantors who have had overdue loans for a long period of time may be penalised by not allowing them to borrow from the association for one year or longer.

## IV. Record Keeping, Statistics and Reports

An adequate method of book-keeping, recording statistics and making reports is important in any field of business. Likewise, proper recording, book-keeping and reporting is imperative in Farmers' Association in order to ensure the success of its business operation. It is especially important that the agricultural credit programme use an efficient method of record keeping. From the records, reports and statistics, the association can chart the progress and evaluate the success of the programme. All Farmers' Associations participating in the Supervised Farm Credit Programme are expected to carry out the necessary record keeping, statistical work and report preparation.

### 1. Record Keeping

Usually, there are six procedural steps for each loan, from application to collection. They are: (1) application; (2) farm visit; (3) screening; (4) provision of loan; (5) supervision; and (6) collection. The forms, books and other related papers to be used for each step as mentioned earlier and the additional forms to be used are summarised below.

| Procedures | Forms, Books and Other Relative Papers to be Used | Form or Book Number |
|---|---|---|
| 1. Application | (1) Application for Supervised Farm Loan | Form (1) |
| | (2) Record of Processing Applications | Form (3) |
| 2. Farm Visit and Investigation | (1) Application for Supervised Farm Loan and Records of Farm Visit | Forms (1) and (2) |
| | (2) Record of Processing Applications | Form (3) |
| 3. Screening | (1) Application for Supervised Farm Loan and Records of Farm Visit | Forms (1) and (2) |
| | (2) Record of Processing Applications | Form (3) |
| | (3) Notification of Screening Results | Forms (4) and (5) |
| 4. Contracting and Paying | (1) Contract Agreement for Supervised Farm Loan | Forms (6) (6a) (6b) |
| | (2) Loan Account Ledger of Individual Borrower (Card System) | Form (7) |
| | (3) Request Voucher for Supply of Goods | Form (8) |
| | (4) Voucher for Notification of Goods Supplied to Borrowers | Form (9) |
| | (5) Supervised Farm Credit Loans Detail Ledger | Form (10) |
| | (6) Record of Processing Applications | Form (3) |
| | (7) Calendar of Matured Loans | Form (11) |
| 5. Supervision | (1) Record of After-Service Visits to Borrowers | Form (12) |
| | (2) Record of Processing Applications | Form (3) |
| 6. Collection and Dunning | (1) Reminder of Loan Due | Form (13) |
| | (2) Contract Agreement for Supervised Farm Loan | Form (6) |
| | (3) Loan Account Ledger of Individual Borrower | Form (7) |
| | (4) Supervised Farm Credit Loans Detail Ledger | Form (10) |
| | (5) Application for Extension of Repayment | Form (14) |
| | (6) Overdue Loan Dunning Card | [illegible] |

The detailed methods of completing the various forms and books are explained below:-

(1) Application for Supervised Agricultural Loan (Form 1):

(i) Upon receipt of an application, the credit section assigns it an application number (upper left corner) and registers it in the Record of Processing Applications (Form 3).

(ii) Check the membership number. If the applicant is non-member write "non-member" in the appropriate space under the member or non-member column.

(iii) When the loan is made, assign the borrower an account number (upper right corner). The account number is a control number given to each individual borrower. It is to be used when recording any transactions concerning the borrower. An account number shall be given to only one borrower and one borrower should not be given more than one account number.

(iv) Applications shall be classified into: (1) uninvestigated; (2) investigated but not yet screened; (3) not approved; (4) approved but not yet extended; and (5) approved and extended. Applications are then filed in order of application number. Applications that have been approved are filed in order of account number.

(2) Records of Farm Visit (Form 2)

See II - 2 Farm Visit.

(3) Record of Processing Applications (Form 3)

The purpose of this record is to chart the processing of each loan application. The record should show in detail when and how each loan is processed. For approved loans, recording must be completed to the last column "Date of First Supervision". Loans not approved must be recorded to the "Date of Disapproval" and "Date of Notification" columns.

(i) When an application is received, record in order of the application number, name of applicant, value or amount applied for, and date of application.

(ii) Record the dates of other steps as they are carried out.

(iii) Record the value or amount of loan approved under the "Value or Amount of Loan Approved" column. If a loan is not approved, write "disapproved" in this column.

(iv) Statistical records should be kept of the number of households applying for loans, amount applied for and amount approved.

(4) Notification of Screening Results (Forms 4 & 5)

When a loan is approved or not approved, the applicant must be informed by using either Form 4 or Form 5. If the loan is approved, a Receipt (credit contract) for Supervised Farm Loan (Form 6) should be sent along with Form 4 asking the borrower to prepare the contract in advance.

(5) Credit contract agreement for Supervised Farm Loan (Form 6)

(i) The type/items of loan, amount and method of repayment stated in the contract shall correspond with those approved in the loan application.

(ii) The contract numbers of the loans shall be assigned in the order of contract in the upper right corner of the first page.

(iii) After the contract for the loan has been completed and the borrower is ready to use the loan, the association shall make immediate payment of the loan to the borrower.

(iv) When a loan is to be made in instalments, a contract agreement shall be attached with "plan of repayment in instalment" table (see Form 6a). This form should be attached to the back of the last page of the contract. This form (Form 6a) is also combined with "Record of Repayment" table to supplement the plan of repayment table. By recording repayments in this table, the F.A. will be able to quickly determine the outstanding amount for each receipt. The number of payments shall be recorded in the "Remarks" column of the attached plan.

(v) Each contract (receipt) must be confirmed by the guarantors. This is done usually during the farm visit.

(vi) When loans for more than one purpose are made to a borrower at the same time and are to be repaid in a lump sum or in instalments at the same time, they may be combined in the same contract (receipt). When loans for more than one purpose are extended at the same time but are to be repaid at different times, separate contracts (receipts) are required.

(vii) When a secured loans are made the security for secured loans shall be listed and described in detail in the "Detail record of security" and shall be attached to the back of the last page of the contract (see Form 6b).

(viii) In principle, contract for loans should be kept by the cashier, chief of administrative section or general manager, but not the credit man in charge of the loan.

(ix) When a borrower's request for an extension of the repayment date is approved, the credit man shall note the extension and new terms of repayment in the "Remarks" of the "Plan of Repayment in Instalment" attached to the contract (receipt).

(6) Loan Account Ledger of Individual Borrower (Form 7)

A card system will be used in keeping individual borrower's accounts. The cards should be grouped into three classifications: (a) loans not yet due; (b) loans overdue but not yet repaid; and (c) repaid loans. There should be only one card for each borrower. Explanation includes date borrowed, date due, period, the type of loan extended, interest, etc.

(7) Request Voucher for Supply of Goods (Form 8)

To be prepared by the credit section. This voucher has to be used for the following purposes:-

(i) To inform the economic section of what item and what quantity to give to borrowers for loan.

(ii) To indicate the amount advanced by economic section and that the economic section can claim it from the credit section (amount shown in column) at the completion of each loan extension period; and

(iii) To be used as basis for collection of padi later according to the figures shown in "Total repayment in padi" column since name and quantity of padi to be collected are listed in the voucher. Signature of borrowers shall be required in this form when a borrower receives items of loan.

(8) Voucher for Notification of Goods Supplied to Borrowers (Form 9)

This voucher is to be prepared by economic section at the completion of provision of items of loans to inform the credit section of the progress of loan extension work and the debt-credit position between the two sections. Ideally this voucher, containing every 10 borrowers' loan information, be prepared and

sent to the credit section every day. Upon receiving the voucher (original) the credit section draws a slip according to the account titles and amount stated in the voucher.

(9) Supervised Farm Credit Loans Detail Ledger (Form 10)

When a F.A. makes more than two types of loans a detail ledger shall be kept for each type such as padi double-cropping loan, crop diversification loan, etc. When a F.A. starts with only one type of loan, this book is still necessary as the records can be used for subsequent purposes. This book is entered by credit section according to information of slip (when loan in cash) or Form 9 voucher (when loan in kind) and Form E voucher (when repaid in kind). Total the amount of loans made and the amount repaid each month and also the cumulative amounts throughout the year. The amount outstanding at the end of each year shall be brought forward to the next year.

(10) Calendar of Matured Loans (Form 11).

This subsidiary book enables the association to keep up to-date on loans as they become due:-

(i) Loans due on the same date are recorded on the same page of the calendar. One page is used for each date. When a loan is extended, record the due date (or due dates in case of instalments).

(ii) When a request for extension of repayment is approved transfer the loan to the new date.

(iii) In order to save time principle and interest columns may be omitted.

(iv) This book shall be filed annually.

(11) Record of After-Service Visits to Borrowers (Form 12)

When a loan is made, record the account number, name, purpose and amount of loan. The credit man records the date and findings after each after-service visit to borrowers. Separate records should be kept for each S.A.U. or kampong.

(12) Reminder of Loan Due (Form 13)

When a loan is to be repaid in one lump sum, use the first row only, cancelling the "Instalment Repayment" column. The remainder may be sent either sealed or open.

(13) Application for Extension of Repayment (Form 14)

An application for extension must have the consent and signature of the original guarantors. If an application for extension is approved, it should be attached to the original loan contract agreement.

(14) Overdue Loan Dunning Card (Form 15)

Any loan more than one month overdue, must be recorded on this card. Details of dunning work shall be recorded until the loan is repaid. For convenience, the cards should be kept separately for each S.A.U. or kampong.

2. Statistics and Reports

In addition to the above-mentioned forms and books, all farmers' associations are required to make the "Monthly Report of Supervised Farm Credit Programme" (Form 16). Each F.A. shall prepare three copies of this report within ten days after the end of each month. One copy is to be sent to the State F.A. Supervisor, one to F.A. H.Q. and the remaining copy is retained by the F.A.

(1) The figures for "Cumulative Amount Made up to Last Month" is obtained from "Cumulative Amount of Loans Made up to this Month" column of the last monthly report.

(2) The "Amount of Loans Made this Month" is calculated from the debit side of the Supervised Farm Credit Loan Detail Ledger (Form 10) or from general ledger of credit section.

(3) The figures for "Cumulative Amount of Loans Repaid up to Last Month", is obtained from "Cumulative Amount of Loans Made up to this Month" column of the last monthly report.

(4) "Amount of Loans Repaid This Month" is calculated from the credit side of the Supervised Farm Credit Loan Detail Ledger (Form 10) or from general ledger of credit section.

(5) "Cumulative Amount of Loans Made up to This Month", "Cumulative Amount of Loans Repaid up to This Month" and "Balance (Loans Outstanding)" should equal that shown in Form 10 or in general ledger of credit section.

(6) "Amount of Overdue Loans" include any amount that is due but not yet paid. Any loan or part of a loan that is overdue during the month must be recorded. The amount can be calculated from the Calendar of Matured Loans (Form 11).

(7) Cumulative number of households obtaining loans (G) is the total number of members who have obtained supervised farm credit loans since the start of the programme. The figure indicates the total number of households (one member one household) not the number of loans. The figure can be obtained from the Loan Account Ledger of Individual Borrower (one household one card) or from the last number of individual borrower's account.

(8) Cumulative number of households with repaid loans (H) is the total number of members who have obtained loans from the association and repaid them in full. The number of Loan Account Ledger of Individual Borrower cards with a zero balance indicates the number of borrowers with repaid loans. The figure can also be obtained from the "check and sign here when loan is repaid" column of Calendar of Matured Loans (Form 11).

(9) The number of households with outstanding loans (J) and number of households with overdue loans (K) is obtained by counting the number of cards of Loan Account Ledger of Individual Borrower (Form 7). The total of items (I) and (J) should equal (H). (See explanation for Form 7).

(10) The total amount of loans made for this month and the total amount of loans repaid for this month should equal the total debits and credits respectively of the Supervised Farm Credit Loan Detailed Ledger (Form 7).

## V. Miscellaneous

### 1. Earning from the Programme

During the first several years of the operation of F.A., the salaries, travelling allowances, stationeries, equipments and other items necessary will be subsidized by the government. Except where specifically indicated by the Registrar of Farmers' Association or the State Farmers' Associations Supervising Officer, the associations shall bear no cost for operating the Supervised Farm Credit programme. Any earning derived from operation of the programme should be accumulated in the credit section as credit fund for further expansion of the programme and should not be further distributed.

### 2. Preparation of Materials and Information

It is necessary that the credit man in co-operation with the extension workers, prepare various materials and information to enable the programme to run smoothly. These include:-

(1) current market values of various types of land and houses in the area;

(2) market prices for farm machinery, tools, equipment and materials including seeds, feeds, seedlings, fertilisers, etc.;

(3) costs of livestock and poultry production, market prices, production techniques, etc.;

(4) cost of side-line production, market prices, techniques, etc.;

(5) various wages paid;

(6) geological distribution (nature of soil) of the cultivated land in the area;

(7) types of crops grown in the area and their acreage;

(8) seasonal cropping patterns, cost of production of various crops, their market prices, etc.

(9) farming techniques including techniques of production of important crops and livestock.

(10) standardized designs and estimated cost of construction for livestock and poultry pens and sheds.

3. Accounting Procedures

The main accounting procedures in handling the Supervised Farm Credit Programme are as follows:-

(1) When the association receives a Supervised Farm Credit Loan (cash) from the revolving fund (e.g. from F.A. Registrar Office or other Credit Institutions), debit the "cash on deposit-banks" account and credit the "long-term loan" account for the amount.

(2) When a loan is made to a borrower through the borrower's current deposit account, debit "unsecured loans" or "secured loans" account and credit the "current deposits" account for the amount.

(3) When the borrower withdraws the loan from his current deposit account (uses the loan), debit the "current deposits" account and credit the "cash on hand" account for the amount withdrawn.

(4) When a borrower repays a loan (principle plus interest) in cash, debit the "cash on hand" account and credit the "unsecured loan" or "secured loan" account for the principle and debit "cash on hand" and credit "interest income" for the interest.

(5) When the association repays a long-term loan to the credit institution (e.g. from F.A. Registrar Office or other Credit Institutions), debit "long-term loans" and credit "cash on deposits" for the amount repaid.

(6) At the beginning of the fiscal year, when the profits of the credit programme from the previous year are transferred to the associations permanent credit fund, debit "profit - previous year" and credit "special fund" sub-item "Farm Credit Fund" for the amount transferred.

When a loan is to be paid to a borrower, the credit man writes out a voucher (slip). The voucher (slip) is submitted, with the application, record of farm visit, contract for loan (with instalment card, if necessary) and loan account ledger of the individual borrower, through the chief of credit section to the general manager for approval.

When a loan is repaid, the credit man prepares a voucher (slip). The voucher (slip) is submitted with the receipt for loan (with instalment card, if necessary) and loan account ledger for the individual borrower through the chief of credit section to the general manager for approval.

The credit man in charge shall keep the daily records and books concerning the credit programme. These records and books should be frequently checked by the chief accountant and general manager.

Once every six months, a letter of inquiry should be sent to borrowers by the general manager or chief of credit section checking if their amounts of outstanding loans coincides with the amounts shown on the books of the association. This is to protect borrowers from currupt practices.

When loans are made in kind, the transaction must be recorded in general ledger using the dollar values. When loans are repaid in kind, the transaction must also be recorded in general ledger using the dollar values. For example, if the associations

loan a farmer-member 100 lbs. of fertiliser valued at $15, the transaction is recorded as a $15 loan. If the loan is repaid in padi valued at $16, the transaction is recorded as repayment of a $15 loan and $1 interest. However, both the quantity of goods to be loaned and/or to be repaid (e.g. principle and interest are paid by padi) and their respective dollar values must be stated in the loan application, loan contract, vouchers as well as other record forms as described before in this paper.

25th January, 1969.
Kuala Lumpur.
LHC/AU/wc

Form 1

Application for Supervised Farm Credit

Application No.:_____ Borrower's Account No.:_____

This form to be filled by applicant: S.A.U.:

| | Name | Address | Member (Membership No.) or Non-member |
|---|---|---|---|
| Applicant | | | |
| Guarantors | (1) | | |
| | (2) | | |

| | Item Needed* | Quantity | Unit | Purpose** For _____ acres | When is it needed? |
|---|---|---|---|---|---|
| Detail of loans application | 1. | | | | |
| | 2. | | | | |
| | 3. | | | | |
| | 4. | | | | |
| | 5. | | | | |

Signature by Applicant: Date:

Note: * Item needed: specify type of inputs (materials) such as fertiliser, insecticide, weedicide, sprayer, feed, etc.

