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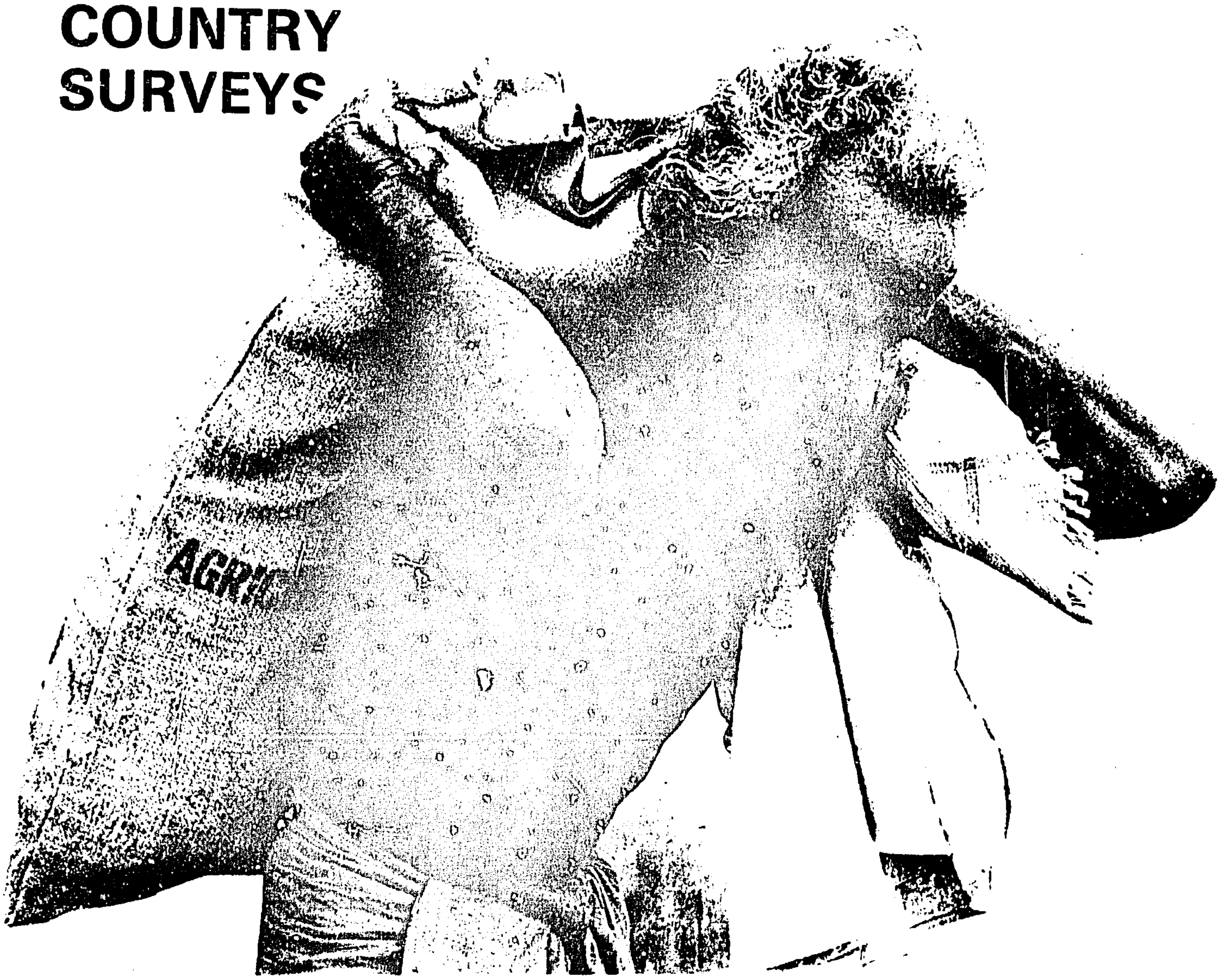

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SPRING REVIEW OF SMALL FARMER CREDIT

COUNTRY SURVEYS

EDITOR'S NOTE

This volume predominantly contains excerpts from the introductory sections of the Country Papers of the Spring Review of Small Farmer Credit. Portions of a few other Spring Review Papers also have been included. The purpose of presenting these excerpts is to offer the reader a comprehensive picture of the various farmer credit programs around the world. With a few exceptions, all of the countries written about in the Spring Review are represented in these selections. The excerpts vary in both breadth and depth. Some are quite comprehensive - covering more or less all the sources and/or programs of farmer credit within a given country. Other excerpts give greater emphasis to the major source or program for farmer credit in the country.

Footnotes, as they occured in the body of the original papers, have been retained in the excerpts. When they were listed at the end of the paper or appended, they have been omitted. The same procedure was followed with respect to biblographic references. The reader should consult the original paper for these.

Jerome E. Sherry
PPC/DPR

June, 1972

EL SALVADOR

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December, 1972

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INTRODUCTION

The institutional agricultural credit system of El Salvador is composed of a Central Bank, seven private banks (two of which are foreign owned), one semi-private mortgage bank (Banco Hipotecario), a Federación de Cajas de Crédito, ABC, a public supervised credit agency (Administración de Bienestar Campesino), a cotton cooperative (Cooperativa Algodonera Salvadoreña, Ltda.), and coffee institute (Compañía Salvadoreña del Café). Of lesser importance, but still part of the system, are FDI, a private development bank (Financiera de Desarrollo), INSAFI, an industrial development bank (Instituto Salvadoreño de Fomento Industrial), a private company financing subdivision of farm lands (Parcelaciones Rurales, S.A.), ICR, a semi-autonomous government institution financing farm land purchases (Instituto de Colonizacion Rural), FEDECACES, a credit union federation financing agricultural cooperatives (Federación de Cooperativas de Ahorro y Crédito de El Salvador) and several fertilizer suppliers making in-kind loans to producers.

In general agricultural loans must be highly secured, are usually for less than one year, and carry interest rates which range from 8 to 12 per cent per year. For all practical purposes only ABC, the Federación de Cajas de Crédito and FEDECACES provide loans to small farmers. FEDECACES only initiated substantial activities in 1972, ABC in 1964, and the Cajas in the early 1940's. Each of these agencies also provides credit to medium and some large size farmers. FEDECACES and Cajas have substantial lending activities for non-agricultural purposes.

Table 1 contains data on the volume of credit granted per year by the major institutions within the credit system from 1966 through 1970. As can be noted, over the 1966-1970 period a total of over US$324 million was loaned to agriculture. Only 7 per cent of these funds went through agencies servicing small farmers: ABC and the Cajas. It is doubtful if half of this 7 per cent went to small farmers.

In 1970, El Salvador had an estimated 358,103 rural families. Table 2 contains a breakdown of these families by size of land holding. In 1961, farmers with less than 10 hectares or about 75 percent of all rural families controlled only 22 per cent of the agricultural land. A similar breakdown for 1970 is not available, but there is no reason to expect that this percentage has changed significantly over time. Of the 286,293 families with land, it is estimated that about 40,000 are producing cotton, coffee or sugar. The remainder, for the most part, are producers of basic grains (corn, sorghum, beans, and rice). The 40,000 producing the traditional export crops are generally the larger producers in the country and in 1970 received 82.1 per cent of the $78.4 million of institutional agricultural credit granted

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TABLE 1. TOTAL AGRICULTURAL CREDIT PROVIDED BY INSTITUTIONS IN EL SALVADOR

(1966 - 1970)
(Thousands of Dollars)

AGRICULTURAL SUB-SECTOR	Mortgate & Commercial Banks		Administración de Bienestar Campesino		Federación de Cajas de Crédito	
	Operation*	Capital*	Operation	Capital	Operation	Capital
1966	32,446	2,966	1,570	-	820	88
1967	42,428	2,547	2,200	-	917	84
1968	55,861	1,757	2,955	48	1,030	97
1969	53,150	686	2,786	296	1,183	271
1970	61,517	1,021	3,200	224	1,203	104
TOTAL	245,402	8,977	12,711	568	5,153	644
LIVESTOCK SUB-SECTOR						
1966	982	706	29	116	250	88
1967	1,020	422	28	251	253	84
1968	2,487	785	456	35	342	97
1969	3,543	1,038	350	39	484	271
1970	2,866	745	842	-	492	104
TOTAL	10,898	3,696	1,705	441	1,821	644
TOTAL BOTH SUB-SECTORS	256,300	12,673	14,416	1,009	6,974	1,288

(continued on next page)

*Operation loans are defined as having terms of one year or less. Capital improvement loans carry payment terms of over one year.

(Page 2, TABLE 1)

AGRICULTURAL SUB-SECTOR	Cooperativa Algodonera Salvadoreña		Compañía Salvadoreña del Café		TOTALS		GRAND TOTAL
	Operation	Capital	Operation	Capital	Operation	Capital	
1966	2,942	-	4,369	-	42,147	3,054	45,201
1967	2,151	-	4,397	-	52,093	2,631	54,724
1968	1,398	-	4,953	-	66,197	1,902	68,099
1969	1,343	-	4,283	-	62,745	1,253	63,998
1970	1,293	-	4,782	-	71,995	1,349	73,344
TOTAL	9,127	-	22,784	-	295,177	10,189	305,366
LIVESTOCK SUB-SECTOR							
1966	-	-	-	-	1,261	910	2,171
1967	-	-	-	-	1,301	757	2,058
1968	-	-	-	-	3,285	917	4,202
1969	-	-	-	-	4,377	1,348	5,725
1970	-	-	-	-	4,200	849	5,049
TOTAL	-	-	-	-	14,424	4,781	19,205
TOTAL BOTH SUB-SECTORS	9,127	-	22,784	-	309,601	14,970	324,571

SOURCE: Ministerio de Agricultura y Ganadería, "Diagnóstico del Financiamiento Institucional al Sector Agropecuario (1966-1970)"

Table 2.- Numer of Families by Size of Farm, El Salvador, 1972

Class	Number of Families	Per cent
Landless	71,810	20.0
Less than 1 Ha.	151,057	42.2
1 to 9.9 Has.	115,639	32.3
10 to 49.9 Has.	15,235	4.2
50 to 199.9 Has.	3,335	1.0
More than 200 Has.	1,027	0.3
Total	358,103	100.0

Source: MAG Diagnóstico del Volumen y Distribución del Ingreso (1966-70), unpublished report dated March 1972.

Table 3.- Use of Institutional Agricultural Credit in El Salvador, 1970

Product Group	Amount	Per cent
Cotton, coffee and sugar	$ 64.4	82.1
Other crops and livestock	14.0	17.9
Total	$ 78.4	100.0

Source: MAG Diagnóstico del financiamiento Institucional al Sector Agropecuario (1966-1970), unpublished report dated March 1972 (including credit for livestock) or about \$64.4 million (Table 3). This means that the producers of basic grains and livestock, which are the bulk of the producers in El Salvador, received less than a third of the credit granted or about \$14 million. There are no data to estimate how much of the \$14 million actually went to small and medium size producers (i.e. under 10 hectares) but it is safe to assume that a substantial portion goes to the large landowners. For example, \$8.4 million of the \$14 million was granted by commercial banks which traditionally lend to the large landowners. Also, the other institutions involved are known to make part of their loans to large landowners.

A B C

The Administración de Bienestar Campesino (ABC) is the agency being considered in this paper. In 1970, ABC granted \$4.3 million in credit to the agricultural sector (Table 4). This represented 5.5 per cent of the total institutional credit to the sector.

Table 4.- Use of Administración de Bienestar Campesino (ABC) Credit, 1970

Product Group	Amount	Per cent
Cotton and sugar	\$ 1.6	37.2
Other crops and livestock	2.7	62.8
Producers with 10 Has. or more	(1.0)	(23.3)
Producers with less than 10 Has.	(1.7)	(39.5)
Total	\$ 4.3	100.0

Source: Memoria of ABC, 1970 and USAID estimates.

Of this amount, \$1.6 million was for cotton and sugar (ABC made no coffee loans) with the remaining \$2.7 million going to livestock and other crops. ABC's role in lending to producers other than cotton, coffee, and sugar is significant in that their \$2.7 million is about 19 per cent of the total credit (\$14 million) for these producers. ABC made a total of 6,464 loans in 1970. The \$2.7 million represented about 6,000 loans. About 5,500 of these loans were to small and medium producers, but only about \$1.7 million of the total \$2.7 million (or about 40 per cent of ABC's funds) was used for these 5,500 loans. Also, with the 5,500 loans, ABC is only reaching 2.1 per cent of the producers with 10 hectares or less assuming one loan per producer per year. As indicated, the remainder of this paper is devoted to ABC and its role in the institutional credit system.

PROGRAM CHARACTERISTICS

Background

Historical Summary

In early 1960, the Ministry of Agriculture (MAG) in El Salvador established a committee of five credit experts to study the credit problems of producers with less than 30 hectares of land. In July, 1960, this committee recommended that El Salvador establish a supervised credit agency. In 1961, at the request of the MAG, USAID provided a supervised credit advisor to assist in the preparation of plans to establish such an agency. On December 11, 1961, the Administración de Bienestar Campesino (ABC) was created as an autonomous government agency.

ABC actually began operations in February, 1962 with initial capital for loans and operations of \$665,826 from a PL 480 loan. Initially, ABC had 10 supervised credit agents who were new graduates of the National Agricultural School and had no field experience. In 1964, USAID made an \$8.9 million loan to the GOES and ABC received \$5,254,820 of which \$5 million was to be for making new loans and \$254,820 for purchase of equipment. In addition, ABC has also received operating grants from the GOES and has had access to Central Bank funds through several different special funds.

The initial charter called for the ABC program to be national in scope and to make loans only to producers with 30 or less hectares and who actually lived on the farm. These two requirements were removed in 1968 allowing ABC to loan to absentee producers and to make loans to the large farmers which, in part, defeated the earlier purpose. Policy changes in 1972 further encouraged the making of large loans and at the same time the number of field offices was reduced from 31 to 15. It now appears that ABC will be reorganized into an agricultural bank. Actual details of this plan are not available at this time.

Relation to National Credit System

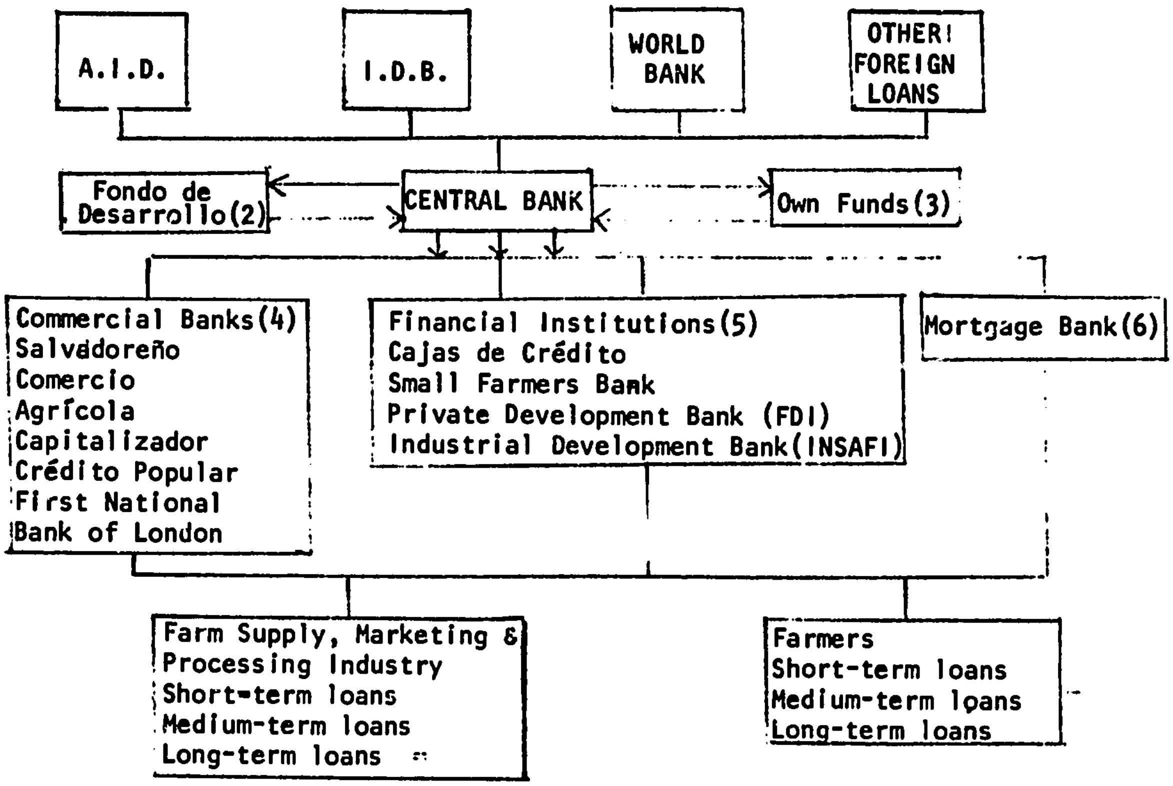
Figure 1 is a diagram of the sources and flows of funds in the national institutional credit system. ABC can receive funds from an international lender or from the Central Bank. The Central Reserve Bank has authorized one year lines of credit since 1964 for planting sugar cane, cotton and other crops at an interest rate of 2 per cent per annum on the amounts drawn-down. Utilization by ABC was as follows:

Cotton	CY 1964	$ 457,375
	1965	400,000
	1966	600,000
	1967	834,000
	1968	1,236,929
	1969	1,352,400
	1970	1,501,518
	1971	1,751,405
	1972 (Auth.)	2,800,000
		$ 10,933,627
Basic Grains	1971	600,000
Fondo Desarrollo	1971	566,500
Cotton Warehouse Receipts	1968 & 1969	273,580
Sugar cane Warehouse Receipts	1970 & 1971	160,520
Rediscounts META and MEGA		83,412
		$ 12,617,639

Relation to Pre-Existing Local Institutions

At the time that ABC was formed, there were three other institutions through which the PL 480 funds could have been channeled. These were the Banco Hipotecario, the Instituto Salvadoreño de Fomento de la Producción (now INSAFI), and the Federación de Cajas de Crédito. While none of these three agencies had a supervised credit program, as such, each was making loans to small and medium size agricultural producers.

Figure 1 - DIAGRAM OF SOURCES AND FLOW OF FUNDS THROUGH FINANCIAL INSTITUTIONS TO FARM BORROWERS IN EL SALVADOR (1)



(1) In addition: A) Parcelaciones Rurales, S.A., a private company finances subdivision of farm land with own resources, B) ICR - Govt. institution finances purchase of farm land, C) FEDECACES a credit union Federation makes loans to Agricultural Coops from an A.I.D. loan, D) Fertilizer Suppliers make in-kind loans to farmers including insecticides and related products.

(2) Fondo de Desarrollo Económico (FDE) - initiated and maintained with the Central Reserve Banks' profits, also obtained Inter-American Bank loan to strengthen fund but has not drawn it down in full. See following pages for a complete description of the financial institution and the Fondo de Desarrollo.

(3) Own funds - bank's profits and reserves from commercial banks.

(4) Short term loans and medium (up to 5 years) made with own resources, that is: savings, time deposits and commercial (checking) accounts, capital and profits, and reserves. Also use special lines of credit from BCR and the FDE.

(5) Use funds from FDE and foreign loans for making loans, also cotton, coffee and sugar export & pre-export special lines of credit of BCR.

(6) Uses FDE, BCR special lines of credit and its own funds generated from operations (same as (3) and the sale of 5 & 10 year bonds.

Source: Structure of Financial Institutions that serve Agriculture in El Salvador, unpublished report to USAID/ES by Kenneth R. Krause, U.S.D.A., March, 1972.

HONDURAS

by:

Reinaldo W. Santos et al
National Development Bank
(ACDI and USAID)

December, 1972

15

Introduction

In Honduras, no classification system has been established that really defines what is meant by small, medium or large farmer, even though these terms often appear in studies, reports and newspapers. We know, of course, that a scientific classification of this nature is given to many judgments and variations and to a large number of limitations. We can nevertheless try to give a more or less acceptable definition of our main character: "the small farmer". The main factors are Capital Stock, Gross Annual Income and Size of the Farm plus the evaluator's experience and observation. This producer can be found within the following maximum limits:

a) Capital Stock	- up to a maximum of $10,000
b) Gross Annual Income	- up to a maximum average over time of $15,000
c) Size of the Farm	- up to a maximum of 15 hectares

It should be pointed out here that, first, the typical small farmer does not approach any of these limits and, second, a farmer exceeding any one of these limits is not considered to be a small farmer for the purposes of this analysis.

Further on we shall relate this small farmer to the country's credit system, but we would first like to make some observations on the general system of institutional credit for agriculture and related sub-sectors. At present this system is composed of a central bank, a development bank, private commercial banks, cooperatives, agriculturists, associations and business companies. (There are no rural banks, only offices of commercial banks in various towns in the country). The Central Bank finances the agricultural producer in an indirect way through the other organizations in the system. The other institutions assist the beneficiary both directly and indirectly, although some are more active than others. Private banks, for example, focus their service and resources on the financing of commercial and industrial operations and are very cautious when it comes to the agricultural sector. Their participation in this field is therefore very limited to separate circumscribed types of loans and to selected farmers and companies. This conservative policy of the private banks toward the financing of agricultural activity is the result of factors such as the lack of secure farm property titles, the lack of government incentives, and the fact that commercial and individual operations are more appealing. Although there seem to be some signs of evolution towards more commercial bank activity in this sector, significant changes will come about only slowly and gradually.

On the other hand, the other financial organizations of the system (the development bank being an exception) are relatively new. In spite of the other financial institutions being active and aggressive in their policies towards agricultural financing, their coverage and extent of participation have not yet reached outstanding levels, although their growth rates (especially for the cooperatives and associations) make them potentially viable credit sources and promoters of agricultural development.

The institution that has taken care of most agricultural financing process is the Banco Nacional de Fomento (BNF), founded in 1950. Its service is channeled through a main office and twenty branches in almost every farming center of the country. BNF functions, although they include commercial and industrial operations and services similar to those of the private banks, have been essentially directed toward the

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promotion and financing of the agricultural sector. The greatest part of its agricultural financing takes the form of direct credit to producers, although most of the funds that cooperatives and associations use for relending to their members come from the BNF itself. This increases the real scope of BNF's action. Present statistics do not show the complete situation. The table below gives a partial view:

TABLE No. 1

DISTRIBUTION OF INSTITUTIONAL AGRICULTURAL FINANCING IN 1971

(1)	(2)	(3)	(4a)	(4b)	(4c)	(5)
			B N F PARTICIPATION			
Item	Total of the Institutional System	Total of the Banking System (Inc. BNF)	Magnitude	% of IS (4a)+(2)	% of BS (4a)+(3)	Coop.Assoc. and Others
A-No.of loans	38,903	32,103	30,007	77%	93%	6,800
B-No.of borrowers	18,384	12,054	10,012	54%	83%	6,330
C-Amount Financed	$59,351,004	$55,895,700	$13,692,570	23%	24%	$3,455,304

IS = Total Institutional System BS = Total Banking System

According to the above table, the participation of the private banking system in the amount of financing provided is very high. The real figure is uncertain, however, but lower, because private banks give "agricultural" financing for uses that others would not classify as agricultural (e.g. banana companies, agro-industrial equipment and machinery). The number of loans and borrowers handled by private banks is very low.

The participation of cooperatives, associations and other similar organizations is high as far as the number of beneficiaries and loans goes, but low regarding the amount financed. This shows that the clients involved are very small as credit users, a reflection of their small size as farmers. A closer analysis would reveal that a high proportion of such customers are indirect clients of the BNF, since these organizations get most of their funds from the BNF. Consequently, the figures listed under column (2) of the table should really be smaller, and the figures under the BNF column should be larger.

Although up to a few years ago the BNF was evidently the dominant agricultural credit organization, its relative participation in this particular field has slipped. Nevertheless it is still outstanding. Although the relative reduction would be highly desirable if it goes along with an increase in the activities of the other credit organizations, the need for a greater agricultural financing means that the BNF should have the long term goal of expanding its operations. This is especially true in light of the potential demand that exists for agricultural credit.

In Honduras there are approximately 178,000 farm owners and operators. Of these, only 18,384 or 10.3% make use of institutional credit. Even though the exact number of farm owners properly qualified as "potential subjects to institutional credit" is unknown, generally speaking the institutional agricultural credit system is far from reaching an adequate proportion of farmers, nor has it achieved a satisfactory rate of growth. The above situation is even more critical with regard to the "small farmer"

There are around 148,000 small farmers operating under various claims to property title who represent 83% of the total number of farmers. Institutional credit does not appear to cover more than 10-12% of this small farmer volume, this [illegible] caused by several factors. Many small farmers that do not benefit from institu[illegible] edit are forced to search for resources from unscrupulous sources in order [illegible] their agricultural operations. There exist in Honduras a large number [illegible] lenders", and small farmers are generally their most profitable clients [illegible] ies have estimated that small farmers pay non-institutional sources effective [illegible] rates of close to 40 percent per year, counting nominal interest rates and inflated prices on inputs and deflated prices on outputs.

To a great extent the BNF centers its operations in the agricultural sector on the small producer, even when proportion of credit to small farmers has gone down somewhat. The proportion of small farmers in the total of direct clients of the BNF ranges from 80% to 82% in recent years. As a result, the BNF is the leading organization in the institutional credit system.

Two years ago the BNF started a new, small-farmer supervised credit program, using an AID loan of $4,500,000 plus BNF funds of $2,900,000. Supervision was to have come primarily from DESARRURAL, the GOH extension service. The results to date of this $7,400,000 program have been positive, with an annual average of 5,250 farmers being handled. That number, together with the number of normal BNF clients, gives an approximate total of 8,700 small farmers getting credit from the BNF. This represents about 6% of the total small farmer producers in the country. The institutional credit system for the small farmers thus is serving only a small proportion of its potential clients. The reasons for this problem deserve an in-depth analysis, but it is obvious that the most important factors limiting the financing of small farmer operations are: (a) lack of orientation, instruction and motivation on the part of the government servicing institutions or, in other words, a lack of institutional initiative; (b) insecurity and lack of initiative on the part of the farmer; (c) nature of land tenancy, that is, a lack of proper and legal land titles of the farmers; and (d) the high cost of small loans which generally become very expensive even for the BNF, which must consider a break-even point. The solution to the problem of providing credit to the small farmer is complicated and depends essentially on the ability of the government to apply an aggressive policy. At the same time, however, we all recognize that credit in itself cannot do everything, but it is a necessary element. In this sense, credit must be accompanied by other complementary factors, such as technical assistance, education and motivation. Therefore, concurrence of the most influential organizations is needed to initiate a vigorous all-inclusive program so that a higher proportion of small farmers can be served.

