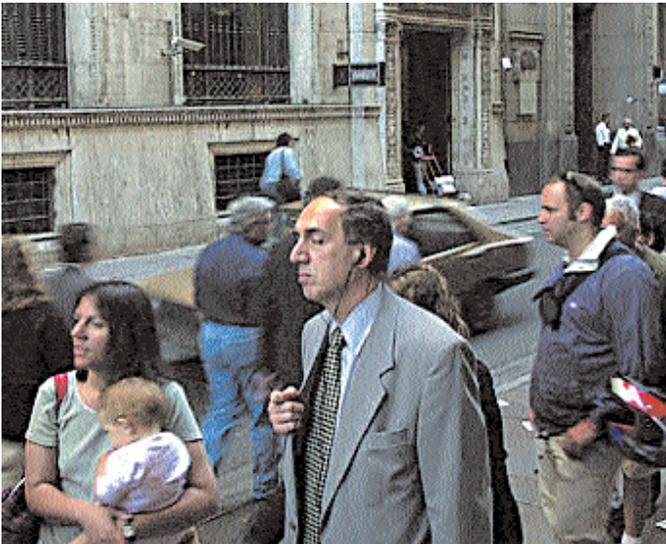


ECONOMIC GROWTH, AGRICULTURE AND TRADE

USAID Helps Reform Financial System



Customers line up outside a bank during the financial crisis that rocked Argentina, one of several countries destabilized by the failure of banking systems to produce stability and protect investors.

When banks begin to fail, panic soon spreads, leading depositors to withdraw their savings and pushing the institutions into collapse. In Bosnia-Herzegovina, Argentina, Indonesia, and Kyrgyzstan, shaky financial systems have faced this challenge.

In Bosnia-Herzegovina, failing banks were assigned to bankruptcy courts. But it was taking years for depositors to get back even a fraction of the money they were owed.

USAID helped the government draft laws and regulations that give the Federation banking agency legal authority to take over, sell, or liquidate troubled banks.

In several countries, the Agency has been working to fix financial systems to provide the basis for a sound, functioning economy and free markets.

In well-functioning economies, banks collect savings and channel them to the most lucrative economic activities. Leveraging money and investing it productively is crucial to the process.

However, if bank regulators do not have adequate staff, sufficient training, or legal authority, they can't regulate the banks properly. Poorly regulated banks can make loans they cannot recover and lose their depositors' money on defaulted loans. If shaky banks collapse, scared depositors lose confidence in remaining banks and stuff money in their mattresses instead of their savings accounts. Deposits and investment dry up.

World Bank and International Monetary Fund loans can be contingent on the government adopting specific reforms in its banking sector. Implementing these reforms often becomes the core objective of USAID projects. The Bureau for Economic Growth, Agriculture and Trade provides

technical support to field missions helping local partners sort out interlinked organizational and legal problems.

- ◆ In Bosnia-Herzegovina, since USAID got involved, private individuals and legal entities now get deposits back on a priority basis. The Federation Banking Agency now has the authority to take over troubled banks. It has done so several times and has returned balances to customers' accounts. Within two years, private sector deposits were up 215 percent, implying greater confidence in the banking system.

- ◆ In Indonesia, the government had taken over several ailing banks with multiple branches—all operating at a loss. USAID provided a third-party review of the government's technical plan to merge five of the most viable banks into a bigger institution. Bad assets were sold off and operations were restructured to rationalize five systems into one. Throughout the process, the branches continued to gather deposits and make loans. The government plans to privatize the new, merged bank, which is far more attractive to investors than the old banks.

- ◆ In Kyrgyzstan, customers had lost money in several bank failures, but the national bank, the regulatory supervisor of the system, lacked evidence to convince a skeptical court system that it should intervene to protect customers' deposits in troubled banks. A multinational team that included USAID staff, consultants, and an information technology expert from the National Bank of Georgia came to Bishkek, the capital city. They modified software used by the central banks of Armenia and Georgia and set up a new offsite surveillance system that helps Kyrgyz regulatory supervisors manage and analyze data submitted by banks. ★

GLOBAL DEVELOPMENT ALLIANCE

Indonesian and Filipino Farmers Boost Cocoa Crops

Cocoa farmers in Indonesia and the Philippines are working in alliance with international chocolate manufacturers to keep pests in check with fewer chemicals. They are adopting such modern cultivation methods as frequent pruning of infested branches and fertilizing to strengthen plants.

The Bureau for Asia and the Near East and the Indonesia mission are investing \$4.5 million and industry is adding \$30 million over three years to educate farmers in remote areas about new production practices and connect them to buyers.

Through these practices, farmers are getting higher yields and improved quality. In turn, chocolate producers such as Masterfoods (formerly Mars) have promised to buy their high-quality cocoa through buyers' contracts that allow the growers to reap the rewards of their hard work.

Some 90 percent of the world's cocoa is produced on small family farms. One reason cocoa is no longer a plantation crop is its vulnerability to pests. Growers have tended to rely on costly pesticides, which can also be harmful to the person who applies them.

The cocoa industry in Indonesia dates back to the country's days as a Dutch colony. The Dutch cocoa plantations were chewed up by the tiny cocoa pod borer, a moth larva that feeds on the inside of cocoa beans. At the time, cocoa trees were cut down to fight the infestation. But by the 1990s, the Indonesian cocoa industry was once more battling the borer.

At about the same time, agricultural researchers in the tropics, funded by the cocoa industry and the U.S. government, applied the lessons of "integrated pest

management"—or using nonchemical methods for keeping pests in check.

Farmers are encouraged to harvest cocoa beans frequently to reduce damage. They must prune frequently so that light between the branches drives away borer moths. They should bury or destroy pod husks after harvesting, in case moth larvae are inside. And they need to apply fertilizer to improve the health of the cocoa trees and strengthen their ability to fight off pests.

In Indonesia, more than 700 agricultural extension workers and 35,000 farmers have learned about integrated pest management. Many participated in an earlier program funded by the U.S. Department of Agriculture. The new public-private alliance is expected to double the number of farmers skilled in nonchemical methods.

Farmers—some of whom thought they were dealing with a disease rather than an insect—report using fewer chemicals and harvesting bigger, heavier pods. When they were relying on pesticides, Indonesian farmers reported crop losses of as high as 40 percent. After adopting integrated pest management, losses typically dropped to a more manageable 15 percent.

Cocoa prices are at a 20-year high and high-quality beans can be hard to find. The partnership is therefore linking exporters to trained farmers who are seeking a premium for their cocoa beans.

Cocoa is not widely cultivated in the Philippines, so USAID/Manila, the cocoa industry, and the Philippine government are investing in establishing nurseries and developing seed stock.

There is a large domestic market for cocoa in the Philippines, which currently imports most of its supply. ★



A Sulawesi agricultural extension agent trained by ACDI/VOCA tells farmers how to care for cocoa trees to keep the cocoa pod borer in check. The extension agents work intensively with a group of farmers over several months. They, in turn, train other farmers.