** Purpose: specify whether the loan is to be used for the production of padi (main season or off-season) maize, vegetable, poultry raising, etc.

Investigator's Findings and Recommendations

| Purpose and Benefit of Loan, etc. | Materials/Items | Quantity | Unit | Price $ | Term |
|---|---|---|---|---|---|
| | 1. | | | | |
| | 2. | | | | |
| | 3. | | | | |
| | 4. | | | | |
| | 5. | | | | |
| For _____ acres | | Total | | $ | |
| Time and Method of Repayment | | | | | |

| Credit Standing | Applicant | Guarantor (1) | Guarantor (2) |
|---|---|---|---|
| | | | |

| Investigator's Comments | Comments by Credit Chief | Decision by General Manager |
|---|---|---|
| | | |
| Signature: | Signature: | Signature: |
| Date: | Date: | Date: |

Form 2

Records of Farm Visit (Con'd.)

5. Main Assets:

| | | Self-owned | | Rented-in | Total Area of Operation |
|---|---|---|---|---|---|
| | | Self-operated | Leased out | | |
| Land | Padi | acre | acre | acre | acre |
| | Dry land | | | | |
| | Fruit/ Kampong | | | | |
| | | | | | |
| | Total | | | | |
| Building | Living | Unit | W. B. C. | N. M. O. | |
| | Cattle shed | Unit | W. B. C. | N. M. O. | |
| | | Unit | | N. M. O. | |
| Equipment | Car | Unit | | N. M. O. | |
| | Refri-gerator | | | N. M. O. | |
| | | | | | |

| | | Description | | |
|---|---|---|---|---|
| Animals/Poultry | Cattle | Yellow | Buffalo | Dairy |
| | | L. | M. | S. |
| | | L. | M. | S. |
| | | | | |
| Implements | Power tiller | N. M. O. H/P. | | |
| | Ox-cart | N. M. O. | | |
| | | | | |
| | | | | |
| Remarks | | | | |

Notes: W. B. C. = Wood - Brick - Concrete
N. M. O. = New - Medium - Old
L. M. S. = Large - Medium - Small

6. Main Liabilities:

| Name of Creditor | Debts in Cash $ | Debts in Kind | | | Date of Borrowing | Purpose | Remarks (Interest rate) etc. |
|---|---|---|---|---|---|---|---|
| | | Items | Quantity | Value $ | | | |
| (1) | | | | | | | |
| (2) | | | | | | | |
| (3) | | | | | | | |
| (4) | | | | | | | |

| | |
|---|---|
| Remarks (Total capital needed, etc.) | |

Farm Visit by _____ _____
Name Signature

Form 3

Record of Processing Applications

Year: _____

| Application No. | Name of Applicant | Value or Amount of Loan Applied $ | Date of Application | Date of Farm Visit | Date of Approval/ Disapproval | Date of Notification | Date of Contract | Date of Loan Extended | Borrower's Account No. | Value or Amount of Loan Approved $ | Date of First Supervision | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
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| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Sub-total | households | | | | | | | | | | | |

Form 4

Notification of Screening Results

Approval of Loan

Sir,

This is to inform you that your application for a supervised farm credit loan has been screened and approved. The items of the loan are listed in the following table (see below) and the terms of the loan are listed in the attached credit contract.

You are requested to sign the contract, obtain the signatures of the two guarantors, and present yourself at the Association with the signed contract on .....19..... and complete other necessary procedures.

After the completion of the contract procedure, the Association will inform you of the date to receive the items of loan. The items of loan will be delivered to your .....S.A.U. where you are requested to receive them personally. (The service charge including interest and delivery charge on the loan will be calculated according to the rate fixed by the Association). Also, you are requested to make, in advance, a plan for the repayment (such as quantity of padi needed for repayment and the date of repayment).

Thank you.

| Items the F.A. Approved | | | Price | Term | Remarks |
|---|---|---|---|---|---|
| Items | Quantity | Unit | | | |
| 1. | | | $ | for year(s) month(s) | |
| 2. | | | | | |
| 3. | | | | | |
| 4. | | | | | |
| 5. | | | | | |
| | Total | | | for year(s) month(s) | |

Yours faithfully,

.....
Signature of General Manager

.....Farmers' Association

Form 5

## Notification of Screening Results

### Disapproval of Loan

Sir,

We regret to inform you that your application for a supervised farm credit loan was not approved as a result of screening. (Please see the reasons stated below).

Thank you.

| Items Applied for | Reasons for Disapproval | Remarks |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |

Yours faithfully,

.....
Signature of General Manager

.....Farmers' Association

Stamp

Form 6

Credit Contract Agreement for Supervised Farm Loan

Contract No: _____

Date: _____ S.A.U.: _____ Borrower's Account No._____

I, Mr./Mrs. ..... (hereafter called the borrower including my heirs and legal representative) hereby have borrowed all the items of supervised farm loan equivalent for M$..... from the ..... Farmers' Association (hereafter called the Association), and agree to repay the loan including the service charge/interest with clean dry padi/..... as listed in the detail of the following table:-

| Items/Materials Received | Purpose | Quantity | Unit | Value of Principal Repayment in Dollar | Interest in Dollar | Total Repayment in Padi |
|---|---|---|---|---|---|---|
| 1. | | | | $ | $ | kati |
| 2. | | | | | | |
| 3. | | | | | | |
| 4. | | | | | | |
| 5. | | | | | | |
| Total | | | | | | |

The borrower is also willing to comply with the conditions stated in the following:-

1. The term of loan; from ..... to ..... for .....
2. The date of repayment of principal and service charge/interest .....
3. The rate of service charge/interest .....
4. The rate of punitive interest against the loan over due .....

Contract No. _____

5. The borrower shall use all of the above items of loan for the purpose as stated above and shall not sell dispose or exchange any of them. The Association may collect back both the principal and service charge/interest of the loan from the borrower at all times in the event that the borrower has failed to use the loan for the purpose as stated above.

6. The borrower agrees to accept the supervision on the use of the loan by any person(s) assigned by the supervisory agencies at any time or from time to time to ensure the loan is used properly.

7. The place for repayment of principal and service charge/ interest of loan shall be the office of credit section of the Association. The padi received by the Association for the repayment of loan and interest shall be graded and priced according to the grading system, which is based on the Government guaranteed minimum price ($16/pikul), as prescribed by the Association. If, as a result of the grading, the total value of the padi repaid is insufficient for the repayment of the total value of the principal and service charge/interest of the loan, the borrower shall be responsible for such a deficit and will make further repayment to make up the deficit. When the padi thus collected by the Association is sold and if the price exceeds the guaranteed minimum price ($16/pikul) consequently the total amount of padi price exceeds the total amount of loan and service charge/interest this extra money will be credited to the borrower's saving account.

8. This contract agreement will come into effect as soon as it is signed by the borrower.

Contract No. _____

9. The undersigned agreed to take full responsibility in jointly and severally guaranteeing the repayment of the loan and service charge/interests and relinquish the rights of any legal action.

Borrower's: _____ I.C.No._____ _____
(Name) (Signature)

Address: _____

Guarantor: _____ I.C.No._____ _____
(Name) (Signature

Address: _____

Guarantor: _____ I.C.No._____ _____
(Name) (Signature)

Address: _____

The undersigned confirms that the above signature was signed by myself.

1. _____ Date: _____
Guarantor's signature

2. _____ Date: _____
Guarantor's signature

(Attachment to Form 6)

Borrower's A/c. No. _____ Contract No._____

Form 6a - Plan of Repayment in Instalment

| | To Repay in Instalment | | | | | Remarks | Record of Loans Repayment | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Date | Principal | Interest | Total | To repay by padi kati | | Date | Loans made | Loans repaid | Loans outstanding |
| First repayment | | $ | $ | $ | | | | $ | $ | $ |
| Second | | | | | | | | | | |
| Third | | | | | | | | | | |
| Fourth | | | | | | | | | | |
| Fifth | | | | | | | | | | |
| Sixth | | | | | | | | | | |
| Seventh | | | | | | | | | | |
| Eighth | | | | | | | | | | |
| Ninth | | | | | | | | | | |
| Tenth | | | | | | | | | | |
| Total | | | | | | | | | | |

Form 6b - Detail Record of Security

| | Right over the Security | | | | | Description | | | Location of Security | Insurance Status |
|---|---|---|---|---|---|---|---|---|---|---|
| Immovable Property | Date registered | Sphere of right | Registered number | Sequence of right | Term of continuation | Classification | Acreage or type | Estimated Value | | |
| | | | | | | | | $ | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |

| | Date handed over to FA | Item | Quantity handed over to F.A. | Quantity taken out | Balance | Value per unit | Total value | Place of storing | Insurance status |
|---|---|---|---|---|---|---|---|---|---|
| Movable Property | | | | | | $ | $ | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

Remarks:

Form 8

Request Voucher for Supply of Goods  Credit Section  Voucher No. _____

Date _____ 19__

To Economic Section,

The credit section hereby requests the economic section to supply the borrower(s) with the goods (items of loan) as listed below for account of the credit section.

| Borrower(s) | | | | Items/Materials of Loan | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Borrower's A/c.No. | Name | S.A.U. | Loan Contract No. | 1 Fertiliser | 2 | 3 | 4 | 5 | Principal | Interest | Total Value in Dollar | Total Repayment in Padi | Signature of borrower after receiving items of loan | Date of loan extended | Remarks |
| | | | | lb. | lb. | lb. | lb. | lb. | $ | $ | $ | kati | | | |
| | | | | | | | | | | | | | | | |
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| | | | | | | | | | | | | | | | |
| | Sub-total | | | | | | | | | | | | | | |

Note: This voucher is made in duplicate. The original is to be sent to the economic section and the copy to be retained in the credit section.

Form 9

Voucher for Notification of Goods Supplied to Borrowers

Economic Section

To Credit Section,

Voucher No. _____

In accordance with your request the economic section has already given the goods (items of loan) to the borrower(s) as listed below:-

Date: _____

| Request Voucher No. | Borrower's Account No. | Principal | | Date of Loan Extended | Particular | Remarks |
|---|---|---|---|---|---|---|
| | | Value in Dollar | Value in Padi | | | |
| | | $ | kati | | | Accounting procedures: |
| | | | | | | (a) for Economic Section |
| | | | | | | Dr. Account receivable |
| | | | | | | - credit section $ _____ |
| | | | | | | Cr. Goods on hand $_____ |
| | | | | | | (b) for Credit Section |
| | | | | | | Dr. Unsecured loans $ _____ |
| | | | | | | Cr. Account payable |
| | | | | | | - economic section $ _____ |
| Total | | | | | | |

Note: This voucher is made in duplicate. The original is to be sent to the credit section for recording in Loan Account Ledger of Individual Borrowers and A/c. payable ledger and the copy to be retained in the economic section.

Form 7

Loan Account Ledger of Individual Borrowers (Card System)

Name of Borrower: _____ Borrower's A/c. No. _____

Membership No: _____ Credit Standing: _____

Address/S.A.U.: _____ Secured/Unsecured Loan Limit: $ _____

| Date | Slip No. | Description (date borrowed, date due, interest rate purpose, etc.) | Debit (Value of loans made) | Credit (Value of loans repaid) | Balance (Value of loans out-standing) | Interest collected |
|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ |
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Borrower's Signature: _____

Form 10

Supervised Farm Credit Loan Detail Ledger
(for various types of loan)

Credit Section

Type of Loans: _____ Season of Padi Collected: _____ Unit: Kati S.A.U.: _____ Page No: _____

| Date 19__ | | Contract No. | Description (Name of Borrower, etc.) | Borrower's A/c. No. | Loan Made | | Loan Repaid | | Balance (Loan Outstanding) | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Principal (Value in Dollar) | To be Repaid in Padi | Repaid in Padi | Value in Dollar | Value in Dollar | Quantity in Padi | |
| | | | B.F. | | $ | kati | kati | $ | $ | kati | |
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| | | | C.F. | | | | | | | | |

Form 11

Calendar of Matured Loans

Due Date: _____

| Borrower's Account No. | Name of Borrowers | S.A.U. | Principal in Padi Due | | Check and Sign Here when Repaid | Remarks (Date Repaid) |
|---|---|---|---|---|---|---|
| | | | kati | | | |
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Form 12

Record of After-Service Visits to Borrowers

Name of S.A.U./Kampong: _____

| Borrower's Account No. | Name | Loan | | Date of loan made | 1st Visit | | 2nd Visit | | 3rd Visit | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Purpose | Principal Amount | | Date | Findings | Date | Findings | Date | Findings | |
| | | | $ | | | | | | | | |
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Visited by _____ Chief of Credit Section _____ General Manager

Form 13

(REMINDER OF LOAN DUE)

Sir,

This is to inform you that the following loan(s) you have borrowed from your Association is to be due/have now been overdue. (Please see the table shown in the following). You are requested, therefore, to prepare for repayment of/repay the said loan(s) as soon as you have received this letter. Your co-operation will be appreciated.

.....
Signature

(..... Farmers' Association)

Name of Borrower: _____

Borrower's Account No. _____ S.A.U.: _____

| Item of Loan | Principal and Interest Due | | | | Loan out-standing | Date due | Remarks |
|---|---|---|---|---|---|---|---|
| | Instal-ment repayment | Principal $/kati | Interest $/kati | Total $/kati | | | |
| | 1st repayment | | | | $ | | |
| | 2nd repayment | | | | | | |
| | 3rd repayment | | | | | | |
| | 4th repayment | | | | | | |
| | 5th repayment | | | | | | |
| | 6th repayment | | | | | | |
| | 7th repayment | | | | | | |
| | 8th repayment | | | | | | |
| | 9th repayment | | | | | | |
| | 10th repayment | | | | | | |

## Application for Extension of Repayment

Owing to the reasons stated below, I hereby apply for the change of repayment schedule as in the following:-

Borrower: _____ _____
Name Signature

The undersigned agreed to continue to take full responsibility in jointly and severally guaranteeing the repayment of the loan.

Guarantor: _____ _____
Name Signature

Guarantor: _____ _____
Name Signature

| Date of Repayment and Amount | Original Contract No. | Item of Loan | Original Repayment Plan | | | Repayment Plan after Extension | | | Source of Repayment |
|---|---|---|---|---|---|---|---|---|---|
| | | | Date | Principal $/kati | Interest $/kati | Date | Principal $/kati | Interest $/kati | |
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| Reasons for Extension | | | | | | | | | |

Comments by:

| Date of Investigation: |
|---|
| Date of notification for approval or disapproval to the borrower: |

| Credit Man | Credit Chief | General Manager |
|---|---|---|
| | | |

Signature: _____ Signature: _____ Signature: _____

Date: _____ Date: _____ Date: _____

Form 15

## Overdue Loan Dunning Card

Name of Borrower: _____ Address/S.A.U.: _____

| Type of Loan | Date Due | | | Principal Due | Up to: Interest Due | Borrower's Account No. | Records of Collecting Status | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Day | Month | Year | | | | Date | Month | Year | Principal | Interest | Date | Month | Year | Principal | Interest |
| | | | | $/kati | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | | |

## Record of Dunning Work

| | Visits | | | | Borrower's Promise to Repay | | | | | | | | Chief of Credit Section | General Manager |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Date | Month | Year | Visitor | Type of Loan | Date | Month | Year | Source of Repayment | Description | Borrower's Signature | Guarantor's Signature | | |
| 1st Visit | | | | | | | | | | | | | | |
| 2nd Visit | | | | | | | | | | | | | | |
| 3rd Visit | | | | | | | | | | | | | | |
| 4th Visit | | | | | | | | | | | | | | |

## Record of Demand Notes and Accusation

| | 1st Demand Note | 2nd Demand Note | Moved for an Order for Payment | An Order for Payment issued by the Court | Decided to Execute Provisionally or to sell Mortgage by Auction | Applied for Taking Over the Mortgage | Applied for seizing | Execution of Selling Mortgage by Auction | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| Date | | | | | | | | | |
| Expenses | (Type of Mail) | (Type of Mail) | | | | | | | |

Form 16

_____ Farmers' Association

Monthly Report of Supervised Farm Credit Programme

Month: _____ 19 Date: _____

| Types or Purposes of Loans | Cumulative Amount of Loans Made up to Last Month (A) | Amount of Loans Made This Month (B) | Cumulative Amount of Loans Made up to this Month (C)=(A)+(B) | Cumulative Amount of Loans Repaid up to Last Month (D) | Amount of Loans Repaid This Month (E) | Cumulative Amount of Loans Repaid up to This Month (F)=(D)+(E) | Balance (Loans Out-standing (G) | Amount of Overdue Loans |
|---|---|---|---|---|---|---|---|---|
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| Total | | | | | | | | |
| No. of Households | | | (H) | | | (I) | (J) | (K) |

Note: 1. Types or Purpose of Loans are classified as (1) Padi double-cropping loan, (2) Tapioca production loan, (3) Vegetable production loan, (4) Fruits production loan, etc.