Program Characteristics

Background

Historical Summary:

Sufficient data do not exist to trace the history of institutional financing for the small farmer in Honduras before 1950, the year in which the National Development Bank (BNF) was founded. This Bank, though it also finances various other operations such as industry and commerce and provides many of the services of a commercial bank, has traditionally concentrated its resources in the financing of the agricultural sector, especially of the small farmer. As pointed out in the Introduction, the BNF is the institution which plays the most significant role of all financial organizations in financing small farmer operations.

Institutional credit for the small farmer, which we shall call the Program, began in 1950 with the founding of the National Development Bank. If we were to trace a graph describing the first seventeen years of the Program we would note that it has registered a significant increase at a more or less stable rate in relation to the number of credits, clients and average amount per credit. This development in a straight line means there were no drastic increases, but rather that growth was induced during this period and that the credit action of the Bank was, in general terms, limited to the demand expressed by the clients. There are no significant changes in the policy, management and organization of the institution. Throughout the 17 years of the Bank's life, capitalization depended almost exclusively on funds contributed by the Central Government and by financing granted by the Central Bank. This explains the straight line growth experienced during that period.

A Supervised Credit Program was formed in 1952, but it disappeared without having produced positive results. The Interamerican Development Bank (IDB) made a small contribution to the BNF in 1968. Although important changes in the policy and operational system of the institution were not suggested, the injection of capital funds was an important factor in enabling the Bank to serve a greater number of clients in the Program. The IDB loan was not given for the sole purpose of small farmer financing. The intensity of the suggested Program change was not sufficiently serious to qualify it as the final chapter of the history of a traditional and routine system in the financing of our producers.

The third and most recent stage of the Program began in 1970, when the BNF negotiated a $4,500,000 loan with USAID, destined for the financing of small and medium farmers. Although it had the goal of having an impact without precedent, only minor changes in the policy, management and organization were needed to create a "Program of Supervised Agricultural Credit" (SAC) with funds from the BNF and the AID loan. A distinctive characteristic of this new Program was the determination to limit the financing each borrower could obtain and to limit the range of financiable items. Furthermore, the offer of technical assistance at the beneficiary level was another exclusive characteristic of the Program.

The results, according to a recent evaluation, have been positive. Significant increases in the production of financial items (general livestock, corn, beans, rice and sorghum) have been observed, especially in the basic grains. The total number of credits and of beneficiaries of the Program increased at a higher rate than traditionally had been registered. Even when the supervised credit included the "medium farmer", the majority of these fell within the limits established for our small farmer. The statistics of the Supervised Credit Program show that annually an average of 5,000 small farmers received credit. Adding this number to the annual normal number of BNF credit clients, we arrive at the approximate number of 8,700 beneficiaries who demand around 16,000 loans per year. In effect, the Program consists of two complementary portions: the "Supervised Agricultural Credit Program" and the credit which the BNF traditionally grants to small farmers.

The scope of actual Program activity cannot be quantitatively described easily due to the lack of consistent data. Nevertheless, it is possible to come up with some approximations. The Program is open and flexible for financing of almost any item of agricultural production that the small farmer may decide to use in almost any part of the country. From the 2-3% of the total small agricultural producers that participated in the traditional BNF Program, the number has increased to approximately 6% of all the 148,000 farmers in the country. This is still a small portion of the potential that exists for major credit demand, and makes one think that the Program must aim for much higher levels of participation in order to have its impact felt among the great mass of small farmers. Credit alone will not solve the agricultural development problems of Honduras, but it is one of the very first resources that ought to be brought to bear.

BNF plans for achieving more coverage contain some alternatives that could work out separately or in a complementary form to present Program operations. The Bank will soon obtain an IDB $ 9,200,000 loan which was originally assigned to finance big, medium and small farmers with no distinct limits for any of these groups. As a result of interest recently expressed by the Central Bank, it looks like Honduras will be able to obtain funds from the World Bank to be used for sub-loans to medium and big producers. A large part of the IDB loan funds could be switched in this case to concentrate on small farmer production. This would mean a significant growth of the Program, and would be highly desirable since sub-loans will also include the granting of technical assistance through the agricultural extension agencies (basically DESARRURAL). Another approach currently under study that could be used by the BNF toward financing small farmers is to increase and itensify loan concessions through farmer cooperatives and associations. The BNF has created twelve special commissions (work groups) to analyze its entire present structure and recommend possible solutions to policy and administrative problems. One of the more important topics being discussed is their experience in financing small farmers.

2 - Relation to National Credit System:

As pointed out in the INTRODUCTION of this report, the Central Bank does not directly grant loans to agricultural producers. Instead, it operates through other credit organizations of which the most important and aggressive is the Banco Nacional de Fomento. The Central Bank does not define or impose conditions on the Program.

The private banks are not linked to the Program in a well defined way either. There is no formal policy agreement or operational arrangement between private banks and the BNF to distribute participation in the Program. Since few loans that are granted by private banks to "small farmers" generally have the same characteristics (term, interest rate, collateral, etc.) as those granted to bigger clients, it is easy to underestimate the possible tie that might exist between this type of credit and the Program. The very few costumers of private banks that are small farmers might be called "symbolic users" of the Program (the term "symbolic users" identifying those small farmers that obtain institutional credit outside the BNF).

From another point of view we find that the participation of cooperatives, associations, etc. in financing small farmers is helping to fill a gap of considerable importance. The credit beneficiaries of these organizations, who are mainly small farmers, are also "symbolic users" of the Program. The BNF directly finances most of the sub-loans granted by those institutions.

In the statistic Table No.1-A that follows we can see the magnitude of the Program's distribution compared to other credit sources of the small farmer:

TABLE No. 1-A

DISTRIBUTION OF INSTITUTIONAL CREDIT GRANTED TO SMALL FARMERS IN 1 9 7 1

INSTITUTION	No. of Borrowers	% of Total	Approved Amount US$	%of Total	Average per borrower
A-Private Banks	1,000	5.95%	1,800,000	16.25%	$ 1,800
B-BNF	9,470	56.37	5,822,370	52.55	565
C-Coops & Assoc.	--	--	--	--	--
a) Coffee Coop.	1,152	6.86	1,511,250	13.64	1,312
b) ANACH Assoc.	496	2.95	135,999	1.23	275
c) INA	1,882	11.20	1,556,564	14.05	827
d) FECOAGROH	2,800	16.66	251,491	2.28	90
Sub-Total C-	6,330	37.68	3,455,304	31.20	545
TOTALS	16,800	100.00%	11,077,674	100.00%	$ 659

The prominent role of the BNF in small farmer credit is obvious from the above table. Nevertheless, the figures do not tell the whole story. For example, it is very possible that the real participation of the private banks is even smaller than that given in the table, since sometimes what the private banks call a "small farmer" does not meet our description.

With respect to the average loan per user, it should be noted that the highest (private banks) is three times larger than the BNF average. Some cooperatives and associations have higher averages than those of the BNF because occasionally their beneficiaries are groups that require a larger amount than that usually financed for most BNF clients.

In number of farmers serviced, the BNF has first place, followed by cooperatives and associations, with private banks in last place.

Table No. 2 below gives us some objective information comparing the Program with the institutional agricultural credit system.

TABLE No.2 Comparative State of the Small Farmers Credit and the Credit System for Farmers of all sizes.

	Loans for Farmers of all sizes		Small Farmer Program		
	Total Instit. System (2)	Total Banking System (3)	Magnitude (4)	% of Inst. System (4)÷(2)=(5)	% of Banking System (4)÷(3)=(6)
a) No.of Borrowers	18,384	12,054	16,800	91.0%	139.4% *
b) Financed Amount	$59,351,004	$55,895,700	$11,077,674	18.7%	19.8%
c) Average Amount/ client	3,228	4,637	659	20.4%	14.2%

*Note: This is higher than 100% because sub-loans of cooperatives and associations are included in the Program, but only primary loans in the banking system.

The more important conclusions from Table No. 2 with respect to the relation between the Program and the overall agricultural credit system are the following:

a) 91% of all the institutional agricultural credit users in the country are small farmers;
b) The total number of the Program's clients exceeds by 39.4% the total number of all types of users financed by the banking system (this is a consequence of the participation of cooperatives, associations, etc.);
c) Of all agricultural loans of the institutional system, the Program only absorbs 18.7% of total resources, using $11,077,674;
d) Of all agricultural loans of the banking system, the Program absorbs 19.8% of the amount; and
e) The average amount financed per farmer under the Program ($659) is only 20.4% and 14.2%, respectively, of that of the institutional and banking systems.

With the above statements the following conclusions may be drawn:

Private commercial banking has a very insignificant part in the financing of agricultural development of the country, especially that performed by the small farmer. At the same time, however, there are signs that commercial banks will significantly increase financing to that sector.

NICARAGUA

by:
Ing. Carlos Rene Ramirez, Chief
Rural Credit Department
National Bank of Nicaragua

September, 1972

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INTRODUCTION

Governmental institutions, particularly the National Bank of Nicaragua (NBN), are the most important sources of agricultural credit in Nicaragua. Nevertheless, commercial agriculture and cattle-raising receive financing to a lesser extent from private banks and other financial institutions.

Between 1965 and 1970 the amount lent to the agricultural sector rose from 421 to 798 million cordobas. The National Bank accounted for 67.2% and 70.0%, respectively, INFONAC for 5.0% and 12.8%, and private banks for the rest.

The downward trend in financing by private banks is striking. It reflects the uncertainties of agricultural production, which is exposed to fluctuations in climate and price.

To alleviate these deficiencies, the responsibility has been assigned to governmental lending institutions, which implement the government's policy of accelerating development of the agricultural sector. Similarly, the Central Bank, which governs monetary policy, endeavors through its instruments to channel resources toward medium and long-term investment projects and productive activities. Specifically, the Immediate Action Plan was put into effect in 1966. Implemented through the Production Development Fund (FDP), it channeled resources, obtained through bond issues and acquired by private banks with their surplus resources, into such products as rice, bananas, tobacco, coffee, and cattle.

In this way, the Central Bank made 78.1 million cordobas available through the FDP. This sum was lent to the NBN and INFONAC between 1966 and 1969.

In addition, the influence of foreign resources channeled to the agricultural sector is significant. In the same period, the Inter-American Development Bank (IDB), Agency for International Development (AID), and the International Bank for Reconstruction and Development (IBRD) made loans totaling about 329.7 million cordobas (47.1 million dollars) to Nicaragua.

Since the NBN is the most important source of agricultural credit, its loan policy should be described. This development-oriented lending institution makes two types of loans:

(a) Ordinary or bank credit, extended to producers classified as medium or large, whose production is intended primarily for export (cotton, coffee, cattle); and

(b) Rural credit, designed to meet the credit needs of small farmers.

Loans granted under this formula, for development of production, are cheaper. The interest rate is 9% for short-term and 10% for long-term

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loans. The chief purpose is to finance the production of basic grains for domestic consumption. The purchase of draft animals and milk cows is also financed; 75% of the cows are used for family consumption and 25% as a means of generating income for families in areas where cattle-raising is the principal activity. In the country as a whole, there are 28 agencies and 16 branches serving the financing needs of the small farmer.

From 1965 to 1970, both the amount of bank-type financing (farming and cattle-raising) and the amount of rural credit doubled, with slight differences. Bank-type credit rose from 380.6 to 717.0 million cordobas, and rural credit from 40.8 to 80.9 million.

In relative terms, rural credit absorbed 9.6% of NBN loans to the agricultural sector in 1965 and 11.2% in 1970.

With the external resources received by the Program, together with the local contribution, the credit needs of some 24,000 families have been met. It should be pointed out that generally speaking, the Program has enabled families to raise their levels of capitalization and income and, hence, their living standards, despite the erratic fluctuations to which agricultural activities are subject and despite the grave marketing problems besetting the large 1968 harvest, which had been stimulated by the easy credit which the NBN had extended under the Program.

The recent construction of 100 silos with a capacity of 2.4 million quintals, under the control of the Institute for Foreign and Domestic Trade (IFDT), is facilitating the storage of basic grains. At the same time, this will enable it, with its greater resources, to regulate prices effectively and help the farmer avoid losses.

PROGRAM CHARACTERISTICS

Historical Summary

Prior to 1959, the Government, acting through the National Bank of Nicaragua (NBN), tried in various ways to assist the small farmer with credit programs, the purpose being to incorporate him in the national economy. The legal formalities and guarantees required by the Bank had the effect of preventing the small farmer from enjoying access to this or other/institutional sources of credit. Only in special cases could he obtain one-year loans, secured solely by his crops. Consequently, the condition of the small farms continued to worsen, at least in relative terms, in the absence of increased capital formation, and they could not achieve participation in the market economy.

In 1959, the NBN initiated a Rural Credit program with a pilot agency in Ticuantepe, Masaya Department, utilizing new principles and close supervision, but applying more flexible guaranty requirements, in order to give small farmers access to credit. In that year, 138 families were granted loans, with satisfactory results, and all loans were repaid.

In 1962, the Government of Nicaragua authorized the National Bank of Nicaragua to obtain a loan of U.S. \$2.5 million from the Inter-American Development Bank (IDB). The purpose was to expand the Rural Credit program, which would grant loans of up to U.S. \$1,500 to small farm producers and serve 12,500 families in three years.

The loans were for a 20-year period at an annual interest rate of 1¼%, with an annual service charge of 3/4 of 1 percent. These favorable conditions, together with the country's economic tranquility resulting from the extraordinary growth of the agricultural sector in the early sixties, motivated the Bank to carry forward the difficult task of modernizing subsistence agriculture. To this end, it adopted new organization charts and employed and trained new contingents of agricultural experts. In 1965, the funds provided for had been disbursed, and so the contribution that was to have been made to the Bank was increased from US\$ the 1.5/sic/million provided for in the loan agreement, to US\$ 3.5 million. At the time, 5.4 percent of the Program's short-, medium-, and long-term portfolio was delinquent.

A new rural development effort began in 1966 with loan 118 SF-NI, by which US\$ 5.1 million was obtained, repayable in 20 years, at 2¼% annual interest, a service charge of 3/4 of 1 percent and a commitment fee of 0.5 percent. The goal of the Project was to give technical and credit assistance to 17,000 farmers with net assets of no more than \$7,200. Agricultural cooperatives and plots of the Nicaraguan Agrarian Institute (NAI) were also to be beneficiaries of the loan.

The local contribution of US\$ 6.8 million added 57% to the foreign funds for financing medium- and long-term investments and current production. By December 31, 1969, the entire loan had been disbursed, and the national contribution to the program was US\$ 4,010, (that is to say, US 4,010,875) above the amount originally contracted.

Finally, in September 1968, the NBN signed an agreement with the NAI under which the Bank would act as administrators in the management and financial control of the Supervised Farm Credit Program. The Program had been initiated by the NAI with the proceeds of a loan of up to US\$ 2 million from the United States through AID. When transferred to the Bank, the sum was reduced to US\$ 1 million. Moreover, when the Program was transferred to the Bank, 52% of that million dollars had already been disbursed by the previous administrative agency. The Supervised Farm Credit Program is administered under the Rural Credit Division and has continued its action jointly with the Rural Credit program. But it maintains a separate operating administration and records.

PERU

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December, 1972

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The main problems facing small farmers.

The economic problem facing small farmers is the limited size of their plots of land, which are uneconomic to farm. As discussed previously, according to samples taken in five agrarian agencies for the agricultural years of 1964-1965 and 1965-1966 in the Coast Plan 75% of the loans were for less than 490 dollars. There is a direct correlation between the size of the loan and the size of the plot of land; this allows us to deduce that in regards to the agricultural years mentioned above the size of the plots of land were very small. The volume of the output of small farms does not permit the marketing of outputs and therefore small farms are run for the subsistance of the farmer and his family.

The Role of Credit in the Solution of their Problems.

Generally small farmers did not have access to the conventional sources of credit such as private commercial banks or State Development Banks. The Supervised Agricultural Credit Program has contributed to incorporate these small farmers into the credit system by granting soft loans, that is to say loans with low rates of interest. Moreover, the program has contributed to improving the educational level of the farmer by making him tacitly carry out social activities to obtain his loan. Thus for example, the farmer who requires a loan from the Fund has to leave his rural area and go to the city to visit the officials of the bodies which are carrying out the program.

Political Social Structure.

The Credit Program has complemented the Agrarian Reform process which began with the establishment of small and medium size properties for farmers who were working as laborers on the farm. The position of being owners has allowed wide sectors of the rural population to become more directly part of the credit and marketing system. Obviously this process has caused the social position of the farmer to be modified.

The state of Agriculture and the Agricultural Potential of the country.

The Coastal Plan(+) is being carried out along the whole length of the Peruvian Coast. This program is aimed at helping small and medium size farmers.

Agriculture on the Peruvian Coast is characterized by two forms of farming. That is to say that there are agrarian sectors which are highly capitalized and have a high technological level, and other sectors where farming is a rather precarious form of existence and is labor intensive.

(+) The name of the plan comes from the geographical area which is served by the program and which embraces the whole of the Peruvian Coast.

In 1964, the Trust Fund Council was established to administer the Supervised Agricultural Credit Program and at the same time agreements were made with the bodies responsible for the program. Thus, the Agricultural Development Bank of Peru signed an agreement with the Office of Agrarian Reform (ONRA) and the Forestry and Hunting Service; all these organizations were autonomous bodies of the Ministry of Agriculture. Later on, in 1969, the Agricultural Research and Development Service, the National Office of Agrarian Reform and the Forestry and Hunting Service disappeared as autonomous bodies and all the administrative responsibility for the project was transferred to the Ministry of Agriculture.

Relationship with the National Credit System.

The Ministry of Agriculture (MOA) is the main body responsible for the agricultural development fo the country. The total amounts assigned to Agricultural Credit from the national budget to the MOA for 1971 and 1972 have been as follows:

Year	Total amount assigned (millions)	For Credit(millions)
1971	72.4	14.2
1972	174.2	30.0

Moreover, there is the Agricultural Development Bank (ADB), the aim of which is also to provide financial guidance to Peruvian farmers with internal resources provided by the Public Treasury with external financing. The ADB also uses the rediscount facilities financed by the Central Reserve Bank of Peru.

The Supervised Agricultural Credit Program is administered by the Trust Fund Council which is made up of representatives both from the MOA and from the ADB.

The present field of action of the program is that which has come to be called the Coast Plan, which is under the direction of the General Department for Agricultural Development of the Ministry of Agriculture. Basically the program embraces seven agrarian zones which are Agrarian Zone I (Piura), Agrarian Zone II (Lambayeque), Agrarian Zone III (Trujillo), Agrarian Zone IV (Lima), Agrarian Zone V (Ica), Agrarian Zone VI (Arequipa) and Agrarian Zone VII (Tacna).

Opportunities of employment.

No information has been compiled on whether the farmer borrowing under the program is the owner of the land or not. However, agricultural loans have allowed, specially on the small farms, the whole of the borrowers family to be assimilated into farming activities. Another positive effect of the program has been that on the medium size farms the agricultural loans have permitted an increase in the employment of temporary labor.

Savings and other Sources of Financing.

There is no formal program for promoting savings among borrowers. At the same time, there are no data which allow one to determine to what extent the farmers saved on their own initiative.

In regards to other sources of credit, as far as the Coast Plan of the Supervised Agricultural Credit Program is concerned, more than 20% of the borrowers also obtained loans from other sources, as can be observed in Table XVII ; More than half of the farmers who managed to obtain loans in addition to those granted under the Coast Plan, received them from local businessmen, friends or relatives. There is no information available on the amount lent by other sources as compared with that lent under the Plan.

A different System of Credit existed before the Coast Plan. More than 25% of the farmers taking part in the Coast Plan in the agencies which were interviewed did not use any form of credit before 1964.

TABLE XVIII

Sources of credit available to the borrowers, who were interviewed, before the implementation of the Coast Plan, by agencies, 1967

(Percentages)

Sources of Credit	Agencies					
	Cañete	Huacho	Pacasmayo	Motupe	Zarumilla	Total
None	4.5	22.0	31.9	42.0	21.7	26.7
Commercial Banks	- -	6.5	5.4	1.7	- -	2.8
Businessmen	38.0	11.4	13.5	6.1	3.6	14.3
Friends and Relatives	12.1	33.3	17.3	13.0	6.1	15.7
Agricultural Development Bank	33.3	20.2	7.7	9.5	8.6	14.6
Landowner, property-owner	12.1	1.6	21.1	1.3	- -	8.7
State Tobacco Monopoly Company	- -	- -	- -	- -	60.0	900
No information available	- -	5.0	3.1	26. 4	- -	8.2
TOTAL	100. 0	100.0	100.0	100. 0	100.0	100.0

Source: North Carolina University, Supervised Agricultural Credit Evaluation Program, Lima 1968. p.88

BOLIVIA

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September, 1972

37

FARM CREDIT CHARACTERISTICS IN BOLIVIA

Background

The revolution of 1952 and the subsequent Agrarian Reform are a milestone in Bolivian rural history. Before 1952, Bolivian agricultural was in a semi-feudal state using techniques that were labor intensive. However, in areas where the use of capital inputs paid off, such as mechanization for wheat production, the beginnings of a modern agriculture was being created. All this ceased during the Revolution when the hacienda owners lost their lands and investments. Private capital and entrepreneurial talent then withdrew almost totally from the rural areas. The former feudal laborers, who now divided up and occupied the hacienda lands, found themselves without fixed or working capital and regressed to primitive methods of production. Grave national food shortages developed which caused the Bolivian government with Point Four assistance to concentrate on developing the tropical lowlands around Santa Cruz, where the effects of the Reforma Agraria had been less severe and where there was a nucleus of large land owners interested in retaining possession of their lands by putting them into production. Large amounts of credit were, therefore, made available to these areas by government and private source.

Meanwhile the country waited for the social situation to stabilize itself in the traditional areas, where the effects of the Agrarian Reform had been much more drastic and unsettling. As stability returned to the traditional areas credit resources were expanded. However, the application of these credit resources was hindered by the structural problems (minifundia) and the socio-cultural isolation of the campesinos, already discussed in the introduction.

To overcome the reluctance of private investors to put resources into agriculture in the traditional areas,the State Agricultural Bank was charged with particular responsibility in this area by the government in 1954 on its reorganization.

INSTITUTIONS PROVIDING CREDIT TO THE AGRICULTURAL SECTOR

Central Bank

Within the structural and financial organization of Bolivia, the Central Bank is responsible for monetary and credit policy. The

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Central Bank is responsible for directing credit resources to the sectors of greatest priority to the country. With regards to credits for agricultural develoonment, the Central Bank has directed resources both to the state controlled agricultural bank and to the private banks (First National City Bank, Bank of Santa Cruz, Bank of America, Mercantil Bank, Popular Bank of Peru, National Bank of Bolivia, National Mortage Bank, and Bolivian American Bank), as well as to the Banco Nacional del Estado or State Bank that before the 1971 reorganization was the banking department of the Central Bank.

By various supreme decrees, the Central Bank has been authorized to use its monetary reserves to provide financing for particular programs in sugar and rice marketing and cattle production. The Central Bank has been most active in the financing of the sugar harvest, through the warrant system set up to finance the holding of part of the annual production of refined sugar.

TABLE III. Funds for Agriculture Discounted by Central Bank

Institution	Total Amount US$	%	Repaid	Amount to be repaid US$	%
Banco Agrícola	1,045,500	20.3	445.300	600,191	54.9
Banco del Estado	3,414,890	66.4	2,971,160	443,725	40.6
Private Banks	676,660	13.3	626,700	49,950	4.5
TOTAL	5,137,050	100.0	4,043,160	1,093,866	100.0

Examining the crops financed out of the fund's resources, it is apparent that the fund has been used to finance only the most profitable agricultural investments which are oriented towards the export market. (See Table IV). The small farmers or campesinos have only received indirect benefits from the activities sponsored by the fund, (particularly marketing of coffee), since they are not considered as being suitable subjects for commercial credit operations.

In 1972, the Central Bank received further funds from USAID in the form of the Agricultural Refinancing Fund for US$7,250,000 to be used for the expansion of the production, processing and marketing of wheat, oil seeds, milk and animal fats. It is hoped that the campesino sector will benefit considerably from this new fund since many of the marketing and processing constraints that hold down campesino production will be removed.

Bolivian Development Corporation (CBF)

Although in the past CBF dealt with direct loans to agricultural producers through the colonization program, as well as marketing credit for the sugar industry, since 1965 all agricultural production and marketing credit has been channeled through the Agricultural Bank. The CBF, at present, is limited to loans in Agro-industry and to wholly-owned subsidiaries or joint ventures, which are agro-industrial activities. CBF has received two global loans for $10 million each from the Inter American Development Bank (IDB) in 1961 and 1967. The CBF has five agro-industrial wholly owned subsidiaries.

Private Commercial Banks

General

Since the Agrarian Reform, many of the Bolivian banks in the Altiplano and Valleys have not made a single agricultural loan, because the withdrawal of private capital and entrepreneurial talent was almost total, from these traditional areas. It was only with the recent Agricultural Refinancing Loan for $7,250,000 mentioned on page that private banks are again taking an interest in the rural areas of the Altiplano and Valleys. In the tropical lowlands, however, with the rapid expansion of agro-industries based on sugar and cotton in Santa Cruz, the private banks have been quite active.

A rough estimate based on interviews with private banks revealed activity in the order of $8,000,000 in 1970. 14/

The breakdown by type of financing is as follows: export financing $4 million; financing of production and marketing $3 million; and financing of cattle production and marketing $400,000. These figures have been rapidly expanded in 1971 and 1972 particularly in cotton and cattle production with the Bank of America and Bank of Brazil being the front runners. However, all of this credit has gone towards large farmers and associations of large farmers and none of it has reached the small farmer because of his being an unattractive credit risk.

The main reasons advanced for the small farmers being considered unattractive are:

1) Lack of guarantees--The Agrarian Reform Law forbade the small farmer to offer his land as guarantee.

2) The small size of loans.

3) The difficulties in collection of loans.

4) The poor production possibilities because of lack of technology.

14/ Bolivia: A Survey of Agricultural Credit. Carmen Deere, March 1971, USAID/Bolivia, Page 25.

Campesino Savings

No private banks, until recently, has been interested in capturing the savings of the campesino sector, since the campesino is considered to be still in the "mattress" stage of saving. However, within the last year, the Banco Mercantil has opened a branch in Punata (Cochabamba) on a trial basis with encouraging results. The bank is considering opening more branches in the Cochabamba valley.

Agricultural Bank of Bolivia

1. Background

The Bank was founded in 1942 by supreme decree with the object of providing credits to farmers, carrying out their banking and commercial operations, and importing agricultural inputs such as fertilizer, seeds, and machinery. The original capital was $US 1,190,000. The Bank had four regional offices and operated as a private bank. In 1954, the Bank was reorganized to take on special responsibilities in conjunction with the Agrarian Reform Law. The basic objectives of the Bank were:

(1) To sponsor the financial, technical and organizational development of the rural sector.

(2) To give supervised agricultural credit of short and long terms of 18 months and 12 years respectively, with the following order of priority:

Supervised Credit Program of the Inter American Agricultural Service

Because of the seriousness of the campesino problem and the fact that the bank lacked the personnel and experience to develop a sizeable supervised credit program, as required in their new statutes, the Inter American Agricultural Service (SAI), sponsored by USAID, started its own supervised credit program in January 1955. The two institutions worked together. The Division of Supervised Credit of SAI was responsable for approving and supervising the loans. The program was modelled after the Farm Home Administration programs in the U.S.A. The Bank was responsible for disbursement

In 1963, the Supervised Credit Program was transferred to the Agricultural Bank. The Bank received 33 technicians trained in agricultural credit, and capital in the form of the loan portfolio and cash for $1,720,000. With the increased personnel the Bank then developed a nation-wide coverage of the country with 8 regional and 30 provincial offices. It is with this restructured bank, taking the period 1964-1971, that we will mainly be concerned.

The Restructured Agricultural Bank, 1964-1972

Source of Funds of the Agricultural Bank

The Bank has two main sources of financing its own funds, the regular line of credit, and external funds, called, "The Special Programs Line of Credit". The special line is subdivided into external funds that are loaned to the Bank and external funds that are only administered by the Bank on a fideicommission basis.

Distribution of Funds

As has been pointed out in the introduction, most of Bolivia's agricultural potential lies in the tropical lowlands. If the distribution of the Bank's funds are analyzed it is found that they correlate closely with this potential.

For example, the Department of Santa Cruz represents 42.9% in value and 18.2% in number of all loans given, followed in value by the Department of Beni, La Paz, and Cochabamba. The traditional areas, that are dominated by the campesino sector, such as Oruro, Potosí, Tarija and Chuquisaca only received respectively 2.0%, 3.1%, 3.7% and 3.9% of all funds, which is a partial explanation of why in the face of population increase, agricultural production per capita has declined in these areas over the period 1964-1971.

Terms of Loans to Borrowers

Interest Rate:- All loans have had an interest rate of 12% with a 0.5% commission for documentation with the exception of three special programs: Colonization, Rural Development, and Agricultural Development in Special Areas. These special programs, two financed by the Inter American Development Bank, (Colonization and Rural Development), and one financed by the Ministry of Agriculture, have had an interest rate of 6% and were administered through cooperatives or pre-cooperatives. The money was loaned to members of the cooperative at 8% and 2% was kept by the cooperative for administrative costs and capitalization. In no circumstances has the Bank been able to charge penalty interest on delinquent loans or been able to recover the extra costs of supervising rescheduled or delinquent loans.

Period of Loans: All loans for agriculture have been short term for up to 18 months. There are a few exceptions to this rule that have received 24 months. The loans to ranchers for working capital have also been short term (18 months), but loans destined for fixed capital such as breeding animals, barbed wire, etc., have had a grace period of 4 years and a repayment period of 8 years, or in total a period of 12 years for repayment of the loan.

Collateral or Guarantees: By law (until August 14, 1972)* the campesino was unable to mortgage his land or offer his titles in guarantee. Since he possessed no other capital goods of any value, the Bank accepted as guarantee either or both his animals (bullocks, sheep, etc.) and his future harvest. Because both these guarantees proved rather unreliable (disappearing before repayment deadlines), the bank recently has been insisting on letters of guarantee from small businessmen, often "padrinos", from the neighboring village or town that know and will guarantee the campesino.

The system seems to work well since very considerable social and economic pressure can be applied by the small businessman on the delinquent campesino. If no small businessmen are forthcoming to be guarantors, campesinos are required to sign letters mutually guaranteeing each other in case of default. This last system, the bank admits, has little value except as a means of scaring the campesino and bring home to him his mutual responsibility to see that repayment is made.

Trends in Loans by Type of Borrower

Another trend apparent in the Bank's lending policies is the decreasing number of loans which comprise the portfolio while the average amount of each loan increased annually up to 1970. (See Table VIII). For instance, in 1965 the Bank made 890 loans, by 1970 only 571 loans were granted for all programs. This trend was due to the policy of grouping campesinos into "agrupaciones" or pre-cooperatives and cooperatives whenever possible. (Discussed in Section g).

* By Supreme Decree on August 14, 1972, the Agrarian Reform Law was changed to allow land holdings smaller than those specified on page 18 to be mortgaged. The demand for this change came not from campesinos but from intensive dairy and poultry producers around Cochabamba, who had plots of land within the limits set by the Reforma Agraria for campesinos. The inability to mortgage their highly capitalized operations severely restricted the expansion of these commercial enterprises.

TABLE VIII VALUE OF LOANS BY TYPE OF BORROWER - FOR ALL PROGRAMS

Year	Total Loans			Campesinos			Farmers			Cooperatives			Pre-Cooperatives			Associations			Small Enterprises		
	No. of Loans	Members	Amount US$	No. of Loans	Members	Amount US$	No. of Loans	Members	Amount US$	No. of Loans	Members	Amount US$	No. of Loans	Members	Amount US$	No. of Loans	Members	Amount US$	No. of Loans	Members	Amount US$
1965	890	3,318	2,999	421	421	274	433	433	1,653	19	1,335	530	1	140	15	11	984	431	5	5	95
1966	937	3,510	3,019	458	458	265	433	433	1,495	17	1,498	336	8	468	134	8	640	114	13	13	676
1967	743	8,687	3,566	341	341	200	306	306	1,015	51	5,925	1,762	32	419	122	10	1,693	345	3	3	123
1968	562	7,548	3,840	197	204	146	203	204	1,284	56	2,481	1,255	88	2,997	219	9	1,652	492	9	10	444
1969	679	7,026	6,123	152	153	80	337	337	2,649	66	2,616	1,134	92	1,586	335	10	2,263	880	22	71	1,044
1970	571	23,091	7,204	138	138	84	287	287	1,712	42	19,127	3,354	78	946	232	8	2,514	426	18	79	1,397
1971	369	7,511	4,807	97	97	49	154	154	1,319	42	2,297	1,661	48	535	129	19	4,398	970	9	30	679
TOTAL	4,751	60,691	31,556	1,804	1,812	1,098	2,153	2,154	11,127	293	35,279	10,032	347	7,091	1,186	75	14,144	3,658	79	211	4,458

NOTE: In 1971 the Sheep Program under Special Programs has been omitted because of lack of information.

Commercialization of Rice 1971 is not included because it does not affect the statistics.

SOURCE: Statistics Department - Agricultural Bank of Bolivia

In 1971, a drastic drop in number and amount of loans will be noticed for campesinos, cooperatives and pre-cooperatives (the peasant sector), while the amount of funds for commercial farmers only dropped slightly and the funds for associations of large farmer nearly doubled. This change in 1971, which will be accented even more strongly in the data for 1972, when available, is due to the bank trying to come to terms with the dichotomy in its institutional nature (discussed in Section k). The Bank from its 1963 statutes is by nature a development bank and must give primary consideration to the campesino when allocating funds. The Bank does make a large proportion of loans to this group. In mass, however, these loans are a small portion of the total value of the loan portfolio.

According to the analysis of Aurelio Fernandez Diaz, between 1964 and 1971, 2107 campesinos received loans under the Regular and Special Lines of Credit which corresponds to 38.5% of all loans approved. However, these loans only amounted to 3.5% of all funds loaned out. As can be seen, the funds of the bank benefited most the cooperatives, the ranchers, commercial farmers and associations in that order.

TABLE IX - LOANS BY THE AGRICULTURAL BANK BY TYPE OF BORROWER 1964 - 1971. IN US$

Type of Borrower	Number	%	Amount	%
Campesinos	2,107	35.8	1,102,750	3.5
Farmers	1,974	33.5	4,812,000	15.4
Ranchers	782	13.3	8,891,916	28.4
Farmer-Ranchers	345	5.9	2,583,000	8.3
Cooperatives	232	3.9	9,635,916	30.8
Associations	448	7.6	4,245,166	13.6
TOTAL	5,888	100.0	31,270,748	100.0

SOURCE: Study by Aurelio Fernández Diaz. 19/

g) Intended Role of Cooperatives and Pre-cooperatives in Agricultural Bank's Planning

The Bank's most important objective as defined in its statutes was to give credit to campesinos. As described in this paper, it could also have been one of the more important resources, if

19/ Banco Agrícola de Bolivia. Estudio sobre las Causas de Morosidad de los Préstamos. Aurelio Fernández Diaz y Asociados, La Paz, June, 1971, Annex "3-1", page 18.

progress was to be made in the traditional areas. The bank was quite aware that its administrative costs for small loans had been prohibitively high and that it lacked the kind of organization to take care of the credit needs of thousands of small farmers. The average size of loan that the Bank must make to cover the costs of granting and servicing a loan was calculated to be $us. 6,000 by Fernández Diaz 20/. The average size of all loans made to individual campesinos between 1964 and 1971 was only $us. 523. 21/

The Bank was faced with the following choices: (1) to increase interest rates on small loans to cover the added costs; (2) subsidize small loans through earnings on large loans, but restricting the number of small loans to those that could be carried from bank earnings; (3) make money available from exterior sources (outside the bank's earnings) to subsidize the extra costs on small loans; and (4) organize cooperatives in which farmers assumed most if not all of the responsibility for approving loans and collecting debts among themselves, thereby reducing the cost of administrating the loans.

The period 1965-66 can be described as the period when choice (2) was selected. The period 1967-69 was when solution (4) was tried. Since 1970, there has been considerable disillusionment among bank officials as to the solution to the problem of giving credit to campesinos. The Bank officially suggested that since credit to campesinos has such a large social development and political component, a separate institution such as a Rural Development Bank should be set up with funds that can permanently subsidize credit to the campesino sector.

<u>The Bank's Experience with Cooperatives</u>

The Bank's faith in cooperatives as a solution for getting credit to large numbers of campesinos was extremely short lived for the following basic reasons:

> The possibility for making loans to cooperatives depended on the efforts of other institutions to bring such cooperatives into being. Unfortunately, the government's support for such activities was very limited.

20/ Banco Agrícola de Bolivia. Estudio sobre el Costo de los Prestamos 1971-'72. Aurelio Fernández Y Asociados, La Paz, Page 30.

21/ Banco Agrícola de Bolivia. Estudio sobre las Causas de Morosidad de los Prestamos, Junio 30, 1971. Aurelio Fernández y Asociados, La Paz, Appendix "3-1".

Cooperative formation was given every encouragement, but little if any training or instruction was provided in order that the members might be able to take an active part in the management of their cooperative. The cooperatives that were promoted were not based on sound social development principles, but were formed solely in order to receive credit from the Bank.

Cooperatives will not succeed unless there is sufficient leadership and managerial skill to make them work. In the Bank's experience credit was often abused through bad management of the cooperatives or sought when there was no means of producing an income to repay the loan.

In the management vacuum that developed many cooperatives were controlled by unscrupulous "sindicato" or political leaders, who attracted by the new source of funds, manipulated the cooperatives for their own ends, (see case study on "Cooperativa integral Yapacani"). Money was often divided up with no details of to whom the money was given. When the bank tried to take action to recover its money, if found that the former management committee had disappeared and that the new committee would not accept responsibility for what had happened to the previous funds. 22/

Acquiring credit funds for cooperatives became an important political game. In general, it could be said that in regions (La Paz and Cochabamba), where sindicato leaders could exert the greatest political pressure on the government, was where the greatest amount of credit funds were allocated. Delinquency over repayment became common place. As governments changed so rapidly (see Introduction), pledges of political support by the syndicate leaders could be given in exchange for a new credit or rescheduling of the old loan. The Bank, as a State Institution under direction of the government, was unable to resist these pressures.

The very high percentage of failure of these cooperatives has complicated the educational and promotional work with existing cooperatives and jeopardized future success. The success of cooperatives depends on the favorable attitude of the rural people. Unfortunately, except for a few cases, the names of cooperatives and credit have been discredited and they are considered by the rural people as the setting that allows unscrupulous opportunists to take advantage of humble peasants.

22/ René Fernández. Agricultural Extension Agent, Province of Arani, Cochabamba - Personal Interview in July 1972.

Repayment Record of the Bank

It is with this subject that judgement can be passed on the success or failure of a credit program. The discussion will be divided as follows:

(1) Loans rescheduled by Type of Borrower

According to the study of Fernandez Diaz 23/ of a total of 5,838 loans for $31,270,500 approved between 1964 and 1971, 2,896 loans for a total of $15,844,666 were rescheduled. This represents 49.2% and 50.6% respectively, of the number and amount of loans approved. The following table demonstrates the performance of each type of borrower. It will be noted that the campesinos have the highest percentage by value of rescheduled loans, 77%, and the cooperatives have 54.3%.

TABLE XI - LOANS RESCHEDULED BY TYPE OF BORROWER - 1964-1971

Av. Size of Loan Rescheduled	Type of Borrower	Loans Rescheduled		No. of Loans Approved	
		No.	Value	No.	Value
11,695	Ranchers	449	5,251,083	57.42	59.05
48,483	Cooperatives	108	5,236,250	46.55	54.34
2,392	Farmers	959	2,294,000	48.58	47.67
6,185	Rancher/Farmers	182	1,126,000	52.75	43.59
5,815	Associations	187	1,087,416	41.74	25.62
840	Campesinos	1,011	849,916	47.98	77.07
		2,896	15,844,666	49.18	50.67

SOURCE: Study by Fernández Diaz, Appendix "3-2".

2) Delinquent Loans by Type of Borrower

Here it will be noticed that the campesinos have by far the lowest delinquency rate by value and number 6.49% and 10.1%, respectively, which would indicate that they were able to take advantage of having their loans rescheduled. It will also be noticed that the cooperatives had the second highest delinquency rate by value and the highest in numbers and did not take advantage of having their loans rescheduled, confirming the reputation that cooperatives have acquired.

23/ Banco Agrícola de Bolivia. Estudio Causas Morosidad, Appendix "3-1".

TABLE XII - DELINQUENT LOANS BY TYPE OF BORROWER - 1964 - 1971

Av. Size delinquent Loan	Type of Borrower	Delinquent Loans		No. of Loans Approved	
		No.	Value	No.	Value
1,118	Ranchers	215	2,405,833	27.49	27.06
25,222	Cooperatives	73	1,841,250	31.47	19.11
2,554	Farmers	254	648,750	12.87	13.49
3,567	Associations	125	445,916	27.9C	10.51
5,733	Rancher/Farmers	75	430,000	21.73	16.65
334	Campesinos	214	71,583	10.16	6.49
		956	5,843,332	16.24	18.69

SOURCE: Study by Fernández Diaz, Appendix "3-3".

Criticism of the Bank

In defense of the Bank, it is accepted that one of the main inconveniences encountered by the Bank to reach the small individual farmer or campesino is that it must apply its loan regulations with little or no flexibility in order to avoid increases in its delinquent loan portfolio and basically to comply with its international loan agreements. Also, the general laws governing the Bank say that the Bank will coordinate loan policy with the Ministry of Agriculture. On the other hand, the Bank is an independent institution. The conflict between these two assertions becomes evident in the field in cases in which the Ministry of Agriculture says it wishes to stimulate the production of a given crop (often wheat) in a given area of small producers, and these small producers do not meet eligibility criteria of the Bank. How - ever, various criticisms can be made against the Bank:

(1) In the study on the causes of loan delinquency by Aurelio Fernández Diaz, it was found that provincial agents of the Bank only stayed an average of 17 months in any one agency before being transferred 26/. If one is correct in thinking that at least 6 months are needed to familiarize the

26/ Banco Agrícola de Bolivia. Estudio sobre las Causas de Morosidad de los Prestamos. Junio 30, 1971. Aurelio Fernández y Asociados. La Paz. Page 10.

agent with the province, and that the last six months are needed for a proper handover and orientation of the new agent, then only 5 months are left for effective work. To be successful an agent should be seeking out good borrowers and good investment prospects in his area. He should be so familiar with his province that he will be adept at reviewing an application and be able to determine the pay-off prospects of the loan.

Five months is hardly long enough to get this expertise and it is no wonder that agents authorize loans, which must subsequently be extended, or go bad.

(2) The provincial agents are the contact with the clients of the Bank. These agents handle relatively large amounts of funds. Yet these men are underpaid. The temptation, therefore, to accept "gifts" or "kick-backs" to speed up loan processing is present and commented on. Also, low pay is associated with low incentive.

(3) Because of the bureaucracy of the Bank, loan requests are processed extremely slowly. There are frequent complaints of the farmer finding that by the time his loan is approved, he is past the point in the crop year, when the loan will be of use to him.

<u>Dichotomy in the Bank's Nature</u>

The Bank is the only agricultural development bank in the hemisphere which receives no subsidy from the central government. The Bank must pay its own way. Yet, because it is a government bank, it does not have a free hand to operate on a strictly commercial basis. Many of the branches maintained by the Bank do not cover their costs, particularly in the traditional areas. These branches are maintained because the concept exists that the Bank, using the primary agricultural credit institution in the country, should blanket the rural sector with its services.

The Supreme Decree under which the Bank operates says the Bank must give primary consideration to the campesinos when allocating loan funds. As stated on page 31, the study by Fernandez Diaz shows that on all loans under $us.6,000, the interest earned does not cover the cost of granting and servicing a loan. Also, the study on loan delinquency by the same author showed that over the period 1964-1971 the average size of loan to campesinos was only $us. 523. As can be seen, the Bank is not in a good position to provide the type of small loan needed by the campesino, particularly when this loan must be supervised. Operating realities are in direct opposition to the sentiment of the Supreme Decree.

Summary of Bank's Dilemma

In the Bank's experience, campesinos are not worthwhile customers for credit. However, the social benefits from helping the mass of campesinos through credit to introduce new practices and raise their level of output and living are very evident to the government. A decision has to be made, therefore, as to whether the Bank is to become a true development bank, or whether the commercial banking orientation that now prevails should be given more emphasis. The Bank itself would like to be absolved from all responsibilities for the campesino sector. They have suggested to the government the creation of a "Rural Bank", receiving a subsidy, which should have total responsibility in this area.

Ministry of Agriculture: Funds for Agriculture in Special Areas

In a move to partially fill the gap left by the Agricultural Bank's reluctance to extend further credit to the campesino sector, $us.390,000, derived from the sale of a donation of Argentinian wheat to Bolivia, was placed in 1971 in a fund for credit to agriculture in the traditional areas. The fund was to be managed by the Agricultural Bank on a fideicommission basis with all loan approval and supervision to be handled by a special section in the Ministry of Agriculture.

After 3 years, in 1974, if the present experiment is successful, it is proposed that the fund be used as a base for the creation of a Rural Cooperative Bank. The fund has been operating less than a year, so no judgement can be made on success or failure. However, political pressure in the allocation of funds can already be noted. Loans are given to cooperatives at 6% interest for an eight month period. The cooperative charges its members 8%, and 2% is kept for capitalization of the cooperative.

National Federation of Savings and Loan Cooperatives

The Federation of Credit Union Cooperatives is one of the few private, non-banking institutions making some agricultural production credit available to campesinos. Organized in 1962 to coordinate, assist and promote the credit union cooperatives which had sprung up in most of the major cities of Bolivia, the Federation since that time has sought to expand its membership through the promotion of cooperatives in the larger towns and villages of the rural areas of Bolivia. This trend was intended to change the orientation of the Federation from one which emphasized consumer-oriented urban cooperatives to one emphasizing production-oriented agricultural cooperatives in the neglected rural areas. The reorientation was considered necessary if the Federation was to continue its spectacular growth (1962: 5 coops, 1966: 139 coops. 57,544 members, $b. 51,578,660 (US$4,298,221) savings). This was because consumer-oriented cooperatives were not creators of wealth and most of the production resources and production possibilities were considered to be in the rural areas. The Federation now has 84 cooperatives in rural areas out of a national total of 210 cooperatives.

The Federation first became active in agricultural credit in 1967 with their "directed credit for agricultural production program" under the impetus of two USAID local currency loans, one for $350,000 for wheat production and one for $65,000 for rice marketing. The funds, provided at 4% interest per annum for 20 years to the Federation, have been disbursed to the member cooperatives.

The credit risk for these programs was divided eventually between the Federation and its member cooperatives, the cooperatives receiving the funds at 8% interest per annum and re-loaning to their sub-borrowers at 12% for one (1) year. The sub-borrowers for the program funds were first approved at the cooperative level by the credit review committees and then once again by the Federation's credit committee for program loans. This credit review was considered vital for providing competent technical assistance in lending policies to the cooperatives.

The funds for the wheat program were provided for as follows: the Federation provided 55%, the cooperative 35%, and the individual member receiving the credit - 10%. The individual members were also required to make a forced saving (as paid in capital with their cooperative) of 10% of the credit received from their cooperative. Due to these restrictions, the production loans were quite small. The wheat program credit, for example, reached 279 sub-borrowers in 1967-68, and 434 in 1968-69, for an average loan of US$ 118 per member. Based on the number of hectares reportedly brought into the program, this sum financed 1.7 hectares of wheat land per sub-borrower.

Of fundamental importance, however, was the fact that the Federation was not equipped to provide member cooperatives with the technical assistance required by the credit program. The entire supervisory staff of the Federation consisted of an Agronomist in charge of the directed credit program and four fieldmen with little agricultural experience.

Very wisely the Federation abandoned the wheat program until it could be shown that participation in the program could be profitable to the various cooperatives involved. Surprinsingly, the Federation reported a low default rate on the wheat loans. Since the Federation received a long-term credit for the program, it was able to reschedule the cooperative debts. As of June 30,1972, only US$ 12,510 out of the original loan of US$ 65,000 was outstanding. Not one cooperative is in danger of dissolution and all of them have acknowledged responsibility for their debts. The Federation has every confidence in recuperating all credit extended.

The rice program met considerably fewer difficulties since it aimed mainly at providing the campesino with working capital for the harvesting and marketing of his crop. See Table XVII. This type of loan is much safer since it is based on actual production to be marketed and not dependent on such factors as climatic conditions and proper application of new inputs. The financial requirements of a limited marketing program of this nature are considerably less than for a production program, and the accrued benefits to the farmer are significant. The rice program was dropped, however, in 1970-71 because the participating cooperatives in Sànta Cruz department stopped growing rice, because of low returns, and devoted themselves to sugar cane, and later, cotton production, where other credit programs were available from sources such as the Agricultural Bank.

In summary, the Federation's first programs in agricultural credit have not been very successful. However, the Federation seems committed to the idea of an agricultural credit program. In January 1972, the Federation submitted to representatives of the World Cooperative Movement a list of credit needs of cooperatives with potential agricultural programs for the total of US$ 945,833 and a list of actual needs for projects approved but not capable of being funded for

However, one note of caution must be made. Up to the present date, the credit union movement has not clearly shown its ability to operate in the agricultural production field. The present 84 cooperatives in rural areas are in some way an extension of the urban cooperative moment. It is estimated that only a small percentage (10%-20%) of rural cooperative credit in fact goes towards agricultural activities, with the exception of loans under special Federation programs; e.g. wheat.

The majority of the credit goes towards consumption loans or investment in housing, trucks or merchandise. Since each of the credit union cooperatives are autonomous entities, they do not report on their individual accounts or submit their loan portfolios to the Federation for review. The credit union cooperatives in the rural towns and villages in fact draw their membership from the bourgeosie rather than from the campesinos. Up to the present, the credit union movement has not taken roots with the truly rural population.

Yacimientos Petrolíferos Fiscales Bolivianos (YPFB)

The government owned petroleum company (YPFB) started a promotional campaign in 1968 to develop an expanded market for fertilizer,because of the proposal to build a nitrogen fertilizer plant in Santa Cruz. The fertilizer was imported in bulk, delivered direct by truck to the campesino in his village and sold at about 20% below the prevailing commercial retail price, on credit, and with no interest charged.

The only condition was that the money should be repaid to YPFB via the Agricultural Bank when the crop was sold. Farmers received an average of four bags of fertilizer per hectare. This recommendation was based on soil tests conducted in cooperation with the Ministry of Agriculture. In conception, the plan was extremely advantageous to the campesino, when compared to the difficulties of transportation, cash payment, etc., normally experienced by the campesino in buying fertilizer from commercial houses. However, the results after 4 years of the program, 1968-72, are far from satisfactory and the program has been abandoned. The statistics as far as they are available are as follows:

TABLE XVIII - FERTILIZER PROMOTION CAMPAIGN 1968-1972
YACIMIENTOS PETROLIFEROS FISCALES BOLIVIANOS

	Sucre		Potosi		Tarija			
	Summer		Summer		Winter		Summer	
	Total Loaned	% Recovery	Total Loaned	% Recovery	Total Loaned	% Recovery	Total Loaned	% Recovery
1968-69	5,500	50	4,441	53	-	-	2,935	22
1969-70	15,448	53	12,019	57	4,758	74	2,924	72
1970-71	20,838	30	1,878	92	4,131	78	15,670	19
1971-72	3,708	17	6,497	55	16,291	78	-	-
	45,494		24,835		25,180		21,529	

Source: Fertilizer Division, YPFB

The overall repayment rate of 57.8% from an investment of US$ 117,038 is very disappointing. The reasons advanced are:

1. Very little supervision was given to the campesinos after the handing over the fertilizer. There was little follow up on the growing crop to see that maximum possible yields were obtained.