2. (1) C = A + B = F + G (2) F = D + E (3) H = I + J.

3. This Report is to be prepared in triplicate 10 days after the end of each month. One copy is to be sent to State F.A. Supervisor, one to F.A. H.O., and the remaining copy is to be retained by F.A.

Form A

_____ Farmers' Association  Voucher No. _____

Padi Inspection and Receipt Voucher
(Application for inspection, receipt and record of padi)  Date: _____

| Name of Applicant | Membership No._____ | Address or S.A.U. | Delivered by |
|---|---|---|---|
| | | | |

| Season of Padi | Variety | Packing Status | No. of Bags | Quantity Reported | Applicant's or Deliverer's Signature |
|---|---|---|---|---|---|
| | | | | kati | |

| Result of Inspection | No. of Bags & Weight (Unit: Kati) | | | | | Warehouse No._____ |
|---|---|---|---|---|---|---|
| Moisture | 1 | 6 | 11 | 16 | 21 | 26 |
| Impurities | 2 | 7 | 12 | 17 | 22 | 27 |
| Spoiled (red, fungus, etc.) | 3 | 8 | 13 | 18 | 23 | 28 |
| Grade | 4 | 9 | 14 | 19 | 24 | 29 |
| Depletion Rate | 5 | 10 | 15 | 20 | 25 | 30 |

| Total Weight (A) | Reduction Tare (B) | Weight of Padi (A)-(B) | Reduction Depletion | NET WEIGHT | Dollar Valuation | | Remarks |
|---|---|---|---|---|---|---|---|
| | | | | | Price/ Pikul | Amount | |
| | | | | | $ | $ | |

| Inspected by | Weighed by | Received by | Entered by | Section Chief | General Manager |
|---|---|---|---|---|---|
| | | | | | |

Entered in: (1) Individual Padi Owner's A/c. No._____
(2) Padi Receipt & Disbursement Book
Page No._____

Records of Padi Transaction

| Date 19___ | Description (purpose, etc.) | Withdrawal | Balance | Sale Price | Recorded by Economic Section | Entered by A/c. Section | Section Chief | General Manager |
|---|---|---|---|---|---|---|---|---|
| | | kati | kati | $ | | | | |
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| Remarks | 1. Actual sale price per pikul $ _____.<br>2. Amount to be credited to the padi owner's saving account $ _____.<br>3. |
|---|---|

Note: 1. The Net Weight represents the quantity of padi, which is clean, standard and accepted by the Association.
2. Dollar Valuation is computed according to g.m.p. of $16/pikul/present market price.
3. Any balance of the above padi must be withdrawn and cleared out by the owner by _____ 19___ or the Association will sell the padi for the owner according to the market price and the amount, if any, will be credited to his saving deposit account in the Credit Section.
4. This form is to be made in duplicate, the original copy to be given to padi owner and the copy to be retained in the F.A. for recording.
5. "Tare" means container - weight of gunny sack or paper bag, etc.

Form B

Economic Section

Record Book for Individual Padi Owner

Name of Padi Owner: _____

Page No: _____

Address/S.A.U.: _____

Unit: kati

Membership No: _____

Variety: _____

Padi Deposit Account No: _____

| Date 19____ | | Inspection and Receipt No. | Description (season, purpose of transaction, etc.) | Dr. Withdrawals | Cr. Deposits | Balance | Price Per Unit | Amount of sale price or g.m.p. price | Reduction: Amount for Repayment of loan | Reduction: Amount transferred | Balance | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | kati | kati | kati | $ | $ | $ | $ | $ | |
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1. Deposit column records the quantity of padi owner wish to deposit to F.A. This amount is equivalent to the Net Weight or it could also be the actual quantity left after deducting for loan.

Form C

Economic Section

Daily Records Book of Padi Receipt and Disbursement (Consignment Goods Book)

+Padi Stored for _____

Variety: _____ Season: _____ Warehouse No: _____ Unit: Kati Page No: _____

| Date 19____ | Padi Receipt or Disbursement Voucher No. | Description (purpose, name of farmers, buyers, etc.) | Received In | | | Withdrawn or Disbursed | | | Balance Outstanding | | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Quantity | Price Per Unit | Dollar Valuation | Quantity | Price Per Unit | Dollar Valuation | Quantity | Price Per Unit | Dollar Valuation | |
| | | | Kati | $ | $ | kati | $ | $ | kati | $ | $ | |
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+ Write: Credit Section, Member, Economic Section, others, wherever appropriate.

[In green colour]

Form D

| Debit Account Title |
| --- |
| |

Persatuan Peladang

Padi Disbursement Voucher

Economic Section

Date: _____

No: _____

| Disbursement of Padi Account Title (Cr.) | Farmers or Buyers Concerned | | | Quantity Disbursed | | | | Dollar Valuation | | Detail Ledger Page No. |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Name | S.A.U. or Licence No. | Individual A/c. No. | Variety ..... | | Variety ..... | | | | |
| | | | | kati | | Kati | | | | |
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| Total | | | | | | | | | | |

Prepared by _____ Checked by _____ Entered by _____ Section Chief _____ General Manager _____

Form E

Voucher for Notification of Loans Collected and Transacted

Economic Section

Voucher No. _____

To Credit Section,

The padi for repayment of loans by borrowers has been collected and transacted as indicated below. Please refer to voucher for notification of goods supplied to borrowers, (Voucher No. _____).

S.A.U.: _____ Period covered: _____ Date: _____

| Borrower's A/c. No. | Name of Padi Depositor/Borrower | Padi Deposit A/c. No. | Amount of Loan to be Collected | | | Value/Sale price of padi deposited (B) | (A)-(B) Balance Surplus(+) or Deficit(-) | Amount Reducted from (B) by Economic Section (C) | | (D) Amount belonging to credit section (B)-(C) | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Principal (Amount advanced by Economic Section) | Interest | Total (A) | | | For repayment of goods advanced | Commission | | |
| | | | $ | $ | $ | $ | $ | $ | $ | $ | |
| | | | | | | | | | | | |
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| | | | | | | | | | | | |
| | Total _____ persons | | | | | | | | | | |

Note: 1. This voucher shall be prepared in duplicate once every ten days starting from the beginning of loan repayment.
2. Original shall be sent to the credit section and copy to be retained in economic section.
3. Period covered indicates the date covering 10 days.

Prepared by _____ Checked by _____ Section Chief _____ General Manager _____

D

PRELIMINARY DRAFT

# A SCHEME FOR SUPERVISED FARM CREDIT

*by*

Koh Theam Hee
Farm Management Officer
West Malaysia

*and*

Liao Hsing Chia
Farmers' Association Expert
Taiwan

*Office of the Registrar of Farmers' Association,*
*Division of Agriculture,*
*Ministry of Agriculture & Co-operatives,*
*Kuala Lumpur,*
*West Malaysia.*

# A SCHEME FOR SUPERVISED FARM CREDIT

by

Koh Theam Hee
Farm Management Officer
West Malaysia

and

Liao Hsing Chia
Farmers' Association Expert
Taiwan

## CHAPTER I

## BACKGROUND SITUATION ON AGRICULTURE IN MALAYSIA

Malaysia is essentially an agricultural country with rubber as its main product. It supplies one-third of the world's total requirement of natural rubber. The main exports of Malaysia include in addition to rubber, such agricultural products as timber, coconut products, palm oil, pepper, canned pineapples, and tapioca which account for an export value of over 1,800 million M$, nearly 90% of major Malaysian exports. Though it produces a variety of food stuffs such as padi, maize, coconuts, pepper, coffee, tea, sago, vegetables, fruits and animal products such as meat, eggs, and fish, Malaysia is still a net importer of foods. In 1965, Malaysia imported an estimated amount of one billion dollars of food and food products.

2. The total area of Malaysia is about 128,148 sq. miles (West Malaysia 40%, Sarawak 37%, Sabah 23%). Two thirds of the total area of West Malaysia is covered by dense jungle whilst the remaining one-third is under arable. It has been estimated that out of a total cultivated area of 5.5 million acres, about 64% are devoted to the cultivation of rubber and the rest to food crops.

3. The population of Malaysia numbers about 8.3 million (1961 census), of these, West Malaysia has 7.2 million, Sarawak 0.78 million and Sabah 0.475 million. About 70% of the population in West Malaysia are rural whereas in Sarawak and Sabah it is about 80%. Rubber provides for Malaya's largest sources of employment. However, since it occupies about 64% of the total cultivated area, a relatively small proportion of the working population is, therefore, being devoted to the production of food crops on a smaller area. This fact has contributed to a situation of food deficit for the country. Hence, Malaysia has always been a net importer of food products.

4. Malaysia is a country with the attendant characteristics of the tropics. Like most of the countries in the Far East, her agricultural economy is characterised by a heavily dominated export-oriented crop; a high rate of population growth; a comparatively low level of technology; a prolonged period of foreign rule; on inadequacy of food

supplies both quantitatively and qualitatively, and a heterogeneous race. But, unlike some other countries in the tropics, she has not faced a situation of land shortage. It has been estimated that there are at least 9 to 10 million acres of potentially agricultural land in the country.

5. In the light of these circumstances, there is the felt need and urgency to diversify and increase food production (a) to ensure that increased income be earned through food production since income from non-food crop like rubber is rather unstable; (b) to earn foreign exchange to invest on consumer and capital goods for industrialisation, a matter which should be achieved through production of suitable crops for export; (c) to produce the urgent types of food crops to meet the nutritional needs of the country to assure better standard of living from local foods instead of relaying on imported food; and (d) to improve the inter-relationship between food crop and animal production. It can be seen that the problems of agricultural development in Malaysia stems basically from the predominance of a mono-cultural pattern of agriculture, i.e. the over-emphasis in rubber.

The Agricultural Sector in the Five-Year Development Plan (1966-70)

6. The long-term objectives set out in the development of the agricultural economy are as follows:-

(i) an accelerated expansion of output and employment in the agricultural sector by increasing the land area under cultivation;

(ii) a progressive increase of per capita output and income in the agricultural economy by raising the productivity of all factors of production employed in the sector;

(iii) a broadening of the base of the agricultural sector to ensure that its annual contribution to overall development will be less subject to the market vicissitudes confronting individual commodities, especially by rubber;

(iv) an enhancement of the ability of the agricultural sector to stimulate industrial development through the production to those commodities which make possible the viable development of agriculturally based industrial enterprises.

7. In line with this objectives, the First Five-Year Development Plan has been designed to:-

(i) increase the quantity and enhance the quality of agricultural educationists, research and extension agents so as to expand the number of skilled farmers and improve the skills of all individual members of the agricultural community;

(ii) support on an intensive and continuing basis research on agricultural, forestry, fisheries and livestock products so as to break presently known yield barriers and develop improved patterns of production, processing and marketing that will utilise most economically the human, land and water resources of the country;

(iii) stimulate the adoption by the agricultural community of improved practices and patterns of production over as much of the present and future cultivated area of the economy as possible and encourage diversification;

(iv) increase the acreage under cultivation in the country, not only to expand physical production but also to provide employment opportunities for the rapidly growing rural population;

(v) correct existing institutional shortcomings in the fields of land tenure, credit, the processing of agricultural commodities and marketing so as to enable the agricultural community to be adequately rewarded for its efforts and to have at reasonable cost to the means of production.

## CHAPTER II

## THE NEED FOR A SUPERVISED FARM CREDIT PROGRAMME

8. In view of the fact that the greatest emphasis in our First Malaysia Development Plan has been directed towards agricultural development it is obvious that the financial and physical resources that are provided for the promotion of agricultural development must be given its biggest impact if successful implementation of the development projects are to be attained as planned. One of the basic requirements in our agricultural production programme is the effective use of production credits. The need for production credits has become more pressing because of the introduction of modern technologies into our farming systems which must of necessity raise the cost of production and given the present level of farm income it would be difficult if not impossible for farmers to adequately finance these new inputs. Additionally, smallholders farming operations are more

subjected to risk and uncertainty from natural hazards or market fluctuations. Farmers by nature are resistant to take risks. the other hand, to modernise agriculture and to commercialise agriculture new technologies are essential and must be introduced. Under these circumstances the operation of an effective credit programme should be regarded as an important key in the stimulation of agricultural development and in the acceleration of economic development in this country since agriculture is the pivot point for growth.

9. By and large it is safe to say that in terms of production credits either in kind or in cash there is much room for improvement in terms of their effective use in this country. Up to now, it is also safe to assume that in Malaysia we have yet to evolve an effective supervised credit system.

10. A farm planning and economic survey of farm families in this country has exposed the urgency and real need of production credits, to support farming operations in these areas. The survey reveals that on the whole most farmers in the areas investigated lack sufficient capital and that on the average they face at least 50% deficit suggesting that there is a need to supply at least 50% of their credit needs to make their farming operations effective.

11. In implementing the agricultural diversification programme of the country efforts have to be concentrated both on the diversification of permanent crops and also the cash crops. As far as permanent tree crops are concerned, i.e. encouragement of oil palm production, etc. these are for export promotion and is taken care of by plantations or well organised development schemes. However, the greatest emphasis of the diversification programme will have to be directed towards the smallholders' cash crops for which the greatest need for institutional credits lie. It must be noted that out of a total cultivated acreage of 6,030,410, about 3,853,810 acres are occupied by smallhodlers. This acreage includes rubber, padi, coconut and miscellaneous crops. The greater part of the diversification programme will also have to be concentrated in the smallholders' agriculture where income is very low and where credit facilities are difficult to come by and where assistance directed towards this calls for the closest supervision. For this reason changes in cropping pattern and new cropping techniques will put an increasing pressure on the need for production credits to make the farming operations flexible and effective in meeting a more diversified agriculture.

## ANALYSIS OF FARM PLANNING AND SURVEY

(To be included later)

## CHAPTER III

## ESSENTIALS FOR THE ESTABLISHMENT OF AGRICULTURAL CREDIT PROGRAMME

12. A number of basic elements are necessary to carry out a sound and effective agricultural credit system. Amongst them are the following:-

(a) An adequate agricultural credit institutional structure.

(b) A set of well trained competent personnel.

(c) A permanent and dependent source of funds.

(a) An Adequate Agricultural Credit Institutional Structure

13. With regard to the provision of an agricultural credit institutional structure and the need for providing competent staff, p[illegible] are underway in preparing for the initiation of a multi-purpose Farmers' Association. Each State in West Malaysia has established a Pilot Project. The objectives of these Pilot Projects are:-

(i) to introduce a new concept to apply an integrated approach through the medium of a multi-purpose Farmers' Association as a means of providing effective extension, credit, supplies and marketing facilities to help farmers improve their farming operations and raise their farming income;

(ii) to provide an opportunity for the active involvement of farmers in their productive and economic activities;

(iii) to provide a centre for the demonstration and training of Farmers' Association personnel and farm leaders, rural youth and rural women;

(iv) to make available a dynamic Farmers' Association whereby agricultural development projects either Government or private can be effectively channelled through to the farmers.

(b) Provision of Trained Staff

14. In order to support this new type of approach in agricultural and/or rural development, the Division of Agriculture of the Ministry of Agriculture and Co-operatives has developed a Farmers' Association personnel training programme. To each Pilot Project is assigned one Agricultural Assistant who will act as the General Manager and four Junior Agricultural Assistants who will be specifically assigned to head the various sections of the Farmers' Association, i.e. the credit the extension, economic and supplies sections. These personnel have been trained and will be re-trained as frequently as feasible to equip them with the knowledge necessary to carry out these new pilot projects.

15. The staff of these Pilot Projects have also carried out farm planning and economic surveys of all the farm families with the Pilot Project area. On the average each Pilot Project Farmers' Association covers about 1,000 farm families. These surveys have already been completed. The objectives of these surveys are to obtain the following information:-

(i) The agricultural situation that exists within the Farmers' Association business area such as cultivated land area, number of households, major agricultural produce (crops and livestock) yields, etc.