2. No steps were taken to verify the profitability and assured markets for the increased crops harvested. (In Cochabamba, Sucre, and Tarija, there were marketing difficulties with wheat).

The very consistent repayment records for the winter program in Tarija should be noted. This program only worked with land under irrigation.

Commercial Credit

Credit made available by the commercial houses to the large farmers for the purchase of agricultural inputs is an important element of the total credit operating in the agricultural sector.

Hosever, all commercial houses except one reported that all sales to campesinos were strictly on a cash basis.

The hope of moving more fertilizer and other inputs to the rural areas was seen by some commercial houses to lie in the expansion of a consignment system with small independent distributors or successful cooperatives who ran "country stores" which stocked agricultural inputs for sale to campesinos. There are probably not more than a hundred stores stocking agricultural inputs in Bolivia, the bulk of the smaller stores being concentrated in the Cochabamba valley and in Northern Santa Cruz.

The potential for increased business was seen as so considerable, that one commercial house"Servicio Agricola Comercial Ltda.," had six university trained agronomists and four jeeps for promotional work with these country stores. The agronomists were available to the country stores to give advice on the use of various insecticides, fungicides, etc., and to introduce new products. The goods on consignment from the commercial house were normally interest free for 60 days. The same retail price is maintained at the commercial house and at the country stores to encourage the campesinos to buy in their own community.

Another commercial house "Grace Ltd." relied more on "rescatadores" who can be various described as "produce middlemen", money lenders" or "loan sharks", depending on your point of view. These men make the major part of their income by bulking up small lots of thecampesinos' harvest, such as potatoes, and then moving it in their trucks to the main urban markets for sale. However, these truckers also operated as money lenders so as to be sure that they would be able to commercialize the campesino's harvest. They charge 8-10% interest per month with adequate security, since the loans were usually made in the trucker's village. Most campesinos took loans from the truckers because they did not have adequate funds to complete the crop cycle. Another alternative of the system is for the campesino to sell the standing crop at a sacrifice price to get a credit advance for completing the crop year.

Whatever system was used, the "rescatador" had a very keen interest in the health and yield of the crop. "Grace Ltd." had a large number of clients among the "rescatadores" to whom they gave credit for fertilizer, insecticides, etc. The "rescatador" would then actively promote the use of this profitable technology among his "client campesinos" as part of the credit he gave them. "Grace Ltd." considered these rescatadores remarkably knowledgeable about the technical use of these inputs. This activity by rescatadores as technical innovators was mainly restricted to areas where yield potentials with the new technology were high, such as the Cochabamba valley. The "rescatadores" received their fertilizer, etc., from "Grace Ltd." at sale price, but with six months interest free.

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INTRODUCTION

Various types of credit programs have been used throughout the world to treat small farmer development problems. Three general approaches have been emphasized: (1) An integrated strategy where credit is one element in a package of services provided to small farmers. This technique has been popular in Asia and parts of Africa. (2) A non-integrated approach has been more frequently used in Latin America. This includes credit plus some technical assistance and is often called supervised or directed credit. (3) Still another technique used might be termed the "filter down" approach. In this case attempts are made to substantially increase the total size of the agricultural credit portfolio, the assumption being that part of the increase in credit will filter down to small farmers. A good deal has been said and written about the first two approaches. Relatively little attention, however, has been paid to the results of the filter down strategy.

The recent Brazil Experience provides an excellent case of this latter approach. In this paper we attempt to assess the extent to which Brazil's overall rural capital market has serviced small farmer needs. Because of the general lack of information on informal rural capital markets, however, emphasis will be placed on formal market actions. 1/ Brazil has been very aggressive in the past dozen years in expanding formal agricultural credit. Some specialized small farmer credit programs have been introduced, but they have been relatively unimportant in comparison with the overall agricultural credit buildup [23, 66].

The Institutional Make-Up of the Rural Capital Market

Brazilian agricultural credit policy can best be understood when one has some knowledge of local institutions, and their evolution over time. Some limitations on modifying policy stem from the historical development of these institutions. This section highlights the evolution of credit institutions, programs, and policies affecting agriculture in Brazil. Some attention is also paid to the methods used to allocate the supply of institutional credit.

Prior to the creation of the Central Bank in 1964, the Bank of Brazil (BB) played the dual role of being the largest commercial bank and a bank's bank. The BB is a part-public, part-private bank with the federal government being the primary stockholder. With its network of over 600 agencies it is often the only source of institutional credit in many isolated regions. Historically, the BB has been the largest single source of agricultural credit in the entire country. During the period 1958-1967 it supplied about 90 percent of the total amount of formal agricultural production credit in the country.

1/ In this study the terms 'formal' and 'institutional' capital markets will be used interchangeably. These terms will indicate credit-savings activities in institutions at least partially influenced by banking regulations: public and private banks, legally recognized cooperatives, savings and loan associations, and credit associations. The terms 'informal' and 'non-institutional' will refer to other credit-savings activities among friends, relatives, with merchants etc.

Since 1952 the Development Bank of the Northeast (BNB) has also provided an increasing proportion of total agricultural credit in that region. As with the BB, the Federal Government is the major stockholder in the BNB. The BNB carries out both commercial and development banking functions, but as will be argued later, the commercial orientation has taken precedence in recent years.

The National Bank of Cooperative Credit (BNCC) is also active in agricultural lending. The BNCC grew out of an earlier cooperative credit bank which was converted into a stock company in 1966 with major control in the hands of the Federal Government. The BNCC has the responsibility of providing technical assistance and credit to all types of cooperatives. It has often financed small rural cooperatives unable to obtain credit from other sources. Its lack of adequate structure and resources, however, has restricted its activities largely to a complementary role alongside other official and private banks.

In summary, the National Monetary Council and the Central Bank have five general functions regarding agricultural credit: (1) establish the norms for agricultural credit granted by official and private banks; (2) provide funds used for discounting approved forms of agricultural credit; (3) coordinate and audit the actual application of these funds; (4) advise individual banks on agricultural lending practices, and (5) assist in training bank employees in the Rural Credit System.

The Rural Credit Law of November 1965 was a further attempt to create a more comprehensive rural capital market in Brazil. 8/ A major aim of the law was to force non-governmental banks to become more aggressive in making loans to agriculture [80]. Partially as a result of this law the proportion of total agricultural credit provided by the BB, BNB, and BNCC has dropped substantially during the past few years. However in 1969 these three institutions still supplied over 50 of total rural credit. 9/

Agricultural Credit Policies and Programs

The Rural Credit Law of 1965 is the basic enabling legislation defining agricultural credit policy. Its overall objective is to increase the supply of low cost agricultural credit. Four objectives were specified in the law: (1) to stimulate farm investments, (2) to provide additional working capital to farmers, (3) to strengthen the economic position of farmers, particularly small and medium sized units, and (4) to encourage the application of modern technology to agriculture.

6/ Instituto Brasileiro de Reforma Agraria (IBRA), A Estrutura Agrária Brasileira, (Rio de Janeiro: IBRA, 1967), p. 65.

8/ Law 4,829 of November 5, 1965. Additional Resolutions (5 of 1965, 69 of 1967, 97 of 1968, 181 of 1971 among others) have aided the implementation of the basic law.

9/ Banco Central, Credito Rural, Dados Estatísticos, 1969, p. 10.

The law directed that at least ten percent of the commercial bank deposits be committed to agricultural lending. This resulted in an increase in the total credit available to agriculture as well as in the number of banking agencies lending to agriculture. The law further specified that interest rates on agricultural credit could not exceed 75 percent of the rates applied to normal commercial loans. Loans of an amount less than 50 times the minimum wage were assigned even lower interest rates. 10/

Subsequent Central Bank resolutions for implementing the law have special significance. Resolution 5 of 1965 required commercial banks to hold 25 percent of their total deposits in compulsory deposits, 10 percent of which could be held in certain types of rural loans or agricultural bonds. Eligible loans could not exceed certain maximums (initially Cr$ 3,300), could not carry terms of less than 120 days or more than one year, could not carry total charges of more than 15 percent, and marketing loans could not exceed more than 25 percent of the total. Resolution 100 reduced some of the rural credit incentive by permitting a larger proportion of compulsory deposits to be held as adjustable treasury bonds earning six percent nominal interest plus monetary correction, compared to negative real interest rates on agricultural loans. 11/

Resolution 69 of August, 1967, directed all banks to commit at least 10 percent of their deposits to agricultural loans. 12/ Deposits not complying with this regulation would have to be deposited with FUNAGRI, the fund created by the Central Bank to assist industrial and agricultural development. Such deposits would only earn a six percent nominal interest rate compared to the 18 percent which could be earned on agricultural lending. Several types of lending were eligible: (1) working capital for agricultural processing and industrialization, (2) investment capital for pastures, reforestation, breeding stock, machinery, and other long-term investments, (3) agricultural marketing credit, and (4) credit for fisheries.

Several aspects of the rural credit legislation encouraged banks to concentrate their agricultural lending in a few large, short-term loans emphasizing marketing rather than production activities. In addition to the 12 percent rate of interest on agricultural credit, banks are permitted to charge a four percent inspection commission on loans under 50 times the minimum wage, but six percent on loans over that amount. Moreover, the commission can be charged on marketing loans without carrying out the actual inspection procedure.

Marketing loans are attractive because the interest can be discounted from the principal which is not the case for other types of agricultural lending. Furthermore, marketing loans tend to be shorter term and less

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10/ Fifty minimum salaries equaled Cr$11,280 in mid-1971. This equaled $2,062 at a dollar exchange rate of Cr$5.47 in effect September, 1971.

11/ Inflation rates in Brazil have ranged from 20 to 90 percent during recent years while nominal interest rates plus commissions on agricultural loans have not exceeded 18 percent.

12/ In fact, certain types of deposits were excluded so that the resolution affected about 85-90 percent of total commercial bank deposits.

risky. The purchase and sale of agricultural products usually occurs soon after harvest, and the entire transaction may only take 60 to 120 days. Production loans must be made for an entire growing season, and there are obvious uncertainties about how much will be produced and the farmers' ability to repay.

Short-term loans have another advantage. Banks have to meet credit requirements based on quarterly calculations using month-end balances. Due to the low return on these obligated uses of deposits, and the wide fluctuation in total deposits, banks prefer short-term agricultural loans so that total volume can be periodically adjusted to just barely meet minimum requirements. To avoid exceeding the 10 percent limit, some banks have hedged by placing funds in FUNAGRI deposits earning six percent which could be quickly refunded rather than overlend to agriculture at 18 percent, when lending to other sectors earned 24 percent or more.

Some of these disincentives built into the legislation were modified or eliminated by Resolution 97 of August 1968 which went into effect in May, 1969. [13/] Regarding Resolution 69 lending, it required that (1) no more than 67 percent of the loans could be granted for marketing, and (2) the individual value of at least 70 percent of the marketing loans could not exceed 500 times the highest minimum wage, (3) 10 percent of the total lending would have to be made to farmers in amounts not to exceed 50 times the highest minimum wage of the country, (4) no more than 10 percent of the funds could be used to finance jeeps, station wagons and cattle, and (5) banks without bona fide agricultural credit departments could extend up to 50 percent of the loans for marketing, but the rest of their unused funds would have to be deposited with FUNAGRI. Efforts were initiated by the Central Bank to institute a comprehensive inspection system to assure that banks complied with the criteria, that they have bona fide agricultural departments, and that the loans were actually going to agriculture. A large training program also was set up to instruct commercial bank employees in techniques of rural credit.

Special Credit Programs

Besides these general regulations affecting agricultural credit, special credit programs have been designed to promote certain aspects of agricultural growth. A few examples follow. Credit has been used to speed the adoption of modern farm inputs in Brazil. Farm machinery purchases have been stimulated by reducing interest rates and lengthening repayment periods for loans incurred to purchase domestically manufactured tractors and farm implements.

AID has been active in various aspects of the credit program to promote fertilizer use. In the mid-1960's, AID granted two fertilizer import loans to Brazil for a total value of $35 million dollars [2]. In 1966 the Brazilian government created FUNFERTIL (Fund for Financial Incentive to the Use of Fertilizers and Mineral Supplements) to grant food producers financial incentives to use fertilizer on crops and pastures and mineral supplements for livestock. An important part of the Fund's resources came from AID counterpart funds. The purpose of the Fund was

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13/ Recent Resolutions modified some of the specifics but not the spirit of Resolution 97.

to finance part or all of the interest and administrative costs for fertilizer loans. Initially farmers were relieved of all interest charges, and later the program was modified so they paid either a zero or a three percent nominal rate of interest depending on loan size [78]. In 1966 FUNFERTIL financed 10 percent of total fertilizer consumption in the state of São Paulo; in 1968 it reached its highest volume by financing 49 percent of São Paulo fertilizer use, and 75 percent of national consumption. These credit terms were so favorable that there were reports of "paper fertilizer," that is, loans were taken out for fertilizer purchases and the funds diverted to other purposes.

FUNFERTIL ended in 1970 and was replaced by FUNDAG (Special Fund for Agricultural Development). Under both FUNFERTIL and FUNDAG lending agencies received interest rate subsidies which resulted in the agencies realizing interest rates equal to regular agricultural loans. FUNDAG's objectives were broader and included the stimulation of the adoption of modern inputs such as fertilizer, lime, mineral and protein feed supplements, improved seed, artificial insemination, and agricultural chemicals. Farmers were charged seven percent interest compared to three percent under FUNFERTIL. These favorable credit terms plus an improvement in fertilizer/crop price relationships were largely responsible for the growth in fertilizer consumption from 280,000 metric tons in 1966 to almost 1,000,000 tons in 1970 [52, p. 10].

Production of several commodities also has benefitted from special credit programs and policies. Major export commodities which also represent important sources of farm employment like coffee, sugar cane, and cocoa are eligible for credit to expand output, increase productivity, and finance exports. Also, during the decade of the sixties, special attempts have been made to reduce the foreign exchange drain of wheat imports by increasing domestic production. In 1962, the Bank of Brazil became the official purchaser of all wheat. All domestic production is purchased at fixed prices. Although real domestic wheat prices have dropped in recent years, prices during the 1960's were set at levels ranging from US$100-130 per metric ton compared to FOB export prices of major exporting countries of US$50-70. Subsidized credit for fertilizer and farm machinery was made readily available throughout the wheat growing region. Farmers were required to adopt recommended production techniques in order to receive Bank of Brazil operating credit for wheat growing. These highly favorable policies plus generally good weather conditions were responsible for the steady increase in production from 0.3 million metric tons in 1962 to 2 million tons in 1971.

The Brazilian livestock sector has lagged behind its growth potential, and the slaughter rate is low because of the traditional production technology employed. In 1967 a livestock development program was initiated (CONDEPE); World Bank and Interamerican Development Bank loans were obtained to finance large scale investments in cattle raising. The program got off to a very slow start in large part because farmers objected to the monetary correction built into the loans which offset advantages such as the 12 year repayment period, with a grace period on paying the first installment for the first three or four years. Farmer interest increased after mid-1970 when the price control commission (SUNAB) improved livestock prices, and the monetary correction feature was altered.

Brazil is striving to rejuvenate its aging coffee plantations and introduce more disease resistance varieties. The Coffee Institute is working with selected banks to provide credit at three to seven percent interest for financing the growth of seedlings, replanting of trees, fertilization and spraying equipment. Over Cr$1 billion is planned for this use in the 1972/73 agricultural year in order to plant 200 million trees.

Credit Allocation System

The Central Bank established general guidelines for distribution of rural credit, but the individual banks set internal policies consistent with their specific objectives. In many cases, the local rural credit manager largely determines how the credit department of a particular agency is managed. In the case of the Bank of Brazil, the rural credit department manager often acts quite independently of the overall branch manager.

Even though this credit allocation system appears definitely weighted in favor of larger, wealthier farmers, bankers argue that all persons have access to credit. For high risk, limited equity renters and small farmers, there is the possibility of getting a co-signer to back a loan. Furthermore, the Bank of Brazil recently reduced interest rates for small loans below Central Bank requirements: loans above 50 minimum salaries are charged 15 percent interest while those below that amount are charged only 10 percent. Certain insurance, appraisal, collatoral, and filing requirements can be waived for smaller loans.

Bankers admit, however, that smaller farmers are less likely to seek credit. Finding an appropriate co-signer is usually not easy because of the difficulties small farmers have in weathering economic setbacks. Frequently the only person who will be a co-signer is a relative or someone who has a special relationship with the borrower.

As mentioned above, the banks are not particularly interested in small farmers because of administrative costs and higher risk. Local managers of the Bank of Brazil who have tried to attend to small farmer needs complain about the attitude of new banks entering the rural credit field. They argue that the new banks try to attract a few of their older, well-to-do clients in order to meet their credit requirements, and leave the Bank of Brazil to serve the large pool of small and medium sized farmers.

Inflation and Agricultural Credit

Agricultural credit in Brazil cannot be thoroughly studied without at least mentioning the impact of high rates of inflation on the behavior of both farmers and lenders. This issue has not been treated in any great depth in Brazil.

High rates of inflation force financial institutions to guard the real value of their portfolios. Attempts to force them to lend at negative real interest rates which erode the real value of those portfolios will be resisted, and inducements and controls of various kinds will be required to make them comply. Likewise, lenders must closely inspect loans to assure that credit is actually used for intended purposes.

Informal Rural Capital Markets

Very little research or data is available on the nature, magnitude and extent of informal rural capital markets in Brazil. Some writers have assumed that informal credit transactions such as those between friends, relatives, and from merchants make up a very large proportion of the total rural capital market transactions [27, 31, 70, 72, 73, 82]. Little data is presented, however, to substantiate this assumption.

There is little discussion in the literature of the criteria which ought to be used to measure relative importance of the informal capital market. At least four distinct criteria might be used: (1) the number of loans made in a given time period to farmers by the informal credit system in comparison with total loans made by the overall capital market, (2) the number of farmers who receive all or a major part of their credit in a given period from informal sources in comparison with the total number of farmers receiving credit from any source, (3) the total value of credit granted to farmers during a given period by informal sources of credit in comparison with total value of all farm credit granted during the same period, and (4) a composite credit-value-figure, which takes into consideration amount of loans as well as length of loan, from informal as well as all sources. This last criteria would weight a six month loan for $100 at one-half the value of a 12 month loan for the same value. In an economic sense the latter two criteria appear to have the most meaning.

Results from a handful of recent farm level studies in Brazil appear to challenge the conventional thinking on the economic importance of the informal credit system.

In general the studies reported on here suggest that non-institutional credit sources are more important for small farmers than for medium sized and large operators. There is also some indication in Tommy's study that the large buildup in formal agricultural credit during the late 1960's, plus the negative real rates of interest charged on this credit may have adversely affected the growth of the non-institutional credit system in rural areas. Much more information is needed on the nature and extent of the informal rural capital market in Brazil. It appears however that its size and importance has been generally overestimated.

V. Special Small Farmer Credit Programs in Brazil

At least two major programs and a number of small pilot projects in Brazil have been focused on providing more credit to small and medium - sized farmers. In many respects the most important of these has been the ACAR Credit program in the State of Minas Gerais. Begun in 1948 as a joint venture between the state government of Minas Gerais and the American International Association for Economic and Social Development (AIA), ACAR was aimed at assisting small-to-medium sized farms in the state. Supervised credit and extension education activities were the main approaches used. A good deal has been written about this program during the past 20 years [8, 47, 49, 50, 65, 66, 85, 86, 87]. In fact, ACAR's credit program has probably received more research attention than any other small farmer credit program in the world.

ACAR's program has moved through three distinct phases. In the first stage detailed farm plans were prepared and intensive supervised credit was provided. Later less detailed farm planning and less farmer supervision was done in ACAR's oriented credit program. In the 1960's emphasis again shifted this time to providing credit to "early adopters".

ACAR has relied upon the Caixa Economica do Estado de Minas Gerais, a state bank, to handle the loan paper work. Funds provided by AIA, the state, the Federal government and an Inter-American Development Bank loan of $6.4 million in 1962 have been used in the operation. The interest rates charged on farmer loans have generally ranged from 6-8 percent on an annual basis. There has been very little default problem among the borrowers. In 1968 about 10,000 loans were in force under this program, for a total value of approximately ten million dollars [43, p. 29].

In general there have been four types of criticisms of the ACAR program: (1) the very low nominal interest rates charged on loans make it impossible to maintain the real value of ACAR's loan portfolio, (2) costs for supervising the loans were high, (3) only modest increases in income, net worth and capital formation have been noted among the borrowers, and (4) the program is only servicing a small proportion of the total number of small to meduim-sized farm operators in the area. In 1968 only about 5 percent of the farmers in the state received credit from ACAR.

Ribeiro and Wharton cite the major accomplishments of the program as: (1) ACAR introduced ingredients of experimentation, adaption and flexibility into Brazil's agricultural development thinking, (2) administration of the program was unrelated to politics, (3) ACAR's program has trained a large number of Brazilian technicians, and (4) ACAR's experience was used to evolve a nationwide program of extension and credit [66].

Limited oriented credit programs for small farmers, following the ACAR model, have been initiated by extension services in a number of Brazilian states. Some of these started as early as 1954 in Ceara, 1955 in Pernambuco and Bahia, and 1956 in North Rio Grande and Paraiba. None of these programs, however, are as large and effective as the ACAR program in Minas Gerais.

In addition to the ACAR program, some additional special efforts have been made to reach small farmers by loaning money to cooperatives for relending to their members. This has been especially true in the Northeast where both the BB and BNB have temporarily stationed bank employees in cooperatives to help with organizing the credit service. Part of the financing for these programs is provided by various state banks. Additional funds from the BNB, BNCC, and BB are also channelled through cooperatives. In the late 1960's the Inter-American Development Bank also lent about $2.7 million to BNB which was directed at servicing small and medium sized farmers' credit needs through cooperatives in the Northeast.

Recently the IDB has attempted to reach small and medium farmers and their cooperatives through the national rural credit system by lending to the Central Bank. The $26 million livestock loan for CONDEPE is used for oriented credit to farmers in the states of Rio de Janeiro, Espirito Santo, and Minas Gerais. Eligible producers are those with less than $50,000 net worth, and loan-limits are $5,000 to $30,000. A national program of credit was supported by a loan of $20.5 million followed by another of $35 million. In this program, small farmers are defined as having net worth up to $10,000 and medium farmers up to $30,000. Loan terms run up to 12 years.

Resolution 181 of March, 1971 extended livestock development loans to small and medium farmers of the Northeast. The BB, BNB, and BNCC were authorized to make technically oriented loans to small farmers who were defined as having less than 100 times the value of the minimum wage in animal production, and medium farmers with less than 1,000 times that amount. Total resources were set at approximately $133 million. Loans are for a maximum of eight years. Borrowers will be charged 7 percent interest, and the lending agency will receive another 5 percent from the FUNDAG fund.

Unfortunately there is little data available to evaluate these programs. Many programs only provide data on total amount of resources used without describing the types and number of farmers receiving credit. Only now are some banks beginning to collect statistics on number of farmers benefitted by loans to cooperatives. The data available from the BB, BNB, BNCC, the three institutions making most loans to cooperatives, suggest that in 1972 a total of 200-250 thousand farmers may receive credit from cooperatives. Most, but not all of these farmers are probably small.

Aside from a bit of information in the Northeast which suggests some default problems in loans to cooperatives, almost no information is available on the economic impact at the farm level of this credit.

A number of other small farmer credit pilot programs have been carried out in Brazil. In the early 1950's the Caixa's Rurais in Rio Grande do Sul attempted to reach small farmers through credit. Erven and Rask report on another small short-term small farmer credit program carried out in the early 1960's in Rio Grande do Sul [34]. As with other small farmer credit programs, little or no information is available to indicate the total magnitute of these pilot activities and their impact on small farmers. A lack of success may be signalled by the paucity of information available on these programs.

Overall it is doubtful if 5 percent of Brazil's total institutional resources directed to agricultural credit is moving through ACAR, other extension-credit programs, cooperative credit and other special pilot programs to small-to-medium sized farmers. Further expansion in these programs is probably necessary and desirable. Clearly, however, improving the manner in which the overall banking system services small farmers offers more possibilities for substantially increasing credit for this group.

VI. Agricultural Credit in the Northeast

A number of special problems exist in the Northeast region of Brazil. This area has the largest geographic concentration of rural poverty in Latin America. The 15 million rural poor located there is larger in number than all the rural poor in Chile, Peru, Bolivia and Ecuador combined. Periodic droughts, landownership concentration, and poor quality of land resources further complicate problems, and present especially challenging conditions for farmer credit programs.

During the 1950's and early 1960's the BB and the BNB provided most of the rural credit in the Northeast. As a result of special tax incentives introduced in the early 1960's, some agricultural credit funds were also administered by the Superintendency for the Development of the Northeast (SUDENE). Most of these funds, however, were directed at a small number of large agricultural enterprises.

In the early 1970's the BB and the BNB together provided over 95 percent of the formal agricultural credit in the region. Other agencies providing rural credit include the BNCC, state banks and a few private banks. Little information is available on the nature and extent of the informal rural capital market in the Northeast. These sources of credit, however, are probably quite important in the interior areas, especially for the large numbers of renters and sharecroppers found in the region.