(ii) The detailed farming plans of individual members in relation to his crop and livestock production, input requirements, farm family income and expenditure, capital requirement, etc.

(iii) Marketing situation: This includes such information as type and volume of marketable agricultural produce, the time where such marketable surplus exists, etc.

16. As a result of this survey the following work has been facilitated:-

(a) extension officers working in this area have now an intimate knowledge of the economic status and farming operation of each individual farm household;

(b) the basic economic and production data obtained from the survey facilitate planning of both individual farm and the total farm households in the Mukim;

(c) as a result of the survey and the formulation of the business service plan, the staff of the Pilot Project concerned have now an action programme for implementation;

(d) evaluation of the progress or otherwise of the action programme and any other development project in the area concerned is now greatly facilitated; and

(e) resulting from this survey the question of introducing the implementation of a supervised agricultural credit system as envisaged above is greatly facilitated.

17. The advantage of this new multi-purpose approach through the organisation of Farmers' Association lies in the fact that such organisations are started at the grass root level, that is, one in each Mukim and each association embraces a multi-phased functions combining the vital services, such as extension, credit, supplies and marketing. Smallholders' agricultural credit programme cannot be effectively implemented if there is no extension to take care of the farming techniques, proper utilisation of the use of credit and the provision of supplies and marketing services. The fact that there is a Farmers' Association to handle the question of credits and other related services has a great advantage because the farmers are the best judges of their own needs and circumstances. Any agricultural credit programme should not be too far away from the reach of the farmers, that is, it is argued that the agricultural credit institution cannot operate effectively if it is too remote from the rural community or farming communities.

(c) Source of Fund

18. Needless to say, any agricultural investment programme requires loan, either long term or short term with low interest. Farmers need working capital as well as fixed capital. This capital must be readily available and effectively used to meet the farmers seasonal requirements. Consequently, the establishment of a permanent and dependent lending funds must be created. It is suggested that this fund be under the supervision of the Department of

To experiment with this new project of supervised farm credit it is calculated that a minimum of M$ 550,000 for 11 pilot projects, each requiring $50,000 as a starting minimum requirement. This amount is estimated on the basis of the data collected from the farm planning and economic survey conducted at each Pilot Project Farmers' Association.

19. A Fund Committee may be set up at the Federal Headquarters of the Division of Agriculture, Ministry of Agriculture and Co-operatives. This Fund Committee will be responsible for the supervision, guidance and allocation of funds to the various Farmers' Associations.

20. The issue of loans and the direct supervision of such loans would be the responsibility of the credit section of each Farmers' Association. In practice this credit section performs essentially the function of a rural bank which encourages the farmers to save and deposit money in their own organisation. It makes loans to farmer members for the improvement of their farming operations in general. The ability to provide these services will prevent farmers from falling into the unfortunate plight of rural usury.

## CHAPTER IV

## SUPERVISED FARM CREDIT

21. The concept of supervised credit system as envisaged in this paper is aimed at helping borrowers to use credit loans effectively and at the same time, ensure the lenders of better repayments for their loans. The main points in the handling of this supervised farm credits are given below:-

(a) Improved lending procedures are adopted in the supervised credit project. An application form for loan is prepared. The application contains a series of questionnaires for every applicant to fill in.

(b) Investigation must be made of the information contained in the application form. Data regarding the applicant's farming operations must be obtained. The application for a loan is screened on the basis of the data.

(c) A special committee for screening the members' credit standing is set up in each Farmers' Association. The Committee determines the maximum amount of loans allowable for each individual member.

(d) Loans are only for farming and related purposes. Priority is given to loan applications for production purposes and are accompanied by a plan for the use of the loan that is practicable enough to bring the returns expected.

(e) Loans to farmers are made at a reduced rate of interest (9.6% per annum on unsecured and 8.4% per annum on secured). Terms are short but fixed to suit the estimated production

period and marketing condition of the borrowers. Principal and interest are to be paid on instalment basis when the term of loan is longer than 12 months.

(f) The Farmers' Association credit man, in co-operation with extension workers works out farm plans for borrowers.

(g) The Farmers' Association credit man carries out follow-up visits to borrowers to give advice on the use of loans and to check on the borrowers of loans with respect to the utilisation issued. A record is kept at the same time by the credit man.

(h) Farmers who have not used their loans in accordance with the agreed plan are required to pay back the money immediately.

(i) Most of the loans extended are unsecured, but two guarantors are required.

(j) Loans are made in cash and/or kind. These loans are mainly to provide short-term credits. The maximum term of a loan is five years.

(k) Farmers' Association must keep accurate and up-to-date books and records relating to the history of each loan beginning from the time of screening of such a loan. Funds and accounts of the Farm Credit Fund are seperated from those of other services.

(l) By applying an integrated approach tying credit with extension, supply and marketing services, the Farmers' Association can help borrowers to make the best use of loans.

(m) Earnings realised through each year's handling of this programme are set aside and accumulated thus enabling the Farmers' Association to have an opportunity of building up a permanent lending capital of their own.

22. In short, the supervised farm credit programme emphasises the necessity of having sound farm planning and farm loans on the basis of farm management studies. Data must be obtained on the applicant's farm upon which the application of loan is screened. Priority is given to a loan according to production purposes sound credit worthiness and effective production plan. This new programme introduces a new aspect into the conventional loans procedures adopted by some existing credit institutions where loans have been extended on the basis of security and not necessarily on the capacity to produce. In this new approach farm planning, farm appraisal and

other farm management investigations, together with close supervision of the use of loans, all combine to help to reduce the risk of default on the loan issued.

Loans to be regulated

23. In order to effectively implement the whole process of the supervised farm credit system it is necessary to have the procedures of loans regulated by a legal instrument. The regulations governing the operation of the proposed farm credit programme of each Mukim, Farmers' Association is given in Appendix II. It will be seen that along with these regulations are a series of forms facilitating screening, guidances and supervision and repayments.

Loans to be made in Block to Farmers' Association

24. Each Farmers' Association will apply to the Government or other credit institution for a block representing the needs of its members based on a submission of an annual service plan and budget. This plan includes the activities and credit needs of the members of the association concerned and this plan is further subjected to careful examination and screening by the Fund Committee. At the same time the capability to organise and manage the funds of each Farmers' Association and the financial status of the association concerned are also subjected to studies and scrutiny by the Fund Committee. The repayment of this block loans to the Fund Committee is to be guaranteed by the Farmers' Association concerned.

The Mechanism of Supervised Farm Credits

25. The detail procedure for implementation of this proposed supervised farm credit is given in Appendix I.

The Period of Loan

26. The loans given to each Farmers' Association are for a period of ten years and the repayment of this loan is to be made in five annual instalments beginning from the end of the 6th year. It is envisaged that the Farmers' Associations will have by the end of the 6th year accumulated sufficient capital of their own from the interest earnings. On this basis it is expected that by the end of the 10th year, after having paid off all the principals, a total amount of M$550,000 ($50,000 from each pilot project) would have been accumulated in the 11 Farmers' Association Credit Section as a permanent lending capital.

27. Starting with the 7th year and using the funds repaid by the Farmers' Association, the Fund Committee can then provide additional funds to any Farmers' Association. If this project is successfully implemented as planned it is expected that both the total amount of fund accumulated and the number of Farmers' Assiciations participating in this project would be doubled in another 10 years.

28. One of the greatest attribute to this proposed scheme is the fact that it will contribute to the overall agricultural development programme. As it can be seen farmers who wish to borrow money under this programme will be advised and guided as to the type of crops or activities which can bring economic returns. At the same time by tailoring the needs of farmers through the provision of an effective credit mechanism, it is possible directly or indirectly to better implement the agricultural policies of the Government.

29. Over and above all these the most important benefits that will accrue to the farmers, the programme sets off a chain reaction whereby it will enable each Farmers' Association to attain a state of self-sustenance. In this way the three-prong attack of agricultural development, that is, intensification, diversification and commercialisation can be accelerated, and the long standing issue of providing effective credits would come to eventual solution.

APPENDIX I

## Guide for Operation of the Supervised Farm Credit Programme by Area Farmers' Associations

1. Members' Credit Standing Committee

According to provision of the Regulations Governing Operation of the Supervised Farm Credit Programme by Area Farmers' Associations, a special committee, the Members' Credit Standing Committee shall be set up in each area farmers' associations. It is absolutely essential that all area farmers' associations participating in the Supervised Farm Credit Programme set up this committee in accordance with the Regulations for the Organisation and Functions of Members' Credit Standing Committees. In addition to the chairman of the board of directors, the general manager and chief of the credit section, the committee should consist of other influential F.A. members of different social positions and backgrounds. With variety in the membership of the committee, the association can draw on opinions from different sources to better the operations of the Supervised Farm Credit Programme.

II. Publicity and Education

The nature of Supervised Farm Credit loans is not exactly the same as that of ordinary credit loans. To inform all farmer-members of the objectives, contents and procedures of the Supervised Farm Credit Programme, publicity and education are necessary, especially at the initial stage. The following measures are suggested to conduct such publicity and education for the farmers' association.

(i) Posting of publicity bills or posters

Bills or posters may be sent to each member through the small agricultural unit or posted on walls in the main centers of each village. The wording of bills should draw the farmers' interest and be clear, simple and easily understood.

(ii) Holding of meetings

To supplement the publicity from bills and posters, the association should make use of members' plenary meetings at each SAU, prayer meetings, and other public gatherings. In these meetings, the association can explain and answer questions about the Supervised Farm Credit Programme. This also gives the association an opportunity to get members' reactions to the programme. The time and length of meetings should be carefully selected so that work will not be affected.

III. Farm Visit

(a) Meaning and purpose of the farm visit

The main purpose of the Supervised Farm Credit Programme is to provide farmers with suitable term production loans at reasonable rates of interest, that improve their farming operations and side-line production, increase their income and develop the rural economy. In its relationship with the borrowers, the association should place more emphasis on its role as a "helper" rather than its role as a creditor. It is not enough for the association to pay attention to judge the members' credit standing. The association must also understand the borrowers' home (family), financial and farming status to help solve problems and give the necessary technical assistance.

The farm visit is a fundamental step in meeting these needs. The farm visit must yield a wide range of information relating to the applicant's credit-standing, repayment capability, family and farming operation. Additionally, the farm visitor is expected to study the applicant's farming plan, use of loan, repayment plan and sources of repayment. The credit man in charge must make the farm visit. If necessary, extension workers may give assistance on evaluating the farming operation.

(b) Collecting information

To complete the Record of Farm Visit (Form 2), the credit man must collect the following information either directly or indirectly from the farm visit.

(i) Family status

The farm visitor must determine who in the family is the actual "decision-maker" on farming operations. The one-household-one-member system is adopted in our farmers' association. In this case, a household refers to a household or group that is "financially living together" rather than a census registered household. For example, if two or more families are registered as one household on a census register, but are actually financially independent of each other, they should be regarded a different household. The reverse should be true of households registered as separate but living as a financial unit. The "others" column should include those who serve in the armed forces, children, and persons who are aged, maimed or otherwise unable to work. Also, note should be made of any persons in the household having a bad reputation, record, character, etc.

(ii) Farming status

A thorough understanding of the members' present farming status and future plans is a key point in making the Supervised Farm Credit Programme a success. While size of farm is an important element in determining farm returns, the amount of income is determined largely by the scope and method of farming operations. The credit man must know, as near as possible, the farmer's present status and future plans for the use of his land and other farm resources. With this information, the credit man should be able to project changes in the farmer's income and capital requirements and evaluate repayment capability, sources of repayment, etc. Information obtained on the member's present farming operations and future plans should answer the following questions. What is the present operational state of the land, including self-owned and rented-in land? Types of crops planted? What crops will be planted during the next two seasons? Their acreage? Expected harvest time and yield? What is the present state of livestock production? Future plans? Types of animals? How many heads? Any side-line production? Is there any processing of farm products?

(iii) Financial condition

A borrower's financial condition indicates the soundness of his business, ratio of income to expenses, efficiency of management, etc. This information is necessary to judge the borrower's present employment of capital, future need of capital, credit-standing, and repayment capability.

Usually farmers do not keep records. And because of their conservative attitude it is difficult to determine a farmer's actual financial condition. Due to the difficulties in determining a farmer's financial condition, the sections on financial condition in Form 2 are simplified. It includes only three principal items, main assets, main liabilities and unusual outlays during the last year.

Though it is not an asset item, rent-in land is included under Main Assets. It is included to indicate the total operated acreage. Small numbers of poultry, such as ducks, chickens, etc. need not be included. Also, small farm tools or furniture of insignificant value may be omitted. However, large items such as motor-cycles,

radios, refrigerators and gramophones which are not of daily necessity but reflect the farmer's living standard, should be detailed in the remarks column.

Under "Main Liabilities", names of creditors must be given. If there is more than one loan from the same creditor, list each one separately. If the member has borrowed from the association, list the association as creditor, even if the association was relending borrowed money. When the association has made a loan on consignment and the farmers' association is not directly responsible for collection, name the original institution as creditor.

"Unusual Outlays During Last Year" is designed to supplement the difficulty in obtaining detailed income and expenses information from farmers. Every extra ordinary expenditure of a significant amount should be listed. These include: expenditures for marriages, funerals or other ceremonies; outlay for building a new house; expenses for hospitalization and operations; or investment of self-owned capital in land, factories, etc. When the amount of unusual outlays is exceptionally large, it will naturally affect the borrower's financial condition, resulting in an imbalance of income and expenses.

(c) Analysis and Utilisation of the Information

Collection of information is not the final purpose of the farm visit. The information is meaningless if it is not properly analysed and used for screening the loan application. The record of farm visit is to be analysed by the credit man, general manager and chief of credit section. The analysis of the record of farm visit should yield satisfactory answers to the following questions:-

(i) Is the family labour sufficient to meet the farming needs? Is there any surplus labour or under-employment?

(ii) Are there too many persons in the family unable to work?

(iii) Is the actual income derived mainly from farming or other sources?

(iv) Is income enough to cover expenses? How much surplus or deficit?

(v) What is the proportion of self-owned land to self-operated land? How many acres are leased out? How many acres are rented-in?

(vi) Is utilisation of land and equipment efficient?

(vii) Is the farm well equipped?

(viii) How successful are the animal and poultry breeding programmes?

(ix) What is the estimated total value of the main assets? How much is readily covertable into cash?

(x) What is the ratio of the main liabilities to the main assets that are readily convertable into cash (liquid assets)? Is repayment of debts a problem?

(xi) Does the borrower have many expensive luxuries or other household goods which are not considered essential for daily necessities?

(xii) Were the unusual outlays for consumption or production purposes? If for consumption purposes, are they too heavy a burden?

(d) The credit-standing of the borrower and guarantors

Generally, a man's credit-standing can be measured according to the so-called three "Cs" - capital, capability and character. Which is most important of the three? It depends on one's point of view. However, the capital factor is usually emphasised. On the other hand, a man of wealth is not always a man of trust. Smallholders would have little chance to get or enjoy the benefits of farm credit if the capital element is unduly emphasized and harsh guarantee terms are required. Therefore, in screening a loan applicant's credit-standing, it is proper to put together the three elements, using them to supplement each other.

A borrower's or guarantor's capital position can be estimated from the Record of Farm Visit. Capital is the balance between assets and liabilities (i.e. Capital = Assets - Liabilities). Using the farm visit survey (Form 2), the subtraction of total main liabilities from total main assets (excluding rent-in land) gives total capital. Since this method of estimating capital does not take into account cash, goods on hand and other small asset items, the actual capital amount should be larger.

In addition to a borrower's total capital, the structure of his assets should be considered. A borrower's financial structure refers to the relationships between his current and fixed assets, his current and fixed liabilities, and his self-owned capital. For example, consider two extreme cases of farmers A & B, each having total capital of M$10,000. All of

A's assets are current. That is, they are either cash or securities. But all of B's assets are fixed. They are land equipment, etc. Obviously, A's repayment capability is greater than B's. A could pay his debts in cash immediately. B could pay only after disposing of his fixed assets.

On the farm village level, things that can be easily converted into cash are goods on hand (farm products or side-line products) and livestock. Land is usually the most difficult to convert into cash quickly. Houses would be the next most difficult to convert. A farmers' association must consider all these factors in judging a borrower's repayment capability. The guarantor's financial condition must also be investigated and recorded in the member's information card. A visit to the guarantor should be made, especially if it will be the first contact.

Capability refers to the borrower's ability to manage and administer his farming operations. The capability of a person is usually determined by his physical strength, health and intellect (mental capacity).

Character is difficult to define. Generally, a man's character can be judged from his sense of social obligations, morals and ethics. If he is a man of sincerity, thrift, magnanimity, kindness, gentleness, etc. his character must be good. It is most difficult to determine character directly from the borrower. A person's character can be judged indirectly from his neighbours' opinions or from his reputation. However, information should be obtained from as many sources as possible. The character and capability of the borrower's family should be considered too. The borrower's and guarantor's past record of loan repayment should be investigated.

In order to obtain the above-mentioned information the association should complete members' information cards and members' credit-standing screening records. Considering all available information, the credit man makes his comments on the borrower's credit-standing in the proper column of the application form.

(e) Result of investigation on proposed use of loan

The credit man explains the proposed use of a loan under the "purpose of loan" column. The explanation should include:-

(i) borrower's plan for use of the loan (purchase of fertiliser, construction of farm buildings, etc.);

(ii) how the plan will benefit the borrower or bring better returns;

(iii) estimate of the total amount required to complete the proposed plan;

(iv) how much is to be borrowed from the association;

(v) when the loan is needed;

(vi) any other necessary information including any changes in the plan for loan use as a result of the farm visit.

IV. Screening of Loans

(a) Screening

Provisions and of the Regulations Governing Operation of Supervised Farm Credit Programme by Area Farmers' Associations require the credit section to investigate the credit-standing, financial condition, farming operations and plans, need for funds and repayment capability of each loan applicant and recommend approval or disapproval of loans. To be approved each loan application should go through three gates (persons). In cases where there are only the general manager and section chiefs, there will be only two gates or persons.

Each loan application must be studied and receive the recommendations of the credit man in charge, the chief of credit section, and the general manager. The general manager has the final authority to approve or not approve a loan. This authority requires the general manager to screen each loan application carefully and impartially to make an objective and unprejudiced judgement.

On what basis is a loan approved or disapproved? What determines the amount, terms, repayment schedule, etc. of each loan? The main principles and points are outlined below:-

(i) The borrower must be a member of the association. The loan must be used for agricultural or side-line production. Unless these conditions are met, no loan can be approved. Any loan under the supervised Farm

Credit Programme cannot be made for a farmer's living expenses. This includes educational, medical and other expenses which have no direct connection with production. Since there is a limited source for farmers' associations' funds, especially at the initial stage, it is impossible for the association to grant every type of loan needed by the farmer-members. Loans must be limited to those that help increase farmers' production and income.

(ii) An applicant's plan for use of a loan must clearly show the purpose, necessity, and beneficial aspects of the loan. It is often difficult to determine whether a loan is actually necessary or beneficial. To determine if a loan will be necessary or beneficial, one must consider the presence of factors that will influence the success of the loan.

Consider an example of a farmer applying for a loan to purchase poultry. To make this loan a success, the farmer must have adequate poultry houses, an economic number of poultry, sufficient labour, a low cost source of feed, a dependable market, etc. If any of these factors is absent, the operation will probably be unsuccessful. And a loan for this purpose would be neither necessary or beneficial.

Another example would be that of a farmer applying for a loan to purchase insecticides. The association must consider whether the loan will be necessary or beneficial. The factors influencing this will be the actual crop infestation, the types of insecticides needed, area affected, etc.

The association must study the applicant's family labour, physical facilities, financial condition, present farming operation and any other factors that may influence the necessity or beneficiality of a loan. The following steps should be taken to determine whether a loan is beneficial or necessary:-

(a) study the truthfulness of the loan application;
(b) study the suitability of the plan for loan use to meet the needs of the farming operation;

These two steps can be undertaken during the farm visit and study of farming plan and operation facilities.

(c) study whether the investment will help the farmer maximise his returns or hedge against losses.

This step requires thorough investigation. Except when a loan is to hedge against losses (for example, a loan to enable an operation already in progress to continue), all loans should help the farmer to maximize his returns. The farmer's investment in crops, livestock, poultry and side-line production must be investigated. The relationship between a farmer's cost of production and the present and future market prices must be determined. If a loan is proposed in a case where costs exceed market prices, the loan will certainly not be beneficial, much less, maximize profits. In cases such as this or even when a small profit is expected, the association should attempt to persuade the farmer to change his plan to one that will yield greater profits. The farming techniques, family labour, land and facilities of the farmer must be adequate. For example, a farmer applies for a loan to start a poultry operation. This operation may be profitable under normal circumstances. But the farmer must have adequate knowledge and technical skills in poultry production if the loan is to benefit him and give a return higher than some alternative enterprise. Once again, the associations responsibility is not just to evaluate the loan application. It must also help the farmer develop a better plan for loan use or improve his present one. Loans for investment in land or expansion of farm facilities must be made only where the investment will yield a return greater than the interest and depreciation costs. If a loan is proposed for the purchase of land, the returns to the farmer from the land must be greater than the interest on the loan. If a loan is proposed for purchasing a water pump or power tiller the additional returns or the reduced costs from using the equipment must be greater than the interest on the loan and the depreciation costs. Another consideration will be whether the size of the machine is large enough or too large for the farming operation.

(iii) The borrower must indicate the total amount of capital necessary to complete his farming plan or operation. Then he must indicate how much of this total amount he has to borrow from the association. The total amount of

capital required may be estimated from prevailing costs. The amount to be borrowed from the association depends on the amount the borrower can provide on his own.

(iv) A borrower's loans, either secured or unsecured, must not exceed the maximum amount allowable as set by resolution of the Members' Representatives Assembly and the Members' Credit-Standing-Screening Committee. These limits apply to the total amount borrowed by an individual, not to each individual loan. Thus, the amount of a loan will be determined by maximum amounts allowable and any outstanding loans by the borrower.

(v) Whether a secured or unsecured loan is made depends on the maximum amounts allowable for each type set by the Members' Representatives Assembly and the borrower's credit-standing. If the total amount of a loan applied for is greater than the total allowable for either secured or unsecured loans, the amount must be allocated between secured and unsecured loans. More unsecured loans should be provided because most smallholders lack sufficient collateral for secured loans.

(vi) The maximum term for farm credit loans is five years. The association may make loans with terms less than five years. The actual term of a farm credit loan depends on the actual time period used, harvest times, repayment capabilities, etc. Loan terms must be made in accordance with provision of the Regulations Governing Operation of Supervised Farm Credit Programme by area Farmers' Associations.

V. Extension of Loans

After screening and final approval or disapproval of each loan by the general manager, the association shall inform the applicant promptly of the results. There are two types of notification forms (see attached forms) to be used. One form indicates approval of the loan. The other form indicates that the loan is not approved. When a loan is not approved, the farmers' association must give a brief explanation why the loan was not approved. When a loan is approved, the association shall arrange a suitable date for the applicant to present himself at the association to complete the necessary loan procedures. When the applicant arrives at the association, the credit man arranges the terms and method of repayment (in one lump sum or instalments).

Care must be taken in drawing up a loan receipt (loan contract).

(i) All writing must be neat and clear.

(ii) On the receipt, the amount of the loan must be written in the appropriate language and in Arabic numerals.
Example: M$265.31
Two hundred sixty five dollars and thirty one cents.

(iii) No arbitrary revisions in the contract are permitted after it has been drawn up.

(iv) If any revisions are made, the borrower and guarantors must acknowledge such changes by a signature on the loan receipt.

(v) The credit man must check the approval of each guarantor by either a direct visit or a confirmation of the guarantor's signature from the associations' records.

After the loan procedures have been completed, payment of the loan shall be made immediately or when the borrower needs the loan. In principle, payment shall be made by crediting (depositing in) the borrower's current deposit account. The words "paid from Supervised Farm Credit" shall be written in the particulars column of the borrower's passbook. This will strengthen the loan contract and reduce the chances of corrupt practices or abuses.

## VI. Supervision

Supervision is a vital part of the Supervised Farm Credit Programme. Loans and their supervision are like a pair of scissors. Neither can function properly if one side is missing. A loan without adequate supervision will be ineffective. It will result in increasing burdens for the borrower and increasing difficulties for the association.

Supervision can be divided into two major parts. One part is inspection on proper use of the loan. The other is technical guidance on loan use. Inspection on proper use of the loan is the responsibility of the credit man. Technical guidance should be carried out co-operatively by the credit and economic sections.

(i) The purposes of inspection are to check:-

(a) if the loan is being used for the proposed purposes;

(b) whether the farming operations are carried out as planned; and

(c) if there is any waste in using the loan.

The inspection on use of the loan should be carried out within one month after the loan is extended. If the inspection shows that a loan has been improperly used, the association (credit man) shall urge the borrower to make the necessary corrections. If, one and a half months after the loan has been extended, the borrower does not use the loan or continues to use the loan improperly, the association must take immediate action (except in special circumstances) to collect the principal and interest, according to term number five of the loan contract.

(ii) The success of the Supervised Farm Credit Programme depends to a great extent on the technical guidance on the use of individual loans. Usually it is stated that the main factors of production are land, labour and capital. But a successful operation calls for another important element. This element is management skill. For example, assume that two farmers A and B have equal quantities and qualities of the production factors land, labour and capital. They use these factors to produce the same crops. Will their production be the same? No, not if they use their land, labour and capital differently. Production will vary, depending on the combination and utilisation of land, labour and capital. In other words, the skill or decision-making ability to combine and utilise land, labour and capital is another important factor of production. Technical guidance should be directed towards the important factor of farm management skills.

A farmer may purchase land, equipment, planting materials, labour, etc. But he cannot buy farming techniques or farm management skills. A farmer can acquire these skills only by experience, study and instruction. One of the major objectives of the Supervised Farm Credit Programme is to help farmers improve their farming techniques and management skills through the extension of loans. Technical guidance may be conducted in several areas.

(a) Guidance on the use of the loan. For example, with a seed loan, technical guidance should help the farmer select high quality seeds and use improved planting and cultivating methods. Technical guidance with a poultry loan should enable the borrower to select an improved variety of birds and use good production methods. Guidance on selecting a dependable model and using proper maintenance practices should be given

with a power tiller loan. Technical guidance of this sort is the minimum that an association can undertake. Without such guidance an effective level of loan use will not be attained.

(b) Guidance on the whole farming operation. The guidance will cover the whole scope of the farming operation. This involves providing general agricultural knowledge, assisting the borrower to make a good farming plan (how to best utilise his land, labour and capital) and presenting profitable alternatives.

(c) Synthetic guidance. The association may provide technical guidance on the farmer's farm, family and rural life (synthetic guidance). This type of guidance attempts to assist the farmer in improving every aspect of his life. Technical guidance of this sort is quite large in scope. It requires the association to mobilize considerable resources. Due to the limited human resources of farmers' associations synthetic guidance cannot be undertaken at the present time. However, this is the level to which the association should aspire.

When the credit man visits the borrower for after-services (supervision), he shall record his findings on the record form. The record should show when or if the borrower has completed use of the loan as proposed. It should indicate the present state of loan utilization and any special technical guidance needed by the borrower. In supervising farm credit loans, the credit man should obtain technical assistance from the extension section.

VII. Collection of Loans

The Supervised Farm Credit Programme is not a relief measure. Loans that are extended must be collected back. If the association fails to collect its loans, the programme will fail. For this reason, the loan collection ratio is used to measure the success or failure of a lending programme.

Provision of the Regulations Governing the Operation of Supervised Farm Credit Programme states that 15 days before a loan is due, the farmers' association must inform the borrower in writing of the date, principal and interest due and request payment.

The association should aim towards 100 per cent collection of its loans. In actual practice this target is rarely obtained. Over-due loans will occur even though the Supervised Farm Credit Programme provides low interest loans with favourable terms and strict supervision with technical guidance. A certain amount of slow repayment and default is inevitable. The association must try to keep this as low as possible.

Failure to repay a loan on time may be due to forces beyond the control of the borrower. Or, the failure may be the fault of the borrower. Forces beyond the control of the borrower include:-

(i) natural disasters (calamities);
(ii) disease or insect damage resulting in partial or complete loss of crops; and
(iii) serious illness of the borrower or borrower's family, requiring medical expenses to be paid with money set aside for repayment of the loan.

When failure to make the repayments is beyond the control of the borrower, the association may grant an extension. However, the borrower must request an extension giving reasons why an extension is needed. Too much pressure by the association may force the delinquent borrower to repay the loan by borrowing from another source at a much higher rate of interest. The borrower must make the request at least 10 days before the loan is due. Upon receiving an application for an extension of a loan, the credit section shall send the credit man to investigate the situation. The credit man should ascertain if the reasons given for delaying repayment are true and the degree of any crop losses, etc., proposed term of extension and proposed method of repayment. The credit man then submits his findings and recommendations through the chief of credit section to the general manager. If the reasons given for an extension are not satisfactory, the association should not permit an extension. The association must inform the borrower immediately of the approval or disapproval of an extension. The forms to be used are the same as those used when informing a borrower of approval or disapproval of a loan.

When a loan becomes over due the credit section must make an immediate attempt to persuade the borrower and guarantors to make prompt payment. If the loan is over due because of the borrower's carelessness or negligence, one or two visits by the credit man will usually persuade the borrower to make the necessary payment. However, if the borrower shows no intention of repaying, attempts at simple persuasion are not enough. When a borrower lacks

of sincerity is obvious, the association should take immediate legal action to collect the loan. In cases, such as this, leniency by the association will encourage other borrowers to disregard their responsibilities.

As mentioned earlier, a certain amount of over-due loans are inevitable. It is difficult to determine a point beyond which over-due loans are unacceptable. The association must consider both the percentage or relative amount of over-due loans and the absolute amount of over-due loans. According to provision 32(2) of the Regulations Governing the Operation of Supervised Farm Credit Programme by Area Farmers' Associations, the total amount of over-due loans at the end of each month shall not exceed 5 per cent of the total amount of loans outstanding. Provision 32(2) of the same regulations states that the association shall make every effort to collect an over-due or delinquent loan from the borrower and his guarantors through informal urging, arbitration or legal action. All farmers' associations shall observe these provisions.

Borrowers and guarantors who have had over-due loans for a long period of time may be penalised by not allowing them to borrow from the association for one year.

## VIII. Record-Keeping, Statistics and Reports

An adequate method of book-keeping, recording statistics and making reports is important in any field of business. It is especially important that the agricultural credit programme use an efficient method of record-keeping. From the records, reports and statistics, the association can chart the progress and evaluate the success of the programme. All Farmers' Associations participating in the Supervised Farm Credit Programme are expected to carry out the necessary record-keeping, statistical work and report preparation.

### (i) Record-keeping

Usually, there are six procedural steps for each loan, from application to collection. They are: (1) application; (2) farm visit; (3) screening; (4) extending loan; (5) supervision; and (6) collection. The forms, books and other related papers to be used for each step are shown below.

| Procedures | Forms, Books and Other Relative Papers | Form or Book Number |
|---|---|---|
| 1. Application | (1) Application for Supervised Agricultural loan and Records of farm visit<br>(2) Record of Processing applications | Forms (1) and (2)<br>Form (3) |
| 2. Farm Visit and Investigation | (1) Application for Supervised Agricultural loan and Records of farm visit<br>(2) Record of processing applications | Forms (1) and (2)<br>Form (3) |
| 3. Screening | (1) Application for Supervised Agricultural loan and Records of farm visit<br>(2) Record of processing applications<br>(3) Notification of Screening Results | Forms (1) and (2)<br>Form (3)<br>Forms (4) and (5) |
| 4. Contracting and Paying | (1) Receipt for Supervised Agricultural loan and Instalment Card<br>(2) Loan account ledger of individual borrower<br>(3) Index of Borrowers by Account Number and Name<br>(4) Calendar of Matured Loans<br>(5) Supervised Farm Credit Loans Detail Ledger<br>(6) Record of processing applications<br>(7) Record of after-service visits to borrowers<br>(8) Subsidiary book of short-term and long-term loans<br>(9) Loan application form | Forms (6) and (7)<br>Form (8)<br>Forms (9) and (10)<br>Form (11)<br>Form (12)<br>Form (3)<br>Form (13)<br>Form (14)<br>Form (1) |
| 5. Supervision | (1) Record of after-service visits to borrowers<br>(2) Record of processing applications | Form (13)<br>Form (3) |
| 6. Repayment and Dunning | (1) Reminder of loan due<br>(2) Receipt for Supervised Agricultural loan and Instalment Card<br>(3) Loan account ledger and individual borrower<br>(4) Supervised Farm Credit Loan Detail Ledger<br>(5) Calendar of Matured Loans<br>(6) Subsidiary book of short-term and long-term loans<br>(7) Application for extension of repayment<br>(8) Over-due loan dunning card | Form (15)<br>Forms (6) and (7)<br>Forms (8) ( )<br>Form (12)<br>Form (11)<br>Form (14)<br>Form (16)<br>Form (17) |

The detailed methods of completing the various forms and books are explained below:-

(i) Application for Supervised Agricultural Loan (Form 1)

(a) Upon receipt of an application, the credit section assigns it an application number (upper right corner) and registers it in the Record of Processing Applications (Form 3).