The amounts of BNB and BB credit to agriculture are shown in Table 6. In 1959 the BB and BNB provided 81 and 8 percent respectively of the total formal agricultural credit in the region. The BNB's proportion of this credit expanded rapidly through the 1960's until in 1968 it provided 36 percent of the region's agricultural credit. A decline in BNB agricultural lending since 1968, while the BB continued to expand its portfolio, resulted in BNB's relative share dropping to 18 percent in 1971.

In general the BB makes much smaller loans to farmers in the Northeast than does the BNB. In 1971 BB production loans averaged about $1,100 dollars in size while the BNB averaged $3,000 dollars. As will be pointed out later in this paper, since 1968, the BNB has sharply increased the real average size of its loans made to agriculture.

Outside of the creation of the BNB, relatively little special attention was given to agricultural credit problems in the Northeast until 1970; national credit policies were not differentially applied. It appears that the rate of growth in agricultural credit in the Northeast more-or-less matched the growth rates for all of Brazil. There was, however, some regional disparities as shown by credit-to-output ratios. In 1969 institutional loans to agriculture in the Northeast represented only about one-quarter of the region's gross agricultural output. In comparison the southern part of the country had a ratio of approximately .40.

Table 6

Direct Agricultural Production Loans in Northeast Brazil
By Two Banks, at 1971 Prices a/

(in Millions of U.S. Dollars)

Year	Bank of Brazil*		Bank of the Northeast		Total Direct Loans	
	Value	Percent	Value	Percent	Value	Percent
1964	90.8	85.5	12.8	14.5	103.6	100
1965	83.6	81.0	19.5	19.0	103.1	100
1966	88.1	73.5	31.5	26.5	119.6	100
1967	102.5	65.0	55.1	35.0	157.6	100
1968	110.0	64.0	61.8	36.0	171.8	100
1969	113.9	73.5	41.2	26.5	155.1	100
1970	109.5	77.0	32.1	23.0	141.6	100
1971	185.5	82.5	39.1	17.5	224.6	100

* Includes commericial credit and credit under the minimum price support program.

a/ The General Price Index of the Fundação Getulio Vargas was used to deflate all Cruzeiro Values to 1971 prices. These were then converted to dollar values using an exchange rate of 5.635.

Source: Unpublished records of the Banco do Brasil and Banco do Nordeste.

The recently announced Proterra program for the Northeast includes a strong credit component. 15/ In addition to some land redistribution, Proterra provides loans to agricultural producers for financing modern inputs at zero nominal rates of interest. Additional credits are provided at a seven percent interest rate to finance other production materials, supplies and equipment. In 1972 a total of $170 million dollars was provided for financing Proterra through December 31, 1972. In addition a total of $700 million dollars was earmarked for this program over the next four years. It is still not clear how much of these funds will actually filter down to small farm operators [64]. The recent increase in small loans made by the BB in the Northeast may imply that these and other programs are having some impact.

A major concern in the Northeast is whether improved production technology exists in sufficient quantity to justify credit for purchased inputs. It has been reported that much of the operating credit actually goes to finance consumption [64]. The Ministry of Agriculture's survey confirmed that view for cotton producers. Much of the formal and informal credit was being used to finance family consumption from one harvest to the next. Large farmers borrowed operating credit and relent it to sharecroppers or paid direct labor costs. Few modern inputs were used so only a small fraction of total credit financed improved seed, lime, fertilizers, chemicals, and mechanization.

As suggested earlier, both the BB and BNB have attempted to service small farmers' credit needs through cooperatives in the Northeast. BB expanded its loans to agricultural cooperatives in the Northeast by 45 percent in real terms from 1970 to 1971. A number of sub-borrowers from these cooperatives were small farmers. In 1971 BNB lent money to cooperatives who in turn relent these funds to approximately 16 thousand small farmers. Overall, however, only a small portion of the small farmers in the Northeast were being touched by these cooperative programs.

The BB's and BNB's Rural Credit Portfolio

In spite of the increase in rural credit provided by other banks, the BB is still the most important source of rural credit. BB statistics show that the bank's share in number and value of rural credit loans dropped to below 50 percent in 1969 but again increased in 1971 so that BB loans represented 56 percent of the total number of loans and 51 percent of total value. In many regions it still provides 60 to 70 percent of total rural credit, and in some states that proportion exceeds 90 percent. As seen in Table 7, the BB increased the number of rural loans by over 50 percent from 1966 to 1971.

The BB has attempted to meet small farmer needs and its data seem to confirm that effort. Small loans represented approximately 90 percent of total loans between 1966 and 1971. There was a tendency between 1968 and 1970 for the relative value of small loans to decline but the trend was reversed in 1971 when the proportion of credit lent as small loans rose to 37 percent of total value. These data suggest that small farmers received a relatively constant proportion of total credit during BB's credit expansion of the late 1960's and early 1970's.

The BB continues to be the most important source of rural credit in Northeast Brazil. In fact, BB statistics show that its share of total value of rural credit in the region rose from 49 to 62 percent between 1969 and 1971 [15]. This change is largely explained, however, by changes in BB lending in 1971. As shown in Table 8, BB made 15 to 25 thousand fewer rural loans per year in the Northeast between 1967 and 1970 than it made in 1966. Likewise the total value was $7-12 million dollars less per year, measured in real terms. In 1971 the BB made 140 thousand loans valued at over $170 million dollars far exceeding the $100 million lent in previous years. This spurt in credit reversed the steady downward trend in proportion of BB rural credit going to the Northeast but the percent of number and value of loans is still below 1966 levels.

As was previously mentioned, the BNB is one of another major source for formal agricultural credit in the Northeast. As can be noted in Table 9 over the 1961 to 1968 period, the BNB had a four fold increase in the real value of its new agricultural loans. A decrease in the volume of agricultural loans from 1968 to 1971 still resulted in BNB lending almost three times as much in real terms to agriculture in 1971 as in 1961. Likewise, over the 1961 to 1968 period the total number of new rural loans made annually by BNB more than doubled. This number was almost halved from 1968 to 1971 however.

Percentage wise a substantial portion of BNB's loans in 1961 were of the small variety. About 94 percent of their loans were of 50 minimum salaries or less in size. This declined somewhat to 86 percent in 1971. Between 1968 and 1971, however, BNB reduced the absolute number of small loans made on an annual basis by 18,000. Also in absolute terms, BNB was making only about three thousand more small loans in 1971 than in 1961, barely a 15 percent increase over the number in 1961. If there was some increase in the number of people with multiple small loans from BNB in 1971 over 1961 there may have been little or no increase in the number of people served by BNB with small loans.

It is clear that the BB has managed to maintain and even increase small loans at the same time that the BNB has experienced a trend toward larger loans. It is particularly disheartening that the BNB as the major developmental bank situtated in the most critical poverty region in Latin America and specifically charged with accelerating the region's development has made so little progress in servicing small farmers over the past decade.

No clear cut reasons emerge to explain BNB's inability to substantially increase its services to small farmers in the Northeast during the "development decade." Compared to the BB it has not always had access to or responsibility for certain special funds for the region. However, more importantly, the BNB has been very sensative during recent years to its internal profits. In many respects it has operated like a private bank, attempting to maximize net returns and placing less emphasis on achieving social objectives. An example of this was a 1968 study carried out by BNB which attempted to measure lending costs for various sizes of agricultural loans. Given the BNB's lending practices and the rates of interest they were allowed to charge on rural loans, they concluded that loans of less than 50 minumum salaries, (roughly $2,000 U.S.) resulted in an operational loss to BNB. The sharp reduction in BNB small loans from 1968 to the present and the increased emphasis on lending to cooperatives were direct results of these conclusions.

Table 9

Value and Number of Rural Loans Made by the Bank of Northeast Brazil, 1961-1971

Year	Total No. of Rural Loans a/	Percent of Loans Which Were Small b/	Total Value of Rural Loans in 1971 Prices c/	Percent of Total Loan Value Lent in Small Loans b/		
				Total	Direct d/	Cooperatives e/
		%	(thousand U.S. dollars)	%	% of Total Value in Small Loans	
1961	22,822	94	17,061	68	75	25
1962	22,015	99	15,508	90	82	18
1963	23,364	96	13,127	84	83	17
1964	26,714	94	14,626	77	84	16
1965	32,017	99	21,466	94	90	10
1966	38,963	86	34,744	45	79	21
1967	44,972	82	59,415	33	78	22
1968	50,764	85	72,191	36	60	40
1969	36,951	87	48,007	36	59	41
1970	25,891	86	37,323	31	54	46
1971	28,902	86	44,911	31	58	42

a/ Figures are for new loans made during the year. This includes loans made to cooperatives, part of which was sub-loaned to farmers.

b/ Small loans are defined as being less than or equal to 50 minimum salaries. In mid-1971 this equaled Cr $11,280. At an exchange rate of Cr$5.47 for each U.S. dollar this equaled $2,062. Bank statistics by size of loan do not provide size intervals exactly equal to 50 minimum salaries resulting in some overestimation, especially for 1971.

c/ Current values were converted to 1971 values using the General Price Index, aggregate supply, published by the Getulio Vargas Foundation in *Conjuntura Econômica* Vol. 26, No. 7, 1972, p. 164. The adjusted Cruzeiro values were then converted to U.S. dollars using the 1971 exchange rate listed in the appendix.

d/ Loans made directly to farmers by the Banco do Nordeste (BNB).

e/ Loans made by the Banco do Nordeste to farmer cooperatives. All of the sub-loans made by these cooperatives were of sizes less than 50 minimum salaries.

Sources: Banco do Nordeste, *Relatório Exercicio* 1970 and 1971, pages 215 and 153, respectively: various unpublished reports prepared by the DERUR section of the Banco do Nordeste.

Cross Sectional Data from Southern Brazil 1965 to 1969-70

Additional insights into the extent to which the rural capital markets in Brazil have serviced small farmers can be obtained from summary data derived from various farm level studies carried out between 1965 and 1971 in Southern Brazil. These studies were done in areas which were experiencing rapid technological changes, areas which included some of Brazil's best agricultural resources, and areas which were most adequately serviced by the institutional credit systems. 17/ While not representative of all of Brazil, these farm data do show how various parts of the rural capital markets are servicing different groups of farmers in Brazil.

As can be seen in Table 10, in 1965 a broad spectrum of 953 farmers was interviewed. They represented various farm types, enterprises and farm sizes typical in the southern region of Brazil. In 1969-70, 1,264 interviews were carried out; approximately one quarter of these, 338, were repeats from the 1965 survey. An additional 150 farms were later interviewed in the central part of the state of São Paulo, and will be reported on separately later in this section.

In Table 10 it can also be noted that overall in 1965, 43 percent of the farmers were receiving some cash credit, most of which was from institutional sources. Thirty-three percent of the farmers had credit in kind during the same year, almost all of which was from non-institutional sources. In total, 56 percent of the farmers made use of formal and/or informal credit in 1965. It can also be noted that the largest farm size group, those with over 200 hectares of land, had substantially higher credit participation rates in both cash and kind credit than did any of the other size groups.

Credit data for the 1969-70 period is also presented in Table 10. Overall the percentage of farmers with cash credit increased from 43 percent in 1965 to 67 percent of those interviewed in 1969-70. Part of this increase over the 1965 figure can be explained by the addition of farms to the sample which were located in areas more adequately serviced by formal credit systems than those interviewed in 1965: the northern part of the state of São Paulo for example. At least part of the increase in the percentage, however, was undoubtedly due to some spreading of the increased credit supply to additional borrowers.

17/ The states in which the studies were carried out were São Paulo, Santa Catarina, and Rio Grande do Sul. For descriptions of these areas, see Norman Rask, "Analysis of Agricultural Development Problems at the Farm level: Methodology and General Farm Description," AFC No. 18, Department of Agricultural Economics and Rural Sociology, The Ohio State University, August, 1968; and Kelso L. Wessel and William C. Nelson, "Methodology and General Data Description: Farm Level Capital Formation in São Paulo, Brazil" Occasional Paper No. 47, Department of Agricultural Economics and Rural Sociology, The Ohio State University, December, 1971.

Table 10

Number of Farms and Percentage Participation in Various Types of Credit in Southern Brazil by Farm Size, 1965 and 1969-70.

Farm Operating Unit Size	Number of Farmers Interviewed		Percent of Farmers with Various Types of Credit in					
			1965			1969-70		
			Credit in			Credit in		
	1965	1969-70	cash	kind	mixed	cash	kind	mixed
(Hectares)	Number		Percent					
0 - 19.9	304	273	37	31	52	47	28	59
20.0 - 29.9	197	194	44	31	55	58	38	70
30.0 - 49.9	158	166	39	31	49	66	39	78
50.0 - 99.9	101	196	42	37	56	71	37	78
100.0 - 199.9	67	158	36	30	49	73	28	75
200 +	126	277	67	40	75	82	23	85
Total	953	1,264	43	33	56	67	31	74

Source: Farm interviews carried out in 1965 and 1969-70 in Rio Grande do Sul, Santa Catarina and São Paulo.

It can also be noted in Table 10 that in 1969-70 the percentage of farmers with credit in kind dropped to 31 percent. There was an absolute decline in the number of loans in kind, which was mainly informal credit, among the two largest farm size groups as well as the smallest farm size group. It might have been expected that large farmers with access to ample formal credit might reduce their use of non-institutional credit. It was not expected that small farmers would have a similar reaction. Without further analysis it is not clear if small farmers substituted cash credit for credit in kind, or whether there was less credit in kind available for small farmers in 1969-70 than in 1965.

Except for the smallest farm size group, there were increases in the percentage of each farm size group which had some form of credit in 1969-70 over the 1965 surveys. Approximately three-quarters of the farmers interviewed in 1969-70 had cash and/or kind credit. One might conclude from these figures that some spread effect had occurred in the credit increase over the 1965 to 1969-70 period.

Somewhat different conclusions can be drawn when the volume of credit, that is credit value, is analyzed.
There were 193 of the 953 farms interviewed in 1965, 20 percent, who operated 100 hectares or more of land. Valuewise, however, these large farmers absorbed 80 percent of all of the cash credit held by the farmers interviewed in 1965. They also held two-thirds of the value of credit in kind. Overall these farmers had 72 percent of the value of all credit held by the farmers interviewed.

Of the 1,264 farmers interviewed during this period 22 percent had 200 hectares of land or more. This large farm group held 74 percent, however, of all cash credit, a third of the credit in kind, and 70 percent of total credit. Since the largest farm size group has approximately the same proportion of total credit in both surveys, it appears that this group has absorbed a large majority of the increase in credit value available over the 1965 to 1969-70 period.

Another view of the relative credit use among various farm size classes can be drawn from comparing the ratios of credit-to-gross-output by different farm size groups.
In 1965 farms with less than 30 hectares of land had credit equal to less than one-fifth the value of their gross output. The largest farm size group had a ratio of .47. These ratios for small farms improved in the 1969-70 period, but they still only reached about two-thirds the ratios found among larger farm size groups. It should also be noted that a handful of " small farms" were absorbing a substantial part of all credit received by the small farmer class in 1965 and 1969-70. Some of these "small farms" were intensive swine, poultry, and dairy enterprises which were rather large businesses run on relatively small amounts of land. Some of the other "small farmers" who received relatively large amounts of credit were only part-time farmers with substantial economic interests outside of agriculture. Subtracting these "small farmers" from the small farmer class would have resulted in less significant changes in the ratio of credit-to-gross-output over the 1965 to 1969-70 period.

CHILE

by:
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January, 1973

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Background

Historical Summary

The Institute of Agricultural Development *(Instituto de Desarrollo Agropecuaria)* referred to herafter as INDAP was created by the Agrarian Reform Law 15020 of 1962 as an autonomous state enterprise.

INDAP has undergone three different phases corresponding to the presidential administrations of Jorge Alessandri (Democratic Front) from 1962-64, Edwardo Frei (Christian Democrat) from 1964-70, and Salvador Allende (Union Popular) from 1970 to the present. These three administrations represent the entire spectrum of political and economic ideology which has steadily moved leftward over this ten-year period. The planning and operation of INDAP reflect this change. Throughout the balance of this report I will refer to Phase I, Phase II and Phase III as the Alessandri, Frei and Allende administrations respectively.

Relation to National Credit System

As an autonomous state lending institution, INDAP has no direct connection with the Central Bank of Chile. INDAP is regulated as a financial institution by the Superintendent of Banks, a state organization under the Ministry of Finance charged with the supervision of banking activities of commercial banks and auxiliary financial institutions (such as INDAP). INDAP is regulated as a state agricultural institution by the Ministry of Agriculture. INDAP has no connection with the other financial institutions lending to the agricultural sector.

The Tables 2 through 7 that follow demonstrate the role and importance of INDAP within the national credit market and among state development institutions serving agriculture. Before we look at the tables individually a few notes in general are necessary. The Chilean institutional credit market is composed of a Central Bank, a State Bank, 28 private commercial banks and auxiliary credit institutions, e.g., INDAP, CORA and CORFO[1].

The Central Bank of Chile is the principal monetary authority. Its policies are directed toward determining an adequate level of the money supply compatible with a program of stabilization on one hand and with economic development on the other. In recent years the bank has concerned itself with the distribution of resources within the country by region, product and type of borrower.

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[1]CORA is the *Corporación de la Reforma Agraria* or the state agrarian reform corporation, CORFO is the *Corporación de Fomento de la Produccion* or the state development corporation for all sectors of the economy.

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This task has proved to be especially difficult for the Central Bank as years of inflation without dynamic growth in Chile bear evidence.

Only twice during this twenty year period was the inflation less than 10 percent a year. As Frederico Gil has noted, "although legally autonomous in policy matters because of its (Central Bank) board membership, it has always followed the course determined by the government and Ministry of Finance."[2]

In 1953, the State Bank, *Banco del Estado,* was formed in a merger of four financial institutions into an autonomous government bank. It is responsible for about 40 percent of all commercial banking business. The State Bank is a mixed institution which promotes economic development and savings and operates as a commercial deposit bank. In addition, it acts as the sole depository for funds of the Treasury, autonomous government agencies and municipalities. It operates 170 branches and agencies throughout the country.

The private commercial banks in Chile comprise about 60 percent of the commercial banking system, both in total assets and deposits, with the State Bank forming the remainder. The private banks, 28 in number, differ widely in size and in nature of operations. The vast majority are located in the largest cities.

With that background we can move on to Tables 2 through 7. In terms of number of farmers attended, Table 2 shows that INDAP has grown over the years to have more clients than any other institution. Data is not available for the Central Bank or the private banks but these lenders make fairly large loans to a small number of borrowers. In fact, by 1971 INDAP was servicing 75,000 farmers and farm organizations which represents more than twice the number of clients claimed by any other lending institution.

Table 3 gives the amount of credits extended by each agricultural lender in "nominal values" (*escudos* of each year). Tables 4 and 5 provide these same credits in "real values" (constant *escudos)* for the years 1965 and 1969 respectively. Finally, Tables 6 and 7 permit us to see the changing importance of each lender over time. For example, private banks have been steadily decreasing in importance within the agricultural sector. Private banks have lower risk opportunities in other sectors because of unfavorable farm prices, insecure land tenure rights and inefficient farm management practices. In contrast or to fill the gap, all state lending institutions have increased their share of agricultural credits. The largest increase comes from CORA, the Agrarian Reform Corporation. In recent years CORA has found it necessary to extend large amounts of credits to the newly formed agricultural units that it has created from expropriated rural properties.

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[2]Federico Gil, The Political System of Chile. (Boston: Houghton Mifflin Company, 1966, p. 171.

TABLE 2

Total Number of Farmers and/or Agricultural Enterprises
Receiving Credits of Chilean Lending Institutions
1962-1969

Institution	1962	1963	1964	1965	1966	1967	1968	1969
State Bank	21,000	33,108	31,217	38,544	48,866	55,000	45,833	30,889
CORA [1]	357	181	465	1,089	4,980	8,347	14,594	20,451
INDAP	10,143	15,900	20,380	49,340	52,446	46,280	46,161	41,615
CORFO [2]	2,762	1,824	3,918	2,842	3,619	4,383	4,489	9,014
IANSA [3]	--	--	--	--	4,578	4,826	4,920	6,464

Source:

As reported in *INDAP: Bases de Una Politica Agraria, Instituto de Desarrollo Agropecuario, Santiago*, 1970, pp.40-43.

[1]*Corporacion de la Reforma Agraria* - state agrarian reform institution - it is in charge of all matters related to land division and of the provision of credit and technical assistance to the economic units that it establishes with expropriated properties.

[2]*Corporación de Fomento de la Produccion* - state development corporation.

[3]*Industria Azúcarera Nacional Sociedad Anonima* - state owned sugar beet corporation that advances credit to many small sugar beet growers.

TABLE 3

Total Agricultural Credits Granted by Chilean Lending Institutions

(In Thousands of *Escudos* of Each Year)

Institution	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
State Bank	72,233	91,293	109,247	140,560	184,440	304,291	621,600	826,264	1,048,339	1,361,476
CORA	111	436	1,494	1,651	1,957	11,200	38,300	99,372	172,000	323,748
INDAP	--	--	1,203	6,146	10,952	25,541	31,754	43,854	72,800	104,400
CORFO	1,883	8,341	12,019	15,615	38,839	48,835	89,555	95,061	124,400	152,428
Central Bank	7,503	11,985	16,569	20,292	35,114	70,000	89,130	122,519	169,772	215,396
IANSA	--	--	--	3,168	4,927	6,987	37,462	46,601	65,427	111,258
Private Banks	66,605	88,550	122,016	158,449	190,800	209,000	221,200	235,200	288,941	370,000

Source: See Table 2.

TABLE 4

Total Agricultural Credits Granted by Chilean Lending Institutions

(In Thousands of *Escudos* of 1965)

Institution	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
State Bank	230,998	283,519	307,358	263,468	232,002	304,291	505,860	565,431	555,118	535,978
CORA	355	1,354	4,212	3,095	2,462	11,200	31,169	68,003	91,078	127,455
INDAP	--	--	3,454	12,077	14,596	25,541	25,842	30,010	38,549	43,218
CORFO	6,025	25,904	33,885	25,265	41,307	48,835	72,880	65,052	65,872	60,009
Central Bank	23,994	37,220	46,713	38,036	44,169	70,000	72,534	83,843	89,898	84,798
IANSA	--	--	--	5,913	6,198	6,987	30,487	31,850	34,645	43,801
Private Banks	213,000	275,000	343,997	297,000	240,002	209,000	180,013	160,953	153,000	145,913
Total Credits	474,367	622,997	740,259	648,864	580,736	675,854	918,785	1,005,182	1,028,160	1,040,923

Source: See Table 2.

TABLE 5

Total Agricultural Credits Granted by Chilean Lending Institutions

(In Thousands of *Escudos* of 1969)

Institution	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
State Bank	586,783	719,977	782,571	669,333	589,266	712,902	1,284,849	1,436,229	1,410,005	1,361,436
CORA	902	3,438	10,702	7,862	6,252	28,448	79,265	172,730	231,338	323,748
INDAP	--	--	8,775	30,681	37,074	64,874	65,635	76,228	97,915	109,779
CORFO	15,305	65,781	86,096	74,357	104,917	124,041	185,107	165,237	167,317	152,428
Central Bank	60,950	94,519	118,689	96,628	112,185	177,801	184,229	212,965	228,342	215,396
IANSA	--	--	--	15,038	15,741	17,747	77,433	81,003	87,999	111,258
Private Banks	541,064	698,344	874,040	754,518	609,585	530,862	457,214	408,829	388,623	370,000

Source: See Table 2.

INDAP has also increased its share of total credit by going from 0.5 percent in 1962 to 4.2 percent by 1969. However, INDAP is the least important agricultural lender in terms of quantity of credits. IANSA is small also but it is an industrial corporation that engages in contract farming by granting credit to sugar beet growers.

Table 7 looks at state development institutions. Here we can see that change in emphasis placed by government. The increasing importance of CORA becomes more obvious when it is compared only with other state development lenders. Notice that all other state development institutions declined in importance. However, it is well to remember that all state lenders have increased the "real" level of financing assistance by from 2 to 10 fold over the period.

TABLE 6

Percentage of Agricultural Credit Granted by Chilean
Lending Institutions in *Escudos* of 1965

Institution	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
State Bank	48.7	45.5	41.6	40.6	39.9	45.0	55.1	56.3	54.0	51.5
CORA	0.1	0.2	0.6	0.5	0.4	1.7	3.4	6.8	8.9	12.2
INDAP	--	--	0.5	1.9	2.5	3.8	2.8	3.0	3.7	4.2
CORFO	1.3	4.2	4.6	4.5	7.1	7.2	7.9	6.5	6.4	5.8
Central Bank	5.1	6.0	6.3	5.9	7.6	10.4	7.9	8.3	8.7	8.1
IANSA	--	--	--	0.9	1.1	1.0	3.3	3.2	3.4	4.2
Private Banks	44.8	44.1	46.4	45.7	41.4	30.9	19.6	15.9	14.9	14.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: See Table 3.

TABLE 7

Percentage of Agricultural Credit Granted by
State Development Institutions

Institution	1964	1965	1966	1967	1968	1969	1970
State Bank	79.8	80.2	79.5	77.6	73.9	70.0	70.4
CORA	0.9	3.0	5.0	9.3	12.1	16.9	19.4
CORFO	14.2	6.1	11.4	8.9	8.9	7.5	5.9
INDAP	5.1	10.7	4.1	4.2	5.1	5.6	4.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: *ODEPA, Oficina de Planificacion Agricola* as reported in Nancy Valdes Estrados and Fernando Cuevas Sottolichio, "*El Character Del Credito en Los Pequeños Productores Agricolas,*" Santiago, June, 1971, mimeo, p. 21.

Other Program Acitivties

During Phase I the only program activities were credit extension and technical assistance. During Phases II and III these activities continued but received increasingly reduced emphasis. Re-organization of the farm unit and political organization of the rural poor became the principal activities of INDAP during the last two phases.

The government divides the rural poor in Chile into the "reformed sector", serviced by CORA and the "non-reformed sector", serviced by INDAP. It has been estimated that from 50 to 60 percent of the poor rural families will not receive land via the agrarian reform since there is not enough land to establish family size farms. The Allende administration is dealing with this problem by promoting state farms that will utilize larger numbers of workers per *hectare* than the family size farms created mainly under Phase II. Nevertheless, at present in rural Chile about 60 percent of the rural poor are untouched by the state's reform and organizational efforts (see Table 8).