(b) Check the membership card number and membership qualifications, putting a check " " mark in the appropriate space under the membership status column.

(c) When the loan is made, assign the borrower an account number (upper left corner). The account number is a control number given to each individual borrower. It is to be used when recording any transactions concerning the borrower. An account number shall be given to only one borrower and one borrower should not be given more than one account number.

(d) Applications shall be classified into: (1) uninvestigated; (2) investigated but not yet screened; (3) not approved; (4) approved but not yet extended; and (5) approved and extended. Applications are then filled in order of application number. Applications that have been approved are filled in order of account number.

(ii) Records of Farm Visit (Form 2)
See III Farm Visit.

(iii) Record of Processing Applications (Form 3)
The purpose of this record is to chart the processing of each loan application. The record should show in detail when and how each loan is processed. For approved loans, recording must be completed to the last column "Date of First Supervision". Loans not approved must be recorded to the "Date screened" and "Date of Notification" columns.

(a) When an application is received, record in order of the application number, name of applicant, amount applied for, and date of application.

(b) Record the dates of other setps as they are carried out.

(c) Record the amount of loan approved under the "Amount Approved" column. If a loan is not approved, write "disapproved" in this column.

(d) Statistical records should be kept of the number of households applying for loans, amount applied for and amount approved.

(iv) Notification of Screening Results (Forms 4 & 5) when a loan is approved or not approved, the applicant must be informed by using either form 4 or form 5. If the loan is approved, a Receipt for Supervised Agricultural Loan (Form 6) should be sent along with form 4.

(v) Receipt for Supervised Agricultural Loan

(a) After the receipt for the loan has been completed and the borrower is ready to use the loan, the association shall make immediate payment of the loan to the borrower.

(b) The type of loan, amount and method of repayment stated in the contract shall correspond with those approved in the loan application.

(c) When a loan is to be extended in instalments, a receipt (contract) shall be drawn up for each payment. The number of payments and contract numbers of the loan shall be recorded in the "Remarks" column in the upper right corner of the last page (Receipt page 3).

(d) When loans for more than one purpose are extended to a borrower at the same time and are to be repaid in a lump sum or in instalments at the same time, they may be combined in the same receipt (contract). When loans for more than one purpose are extended at the same time but are to be repaid at different times, separate receipts are required.

(e) Security for secured loans, shall be listed and described in detail on page 3 of the receipt.

(f) The Instalment Card should supplement the plan of repayment table. By recording repayments in this table, the association will be able to quickly determine the outstanding amount for each receipt. The card should be attached to the back of the last page of the receipt (Receipt page 3).

(g) In principle, receipts for loans should be kept by by the cashier, chief of administrative section or general manager, but not the credit man in charge of the loan.

(h) When a borrower's request for an extension of the repayment date is approved, the credit man shall note the extension and new terms of repayment in the "Remarks" of the "Plan of Repayment in Instalment" (page 2) of the receipt.

(vi) Loan Account Ledger of Individual Borrower (Form 8)
A card system will be used in keeping individual borrower's accounts. The cards should be grouped into three classifications: (a) loans not yet due; (b) loans over due but not yet repaid; and (c) repaid loans. There should be only one card for each borrower. Explanation includes the type of loan extended.

(vii) Index of Borrowers by Account Number and Name (Forms 9 & 10)
These are two subsidiary books listing borrowers by name and account number. Form 9 lists borrowers by account number in numerical order. Form 10 lists the borrowers by name. One of the books may be omitted if keeping both books is considered unnecessary.

(viii) Calendar of Matured Loans (Form 11)
This subsidiary book enables the association to keep up to-date on loans as they become due.

(a) Loans due on the same date are recorded on the same page of the calendar. One page is used for each date. When a loan is extended, record the due date (or due dates in case of instalments).

(b) When a request for extension of repayment is approved transfer the loan to the new date.

(c) This book shall be filed annually.

(ix) Supervised Farm Credit Loans Detailed Ledger (Form 12)

A detailed ledger shall be kept for each sub-item (loan items listed in Provision of the Regulations Governing the Operation of Supervised Farm Credit Programme by Area Farmers' Associations. Total the amount of loans made and repaid each month and the cumulative amounts. The amount outstanding at the end of each year shall be brought forward to the next year.

(x) Record of After-Service Visits to Borrowers (Form 13)
When a loan is extended, record the account number, name, purpose and amount of loan. The credit man records the date and findings after each after-service visit to borrowers. Separate records should be kept for each S.A.U. or kampong.

(xi) Subsidiary Book of Short-term and Long-term Loans (Form 14)
Short-term loan means a loan for a term (period) not longer than 12 months. Long-term loan means a loan for a term (period) longer than 12 months. Recordings should be done daily from the accounting slips. The credit man must reconcile the amount outstanding (balance of short-term and long-term loans) with the daily accounting reports.

(xii) Reminder of Loan Due (Form 15)

When a loan is to be repaid in one lump sum, use the first row only, cancelling the "Instalment Repayment" column. The remainder may be sent either sealed or open.

(xiii) Application for Extension of Repayment (Form 16)

An application for extension must have the consent and signature of the original guarantors. If an application for extension is approved, it should be attached to the original receipt.

(xiv) Over-due Loan Dunning Card (Form 17)

Any loan more than one month over due, must be recorded on this card. Details of dunning work shall be recorded until the loan is repaid. For convenience, the cards should be kept separately for each S.A.U. or kampong.

Statistics and Reports

In addition to the above-mentioned forms and books, all farmers' associations participating in the Supervised Farm Credit Programme are required to compile various reports and statistical data.

(i) Monthly Report of Supervised Farm Credit Programme (Form 18)

(a) The "Cumulative Amount of Loans Made" and "Cumulative Amount of Loans Repaid" is calculated from the Supervised Farm Credit Detailed Ledger (Form 12). "Balance (Loans Outstanding)" should equal that shown in Form 12.

(b) "Amount of Over-due Loans" include any amount that is due but not yet paid. Any loan or part of a loan that is over due must be recorded. The amount can be calculated from the calendar of matured loans (Form 11).

(c) Cumulative amount of loans made since the start of the programme (c) equals to the amount of loans outstanding at the end of the month (B) plus the cumulative amount of loans repaid since the start of the programme (D).

(d) Cumulative amount of loans repaid since the start of the programme (D) equals the cumulative amount of loans repaid by the end of the month (A) plus the cumulative amount of loans repaid since the start of the programme till the end of the previous year (footnote 2). The cumulative amount of loans repaid since the start of the programme till the end of the previous year (footnote 2) is calculated from the annual totals of the Supervised Farm Credit Detailed Ledgers.

(e) Cumulative number of households obtaining loans (E) is the total number of members who have obtained supervised farm credit loans since the start of the programme. The figure indicates the total number of households (one member-one household) not the number of loans. The figure can be obtained from the Loan Account Ledger of Individual Borrower (one household-one card) or from the last account number shown in the Index of Borrowers (Forms 9 or 10).

(f) Cumulative number of households with repaid loans (F) is the total number of members who have obtained loans from the association and repaid them in full. The number of Loan Account Ledger of Individual Borrower cards with a zero balance indicates the number of borrowers with repaid loans. The figure can also be obtained from the "check and sign when loan is repaid" column of Calendar of Matured Loans (Form 11).

(g) The number of households with outstanding loans (G) and number of households with over-due loans (H) is obtained by counting the number of cards of Loan Account Ledger of Individual Borrower. The total of items (F) and (G) should equal (E). (See explanation for form 8).

(h) The total amount of loans made for the month and the total amount of loans repaid for the month should equal the total debits and credits respectively of the Supervised Farm Credit Loan Detailed Ledger. The amount of over-due loans for the month is the total amount of loans falling due during the month but not yet repaid. The figure can be obtained from the Calendar of Matured Loans (Form 11).

(i) Four copies of this report shall be prepared at the end of each month. One copy is retained by the association. Another copy is sent to the State F.A. Supervising Officer. The remaining two copies are to be sent to the F.A. Registrar Office. The reports should be submitted by the fifth day of the following month.

Monthly Financial Report of the Supervised Farm Credit Programme (Form 19).

(a) Total budgeted amount of receipts from F.A. Registrar Office should correspond with the amount of Supervised Farm Credit Funds allocated by the F.A. Registrar Office. The amounts of budgeted earnings from the Supervised Farm Credit Programme and budgeted disbursements for Supervised Farm Credit Loans should correspond with the annual service plan and budget.

(b) "Receipt for the Month" and "Cumulative Receipts" are obtained from the long-term loan account of the General Ledger. "Disbursements for the Month" and "Cumulative Disbursements" are obtained from the Monthly Report of Supervised Farm Credit Programme (Form 18). The balances between cumulative receipts or cumulative disbursements and the budgeted receipts or budgeted disbursements are recorded in the "Difference" columns. When the cumulative receipts or disbursements exceeds the budgeted amount, record the difference in red ink.

(c) When total "Receipts for the Month" exceed total "Disbursements for the Month", record the figure in "Balance on Hand" under "Disbursements". When total "Disbursements for the Month" exceed "Receipts for the Month", record the figure in red ink under "Receipts" in the "Balance on Hand" row.

(d) Three copies of the report shall be prepared at the end of each month. One copy shall be retained by the association. The two remaining copies shall be sent to the State Farmers' Association Supervising Officer and the F.A. Registrar Office. The reports shall be submitted by the fifth day of the following month.

The association shall attach an additional copy of the F.A. Monthly Financial Report (balance sheet and profit and loss statement) to each copy of the Monthly Report of Supervised Farm Credit Programme.

Credit Man's Field Work Report Card (Form 20).

The credit man shall complete this report daily, submitting it through the chief of credit section to the general manager.

IX. Miscellaneous

In addition to frequent educational visits to farmers, it will be necessary for the credit man and extension worker to hold members' plenary meetings at least once a year to explain the Supervised Farm Credit Programme.

In judging a borrower's repayment ability, the association should make good use of the members' credit-standing screening records and members' information cards.

During the first several years of the Supervised Farm Credit Programme, the salaries, travelling allowances, stationeries, equipments and other items necessary for the operation of the programme will be subsidized by the government. Except where specifically indicated by the Registrar of Farmers' Association or the State Farmers' Associations Supervising Officer, the pilot associations shall bear no cost for operating the programme.

It is necessary that the credit man in co-operation with the extension workers, prepare various materials and information to enable the programme to run smoothly. These include:-

(i) current market values of land and houses in the area;

(ii) geological distribution (nature of soil) of the cultivated land in the area;

(iii) types of crops grown in the area and their acreage;

(iv) seasonal cropping patterns, cost of production of various crops, their market prices, etc.;

(v) farming techniques;

(vi) costs of livestock and poultry production, market prices, production techniques, etc.;

(vii) costs of side-line production, market prices, techniques, etc.;

(viii) various wages paid;

(ix) standardized designs and estimated cost of construction for livestock and poultry pens and sheds;

(x) market prices for farm machinery, tools and materials including seeds, seedlings, fertilisers, etc.

For members' convenience, loan application forms may be deposited with the chief of each small agricultural unit.

The order of priority for investigating loan applications shall not be based on the chronological order in which an application is received. Priority for investigation shall be based on the degree of urgency for each classification. In any case, the processing time for each application from receipt to notification of screening results, should not be more than five days.

The farm visit should be conducted during the farmer's leisure hours. The farm visit should be planned before hand and be conducted in such a manner as to save the farmer's time. The investigation should conduct the farm visit in such a manner as to gain the farmer's co-operation and confidence.

A monthly schedule of field work should be arranged in consultation with the extension section to co-ordinate their activities and obtain assistance in the supervisory work. In addition, the credit section must arrange its field work so that a credit man or other person is always available to carry on the office duties.

The first time a borrower obtains a loan from the association, it is necessary to request the presence of the borrower and his guarantors at the association to sign the loan receipt. The receipt should be signed in the presence of the credit man in charge. Also, the association should obtain sample signatures of the borrower and guarantors for future reference. There should be a sample signature card for each member of the association. The sample signature card should contain the date and place where the sample signature was obtained. The cards should be filed in alphabetical order.

In principle, payment of loans are to be made through the borrower's current deposit account. The credit man will make out a voucher (slip) to record the transaction. Each borrower shall be requested to open a current deposit account in the association's credit section when he obtains a loan.

The main accounting procedures in handling the Supervised Farm Credit Programme are as follows:-

(i) When the association receives a Supervised Farm Credit Loan from the revolving fund (F.A. Registrar Office), debit the "cash on deposit-banks" account and credit the "long-term loan" account for the amount.

(ii) When a loan is extended to a borrower through the current deposit account, debit "unsecured loans" or "secured loans" account and credit the "current deposits" account for the amount.

(iii) When the borrower withdraws the loan from his current deposit account (uses the loan), debit the "current deposits" account and credit the "cash on hand" account for the amount withdrawn.

(iv) When a borrower repays a loan (principle plus interest), debit the "cash on hand" account and credit the "unsecured loan" or "secured loan" account for the principle and debit "cash on hand" and credit "interest income" for the interest.

(v) When the association repays a long-term loan to the F.A. Registrar Office, debit "long-term loans" and credit "cash on deposits" for the amount repaid.

(vi) At the beginning of the fiscal year, when the profits of the credit programme from the previous year are transferred to the associations permanent credit fund, debit "profit - previous year" and credit "special fund" sub-item "Farm Credit Fund" for the amount transferred.

When a loan is to be paid to a borrower, the credit man writes out a voucher (transfer slip). The voucher is submitted, with the application, record of farm visit, receipt for loan, instalment card and loan account ledger of the individual borrower, through the chief of credit section to the general manager for approval.

When a loan is repaid, the credit man prepares a voucher (cash receipt slip). The voucher is submitted with the receipt for loan, loan account ledger for the individual borrower and instalment card, through the chief of credit section to the general manager for approval.

The credit man in charge shall keep the daily records and books concerning the credit programme. These records and books should be frequently checked by the chief accountant and general manager.

Once every three months, a letter of inquiry should be sent to borrowers by the general manager or chief of credit section checking if their amounts of outstanding loans coincides with the amounts shown on the books of the association. This is to protect borrowers from currupt practices.

When loans are made in kind, the transaction must be recorded using the dollar values. When loans are repaid in kind, the transaction must be recorded using the dollar values. For example, if the associations loan a farmer-member 100 lbs. of fertiliser valued at $15, the transaction is recorded as a $15 loan. If the loan is repaid in padi valued at $16, the transaction is recorded as repayment of a $15 loan and $1 interest. However, both the quantity of goods to be loaned and/or to be repaid (principle and interest) and their respective dollar values must be stated in the loan receipt.

Form I

_____ Farmers' Association

Application for Supervised Agricultural Loan

Account No: _____ Application No: _____

Please fill in only within this frame

| Applicant's signature: ..... Date: | Membership Card No: | Membership Status: Owner-operator ..... Tenant ..... Farm-hand ..... |
|---|---|---|

| | Name | Address | | Credit Standing |
|---|---|---|---|---|
| Applicant | | | | |
| Guarantors: (1) | | | | |
| (2) | | | | |
| | Amount of loan needed | When is it needed? | For what purpose? | Investigator's findings on purpose of loan |
| | | | | |
| Detail of loan application | $ | | | |
| | $ | | | |
| | $ | | | |
| | $ | | | |

| Recommendations by Investigator | | | | Comments by Credit Chief | Decision by General Manager |
|---|---|---|---|---|---|
| Purpose | Amount needed | Team | Comments | | |
| | $ | | | | |
| | $ | | | | |
| | $ | | | | |
| | $ | | | | |

Date: Date: Date:

Form 2

Records of Farm Visit

1. Family: Date of Visit:

| Sex | Total | Farming | | Commercial and Industrial | | Working for others | | In school | | | Others |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Full time | Part time | | | Farming | Non-farming | Prim. | Sec. | Coll. | |
| M | | | | | | | | | | | |
| F | | | | | | | | | | | |
| Total | | | | | | | | | | | |

2. Farm:

| Crops / Explanation | | | | | Animals / Explanation | | |
|---|---|---|---|---|---|---|---|
| Area | | | | | Head | | |
| Time to harvest | | | | | Time to sell | | |
| Yield expected | | | | | Marketing weight or number estimated | | |

3. Main Assets:

| | Self-owned: Self-operated | Self-owned: Leased out | Rented-in | Total area of operation |
|---|---|---|---|---|
| Padi | acre | acre | acre | acre |
| Dry land | | | | |
| Fruit/ Kampong | | | | |
| Others | | | | |
| | | | | |
| Total | | | | |

| | | | |
|---|---|---|---|
| Living | Unit | W. B. B.B. | N. M. O. |
| Cattle barn | Unit | W. B. B.B. | N. M. O. |
| Hog sty | Unit | W. B. B.B. | N. M. O. |
| Compost house | Unit | W. B. B.B. | N. M. O. |
| | | | |
| | | | |

| | Decription | | |
|---|---|---|---|
| Cattle | Yellow | Buffalo | Dairy |
| Meat hog Boar and Sow | L. | M. | S. |
| | L. | M. | S. |
| | | | |
| Ox-cart | N. | M. | O. |
| Power tiller | N. M. O. H/P | | |
| | | | |
| | | | |

Notes: W. B. B.B. Wood - Brick - Bambo

N. M. O. New - Medium - Old

L. M. S. Large - Medium - Small

Form 2 (cont'd)

4. Main Liabilities:

| Name of creditor | Debts in each M$ | Debts in kind | | | Date of borrowing | Purpose | Remarks (interest rate)etc. |
|---|---|---|---|---|---|---|---|
| | | Description | Quantity | Value M$ | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

5. Unusual outlays during last year:

Amount:

Purpose

Form 3

Record of Processing Applications

| No. of Application Form | Name of Applicant | Amount of Loan Applied | Date of Application | Date of Investigation | Date of Approval | Amount Approved | Date of Notification | Date Contracted | Date of First Supervision |
|---|---|---|---|---|---|---|---|---|---|
| | | $ | | | $ | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
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| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| Sub-total | households | | | | | | | | |

Form 4

## Notification of Screening Results

(Approval of loan)

Sir,

This is to inform you that your application for a supervised farm credit loan has been screened and approved. The terms of the loan are listed in the following table. (See below).

You are requested to sign the attached receipt, obtain the signatures of the two guarantors, and return the receipt to the Association. Or if you prefer, you may present yourself at the Association on ..... to sign the receipt and complete other necessary procedures.

On the date you desire to commence use of the loan, present yourself at the Association to receive the money. (Interest on the loan is calculated from the date the money is actually received). Also, you are requested to make, in advance, a plan for the method of repayment (one lump sum or instalments) and the date of repayment.

Thank you.

| Loan Items | Amount applied for | Amount F.A. approved | The maximum term | Remarks |
|---|---|---|---|---|
| | $ | $ | year (s)<br>month(s) | |
| | | | year (s)<br>month(s) | |
| | | | year (s)<br>month(s) | |

.....
Signature

(..... Farmers' Association)

Form 5

Notification of Screening Results

(Disapproval of loan)

Sir,

We regret to inform you that your application for a supervised farm credit loan was not approved as a result of screening. (Please see the reasons stated below). Thank you.

| Loan Items | Amount applied for | Reasons for disapproval | Remarks |
|---|---|---|---|
| | $ | | |
| | | | |
| | | | |
| | | | |

.....

Signature

(..... Farmers' Association)

Form 6

## Receipt for Supervised Agricultural Loan

I, Mr./Mrs. ..... (hereafter called the borrower including my heirs and legal representative) hereby have borrowed the sum of M$ ..... (Malayan dollars ..... only) or in kinds .....

.....

from F.A. on mortgage with the security as listed in the detail of the back page of this agreement. The borrower is also willing to comply with the conditions stated in the following:-

1. The term of loan; from to for

2. The principal and interests of the loan will be repaid according to the repayment plan scheduled in the back page of this agreement.

3. The rate of interest;

4. The rate of forfeit against the loan over due;

5. The F.A. may collect back both principal and interest of the loan from the borrower at all times in the event that the borrower has failed to use the loan in accordance with the purpose as originally proposed.

6. The F.A. and the relevant supervision agencies may at any time or from time to time despatch their supervisors in charge to inspect if the loan has been used properly and the security for mortgage is really true.

7. This agreement (receipt) will come into effect as soon as it is signed by the borrower.

8. The place for repaying loan and interests shall be the Credit Section of the F.A.

9. The Undersigned agreed to take full responsibility in jointly and severally guaranteeing the repayment of the loan and interests, and relinquish the rights of any legal action.

Borrower: .....
Signature

Address: .....

Guarantor: .....
Signature

Address: .....

Guarantor: .....
Signature

Date: ..... Address: .....

The Undersigned confirms that the above signature was signed by myself.

1. ..... Date: .....
Guarantor's signature

2. ..... Date: .....
Guarantor's signature

Form 6 (contd.)

Receipt for Supervised Agricultural Loan

Account No: _____ Contract No: _____

| Purpose | Amount | | Remarks |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| Total | | | |

1. Detail record of security

| | Right over the security | | | | | Description | | | Location of security | Insurance status |
|---|---|---|---|---|---|---|---|---|---|---|
| Immovable property | Date Registered | Sphere of right | Registered number | Sequence of right | Term of continuation | Classification | Acreage or type | Estimated value | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |

| Movable property | Date handed over to F.A. | Item | Quantity handed over to F.A. | Quantity taken out | Balance | Value per unit | Total value | Place of storing | Insurance status | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | $ | $ | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |

2. Plan of repayment in instalment

| | To repay in instalment | | | | Remarks |
|---|---|---|---|---|---|
| | Date | Principal | | Interest | |
| First repayment | | | | | |
| Second | | | | | |
| Third | | | | | |
| Fourth | | | | | |
| Fifth | | | | | |
| Sixth | | | | | |
| Seventh | | | | | |
| Eighth | | | | | |
| Ninth | | | | | |
| Tenth | | | | | |
| Total | | | | | |

Form 7

Instalment Card

Account No: _____ Borrower's Name: _____

| No. | D a t e | Dr. (Loans made) | Cr. (Loans repaid) | Balance (Loans outstanding) |
|---|---|---|---|---|
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Form 8

Loan Account Ledger of Individual Borrower

(Card System)

Account No: _____

Name of Borrower: Address: S.A.U./Kampong:

| Date | Month | Year | Explanation | Debit (Loans made) | | Credit (Loans repaid) | | Balance (Loans out-standing) | | Interest Collected | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
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Form 9

Index of Borrowers

(By Account Number)

Year:

| Account No. | Name of Borrowers | S.A.U. (Kampong) | Membership qualifications |
|---|---|---|---|
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Form 10

Index of Borrowers
(By Name of Borrowers)

Year: Name of S.A.U/Kampong _____

| Name of Borrowers | Account Number | Address | Remarks |
|---|---|---|---|
| | | | |
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Form 11

Calendar of Matured Loans

Due Date:

| Item of Loan | Account No. | Name of Borrowers | Principal Due | | Check and Sign Here when Repaid | Remarks (Date Repaid) |
|---|---|---|---|---|---|---|
| | | | | | | |
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| Sub-total | | | | | | |

Form 12

Supervised Farm Credit Loan Detail Ledger

Sub-item (Item of Loan): Page _____

| Date | Slip | | Borrower's Account No. | Explanation | Dr. (Loans Made) | | Cr. (Loans Repaid) | | Balance (Loans Outstanding) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Type | No. | | | | | | | | |
| | | | | B.F. | | | | | | |
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| | | | | C.F. | | | | | | |

Form 13

_____ Farmers' Association

(B) Record of After-service Visits to Borrowers

Name of S.A.U./Kampong: _____

| Account No. | Name | Loan | | Date of Loan made | 1st Visit | | 2nd Visit | | 3rd Visit | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Purpose | Amount | | Date | Find-ings | Date | Find-ings | Date | Find-ings | |
| | | | $ | | | | | | | | |
| | | | | | | | | | | | |
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Form 14

Subsidiary Book of Short-term and Long-term Loans

| Date | Short-term | | | Long-term | | |
|---|---|---|---|---|---|---|
| | Dr. (Loans Made) | Cr. (Loans Repaid) | Balance (Loans Outstanding) | Dr. (Loans Made) | Cr. (Loans Repaid) | Balance (Loans Outstanding) |
| | | | | | | |
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Form 15

(REMINDER OF LOAN DUE)

Sir,

This is to inform you that the following loan(s) you have borrowed from your Association is to be due/have now been overdue. (Please see the table shown in the following). You are requested, therefore, to prepare for repayment of/repay the said loan(s) as soon as you have received this letter. Your co-operation will be appreciated.

.....

Signature

( Farmers' Association)

| Item of Loan | Loan outstanding | Principal and Interest Due | | | | Date due | Remarks |
|---|---|---|---|---|---|---|---|
| | | Instalment repayment | Principal | Interest | Total | | |
| | $ | 1st repayment | | | | | |
| | | 2nd repayment | | | | | |
| | | 3rd repayment | | | | | |
| | | 4th repayment | | | | | |
| | | 5th repayment | | | | | |
| | | 6th repayment | | | | | |
| | | 7th repayment | | | | | |
| | | 8th repayment | | | | | |
| | | 9th repayment | | | | | |
| | | 10th repayment | | | | | |

Form 16

Application for Extension of Repayment

Owing to the reasons stated below, I hereby apply for the change of repayment schedule as in the following:-

Borrower: _____
Signature

The undersigned agreed to continue to take full responsibility in jointly and severally guaranteeing the repayment of the loan.

Guarantor: _____
Signature

Guarantor: _____
Signature

This column to be filled in by the F.A.

| Date of repayment and amount | Item of Loan | Original Repayment Plan | | | Repayment Plan after Extension | | | Source of repayment | Original Contract No. |
|---|---|---|---|---|---|---|---|---|---|
| | | Date | Principal | Interest | Date | Principal | Interest | | |
| | | | | | | | | | |
| | | | | | | | | | |
| Reasons for Extension | | | | | | | | | |

| Comments and Approval | | Date of Examination<br>Date of Notification for Disapproval to the borrower |
|---|---|---|
| Credit Man | Credit Chief | General Manager |
| | | |
| Signature | Signature | Signature |

Form 17

## Overdue Loan Dunning Card

Name of Borrower: Address: Name of S.A.U./Kampong:

| Items of Loan | Date Due | | | Principal Due | | up to: Interest Due | | Account No: | Records of Collecting Status | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | day | Month | Year | | | | | | date | Month | Year | Prinoipal | | Interest | | date | Month | Year | Principal | | Interest | |
| | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | | | | | | | |

## Record of Dunning Work

| | Visits | | | | Borrower's Promise to Repay | | | | | | | | Chief of Credit Seotion | General Manager |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | date | Month | Year | Visitor | Items of Loan | date | Month | Year | Source of Repayment | Description | Borrower's Signature | Guarrantors' Signature | | |
| 1st Visit | | | | | | | | | | | | | | |
| 2nd Visit | | | | | | | | | | | | | | |
| 3rd Visit | | | | | | | | | | | | | | |
| 4th Visit | | | | | | | | | | | | | | |

## Record of Demand Notes and Accusation

| | 1st Demand Note | 2nd Demand Note | Moved for an order for payment | An Order for payment Issued by the Court | Decided to Execute Provisionally or to Sell Mortgage by Auction | Applied for Taking over the Mortgage | Applied for Seizing | Execution of Selling Mortgage by Auction | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| Date | | | | | | | | | |
| Expenses | (Type of Mail) | (Type of Mail) | | | | | | | |

Form 18

_____ Farmers' Association

Monthly Report of Supervised Farm Credit Programme

Date:

| Items of Loan | Cumulative Amount of Loans Made | Cumulative Amount of Loans Repaid | Balance (Loans Outstanding) | Amount of Overdue Loans |
|---|---|---|---|---|
| 1. | | | | |
| 2. | | | | |
| 3. | | | | |
| 4. | | | | |
| 5. | | | | |
| 6. | | | | |
| 7. | | | | |
| 8. | | | | |
| 9. | | | | |
| 10. | | | | |
| 11. | | | | |
| 12. | | | | |
| 13. | | | | |
| 14. | | | | |
| 15. | | | | |
| 16. | | | | |
| 17. | | | | |
| 18. | | | | |
| 19. | | | | |
| 20. | | | | |
| Total | | (A) | (B) | |
| Cumulative Amount since the start of the Programme | (C) | (D) | | |
| No. of Households | (E) | (F) | (G) | (H) |
| Amount in this Month | | | | |

Notes: (1) Amount of long-term loans M$ _____, forms _____% of the total amount of loans.

(2) Cumulative amount of loans repaid since the start of the programme till the end of last year M$ _____

(3) (C) = (B) + (D)

(4) (D) = (A) + (2)

Form 19

Farmers' Association

Monthly Financial Report of Supervised Farm Credit Programme

Date:

| Disbursement | | | | | Receipts | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Account | Total budget Amount | Disbursement for the month | Cumulative Disbursement | Difference | Account | Total budget Amount | Receipt for the Month | Cumulative Receipt | Difference |
| | $ | $ | $ | $ | | $ | $ | $ | $ |
| Amount for Supervised Farm Credit Loans | | | | | 1. Amount from F.A. Registrar Office or other Institutions<br>2. Amount from Earnings of Supervised Farm Credit Programme. | | | | |
| Total | | | | | Total | | | | |
| Balance on Hand | | | | | Balance on Hand | | | | |
| Remarks | | | | | | | | | |

..... Prepared by

..... Chief of Credit Section

..... Accountant in Charge

..... General Manager

Form 20

Credit Man's Field Work Report Card

Name: Month: Year:

| Date | Prearranged Working Places | | Report on Actual Work | | | Remarks | Chief of Credit Section | General Manager |
|---|---|---|---|---|---|---|---|---|
| | A.M. | P.M. | Investigation Households | Supervision Households | Dunning Households | | | |
| 1 | | | | | | | | |
| 2 | | | | | | | | |
| 3 | | | | | | | | |
| 4 | | | | | | | | |
| 5 | | | | | | | | |
| 6 | | | | | | | | |
| 7 | | | | | | | | |
| 8 | | | | | | | | |
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| 25 | | | | | | | | |
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| 27 | | | | | | | | |
| 28 | | | | | | | | |
| 29 | | | | | | | | |
| 30 | | | | | | | | |
| 31 | | | | | | | | |

Notes: 1. Credit man shall fill in to-day's prearranged working places and the previous day's actual work and submit it to the general manager through chief of credit section by 8.30 A.M. every day, except holidays and indoor service days which do not require such report.

2. This report card shall be usually kept by the general manager.

APPENDIX II

## REGULATIONS GOVERNING OPERATION OF SUPERVISED FARM CREDIT PROGRAMME BY AREA FARMERS' ASSOCIATIONS

### Chapter I - General

1. An area farmers' association shall accept supervision, investigation, auditing and guidance by the Registrar of farmers' association or his appointee(s), State farmers' association supervising officer or his appointee(s) and other agencies as may be appointed by the Registrar.

2. (1) There shall be a separate fund established for the purpose of Farm Credit Programme and a separate account kept for the same.

   (2) The said funds and accounts shall be segregated from those of other services of the credit section.

   (3) All earnings from implementation of the Supervised Farm Credit Fund are to be accumulated in the credit section to build up a permanent lending fund and not to be further distributed.

3. (1) A farmers' association may negotiate with and apply to the Registrar through the Supervisor for loans for relending to the farmers.

   (2) Such application shall include a detailed plan of lending and repayment of the loans.

4. The Supervised Farm Credit Fund shall be deposited with any banking institution(s) approved by the Registrar.

5. The Supervised Farm Credit Fund shall not be used for any purpose other than the approved loan.

6. Rate of interest on loans from farmers' association to members for agricultural and side-line production shall be as determined by the Registrar from time to time.

7. There shall be a committee for screening the members' credit standing in each farmers' association to study and decide the maximum amount of loan allowable for each individual farmer, to give advice relative to the credit service and members' credit need to the farmers' association.