Over the years INDAP has attempted to reorganize the farm unit by first forming *comites de campesinos*, committees of small farmers, that would hopefully turn into full blown cooperatives after a few years. The solution to the problem of *minifundio* was seen as aggregation or cooperative farming.

Political organization of the rural poor has been promoted by the formation of rural labor unions. The growth of rural labor unions has been dramatic. In 1964 there were only 24 labor unions for agricultural workers that claimed a total membership of 1625 workers. But by 1971 there were over 600 unions with a membership of over 200,000 rural workers. Table 9 provides a breakdown of the various confederations and their members for 1970 and 1971.

The levels of organization for rural unions and rural cooperatives are charted in Table 10. You can see that organization begins at the most basic level, individual farmers organized into unions or cooperatives within a *comuna*. Then all *comunas* are organized at the provincial level and finally a national federation.

The *consejos comunales campesinos* (CCC) along with the provincial and national federations are the organizational means used to integrate the *campesinos* into the life blood of the country. The CCC is a political institution designed to express the political power of the rural poor. As of 1971, 238 CCC and 20 *provinciales* existed representing 80 percent and 89 percent respectively of the goals set for 1971. The reader should be alerted that this organizational effect is still mainly theoretical as actual organization has proven very slow and difficult.

TABLE 8

The Organization of Chile's Rural Poor

Reformed Sector →	"CORA" →	*Asentamientos* State Farms (CERA)	→ 40 percent of rural poor
Non-Reformed Sector →	"INDAP" →	Committees Cooperatives Unions	
Campesinos not organized by either INDAP or CORA. These rural peasants are *Peones*, *afuerinos*, *inquilinos* and *medieros* that work on local farms or move around looking for work in rural and urban environments.			→ 60 percent of rural poor

TABLE 9

Chilean Rural Labor Unions and Members
of the Different Confederations

Confederation	1970 Number of Unions	1970 Total Members	1971 Number of Unions	1971 Total Members
1. *Ranquil*	163	43,867	291	98,132
2. *Triunfo Campesino*	234	64,003	129	43,402
3. *Union Obrero Campesino*	--	--	90	32,445
4. *Libertad*	79	29,114	83	32,749
5. *Provincias Agrarias Unidas*	12	1,686	7	513
6. *Fed. Sargento Candelaria*	5	1,605	5	2,080
Totals	493	140,275	603	209,321

Source: INDAP, *Dept. Sindical*, June, 1972.

TABLE 10

Levels of Organization for
Rural Unions and Cooperatives in Chile

*Comunal**	*Provincial***	*Nacional****
(1) Each *Comuna* has several unions that are joined together by a *comuna* union council.	(1) Each province has several comunal union councils that are joined together by a provincial federation.	(1) Each provincial federation has representation on the national confederation of unions.
(2) A *comuna* may have one or more cooperatives that is joined together by a *consejo comunal compesinos (CCC).*	(2) Each province has several comunal councils of *campesinos* that are joined together by a provincial federation.	(2) Each provincial federation has representation on the national confederation of cooperatives.

Notes:

* A *comuna* is the basic civil division in Chile which is comparable to the township in the United States.

** A *province* is another basic civil division analogous to states in the United States.

*** *Nacional* is the nationwide division at the federal level.

ECUADOR

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Quito, Ecuador
December, 1972

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THE SMALL FARMER PROBLEM

According to the figures in the National Agricultural Census of 1968, 91 per cent of all agricultural undertakings operate on an area of not more than 20 hectares; between them they occupy less than 30 per cent of the total area of the Sierra. Gonzalo Guzman has indicated that 75 per cent of the undertakings are owned and that the other 25 per cent are run on some form of tenancy covering 1,201,092 hectares. It is these that are largely responsible for the backwardness of the Agricultural Sector.

There are some 152,700 small farmers, most of whom find it very difficult to take advantage of the existing technical assistance and credit services. Before granting credit the commercial banks usually require submission of satisfactory guarantees and an undertaking by the farmer to finance a given proportion of this project with his own funds. These requirements have led to the permanent dependence of the small farmer on the lender, discounter, or intermediary.

Through its special credit programs, such as its property improvement credits, the BNF has become the main institution providing credit for small farmers. This it does through rural administration and social betterment schemes that offer technical assistance either directly or through development agencies. Other public and private institutions also take part in these arrangements on a small scale. Among them may be mentioned IERAC, the Andean Mission, CESA, and FED.

According to the BNF report for 1970, the Land Settlement Credit Program made 309 loans with a value of 5,940,000 sucres during 1970. For the whole period September 1964 to December 1970, 2,273 loans amounting to 54,432,000 sucres were made under the scheme.

Although he lives by agriculture, the small farmer who does not own his land finds himself constrained within a vicious circle: he has no collateral to offer in order to obtain credit, and the lack of credit prevents him from raising his agricultural output and thus raising the funds with which to acquire the property he works on. Moreover, no single banking institution will grant loans for land purchase.

INTRODUCTION

The major position of the Agriculture and Livestock Sector in the economy of Ecuador is manifest: it provides some 34 per cent of the gross domestic product; it provides employment for more than 50 per cent of the labor force; and its products bring in 80 per cent of the country's export earnings. Nevertheless, the production and marketing conditions are such that agriculture is the most backward sector and the least productive in the country.

In a recent study, the economist Gonzalo Guzman1/ has undertaken a detailed analysis of the special features of agriculture in Ecuador and the structural characteristics that have led to its backwardness. He has also provided interesting data regarding the contribution of the National Banking System to the financing of agricultural credit.

The figures in Mr. Guzman's study show that during the years 1966-1970 the National Banking System devoted somewhat more than one billion sucres to financing the agricultural sector compared with total credits of 11 billion sucres; in other words, agriculture received rather less than 15 per cent of the total.

The Central Bank provided 23 per cent of total credit in 1970, while the National Development Bank (BNF) provided 6 per cent, and the commercial banks 71 per cent.

An analysis of the average amounts loaned and the terms on which the loans were granted shows that, whether considered from the standpoint of the number of operations or of the volume of transactions, credit was basically used for financing short-term investments of up to one year.

Only the BNF has any arrangements for medium or long-term financing.

With respect to the size of the loans, it should be noted that most of them are in the range below 25,000 sucres.2/

1/ Guzman, Gonzalo: The Financing of Agricultural Undertakings by Means of a Development Program, Quito 1972

2/ Exchange rate: US$1 = 25.25 sucres

Some 80 per cent of all the credit operations carried out by the BNF come within the range below 50,000 sucres. Although it may be some evidence of the democratization of credit, this comparatively low ceiling is clearly a restraint on the provision of capital for undertakings.

In brief, it will be clear that the distribution of credit through the banking system, whether considered on the basis of the relation to total credit or on the basis of the periods for which credit is granted, is not working in the right direction, since the Agricultural Sector--which certainly needs credit more than any other--receives somewhat less than 14 per cent of the total credit granted by the system. The result is that it is impossible for agricultural undertakings to obtain sufficient capital or to reach normal levels of productivity if they need medium or long-term investment or a relatively large volume of investment per unit of product.

FARM DEVELOPMENT PROGRAM

The intention of the Farm Development Program is to set in motion the modernization of the agricultural sector by putting managerial services at the disposal of small farmers, thus enabling them to acquire land, obtain production credits, and apply for technical and administrative assistance.

A tripartite agreement between the Ministry of Production, the Central Bank of Ecuador, and USAID (Ecuador) led to the establishment of the Farm Development Program and a Guarantee and Development Fund has been set up to provide agricultural undertakings with assets. The initial financing of the Fund was made possible by AID Loan No. 518-L-032, amounting to U.S.$3.6 million (90 million sucres) from the United States to the Government of Ecuador through the Ministry of Production.

The Central Bank acts as the Government's trustee and fiscal agent. It does not deal directly with the final users of the Fund but through Government institutions and private organizations wishing to participate and prepared to sign the appropriate subsidiary loan agreements.

The Trust Fund Office which is the real basis of the Program deserves the attention of the monetary authorities of the country, as it implies that the Central Bank will play a new role in working out credit and monetary policy for the development of the productive sectors of the economy; for the first time it will be the channel for handling both internal and external funds and it will have the responsibility for encouraging both public and private banks and other financial institutions to take a more active part in providing funds for agricultural credit.

COUNTRY PROGRAM

THE DIRECTED AGRICULTURAL CREDIT PROGRAM

OF THE

NATIONAL FEDERATION OF SAVINGS

AND CREDIT COOPERATIVES OF ECUADOR

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Quito, Ecuador
December, 1972

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SUMMARY

The Directed Agricultural Credit Program was established by the FEOAC in 1965. It began operations with five cooperatives; ten others were added in 1966, nine in 1967 and two more in 1968.

INTRODUCTION

Since small farmers do not have access to traditional credit sources, the savings and credit cooperatives alleviate, in part, the credit needs of member farmers.

An analysis of loans granted in 1970 and 1971 reveals

	Types of Loans	Membership No. of Members	Amount of Loans (in Sucres)
1970	Crop production	3,019	12,296,681
	Livestock production	1,490	6,672,535
	Total	4,509	18,969,216
1971	Crop production	3,248	13,083,640
	Livestock production	1,680	9,814,222
	Total	4,928	22,897,862

Small farmers, because of their limited assets, lack the necessary economic resources to make use of agricultural inputs and therefore cannot improve their production. The cooperatives solve part of their problem by granting them loans.

With loans obtained from their cooperative, the small farmers can obtain funds without lengthy processing and at lower interest rates than from other institutions.

PROGRAM CHARACTERISTICS

Background

1. History

The program consists of 34 cooperatives distributed through 11 provinces in the mountain, coastal, and eastern areas of the country, with 11,600 members who use this credit for agriculture and stock raising.

2. Relationship to the national credit system as a source of credit:

The cooperatives use, as their source of credit, the Cooperative Bank and, in many cases, the Provincial Development Banks.

3. Other program activities:

Technical Assistance on proper credit utilization and in the application of new agricultural techniques.

4. Relationship to previously existing local institutions:

As a clearing house for savings and credit cooperatives, FECOAC is connected with the following agencies and institutions: the Ministry of Production, FAO, AID, COLAC, and the Cooperative Banks.

5. Agricultural patterns and potential:

According to data obtained from the Planning Board, the average per capita income in the rural areas of our country is US $250. If we compare that with the US $300 to US $320 income of the urban population, we see the need for promoting a more balanced, over-all development among the various sectors of the nation.

Agriculture is the principal source of wealth in our country. Unfortunately, the future of our agriculture is not very promising. If it is to be considered a means for food production, it must be admitted that it is still deficient.

The agricultural sector constitutes 63% of the population and generates 33% of the GNP.

Most of the loans granted by the savings and credit cooperatives are for the following crops:

Product	Average National Production
Wheat	17.5 quintals
Rice	11.4
Potatoes	111.1
Corn	10.0
Coffee	6.5
Cacao	3.9
Barley	11.0
Lentils	5.2
Peas	8.2

With technical assistance and the use of inputs provided to small farmers who are members of the savings and credit cooperatives, it is hoped that production will increase by more than 80%.

With loans for agricultural production, it is estimated that the area under cultivation will increase from 4,800 hectares to 8,400 hectares by 1975.

COLUMBIA

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November 1972

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INTRODUCTION[1]

There are over 4,000 offices of one kind or another extending agricultural credit in Colombia. Three-fourths of these are commercial banks. The Bank of Agricultural, Industrial, and Mineral Credit (Caja de Credito Agrario, Industrial y Minero,[2] hereafter referred to as the Caja Agraria) has over 600 credit offices. INCORA (the Colombian Agrarian Reform Institute) has about 230 zone offices, the Coffee Bank over 175 branches and the Livestock Bank more than 80 branches and agencies.

Much of the agricultural credit that flows through commercial banks is rediscounted at the Central Bank. One of the Central Bank's specialized rediscount lines is the Agricultural Finance Fund (FFA) which rediscounts 65 percent of the value of loans made by banks for the production of crops specified by the Monetary Board in accordance with Ministry of Agriculture plans. Very few small farmers qualify for loans under FFA regulations and few receive credit from commercial banks (except the Coffee Bank which serviced an estimated 42,000 total loans to coffee farmers in 1971, many of which are small in size). The Caja Agraria is the principal source of institution credit for small farmers. The Caja provided more than 51 percent of all new bank credit to agriculture in 1971 and made more than 80 percent of all loans made by banks to farmers in 1971 (See Table 1). Data from private banks do not indicate size of farms and size of loans. It is known, however, that private banks tend to loan to larger farmers. Therefore, the percentage of all new small farmer loans made by the Caja is probably much larger than that indicated.

There is both a need and a demand for additional institutional agricultural credit for small farmers. In most areas small farmers who borrow from local money lenders, intermediaries, etc., must pay three to five percent per month interest.

Colombia has an estimated 1.2 million small farmers in need of credit. Most of these already have more and better technical knowledge concerning the production of the principal crops or commodities for their areas than they are currently putting into practice. The most important constraints to achieving increased production and income for many of these small farmers are (1) insufficient resources to purchase needed inputs and (2) marketing problems. The increased availability of agricultural credit would help or remove many of these constraints by providing the resources needed to purchase improved seeds, fertilizers and pesticides, to pay for machine hire and peak-season labor, to purchase bags, crates, etc., at harvest time and to pay marketing costs (transport, etc.). Small farmers are currently dependent upon intermediaries of one kind or another to cover many of the

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[1]Prepared by Roger Sandage, Deputy Rural Development Officer, USAID, Bogata.

[2]Spanish words will be underlined only the first time used.

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Table 1. Agricultural credit in Colombia: number and value of new loans granted and value of outstanding loans by major institutions, 1971[a]

Institution	New Loans				Portfolio (12/31/1971)	
	Number	Percent	Value (US$ 000)	Percent	Value (US$ 000)	Percent
Caja Agraria[b]	367,703	81.7	185,436	51.2	214,266	44.9
Private Banks[c]	61,957	13.7	142,959	39.5	167,631	35.1
Livestock Bank[d]	5,088	1.1	23,731	6.6	59,427	12.4
INCORA[e]	15,851	3.5	7,507	2.1	26,877	5.6
COFIAGRO[d]	140	-	2,380	.6	9,632	2.0
TOTAL	450,739	100.0	362,013	100.0	477,833	100.0

[a] Does not include bank discounts of warehouse bonds.

[b] *Caja, Informe de Gerencia*, 1971.

[c] *Revista Banco de la Republica*, June, 1971. Tables 1.2.14 and 1.2.15

[d] Annual Reports. COFIAGRO is a joint public-private financial corporation to promote crop and cattle exports.

[e] USAID files. Includes only loans under supervised credit; other loans included under Agricultural Rural Bank and Livestock Bank.

above costs (if they can be covered at all) at prices which may make increased production through the use of "improved practices" uneconomical.

The timeliness of the availability of the necessary inputs is of critical importance. In some instances, the availability of technical assistance with certain practices may contribute significantly.

The 1972 USAID agricultural sector analysis indicates that significant employment generation and increases in small farmer income can be achieved by changing the crop production "mix" in Colombia even at present levels of technology. Within present market constraints, unfulfilled demand exists for sufficient labor and income intensive agricultural commodities that the production of these could be substituted to a considerable extent for more extensive crops or commodities now being produced. Since there is a significant amount of non-utilized or under-utilized land in the small farm areas, the increased availability of inputs, including hired labor, could achieve increased production of these more intensive commodities without forcing a reduction of others. The allocation of agricultural credit by crop or commodity can greatly influence production patterns on a national or regional basis by making credit more readily available for the more desirable commodities.

Colombia has had experience with several different kinds of small farmer credit. The more important ones are:

(1) the INCORA Supervised Credit Program: This program is a more or less traditional supervised credit system. Loans are based upon a farm plan developed by the borrower and credit supervisor. Loans average about \$1,000[3] (20,000 pesos) per borrower per year. Since 1963, approximately 55,000 families have been reached and in 1971, about 15,000 new borrowers were added to the program. Supervision and administration costs have averaged about 22 percent of the total amount of loans made per year. Studies indicate that recipients of credit under this program have increased their net worth by about 13 percent per year (deflated peso basis).

As shown in Table 1, the INCORA credit program is significantly smaller than the Caja program. Assuming 62 percent of the Caja agricultural credit portfolio goes to small farmers, or \$132.8 million, the Caja extends almost five times as much credit to small farmers as compared to INCORA.

(2) The Caja Agraria's regular agricultural credit program: The Caja is the principal source of bank credit for small farmers. At the present time, about 93 percent of the Caja's new loans, accounting for 62 percent of the amount of agricultural credit granted by the Caja, are being made to farmers with assets of less than \$15,000 (Col. \$300,000). A third of these

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[3] All peso amounts have been converted to dollars in this paper. The dollar figures are calculated on the basis of the exchange rates shown in Table B, the Appendix, unless indicated otherwise.

funds normally go to very small farmers with assets of less than $2,500 (Col. $50,000). The total number of new loans made by the Caja in 1971 was 367,703 of which 343,291 were to small farmers. A concerted effort is being made to increase the proportion of the bank's available resources going to small farmers, and to improve the timeliness of this credit and the availability of the inputs to be purchased with credit funds. No study of the increase in borrower's net worth as a result of Caja credit has been completed yet.

(3) The Caja -- ICA[4] program under AID Sector Loan 514-L-060: This is a project through which the Caja makes loans to small farmers on a commodity basis. ICA provides technical assistance pointing to the use of only two or three improved practices for each commodity by working with groups of farmers in a given area instead of working with each farmer individually. It is a relatively small program and is still in the early stages of implementation.

This program has not been underway long enough to make a comprehensive evaluation of results but indications are that the average loan will probably be much smaller and the cost of technical assistance will be much lower than for the INCORA supervised credit program.

(4) The Coffee Bank Program: Loans are made only to the coffee producing areas by this specialized bank. Its program reaches many small coffee producers since 97 percent of the coffee farms are under 10 hectares in size. As mentioned previously, the Coffee Bank made about 42,000 loans in 1971, so in terms of the number of small farmers reached, the Coffee Program is slightly smaller than the INCORA Supervised Credit Program.

Present small farmer credit programs in Colombia are reaching only about 450,000 of the estimated 1.2 million small farmers in need of credit. Approximately 200,000 of those not receiving credit are coffee growers. This leaves a balance of about 550,000 small farmers whose income and production would probably be increased by providing them with agricultural credit at a reasonable cost and on a timely basis.

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[4]Colombian Agricultural Institute, the research and extension arm of the Ministry of Agriculture.

NIGERIA

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Small Farmer Credit in Nigeria

Nigeria has just begun to establish a formal "institutional agricultural credit system". The Federal Military Government (FMG) allocated US$18 million in the current 4-year Plan (1970-74) as initial capital and a decree was issued in early 1972 formally establishing the National Agricultural Credit Bank. The UNDP is providing funds to the World Bank to cover the posting of 4 agricultural credit specialists in line and staff positions of the institution. They will fill the General Manager and other important posts for the first two years and serve as advisors the next three. This course of action has been taken by the FMG to assure the new institution will be established and operated in accordance with "international standards".

The scope of the institution's activities are yet to be prescribed although it is known, of course, that it will be linked to the Central Bank for credit expansion purposes. Direct loans may be made to marketing agencies, some other agri-businesses and possibly a few large farm production units. But it is presumed small holders who account for virtually all agricultural production in Nigeria, will be serviced through agricultural credit agencies of the individual states. At present only one of the 12 states has such an institution functioning--The Western State Agricultural and Industrial Investment Corporation, (WSAIIC). The extent to which the national institution will become involved in establishing and supervising similar institutions in other states probably remains to be determined.

The WSAIIC was formed in 1964 as an agricultural specialist agency from the Western Region Finance Corporation which was established in 1949 and the parent agency of the latter was the Western Region Development Board. The other three regions also had Development Boards but only the former Western and Eastern Regions developed agricultural credit service units through which to channel loans to small holders. The Midwestern Region formed a separate unit on July 1, 1964 upon becoming a separate region. The Eastern Region organization was called the "Fund for Agricultural and Industrial Development." None of these organizations has reached a significant number of farmers; in fact only the WSAIIC is now functioning and shows promise of growth. It serviced less than 3,000 farmers in 1972.

The Midwestern, the three states of the former Eastern Region and all six northern states are relying mainly on cooperatives to reach small holders. However, the total volume is relatively small and repayment performance has been so poor that many states have declared no further loans will be made until old loans have been repaid. At one point, funds for lending in the Midwest State were so short of estimated demand, it was decided to use a lottery to choose the successful applicants.

The Western State also has a Cooperative Bank. It provides short term financing for cooperatives which purchase around 18 percent of the state's cocoa production, to cover both produce purchases and distribution of chemicals for use on cocoa trees. Its parent organization, The

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Cooperative Trust, has been chosen as the organization through which the pilot World Bank cocoa loan will be channeled to farmers.

While the volume of credit used by small holders in Nigeria is not known even approximately, it is believed their use from non-government sources, including family members, is several times the volume received from government agencies and commercial institutional sources. Private moneylenders, as in most developing countries, constitute the singly most important source. Many of these are involved in marketing of the main cash products --- cocoa, groundnuts, cotton and palm products --- as Lincensed Buying Agents (LBAs). This means they are appointed as agents by the Marketing Boards to purchase produce from farmers and deliver to Board depots. The LBAs take title to the produce and they receive a fee for the different services rendered. The more efficient of the LBAs can build up capital quite rapidly, particularly if they become involved in transport as well. Moneylenders' short term credit is used both for modest amounts of agricultural inputs and to cope with the "hungry season" just before food harvests.

For the most part, credit advanced by LBAs and other private moneylenders must be from their own resources since few of them enjoy a revolving credit. Up until a few years ago marketing boards guaranteed loans by commercial banks to LBAs for working capital to facilitate produce procurement. This apparently permitted some short term lending. However, due to major delinquencies, this underwriting was discontinued; LBAs now must rely on their own credit rating to obtain revolving funds from commercial banks.

Nigerian small holders have numerous opportunities for profitable investments. These stem from technical production innovations which recently have become available as well as a growing domestic demand for food and fiber. At present only a few percent of Nigerian small holders' demand for credit is being met. To fully capitalize on available opportunities, a number of other infrastructural components also are needed. These include private sector handling of inputs as well as products and generally better commercial and public sector services. Some of these, at least, should be considered as pre-conditions for meaningful credit programs. But certainly credit should be viewed as a necessary condition to substantially expediting agriculture's growth rate. In virtually all states, the legacy of high delinquencies under farmer lending programs is an obstacle to launching successful new ones.

To develop effective credit programs in Nigeria requires a far more complete knowledge base, including:

1) Farm management studies to establish probable returns to investments in improved inputs along with the peasant farmers' capital profiles and the role of credit in them.

2) Multi-disciplinary socio-economic studies to identify measures for harnessing elements underlying the traditional propensities for group action and a pragmatical application of these to the development of credit programs. Such studies would help explain the paradox of the extremely high frequency of failures of cooperatives in a society which basically appears highly oriented to a multi-person approach to many social problems.

3) Imaginative management science applications to a variety of institutions and alternative methods of servicing small holders' credit needs. This would include experimental lending operations by different institutions and concurrent studies of their relative effectiveness and efficiencies.

Some traditional lending procedures can provide clues for structuring sound action programs. In the Tiv area of Benue Plateau State of Nigeria, for example, an institution called Bam (Bank) has evolved which appears to have all the elements of an effective credit system except an expandable source of funds. One or more villages arrange themselves into informal groups of up to 600 to 700 people. Twice monthly town-meeting type functions are held. At these meetings members make cash deposits which are immediately loaned to other members, with interest discounted in advance. All loans are payable no later than December 1 each year and the interest and other miscellaneous revenues (e.g. fines, etc.) are used to purchase cattle which are then slaughtered and the meat allocated to membership in accordance with their depositing/borrowing participation during the year. An extended social function follows.

A high proportion of the farm families in the Tiv area (2 million people) participate in the Bams and defaults are negligible because of 1) close screening for personal character and loan purpose and 2) the threat of prompt sale of borrower's property or other actions to enforce collections. The annual turn-over is around US$30.00 per member. Significantly, the mere mention of the word "cooperative" in the Tiv area is upsetting to the masses and the village leadership alike.

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GHANA

by:

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Accra

December, 1972

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Authors' Note

Exchange rates that were applicable for the yearss discussed in this paper are as follows:

February 7,1972 to present ₵1 = US$0.78
December 27,1971 to February 7,1972 N₵1 = US$0.55
July 8,1967 to December 27,1971 N₵1 = US$0.98
February 23,1967 to July 8,1967 N₵1 = US1.40
Prior to February 23,1967 ₵1 = US$1.17

Because of the various exchange rates in effect over the period covered in paper it was decided to convert all Cedi costs into dollars at the present rate of 1₵ = US$0.78 so as to give a constant Dollar value

Major abbreviations used in the text are:

ADB = Agricultural Development Bank
NIB = National Investment Bank
CPD = Crop Production Division, Ministry of Agriculture
GFS = Group and Cooperative Farm Credit Scheme

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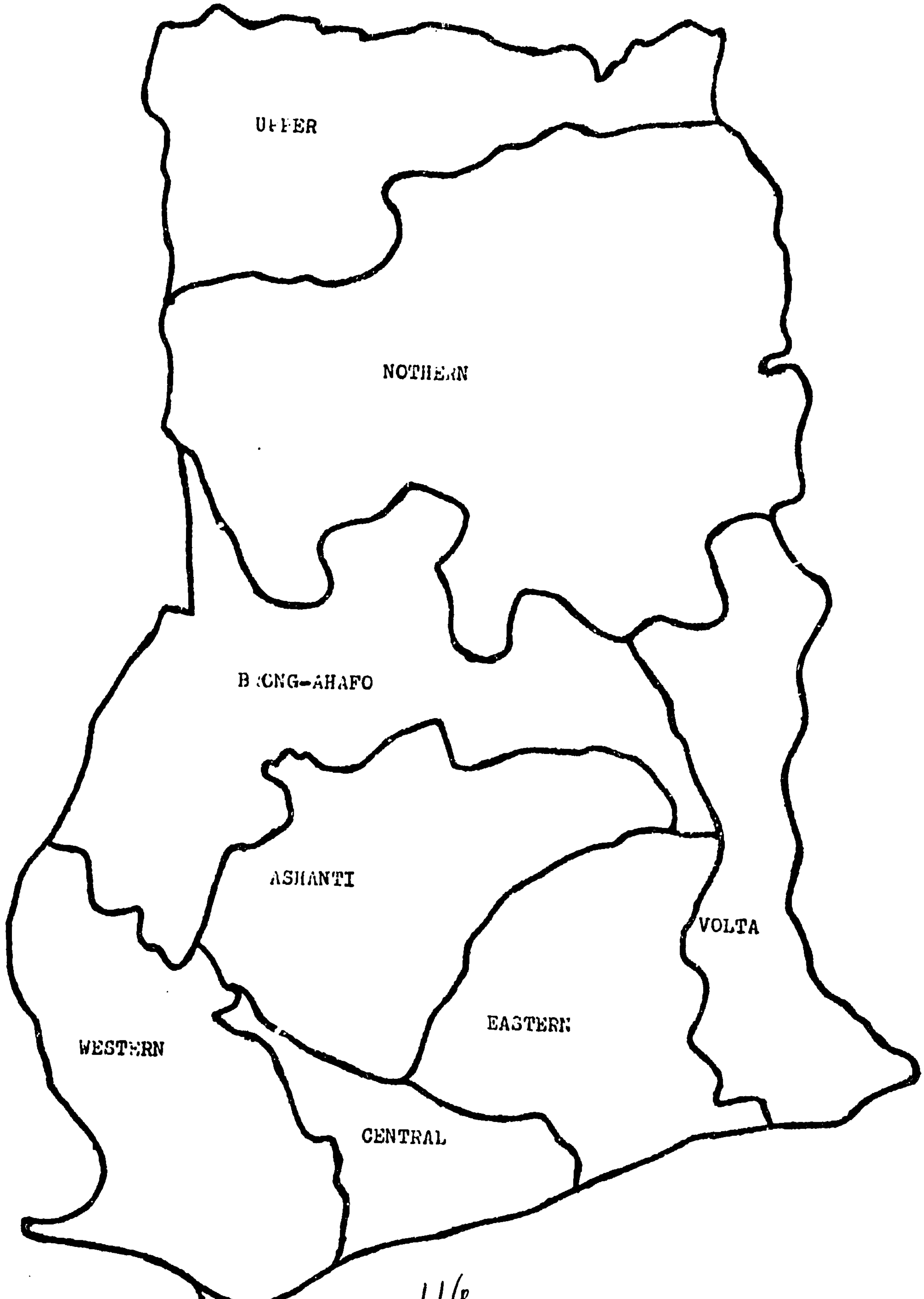
UPPER
NOTHERN
BRONG-AHAFO
ASHANTI
VOLTA
EASTERN
WESTERN
CENTRAL

A REVIEW OF SMALL FARMER CREDIT IN GHANA

Introduction

Prior to the 1960s, agricultural credit in Ghana was provided almost entirely by relatives, friends and money lenders. The earliest attempts at institutional credit, however, started with the granting of credits by cocoa cooperative societies during the 1931/32 cocoa season. In April 1964, the Bank of Ghana established a Rural Credit Department to study the problems of agricultural credit and to prepare the necessary legislation, plans and procedures for the establishment of an agricultural credit bank. In April 1965, Parliament passed an act (Act 286) to incorporate the Agricultural Credit and Cooperative Bank. The new bank started its operations in August 1965, taking over the assets and liabilities of the Rural Credit Department of the Bank of Ghana. In April 1967, the initial act was amended by a decree of the National Liberation Council (Decree 182) and the bank's name changed to the Agricultural Development Bank (ADB). The National Investment Bank (NIB) was formed in 1963 to provide capital for investment in industry, agro-industry and large scale farming. Besides the ADB and the NIB three other institutions are currently extending credit to agriculture. They are the Ghana Commercial Bank, the Standard Bank of Ghana and Barclays Bank.

Volume of Credit

Table 1 gives an idea of the amount of credit provided to the agricultural sector in recent years by the various institutions. These figures represent lending primarily to the agro-industries and large scale farms. Lending to small scale farming by the institutional sources has been limited almost entirely to credit schemes of the ADB. The reasons given for not providing credit to small scale farmers are usually ones of 1) high cost of servicing and 2) difficulty of supervision and collection.

Magnitude of Small Farmer Problem

Ghanaian agriculture is predominantly composed of small holders. In the 1970 Sample Census of Agriculture it was estimated that there were 805,200 land holders in agriculture in Ghana, of which 81% were full-time holder-operators. The 805,200 households had an average size of 5.6 people resulting in an estimated farm population of 4,517,800 people or roughly 50% of the total population 1/

Table 2 gives the size distribution of holdings. Thirty percent of the holdings are less than two acres, 55% less than four acres and 82% less than 10 acres. At the other extreme, less than 2% of the hold-

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1/ Ghana's population was estimated by the 1970 Census to be 8.5 million.

Table 1 - Loans and Advances to the Agricultural Sector, 1962-71, (1,000 Cedis) 1/

Source	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Commercial banks	2500	18100	7000	10000	13800	3200	3800	10000	9048	16154
National Investment Bank	-	75)	224	290	405	353	1233	769	692	-
Agric. Development Bank	-	-	-	-	1142	1484	2140	3424	4593	8308
Total ..	2500	1885C	7224	10290	15347	5037	7173	14193	18375	

Source: Loans and advances outstanding December 31, Bank of Ghana annual reports for various years, and annual Reports for various years for National Investment Bank and Agricultural Development Bank.

1/ Due to conversion problems arising from the several devaluations and revaluations, this table has not been converted to dollars.

Table 2 - Size Distribution of Holdings by Region, 1970

Region 1/	Western	Central	Eastern	Volta	Ashanti	Brong-Ahafo	Northern	Upper	All
Number (000)	68.1	81.1	148.2	108.6	147.7	71.6	61.2	118.7	805.2
Percentage: 0-1.9 acres	17.6	43.3	38.8	47.8	31.1	20.6	12.0	17.8	30.6
2-3.9	23.3	24.6	23.8	24.1	17.3	19.8	35.5	29.8	24.1
4-5.9	11.9	10.4	12.8	10.9	9.8	13.8	19.9	18.0	13.1
6-9.9	16.8	9.5	12.4	11.0	12.0	18.7	22.8	16.4	14.1
10-49.9	29.7	11.3	11.2	6.0	24.0	24.4	9.6	17.1	16.3
50 plus	0.7	0.4	1.0	0.2	5.8	2.7	0.2	0.9	1.8

1/ See Figure 1 preceeding the introduction of this paper for a map showing Ghana's administrative regions.

Source: Report of Ghana Sample Census of Agriculture 1970, Volume I, Economics and Marketing Division, Ministry of Agriculture, Accra, March 1971.

ings are greater than 50 acres. Unfortunately, the percent of land by size of holding is not available. However, it is generally accepted that Ghana is not troubled with a land distribution problem at present. 2/ Very little additional information is available on the small farmer as a group but in 1970 of the 805,200 holders, 111,100 (14%) were classified as producing for subsistence only, while 289,700 (36%) were classified as "mainly" subsistence and 404,400 (50%) were operating mainly for sale 3/ Table 3 summarizes the available data with respect to production for market and farm size. If we consider 10 acres and less as a small holding, slightly over 40 percent of the small cultivators in Ghana produce mainly for cash sale. Probably no more than half of these are cocoa farmers 4/ Therefore, it is estimated that about 65 percent of Ghana's farmers are small food crop farmers (cultivating less than 10 acres)of which some 20 percent are producing only for subsistence, 50 percent are producing a surplus no larger than their own consumption and the remaining 30 percent are producing mainly for sale.

While the small food crops farmer is dominant in Ghana, as noted above, almost none of the institutional credit has reached him in the past. One problem for the institutional lender in Ghana is that the cost of securing funds and making a loan to a small farmer is almost certainly higher than the expected return at current interest rates 5/. Uncertainty of repayment is also a problem since the Ghanaian farmer typically has no assets to provide as collateral, not even land. Under the Ghana land tenure,

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2/ This is not to say that Ghana has no land tenure problem. The problem of tenure is discussed briefly on page

3/ The definitions used for the classification were as follows: (a) operated for subsistence only - no cash crop cultivated and little or no sale of food crops, (b) operated "mainly" for subsistence - more than 50% of produce intended for home consumption, and (c) operated mainly for sale - more than 50% of produce intended for sale.

4/ The average size of cocoa holding in 1970 was estimated to be 12 acres (Ghana Sample Census of Agriculture, 1970).

5/ The ADB, for example, cannot charge more than 6 percent interest on its loans but it must pay 7½ percent on savings deposits it receives. As of December 1969, all loans to small farmers (initially defined as less than 100 acres) were required to be guaranteed under a Bank of Ghana, the Central Bank) guarantee scheme at a cost of one percent on the outstanding balance. In addition, all guaranteed loans were to draw no more than 9 percent interest, leaving only half of one percent margin above the current cost of securing money through savings deposits, (the 7½ percent rate on savings deposits has been effective since late 1971). Commercial banks currently loan to the agricultural sector at a rate of about 14 percent.

Table 3 - Type of Holding by Size of Holding

Region	Western	Central	Eastern	Volta	Ashanti	Brong-Ahafo	Northern	Upper	All Ghana
Holdings (000)	68.1	81.1	148.2	108.6	147.7	71.6	61.2	118.7	805.2
Subsistence only %	5	7	2	9	6	5	22	54	14
% of which were:									
0-3.9 acres	92	98	87	100	95	79	53	65	73
4.0-9.9	8	2	13	0	2	17	34	31	23
10+	0	0	0	0	3	4	13	4	4
Mainly subsistence %	24	25	23	60	19	43	77	41	36
% of which were:									
0-3.9 acres	59	93	82	82	92	53	46	30	65
4.0-9.9	28	6	16	16	5	37	46	43	27
10+	13	1	2	2	3	10	8	27	8
Mainly for sale %	71	68	75	31	75	52	1	5	50
% of which were:									
0-3.9 acres	32	57	56	45	34	27	75	8	43
4.0-9.9	30	26	28	38	28	30	30	0	29
10+	38	17	16	17	38	43	25	92	28

Source: Report on Ghana Sample Census of Agriculture, 1970, Vol.1. Economics and Marketing Division, Ministry of Agriculture, Accra, March 1971, pp.51-52.

land cannot be mortgaged because the holder does not own the land. It is given (or leased) to him to use but no title transfer takes place. It was to overcome some of the aforementioned problems that the Agricultural Development Bank (ADB) initiated Group and Cooperative Credit Sehcmes, (GFSs) for rice and maize. By having farmers come together, form a group or cooperative and apply for a loan, the bank was able to reduce the cost of making and supervising the loan since the group leader and cooperative officers could assist in preparing the loan application, identifying property for secutiry, etc. Also, by requiring all members of the group to repay their loans before the group or any of its members could receive another loan the Bank was hoping to have members of the group (cooperative) put pressure upon one another to repay the loan.

The Rice and Maize Schemes

The Rice Scheme was started in 1968 with one loan made to a cooperative union. In 1970, disbursements to the cooperative union were discontinued and the Group Credit Scheme was introduced, with a total of 10 groups cultivating 1,377 acres of paddy in the Northern and Upper Regions. In 1971, loans to cooperatives were reintroduced but these loans were given directly to cooperative societies. Eleven cooperative loans and 19 group loans were utilized in 1971. This program was expanded to 26 cooperative and 38 group loans in 1972. Unfortunately information is not currently available on the size of holding per farmer included in the group and cooperative scheme each year. The Rice Scheme in 1970, however, represented 2.7 percent of the paddy cultivated in the Northern Region and 0.9 percent of that cultivated in the Upper Region. (See Table 4).

The maize group farming was started in 1969 with maize farmers in the Central, Eastern, Volta, Ashanti and Brong-Ahafo Regions as participants. The maize scheme has grown from 20 groups totaling 265 farmers cultivating 2,045 acres in 1969 to 264 groups of 6,208 farmers cultivating 57,756 acres of land in 1972. Table 4 compares the 1970 program farmers and acreage with the all maize farmers in Ghana in 1970. As can be seen from the data, the program in 1970 covered 2.5% of total maize acreage and a smaller percentage of the farmers. However, if one compares the farmers and acreage in the Scheme in 1972 to the latest national estimate (the 1970 census), one finds that farmers in the scheme in 1972 represent approximately 1.5% of the maize farmers and 5% of the maize acreage in 1970. Regionally, the program is even more important. In the Brong-Ahafo and Central Regions which contain 90% of the program farmers and 88% of the program acreage the project beneficiaries consist of 9% and 6% respectively of the total maize farmers and 15% and 23% of the total maize acreage.

As can be seen also in Table 4, the average maize acreage of the Group farmers was considerably larger than the regional averages except in Brong-Ahafo where the regional average was 4 acres of maize versus 2.9 for the participants. Except for the Ashanti and Western Regions, the average maize acreage in 1970 per group farmer was 10 acres or below. Since 1970 the average acreage in Ashanti and Western Regions has fallen in 1972 to 14 and 10 acres respectively while the average in Brong-Ahafo has risen to 10 acres. Hence while the participants are small farmers in a relative sense they are still significantly larger than the average in their region.

Table 4.- Number of Holdings and Averages: All Farms, Rice and Maize Cultivators and Rice and Maize Scheme Participants - 1970

Region	Western	Central	Eastern	Volta	Ashanti	Brong-Ahafo	Northern	Upper	Total
Total holdings (000)	68.1	81.1	148.2	108.6	147.7	71.6	61.2	118.7	805.2
Rice cultivators (000)	4.2	1.2	1.5	5.2	3.2	2.0	5.6	37.9	60.8
Rice Scheme participants	nil	nil	nil	nil	nil	nil	3.2	5.9	9.1
as % total holdings	-	-	-	-	-	-	0.05	0.05	0.01
as % rice cultivators	-	-	-	-	-	-	0.57	0.26	0.15
Maize cultivators (000)	28.1	47.2	79.6	71.4	80.0	30.6	47.1	29.8	413.8
Maize scheme participants	70	376	N.A.	437	269	856	nil	nil	N.A.
as % total holdings	0.1	0.5	N.A.	0.4	0.2	1.2	-	-	N.A.
as % Maize cultivators	0.3	0.8	N.A.	0.6	0.3	2.2	-	-	N.A.
Total acres (000) 1/	595	395	842	400	1,975	807	350	864	6,228
Rice acres (000)	14	2	3	16	10	13	36	42	136
Rice Scheme acres	nil	nil	nil	nil	nil	nil	982	395	1,377
as % total acres	-	-	-	-	-	-	0.3	0.0	0.0
as % rice acres	-	-	-	-	-	-	2.7	0.9	1.0
Maize acres (000)	73	90	161	103	116	121	149	82	900
Maize Scheme acres	1,230	3,807	2,983	1,262	10,404	2,476	nil	nil	22,167
as % total acres	0.2	1.0	0.4	0.3	0.5	0.3	-	-	0.4
as % maize acres	1.7	4.2	1.9	1.2	9.0	2.0	-	-	2.5
Median size of holding	5.5	2.5	3.0	2.2	4.4	5.4	4.2	4.3	3.6
Rice acres/rice cultivators	3.3	1.7	2.0	3.1	3.1	6.5	6.4	1.1	2.2
Rice acres/Scheme participant	-	-	-	-	-	-	30.7	6.7	15.1
Maize acres/maize cultivator	2.6	1.9	2.0	1.5	1.5	4.0	3.2	2.8	2.2
Maize acres/scheme participant	17.6	10.1	N.A.	2.9	38.7	2.9	-	-	N.A.

1/ These estimates exclude pepper, tomatoes, pineapple, orange and other citrus which accounted for 110,000 acres at a maximum for all regions.

SUDAN

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Beirut
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SMALL FARMER CREDIT IN SUDAN

by

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Introduction

Economic development in the Sudan depends largely upon agricultural development. More than 80% of the 15 million people living in the Democratic Republic of the Sudan are deriving their living from agriculture. The potential of the arable land is very high and the amount of the Sudan's share of the Nile water, exploited so far, is very low. Rainfed land is also still plentiful. The private sector needs capital to utilize more of the land and water resources to improve the already cultivated areas by introducing modern technology. Money is also required for the seasonal operations of the farm. Among the most important means of acquiring capital for the farm is through the use of credit.

..sting Systems of Credit for Small Farmers

The Shail

The most dominant source of credit is the shail practice. This is a kind of credit disguised in the marketing process. The farmer makes an agreement with the shail merchant according to which the merchant will pay the amount of the value of the product in advance and the farmer will submit a certain amount of his crop to the shail merchant at the end of the season; the agreement is usually done before sowing the crop. The price offered by the shail merchant is usually equivalent to 50percent of the price of the crop at harvest time. The author calculated the rate of interest of the shail merchant.[3] It was found to range between 60 and 200 percent annually. This practice is still continuing even after commercialization of agriculture and institutionalization of farm credit.

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3. Abdallah, Muhammed Hamid. 1973. The Effect of Tangible Security on Farm Credit in the Shendi District, Sudan. M.S. Thesis, AUB, Beirut, Lebanon.

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The Gezira Scheme

The year 1926 witnessed the greatest step towards commercialization o. agriculture in the Sudan. In that year the Sennar dam was constructed to irrigate the Gezira scheme for cotton cultivation which came to be the backbone of the Sudan economy. In this scheme the tenants are considered to be partners with the government. The costs of production are distributed between the Gezira board and the tenants. Each cost item is known to be the responsibility of either the board or the tenant. The tenants cannot afford the seasonal payments for which they are responsible. So the board is advancing loans to the tenants for each operation they make and this is deducted from their share in the income which was 42% and nowadays is 50% of the total net income. In this respect the Gezira board is acting as both an administrative and a credit institution. Supervision is provided by field inspectors who make regular visits to supervise all the farm operations. So, in this sense, it is considered a completely supervised credit system.

Besides the field inspectors, there is a committee from the farmers that help both in supervision and the administration of the scheme. For a group of inspectors there is a group inspector to whom all the field inspectors report their daily, weekly and monthly assignments. There is a block inspector for the group inspectors. The system is a completely Supervised Credit System except that there is no direct interest rate charge . But, the interest rate of the money used is supposed to be calculated together with the cost of production.

The Gezira board sells all the cotton and its by-products and from the sales it takes all the money advanced to the tenants, then distributes the rest of the tenant's share to each according to his production. If the tenants' production was just covering their advances the board collects its loans fully and there will be no delinquency. But, if the tenants' share could not cover the expenditures which were paid by the scheme there will be some delinquency which fluctuates with the amount of production and the cotton prices in the international market.

The Gezira scheme is minimizing delinquency by collectively charging the tenants. If every tenant is charged alone the scheme may risk losing from the tenants who could not produce enough to cover their advances. On the other hand, such a policy may reduce the individual incentives of the productive farmers who find themselves paying for the losses incurred by the unproductive tenants.

All the participants in the Gezira scheme are alloted some areas in which they are supposed to grow their own crops (other than the cotton). Sorghum, the staple food of the people, is the most important crop grown in the farmers' private plots followed by peanuts. The scheme provides only the water to the te its who are growing these crops. When they need credit to finance these crops they resort to the shail practice described earlier.

The Agrarian Reform Schemes

The success of cotton in the Gezira scheme and its high prices in the world market encouraged the government to issue licenses for the private entrepreneurs interested in cotton. This gave rise to what was known as the private pump schemes on the Blue and White Niles. The general features of these private pump schemes were similar to those of the Gezira scheme. They were financed by the commercial banks and some foreign financial institutions. In turn, the scheme owners pay the farmers in advance for the farm operations for which they are responsible and deduct these expenses from their shares of the income. When the government established the Agricultural Bank of Sudan these schemes were financed by the bank which sells the cotton and its by-product to collect its loans. The interest rate was seven percent for the loans advanced, one percent as a marketing commission and one percent as supervision commission (totalling about nine percent). The farmers in each scheme were not responsible for these charges.

After the year 1964 the cotton yields and prices started to decline and as a result these private pump scheme loans became delinquent in the Agricultural Bank and the rate of delinquency was increasing. In 1968 the bank decided to stop financing all the delinquent schemes which meant that a lot of farmers were left idle and with nothing on which to depend for their living. In fact, the private pump schemes were vital to the farmers who depend on the water to grow cotton, staple food, pasture, and water their livestock. So, the government decided to take over all those schemes (which the bank refused to finance) and run them under an agrarian reform institution. This institution took over all the responsibilities of the private pump scheme owners and the credit system. Supervision to the farmers was running on the same basis described above. Collection of loans advanced depends mainly upon the amount of cotton production and prices.

Khashm-el-Girba Scheme

This is mainly a settlement project executed to settle the Sudanese Nubians whose lands were covered by the Aswan High Dam Lake Nasser according to the Nile waters agreement between the Sudan and Egypt. It runs on the same basis as the Gezira scheme. Farmers are growing mainly cotton, peanuts, wheat and sugar cane. The scheme provides credit for the cotton and the farmer has to finance the other crops by his own means. Unlike the Gezira and the agrarian reform schemes, the shail practice is not known among these newly settled farmers. But other sources of credit may exist.

The Cooperative Department

Realizing the high charges and profits made by the shail merchants the Cooperative Department decided in 1948 to extend credit to the farmers where this practice is most prevalent. Shendi district was chosen to receive this credit service in order to abolish the shail practice. For individuals the security required was either registered land or buildings. For Cooperative Societies the security required was livestock. Repayment was not enouraging and so the experience failed but the shail practice continued up till now. The reason the shail merchants are able to survive is that, though they do not bother with tangible security, they know their customers personally and witness the harvest to take their payment, in kind, before the farmer is able to do anything else with the crop.

Nowadays, and after the 25th of May, 1969 revolution, the Cooperative Department is again becoming active in extending loans to the Cooperative Societies. The number of cooperative societies financed by the Cooperative Department during the last five years was 327.

The total number of farmers participating in these cooperatives was 319,796 farmers. The area grown by each farmer varied from $\frac{1}{2}$ to 10 feddans (1 hectare equals 2.47 feddans). The amount of unrepaid loans during the last five years was 26 percent.

The Agricultural Bank of Sudan

After independence in 1956 the people of the Sudan started to become more aware of economic development. It is very clear that agriculture gets first priority in the development of the Sudan. Among the many working tools that had been established to achieve the development of agriculture was the Agricultural Bank of Sudan. The major function of this bank is to service credit to all interested farmers especially small and medium-sized farmers. The security required is a tangible asset whose value should be 30 percent more than the amount of the loan. In the case of medium and long-term loans the farmer-borrowers have to contribute 30 percent of the amount of loans they need.

The services of the bank are extended for all crops including cotton. As was mentioned earlier, the bank financed the cotton through the private pump schemes up till 1968 when the Agrarian Reform Department was established to take over those schemes. The security in the cotton scheme is the cotton produced and the fixed assets of the scheme. When the bank sells the produce it withholds the amount of the loans, interest and other service commissions. So, amount of delinquency varies with the amount of production and the cotton prices.

For other crops the security is a tangible mortgage. The most important crop financed by the bank, other than cotton, is sorghum. It was fully financed from sowing to harvest. Due to delinquency the policy was changed and financing was limited to only the harvest stage when the crop is really established and can be estimated more accurately. The bank loans for sacks, the harvesting operation, and storing the crop. Besides the warehouses, the bank has two big modern silos, one in Gadarif (in the eastern part of the Sudan -- which is the highest sorghum production area) and the other in Port Sudan for storing the surplus and making it ready for exportation. When prices are low, due to high yield, the bank enters the market as a buyer to stabilize prices in the form of price supports. In this respect the bank is acting both as a credit and a marketing institution. Most of the sorghum growers getting the Bank's services are the big farmers in the Gadarif, Dali, Mazmum and Migenus areas.

Other crops financed by the bank are peanuts and wheat in the Gezira and Khashm-el-Girba, beans in Shandi, Atbara and Dongoli, fruits and vegetables in Kassala and Sennar, and tobacco in Darfur and Sennar.

In fact, the Agricultural Bank of Sudan is performing well in agricultural development but it is facing the problem of delinquency and farmers are facing the problem of security requirements.

The average number of farmers financed by the ABS was 30,249 per year up till 1968, when the Agrarian Reform Department took over the responsibilities of the private pump schemes. After 1968, the average number of farmers getting ABS loans dropped to 4,600 farmers per year. This figure is low when compared to the total number of farmers (the population of the Sudan is 15 million, 80 percent of whom are living in rural areas). The main reason so few receive ABS loans is the tangible security required.

If the bank could find an alternative way to secure its loans it could increase the number of farmers getting its services.

The bank is also financing agricultural cooperative societies which numbered an average of 631 cooperatives during the last five years. It is interesting to note that the percentage delinquency for the individual farmers (13%) was lower than that of the cooperative societies (45%). This means that the planning and organization of the cooperatives have to be amended before they could be considered as a poor form of security for loans.

MOROCCO

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Rabat
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SUMMARY

There are two government credit organizations in Morocco serving the small farmer -- the "Société de Crédit Agricole et de Prévoyance" (SOCAP) and the "Caisse Locale de Crédit Agricole" (CLCA). SOCAP represents the old traditional pre-independence institution which, for the most part, services the subsistence credit needs of small traditional farmers. CLCA has, up to mid-1972, served the more progressive small and medium sized farmers. Although subsidized by the Government, it operates on a business basis under the management of the "Caisse Nationale de Crédit Agricole" (CNCA).