2/-

8. (1) Farmers who borrow money from the Supervised Farm Credit Fund shall make savings in the credit section after harvest of his major crops in amount at least equal to 20 per cent of his loan on time deposit basis.

(2) Any violation to the use of the Fund other than that approved by the Registrar shall be subjected to either of the following actions being taken by the Registrar:-

(i) Warning with order to improve.

(ii) Punishment of the farmers' association general manager, credit chief and credit man.

(iii) Legal action on the grounds of breach of contract.

## Chapter II - Application and Lending Procedures

9. (1) Any member of an association shall be eligible for a loan under this programme.

(2) Application for loan shall be submitted to the General Manager.

(3) Upon receiving such application the Manager shall require the credit section to investigate the credit standing, assets and liabilities, farming operation and farming plan, actual need of fund and repayment capabilities of an applicant.

(4) Upon the recommendation of the credit section, the General Manager may approve the loan on such terms as he may stipulate.

10. All records of such investigations as have been carried out by the credit section shall be kept and reported to the Board of Directors once every month.

## Chapter III - Extension of Loan

11. Farm loans shall be extended only for the purposes of farming, crop and livestock production and for the purchase of agricultural implements and fertiliser, and includes the following:-

(1) Seed and seedling

(2) Food

(3) Draught cattle

(4) Dairy cattle

(5) Boars and sows

(6) Pigs

(7) Poultry

(8) Other livestocks

(9) Pumps

(10) Power tillers

(11) Other farm machinery and tools

(12) Ox-carts and other vehicles

(13) Drying grounds

(14) Hog compost houses

(15) Cattle barns

(16) Other farm installations

(17) Land improvement

(18) Wages for production

(19) Materials for farm production

(20) Materials for side-line production

12. All such loans shall be subjected to personal guarantee, usually two guarantors and/or collateral security.

13. The types of loans that may be made available to members of associations and their terms and conditions of repayment shall from time to time be determined by the Registrar. In determining the amount, the term and the repayment schedule of a loan, a participating farmers' association shall refer to the following criteria:-

(1) Maximum term of a loan shall be five years.

(2) Maximum amount of loan to a borrower will be set by each farmers' association taking account of purpose of loan, farming seasons and borrowers' repayment

capability. The farmers' association shall also take account of the limits set by the members' representatives meeting and the borrowers' credit standing as screened by the members' credit standing committee.

(3) Term and repayment

In the case of crop production including seed and seedling, fertilisers, other materials and wages, the farmers' association determines the term and the repayment schedule according to the length of period between the date of contract and the harvest time, the frequency of harvesting and the value of produce.

14. (1) All loans issued under this Programme shall be used specifically for the purpose for which it was applied.

(2) The Manager shall ensure that no abuse of the terms and conditions of the loans shall occur.

(3) Any breach of the terms and conditions of the loan shall be penalised as the Supervisor deemed necessary.

15. The Supervisor shall carry out periodical inspection and supervision of the work of the farmers' associations and to check on the use of loan funds by borrowers.

16. The Manager is required to submit a monthly report on the progress of operation to the Supervisor.

Appendix III

# Suggested Plan for the Experimentation of a Supervised Farm Credit Programme for the Pilot Farmers' Associations

## I. Objectives

1. To develop a ten-year farm credit programme for the demonstration of a long range credit plan.

2. To improve the operating procedures and practices of farm credit programme.

3. To strengthen the supervision to the lending funds for the farm production.

4. To promote a permanent and dependable source of lending fund at reasonable rates and terms.

5. To provide an opportunity for the credit sections of farmers' associations to become self-sustaining, independent of financial support from government.

## II. Implementation

1. Source of Lending Fund

A total amount of M$500,000 of Farm Credit Fund with non-interest bearing is suggested to be financed from the government agencies concerned provided for the development of farmers' associations for the lending capital of the programme.

2. Funds to Each Farmers' Association

Each pilot farmers' association, upon the investigation and approval of the State Departments of Agriculture, be given a non-interest bearing loan from the Farm Credit Fund in an amount equal to M$50 per farmer member.

3. Growing from Income

The Farm Credit Fund for each farmers' association will be deposited in a government approved bank, and will grow from income on loans, deposits and repayments from members.

4. Repayment of Loans

The loans will be repaid by the farmers' associations to the Farm Credit Fund in five annual instalments beginning at the end of the sixth year. (See Tables 1, 2 & 3 under Attachment I).

5. Utilization of Loans

The lending fund should not be used by the farmers' associations for any purpose other than the loan fund for farmer members. Any repayments from members should be deposited in a government approved bank for interest gains.

6. Building Up of Permanent Lending Fund

Funds and accounts of the Farm Credit Fund should be segregated from those of other services. All earnings from implementation of the Fund are to be accumulated in the credit section to build up a Permanent Lending Fund and not to be further distributed.

2/-

7. Loss of Eligibility for Participation

In the event that a farmers' association ceases to conform to requirements and thereby loses its eligibility to participate in the programme, it shall repay its loan immediately upon the demand from the State Departments of Agriculture.

8. Encouragement of Members' Savings

Farmers who borrow money from the Farm Credit Fund for production purposes are encouraged to make savings in the credit section after harvest of his major crops in an amount at least equal to 20 per cent of his loan on time deposits basis.

9. Members' Credit Standing Screening

A special committee for screening the members' credit standing should be set up to study and decide the maximum amount of loan fund for each individual member. The composition of the committee will be:-

a. Chairman, Board of Directors
b. General Manager
c. Chief, Credit Section
d. Two from owner-operator members
e. One from tenant farmer members
f. One from member of farm hand

The terms of office of the committee members from election shall be one year. The meetings are to be held at least once in the beginning of a year. (Screening form see Attachment II).

10. Supervision

In order to assist the Farm Credit Fund in obtaining maximum benefit for the farmers, and to ensure the collection of loans on time, close supervision and guidance over the use of loans should be exercised by the Division of Agriculture of the Ministry of Agriculture and Co-operatives, and the State Departments of Agriculture.

## III. Lending Procedures

1. Eligibility

Any member of the pilot farmers' associations who needs money for farming or side-line production is eligible to apply for a loan.

2. Application

An applicant must fill out an application form and submit it to the credit section for processing. Application forms are available at the credit section or at kampong office of small agricultural unit.

3. Investigation

Upon receiving an application, the credit section shall despatch its credit man to visit the applicant at his farm to collect detailed data regarding his family, equity, farm operation and farming plan, and put down the findings in "Record of Farm Visit".

4. Screening

Results of the farm visit and the information gathered from other sources are carefully studied by the credit man and recommendations are made to his superiors on the amount, the term and the repayment schedule of the loan. The chief of the credit section studies the reports and recommendations and submits them with his own comments to the general manager for final decision.

5. Term and Amount of Loan

The maximum term of a loan will be five years. The amount of loan to a borrower will be set by each farmers' association in accordance with the limit decided by the members' representative assembly meeting and members' credit standing screening committee.

6. Repayment Schedule

a. For production of crops: To be determined according to the length of period before harvest, the frequency of harvests and the value of produce.

b. For production of livestock and poultry: To be determined according to the length of period before the selling of produce, the frequency of such sale and the value of produce.

c. For side-line production: Same as (b).

d. For purpose of construction of farm equipment, machinery and installation (fixed investment): To be determined, according to the amount of a loan as follows:-

| | | |
|---|---|---|
| Less than M$100 | - | up to one year |
| M$ 100 - 300 | - | up to two years |
| M$ 300 - 1,000 | - | up to three years |
| M$1,000 - 2,000 | - | up to four years |
| Exceeding M$2,000 | - | five years |

e. Instalment repayment: Loans under (d) which exceed twelve months in term are in principle to be repaid in instalment according to farming season and borrowers' repayment capability.

f. Security: Loans are usually assured by two personal guarantors. However, if necessary, the farmers' association may ask a borrower to provide collateral security.

g. Interest Rate:

| | | |
|---|---|---|
| Unsecured loans | - | 0.8 per cent per month |
| Secured loans | - | 0.7 per cent per month |

Payment of interest is in principle to be made with the principal for short-term loans. The interest for instalment repayment loans is to be made with the instalment repayments.

7. Payment of Loan

When a borrower has signed a loan contract (form is shown in Regulations Governing Operation of Supervised Farm Credit Programme) with the farmers' association, and the credit man finds all necessary procedures in order, he makes out a voucher to debit the borrower's account for the amount borrowed, and credit his passbook deposit account for the same amount.

Depending on the borrower's need, the payment of a loan may be divided into instalments which are to be paid to him according to the progress of work involved.

Upon the application of the borrower and approval of the general manager, the farmers' association may pay a loan to the borrower in one lump after the signing of the contract.

8. Repayment of Loan

Fifteen days before a loan is due, the farmers' association sends a reminder to the borrower asking him to pay the principal and interest. If the borrower is unable to repay the loan due to difficulties beyond his control, he sends a written application for extension of term and obtains approval from the farmers' association. Such extension shall be limited to once only for a maximum term of six months.

9. Punitive Interest

When a borrower fails to repay on time as originally agreed upon, or extended later, the loan is considered delinquent, and a punitive rate of interest at one per cent per month is additionally charged. The farmers' association makes every effort to collect a delinquent loan from the borrower and his guarantors through informal urging, arbitration or legal action.

10. After-service to Borrowers

After a loan is made, the credit man visits the borrower to check if the loan has been used for the purpose proposed, and whether farming plans are carried out successfully. The extension section will also despatch its personnel to give borrowers technical assistance about farming plans and management. The economic section may also help the borrowers to market their products for better price and repay the loan funds from the marketing proceeds.

11. Chain Guarantee Contract

Upon the approval of a board of directors meeting of the farmers' association, a chain guaranty contract may be made between the association and the borrowers in each small agricultural unit under the witness of the chief of the unit beside the ordinary guarantee to the secured and unsecured loans, if necessary. Under the contract borrowers in each unit should have the joint responsibility of delinquency of any other one in the unit.

Attachment I

## Plan for Providing Permanent Capital for F.A. Credit Section with 1,000 Farmer Members

It is assumed that a non-interest bearing loan in the amount of M$50,000 is made to the credit section of a farmers' association to be reloaned to farmers with an interest rate of 9.6% per annum from farmers. The operating expenses of the farmers' association will be covered by the interest income of unloaned fund from depository bank.

2. Based on the experience of the credit service of farmers' associations in other countries, it is estimated that during the first year, the entire amount will be outstanding four the last six months. It is assumed that on the average 90% of the funds will be on loan after the first.

3. Part of the 10% that will normally be unloaned will be in transit and in the process of collecting and re-lending but part of it will be drawing interest from the depository bank at a nominal rate.

4. Repayment of the loan by the farmers' association to the Farm Credit Fund will be at the rate of M$10,000 per year, starting at the end of the sixth year with the final repayment at the end of tenth year. At that time, the farmers' association will have a permanent fund of approximately the amount of the original loan. Therefore, it will increase rapidly until it is adequate to meet the requirements of farmers' association for credit service, supplemented by its deposits. At that point, rates to farmers can be adjusted according to circumstances. It is expected that two times as the Farm Credit Fund will be achieved from the encouragement of members' savings.

(See tables 1, 2 & 3 below)

Table 1

Plan for Providing Permanent Capital for F.A. Credit Section with 1,000 Farmer Members

| Item \ Year | 1st year | 2nd year | 3rd year | 4th year | 5th year | 6th year | 7th year | 8th year | 9th year | 10th year |
|---|---|---|---|---|---|---|---|---|---|---|
| Amount on hand at start of year | 50,000 | 52,400 | 56,927 | 61,749 | 67,084 | 72,880 | 69,177 | 65,154 | 60,783 | 56,035 |
| Unloaned fund | 50,000 for 6 months | 5,240 | 5,693 | 6,175 | 6,708 | 7,283 | 6,918 | 6,515 | 6,078 | 5,604 |
| Amount loaned at net rate of 9.5% annual | 50,000 for 6 months | 47,160 | 50,234 | 55,574 | 60,376 | 65,529 | 62,259 | 58,639 | 54,705 | 50,431 |
| Net loan interest income for each year | 2,400 | 4,527 | 4,822 | 5,535 | 5,796 | 6,297 | 5,977 | 5,629 | 5,252 | 4,841 |
| Amount of interest accumulated | 2,400 | 6,927 | 11,749 | 17,084 | 22,880 | 29,177 | 35,154 | 40,783 | 46,035 | 50,876 |
| Year and status, amount on hand at start of year plus net income | 52,400 | 56,927 | 61,749 | 67,084 | 72,880 | 79,177 | 75,154 | 70,783 | 66,035 | 60,876 |
| Repayment | | | | | | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Balance to start next year | | | | | | 69,177 | 65,154 | 60,783 | 56,035 | 50,876 |

Farmers' Association

## Members' Credit-Standing Screening Form

Date of Screening: Account No:

| Member's Name | Sex | Age | Membership Qualification | Name of Member's Small Agricultural Unit | Address |
|---|---|---|---|---|---|
| | | | | | |

| | |
|---|---|
| Family Status and Living Condition | No. in family: No. working on farm: |
| Character or morality | |
| Capacity for repayment | |
| Deposits (Amount accumulated in the F.A.) | Last year: M$ Current year: M$ |
| Record of Use of Loans | |
| Record of loan repayment (Was there any loans overdue before) | |
| Principal Liabilities | |

### Principal Assets

| Items \ Amount | Estimated Amount | Description |
|---|---|---|
| Total | | |
| Sub-total | | |
| Land | | Type: Acreage: |
| Buildings | | Type: (1) (2) Living No: (1) (2) Structure (1) (2) |
| Others (Specify) | | |
| | | |
| Sub-total | | |
| Securities | | |
| Padi | | Estimated Padi in Stock according to the yield per annum |
| Livestock | | kind: (1) (2) No: (1) (2) |
| Other Crops (Specify) | | |
| | | |
| Farm Implement | | |
| Others (Specify) | | |
| | | |

### Income and Expenses Status

| Estimated Annual Income | Estimated Annual Expense | Balance |
|---|---|---|
| | | |

### Results of Screening

| Items | Amount of loan recommended by the Committee | Amount of loan decided by the Association |
|---|---|---|
| Total | | |
| Unsecured loan | | |
| Secured loan | | |

..... Signature of Chairman

..... Signature of General Manager

..... Signature of Chief of Credit Section

..... Signature of Credit Office

Table 3

Comparison of Operations of Pilot Project F.A. and Farm Credit Revolving Fund Project

| Item / Plan | Ministry of Agriculture (Farm Credit Fund) | Pilot Project Farmers' Associations |
|---|---|---|
| Percentage of Available Funds to be loaned | First year, 50% thereafter, 100% to F.A.s. | First year, 100%, second through tenth year, 90% to individual farmers. |
| Interest rate of Loans | Interest - free | 9.6% per annum. (Interest income accumulated as part of Fund). |
| Repayment of Loans | F.A.s begin repayment to the Farm Credit Fund at end of sixth year | Repayment of Loans to Farm Credit Fund in five equal annual instalments beginning at end of the sixth year. |
| Accumulation of Fund Capital | | Fund capital amounting to 100% of original loan accumulated by F.A.s after repayment (by the tenth year). |

Table 2

Schedule for Providing and Accumulating Lending Capital to the Eleven Pilot Project F.A.s with Non-interest Bearing Loans from the Agricultural Credit Fund

| Item \ Year | 1st year | 2nd year | 3rd year | 4th year | 5th year | 6th year | 7th year | 8th year | 9th year | 10th year | 11th year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Amount of loans to be extended to 11 F.A.s | 275,000 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | 550,000 | |
| Interest to be accumulated by 11 F.A.s (9.6% per annum) | 26,400 | 76,197 | 129,239 | 190,124 | 253,880 | 323,147 | 388,895 | 450,814 | 508,586 | 561,837 | |
| Principal ($550,000) plus interest accumulated | 576,400 | 625,197 | 679,239 | 737,924 | 801,680 | 860,947 | 826,294 | 778,613 | 726,385 | 726,385 | |
| Amount of principal to be repaid by 11 F.A.s in 5 annual instalments | | | | | | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 | |
| Amount of funds remaining in 11 F.A.s after repayment of principal | | | | | | 760,947 | 716,294 | 668,613 | 616,385 | 558,646 | |
| Number if new F.A.s that can be provided with loans from repayment of principal by 11 F.A.s (average: $50,000 per F.A.) | | | | | | | 2 | 4 | 6 | 8 | 10 |