SOCAP traces its origins to 1928 and has remained relatively unchanged in its organization and functions for the past 20 years. As a government established society, SOCAP is simply a collection of local chapters and has neither a corporate nor cooperative structure. There are 93 individual SOCAP organizations distributed over the entire country. Its farmer members have little or no participation in its management or operation since these are carried out by local governmental authorities as a part of their regular duties. External financing is obtained from government capital transfers based on a surcharge on rural taxes. Limited redistribution of income, therefore, takes place since low income SOCAP members do not pay taxes. A very poor repayment record has eroded available funds and volume of credit has greatly decreased over the past ten years. In past years, up to 400,000 farmers per year have received credit from SOCAP. Present numbers are estimated at 200,000 or about 15 percent of all small farmers eligible for credit. Typical loans are short term and very small -- less than $40. Such loans do little to lift the farmer above a subsistence level of production.

The CLCA was established in 1967 as a subsidiary organization to the National Agricultural Credit Bank (CNCA) established in 1962. The Bank manages the CLCA and the Government makes up any operational losses. Since its establishment, the CLCA has obtained government grants totalling $13.4 million to finance an expanding credit program. The CLCA has opened 53 local offices throughout the country during the past five years and has more than doubled volume of credit and number of farmers served during that time. The CLCA presently makes loans to about 20 percent of farmers eligible for its credit. There has been an excellent record of repayment -- over 95 percent during recent years -- due to careful screening of clients, not giving excess amounts of credit, and requiring good security against the loan. Most of the credit has been medium term (3 to 5 years) in contrast to the predominantly short-term nature of SOCAP loans.

An estimated 40 to 50 man-years of technical assistance, mostly French, has been given to the CLCA's parent organization, the National Agricultural Credit Bank, during the past ten or more years. An undetermined amount of short-term consulting assistance has also been given by the IBRD. USAID provided an agricultural credit advisor from 1962-1966. Expatriate credit officers were gradually phased out of the Bank staff as Moroccans were trained. The Bank became Moroccanized in 1971. Training of Bank staff is given in-country as well as in France and the U.S.A. assisted by a number of bi-lateral and international organizations. The above assistance has no doubt influenced the organizational structure and credit policy of the Bank.

The following capital assistance has been received by the Bank: IBRD - $10 million loan in 1965 and $24 million loan in 1972; IDA - $10 million loan in 1972; Kreditanstaldt (German Development Bank) - $3 million loan in 1972. USAID has loaned $3 million in local currency (Title I) for a special cereals production program fund administered by the SOCAP.

Both the SOCAP and CLCA programs have suffered from lack of technical supervision of loans. Coordination in the development of production credit between research, extension, and the credit organizations has also been weak.

Empirical evidence on the effect of SOCAP and CLCA programs on productivity, employment, and incomes of small farmers is limited. However, informed agriculturalists in Morocco consider that government credit is crucial to small farmer progress. This is because there is not enough savings or capital formation among the small-holder to finance the investments needed for modernization. In addition, private sources, including merchants and money lenders, have reduced their credit activities in recent years and usually confine their lending to consumption purposes.

The prospects for substantial gains during the coming years from an expanded program of supervised credit are excellent. Good markets, a rich resource base, and well developed infrastructure exist. The modern farm sector demonstrates what can be done with capital and know-how. Certain profitable technologies have been developed which can be transferred to the small-holder with little or no loss in efficiency.

The following are needed to improve the small farmer credit program:

1. Assistance in the development of cooperatives which would simplify the logistical problem of serving the mass of small farmers and give them a tool to use credit efficiently for self-improvement.

2. Base loans on the increased productivity of the investment financed rather than on security, even if this requires 100 percent financing.

3. Improve evaluation procedures within the Bank to assist planning and better allocation of human and capital resources.

4. Integrate more closely agricultural research, extension and credit organizations.

5. Recruit and develop an elite corps of farm financial planning and management specialists who would augment the technical extension service staff.

The Government has established plans to phase out the SOCAP and bring all small farmers under the CLCA in the next four years. The question is -- will this organization be instrumental in helping to transform and modernize the mass of small traditional farmers it will inherit as clients? To accomplish this, the CLCA will have to relax in some measure its present conservative banking manner and acquire a more development-oriented policy. As a young and dynamic organization, the chances of its doing this appear good.

INTRODUCTION

In Morocco, agricultural credit has developed and evolved to service two highly different sectors - the traditional and the modern. The bias has been in favor of the market-oriented modern sector.

The modern farm sector contains most of Morocco's irrigated land. Irrigation, combined with the use of modern equipment and farming techniques, makes possible a high level of productivity and a broad range of outputs. The products include a great variety of fresh fruits and vegetables; citrus for export and domestic use, and virtually all the industrial crops.

In contrast, the traditional sector is based essentially on dryland production of cereals and livestock. Farming methods are rudimentary. Animal power and the wooden plow are widely used. Moreover, traditional farming methods have depleted the soil in many areas. Plots are frequently too small to be economically viable and under-employment is endemic. Productivity is low and the largest portion of output is consumed on the farm.

A dual economy is characteristic of many countries. In Morocco, the problem is especially serious because of the relative importance of the traditional sector comprising approximately 80 percent of all cultivated land and nearly all of the grazing land. In terms of output, the traditional sector produces about 75 percent of cereals, nearly 95 percent of total livestock output -- and very little else.

The potential for Moroccan agriculture is extremely promising. Morocco covers an area about the size of California with very similar climate and probably better soils. Furthermore, it is well situated with respect to European markets. Currency is widely used even in remote local markets and the modern urban sector has been served for many years by a highly developed banking and credit system. However, the majority of rural Moroccans do not use banking institutions. Savings are invested in jewelry, livestock and land. Borrowing is mostly for subsistence rather than for investment purposes.

Following independence (1956), three monetary systems -- French, Spanish, and the free money market in Tangiers -- had to be integrated into one, and a new central bank created. This bank, created in 1959, acts as the sole issuer of currency, administers foreign exchange reserves, acts as financial advisor and agent for the Government, and controls the banking system. Its link to the agricultural credit system is through re-discounting services to the national agricultural credit bank and advancing funds on an interest free basis to the local credit societies which provide subsistence credit to small farmers.

The "Caisse Nationale de Crédit Agricole" (CNCA is the sole Government credit institution serving commercial agriculture in Morocco. Private banks, trading companies, and merchants finance a few of the larger farmers. Their role has been declining during recent years with the expansion of CNCA operations.

As the major source of credit to small traditional farmers, the "Société de Crédit Agricole et de Prévoyance" (SOCAP) has been more of a factor in alleviating welfare and hardship cases than in increasing agricultural productivity. 1/

The 1961 laws establishing the CNCA, provided for local branches "Caisse Locale de Crédit Agricole" (CLCA), which would eventually replace the SOCAP.1/The first group of local branches was established in 1967. The present total (1972) is 53. Until 1972, these local branches served largely the medium farmers and a few modern and small farmers. Replacement of the SOCAPs began in 1972 and will be phased out over a 4 year period. Consequently, the CNCA is just beginning to reach down to service the credit needs of the mass of small and traditional farmers.

The Government of Morocco has paid limited attention in the past to the small farm sector. Recently there have been signs of more concern for actions to assist the small-holder. Credit programs are only one aspect of agricultural development; but an important one in view of the meager proportion of eligible farmers reached -- less than 20 percent -- and the lack of private sources of financing. Thus far, the Government has allocated a major share of financial and technical resources to the development of large irrigation zones in contrast to dryland areas. Many other development areas compete for scarce government resources: infrastructure, marketing, research, extension, education, and planning. Infrastructure, and to a somewhat lesser extent, marketing, are well developed. Improvements in research, education and extension lie more in their administration and coordination than with the amount of resources allocated to them. Planning should have as high a priority as credit. However, the means for improving the agricultural planning processes would involve limited resource transfers. Well-programmed small farmer credit would directly complement the above areas, and especially in the short run, should yield high returns on marginal capital invested. The Government is beginning to recognize that insufficient attention has been given to income distribution and employment aspects of development. Its recent decision to replace the SOCAP with an expanded small farmer credit program by CLCA is a demonstration of this concern.

1/ For the sake of convenience, both SOCAP and CLCA are generally referred to in the singular sense.

PROGRAM CHARACTERISTICS

Background

Historical Summary

Prior to the establishment of the National Agricultural Credit Bank (CNCA) in 1962, agricultural credit in Morocco had been poorly organized, complex and fragmented. Commercial Banks and some Government institutions provided credit to larger farmers, agriculture companies, and cooperatives. Small farmers obtained small amounts of credit, (largely short-term) from government-sponsored credit societies, (SOCAP) established in 1928. After Independence (1956), merchants and later commercial banks reduced their agricultural lending as political uncertainty increased. Government institutions were plagued by an increasing shortage of funds and poor repayment records which further reduced lending capacity. The resulting breakdown in agricultural credit forced the Government to scrap most of the existing institutional credit system and establish a unified National Agricultural Credit Bank (CNCA).

In 1967 the CLCA was set up by the Government, as a subsidiary to CNCA, to better serve the medium and smaller farmers and eventually to replace the SOCAP. This began in 1972.

Via the local offices of CLCA (53) and SOCAP (93 societies), the entire country is potentially served by governmental credit. During the past ten years, there have been problems but also progress in increasing amounts of credit to commercial farmers. The major task of the agricultural credit system remaining is that of effectively serving production credit needs of the mass of smaller and traditional farmers.

Relation to National Credit System

Commercial banking in Morocco is regulated by 1967 decree, administered by the Minister of Finance through the Central Bank (10, annex 2). There are 18 commercial banks and some 8 specialized institutions for financing industry, agriculture, tourism and commerce. At the end of 1971, total outstanding bank credit was $716 million of which about 70 percent came from commercial banks and the rest from specialized institutions.[1/] Credit to agriculture accounted for about 17 percent of this total. CNCA has rediscount privileges with the Central Bank up to $24 million for its own seasonal operations and a further $2.2 million for CLCA at 3% a year interest. It can also rediscount with the "Caisse de Dépot et de Gestion"[2/] up to $7.6 million

1/ Throughout this report, all money values in Moroccan Dirhams have been converted to dollars at the rate of 5.00 Dirhams to one U.S. dollar.

2/ This is a specialized Government bank holding and investing cash reserves of public funds and enterprises.

at 5.5% interest. It has up to now, no access to the local monetary market. The Central Bank charges no interest on funds advanced to SOCAP since these are operating mainly as a welfare program for small farmers. No data is available on the current volume of credit through dealers, moneylenders and merchants. At the end of 1971 the outstanding credit to agriculture for production and marketing purposes, through CNCA and the commercial banks, was about $130 million, of which about 73 percent was seasonal. CNCA's share of this credit was about $74 million, or 57 percent, of which just over half was seasonal.

Other Program Activities

Neither the SOCAP nor CLCA have direct responsibility for other rural development programs. Although their stated objectives include the development of cooperatives, this is being done by the Agricultural Development and Extension Service of the Ministry of Agriculture.

Relation to Pre-existing Local Institutions

Prior to 1961 and the formation of the agricultural credit bank, CNCA, several programs designed to furnish Moroccan farmers with credit had been in existence for many years. These institutions operated independently and without any coordination with one another. These included the agricultural credit societies -- SOCAP, the "Caisse Centrale de Crédit et de Prévoyance" and "Caisses Régionales d'Epargne et de Crédit", established by decree in May 1937; the "Caisse Fédérale de Mutualité Agricole", created by Dahir of August 1935; and the "Caisse Génerale de Crédit de Tétouan", created by ordinance in August 1942. Except for the SOCAP, the present structure of credit represents a complete reorganization of the above. The CNCA began as a completely new organization, although many of the personnel came from the former credit organizations.

Agricultural Patterns and Potential

Morocco had a population of 15.4 million in 1971 (census), of which approximately 70 percent depends on agriculture for a livelihood. The Moroccan Government estimates that the population is growing at a rate of 3.0 percent a year (U.N. estimates show 3.4 percent). Over half of the total population is living at near subsistence level with a high degree of unemployment and underemployment.

Illiteracy in the rural areas is possibly 90 percent. There has been heavy migration of the rural population to the urban areas. In spite of this, the rural population is estimated to be growing at the rate of about 200,000 per year. No precise figures are available, but the average annual income in rural areas is believed to be well below the national average of $240 per capita (1971).

Agricultural production accounts for about 30 percent of the total gross domestic product and for half of total export earnings. From 1963 to 1970, agriculture grew at the rate of 2.8 percent a year as compared with 3.6 percent for the overall economy. This slower growth rate has been largely due to the lack of response in the traditional cereals and livestock sub-sectors.

Morocco has a land area of somewhat over 40 million hectares of which about 8 million hectares are cultivable. Of this area, in a given crop year, approximately 60 percent is in cereals, 3-4 percent in legumes, 5-7 percent in tree crops and 25-30 percent in temporary fallow.

Uneven distribution of land ownership and complex tenure patterns characterize Moroccan agriculture. (See Appendix tables A-1 and A-2). Approximately 50 percent of all land was held by 7 percent of owners in the early 1960's. On the other hand, 60 percent of the farmers have one hectare or less with over half of these farmers having no land at all.

Redistribution of land and resettlement of farmers is taking place, albeit on a modest scale. (3 and 21). Additionally, the Agricultural Investment Code of 1969 contains provisions for agrarian reform.

In 1966 a former USAID credit advisor estimated that about 90 percent of Moroccan farmers did not have sufficient physical and technical resources to be able to benefit from credit (16, p.3). On the other hand, an earlier credit advisor reported that traditional farmers having capability to use supervised credit effectively to increase their productivity and incomes represented the largest segment of the rural population in Morocco (9, Tyson, p.25). The former estimate may be valid under the assumption that existing farming systems are followed -- cereals fallow culture. Farmers having less than five hectares of land will have to intensify through irrigation, high return crops, multiple cropping, or integrated livestock enterprises.

Other Sources of Credit

Small amounts of credit (mostly consumption) are obtainable from money lenders, merchants, family and other private sources. However, informed observers report that this type of credit has declined considerably in recent years due to decreased confidence in security of repayment. Another alternative financing which is common, especially in livestock, is that of "associations". This is an arrangement whereby an investor will provide the capital -- a number of sheep for example -- to a farmer who has land or grazing rights but lacks the animals or the means to purchase them. The proceeds or increase in flock are subsequently shared according to a mutual agreement. Useful information on prior indebtedness of borrowers for SOCAP or CLCA credit was not available.

TABLE 1- A COMPARISON BETWEEN TWO SMALL FARMER CREDIT ORGANIZATIONS IN MOROCCO (mid-1972)

	Société de Crédit Agricole et de Prévoyance (SOCAP)	Caisse Locale de Crédit Agricole (CLCA)
Year Established	1928	1967
Organization		
Structure	Collection of local credit societies; no regional or central offices	Subsidiary of National Agricultural Credit Bank, corporate structure
Character	Emphasis on welfare and emergency assistance besides subsistence credit	Production credit; induce savings (parent organization)
Beneficiaries		
Target	Non-tax paying small traditional farmers (annual family labor incomes under $280)	Small and medium sized traditional and transitional-modern farmers (family labor incomes $280 to $800)
Potential Number	1,300,000	150,000
Actual serviced Number (1971-72)	200,000	30,000
Percent of Potential	15%	20%
Loans		
Type & Purpose	Subsistence and Production credit (seeds, fertilizer, small tools & equipment)	Production credit plus investment
Term	90% short term 10 % medium term	20 % short term 80 % medium term
Interest	3 % short term 3 % medium term	4 % short term 6 1/2% medium term
Collateral	Guarantee of two solvent persons	Co-signers (short-term) Lien on crops or livestock (medium-term)

Table 1- (cont'd)

	Société de Crédit Agricole et de Prévoyance (SOCAP)	Caisse Locale de Crédit Agricole (CLCA)
Appraisal	List of farmers wishing loan drawn up by SOCAP officials	Detailed application form required; farm visit in some cases
Typical amount	$ 20 to $ 60	$ 200 to $ 300
Repayment record	Variable: average of 60% during recent years	Between 95 and 100% during recent years
Costs & Finance		
Portfolio	Declining value and number of loans; erosion of funds due to non-repayment	Increasing value and number of loans (at rate of about 20% a year)
Administration costs	Performed in the course of duties by local officials	Average about 10% of loan value (1970-71). Percent decreasing as volume of credit increasing
Supervision	Performed by separate organization-agricultural extension services	Agricultural extension services; limited supplement by CLCA field agents
External finance & Institutional solvency	Depends on government grants	Operational deficits made up by government payment to parent organization; deficits have been declining with increased volume of loans
Image	Extension of government welfare	Sound Bank and credit organization
Weaknesses	Administrative organization; subsistence type credit; insufficient technical and financial supervision of loans	Over-emphasis on security of loans; insufficient supervision of loans

Loan purpose and type

The following types of SOCAP loans were listed in a 1967 report with the maximum size of loan for each as follows: (5, p.57)

(1)	Diverse loans	($260)
(2)	Repayable aid, or relief	($260)
(3)	Emergency loans, repayable	($ 40)
(4)	Emergency loans, non-repayable	($ 20)
(5)	Relief, non-repayable	($ 40)

The minimum is set at $6. Previously, repayment was in either money or in kind, depending on the nature of the loan. However, present policy is repayment in money only.

The minimum amount of seed to be given on credit is a sack of 100 kilograms of wheat or 80 kilograms of barley. In exceptional cases, as little as 50 kilograms of wheat may be given on credit. There is no minimum established regarding transfer of small equipment on credit.

Information was only available to show breakdown of SOCAP loans by production (including the "Operation Fertilizer" program), and for equipment (table 2). A part of the loans in money undoubtedly went for consumption purposes.

The terms of the loan vary according to its intended use, as follows:

(1) Crop loans are limited to one year.
(2) Equipment loans may extend for three years.
(3) Special loans for soil conservation can extend up to ten years, but they must be based on contracts established with the Department of Forest and Waters (Eaux et Forêts).

During the past ten years, approximately 90 percent of SOCAP loans have been short term credit for fertilizer, seed, small tools and equipment. "Operation Fertilizer" is a special program created in 1966-67, administered by SOCAP, as a means of increasing cereals production through increased use of commercial fertilizer and other improved practices. All farmers are eligible regardless of size of farm.

Loans from the CLCA have been made for a number of diverse production and investment purposes (see table 3). In contrast to SOCAP, loans have been about 80 percent medium term (3 to 5 years). Only during the past three years has short term credit been increasing due to increased livestock feeding.

KENYA

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Introduction

Agricultural credit in Kenya is provided by a number of institutions which generally cater to specific market segments or credit needs. The institutional structure is fragmented, and there is no mechanism for co-ordinating the several sources and flows of credit to the agricultural sector. Various types of farms and farm enterprises are not served on an integrated or uniform basis, and short-term and longer-term needs are not met in a coordinated manner. Much of the short-term credit used in agriculture is provided by the commercial banking system, where such lending is generally considered to be of secondary attractiveness and for which specialized management and supervision are frequently insufficiently available.

The organized credit market serving Kenyan agriculture reaches only a small minority of the total number of farms. No studies exist of the informal or unorganized credit markets, but the extent of small farmer indebtedness to such sources is generally assumed to be small and rural indetedness is not regarded as a social problem in Kenya. Estimates of the number of farms in Kenya range from 1 million to 1.5 million. Only 3,100 of these are large scale, consisting of 20 or more acres, but these units account for one-half of the nation's marketed agricultural produce. Most of these farms are in the former Scheduled Areas, and WERE owned by Europeans prior to Independence. The number of European farmers remaining in Kenya is now approximately 450).

Probably half of the farmers in the small scale sector occupy holdings of fewer than 5 acres and have agricultural incomes below K£35 (US$100) per annum.

The Central Bank of Kenya has no special programms or regulations which deal with the agricultural sector on a selective basis, and loans to the small scale sector do not generate paper eligible for discounting or as security for central bank advances. The principal medium and long term lender to the agricultural sector is the Agricultural Finance Corporation (AFC), but less than 15% of its loan portfolio consists of loans to small farmers. Other medium and long term credit programs include those under which settlers on

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government schemes purchase their farms on credit from the settlement authorities, and those administered by marketing boards which provide credit for the establishment of crops purchased by the board.

Over the period 1967-71 commercial banks' advances to the agricultural sector accounted for between 10% and 13% of these banks' total lending. These advances included those to statutory bodies in the sector and farming companies, as well as loans and overdrafts to individual farmers. It is probable that total advances outstanding to African farmers represent something less than 3% of total outstanding commercial bank credit. However, these statistics must be interpreted with caution - analysis of the role of commercial banks based on an input-output matrix for the Kenya economy (if such a model were available) would be much more meanifigful than facile quotation of simple percentage breakdowns of advances by classes of borrowers.

Farmers with more than 15 acres planted in maize or wheat may qualify for the Guaranteed Minimum Return scheme which provides seasonal credit and crop insurance from government funds. Of 7,500 advances made under GMR in the last season, probably 4,500 of these were to farmers with between 15 and 20 acres under either crop.

The primary source of short term smallholder finance is through the cooperative structure, which includes perhaps 500,000 active members. Probably somewhat less than half of these members are rural people enjoying access to cooperative credit, which is largely provided in kind for seasonal inputs for coffee farmers in amounts between shs 100 and shs 1,000 (US $ 14 and $ 140).

The large scale sector has access to credit from the AFC, commercial banks, suppliers, etc., on a commercial basis. Small farmers do not enjoy such generalized access, and many have no access at all to organized credit. The approximate number of farmers having fewer than 20 acres and who are borrowers is as follows:

Credit Source	Loan Tenor	Approximate Present Number of Borrowers (fewer than 20 acres)	Amount of Credit† K£000	US $000
Guaranteed Minimum Return (GMR)*	Seasonal	4,500	750	2,100
Kenya Tea Development Authority (KTDA)*	Short term	21,000	100	280
Pyrethrum Board of Kenya	Short Term	10,000	30	84
Cooperative Production Credit Scheme (CPCS)	Short & Medium term	100,000††	200	7,000
Commercial Banks**	Short & Medium term	9,000	2,500	2,800
Suppliers	Short & Medium term	5,000	1,000	4,480
Agricultural Finance Corporation*	Medium & Long term	15,000	1,600	33,600
Agricultural Settlement Fund*	Long term	34,000	12,000	2,100
Other Government Schemes*	Medium & long term	8,000	750	280
Other Cooperative Credit from Primary Societies	Short & Medium term	100,000††	100	

* Public sector institutions and programs.

** The Government owns 60% of the largest commercial bank, which has a market share of about 28%, and 100% of a small commercial bank with a market

† Figures for GMR, KTDA, Pyrethrum Board, Commercial Banks, CPCS and Suppliers represent annual amounts granted as of 1971 or 1972. Data for other sources represent gross outstandings.

†† These estimates are very approximate and represent the number of cooperators with theoretical access to credit from their societies. The actual number of borrowers may be significantly lower.

These figures are in many cases so approximate that to correct them for double-counting would suggest a degree of accuracy which would be misleading. However, it would appear that not more than 150,000 of the farmers with fewer than 20 acres of land are borrowers from trade and institutional sources in the organized credit market, as enumerated above. These borrowers constitute 10-15% of the small scale agricultural sector, and are probably almost exclusively in the upper quartile as regards ~~gross income~~ in cash and kind.

The agricultural debt structure in Kenya is characterized by a relatively large amount of medium and long term debt, and a relative scarcity of working capital credit for small operators. The long term element reflects transfer to Africans of land which was formerly occupied by large scale European farmers, plus ordinary facilities to finance the transfer of land between citizens. These loans are frequently for terms of 30 years. Another substantial portion of long-term debt (exceeding three years maturity) is provided for the establishment of dairy and tree crop enterprises by smallholders.

Land in the principal smallholder areas in Kenya has been adjudicated, consolidated, and registered. Most holdings are farmed by the family of the owner, who has a registered title.deed. Land registration and provision of title underlie the agricultural credit system, as it is practically the only institutional arrangement which provides borrowers with security which is theoretically acceptable to lenders. A legal mortgage is taken by institutional lenders whenever possible. Second mortgages are not attractive to lenders, and hence the smallholder may find it extremely difficult to raise working capital finance if he financed the purchase of his plot with a mortage or if he is already indebted to an institutional lender. Short-term components are built into some of the medium and long term facilities provided by AFC, but these revolving elements are frequently exhausted and not replenished by funds generated from the enterprise being financed, reflecting relatively higher priorities placed on other expenditures. Cooperative credit, however, is not secured by farmers' land. There are ambitious plans for expanding this flow of resources for seasonal inputs, crop establishment and diary enterprises. The principal constraint is management expertise at the primary society level.

ETHIOPIA

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September, 1972

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INTRODUCTION

Institutional agricultural credit. Ethiopian banks make only a negligible amount of credit available to farmers. Steps are underway to improve the agricultural credit system, but personnel and other constraints will make it difficult to meet even the minimal credit needs of a modernizing agriculture in the decade ahead.

Seven institutions comprise Ethiopia's banking system. Four are state-owned and three are private. The state-owned Commercial Bank of Ethiopia established in 1963 is the most important commercial bank. It finances through its 82 branches mainly short-term loans, and does over three-fifths of all banking business. Of the three privately-owned banks, the Addis Ababa Bank is the most important with 19 branch offices. The state-owned Agricultural and Industrial Development Bank (AIDB) formed in 1970 through a merger of the 20-year old Development Bank of Ethiopia and the Ethiopian Investment Corporation finances agricultural and industrial development.

The main source of banking funds is deposits, which totalled Eth. $348 million(1) at the end of 1970 and increased to Eth. $374 million at the end of June, 1971. At this date deposits by the private sector were 85% of the total (demand 30%, savings 40%, and time 15%), and the balance came from the Government. Deposits in the Addis Ababa region account for over two-thirds of the national total. Most savings are held by urban middle-income groups. The average saving was about Eth. $1,500, a high figure which includes some institutional funds; over three-fifths were under Eth. $200.

Most funds available to the banking system have been used for short-term commercial purposes. At mid-1971 the system's credit advances were Eth. $410 million of which Eth. $394 (96%) were short-term and the balance medium and long-term loans. Of these, only Eth. $13 million were for agriculture. Of the short-term advances, only about 7% was for collecting and marketing of agricultural crops, a negligible amount in relation to agriculture's contribution to the GDP.

Commercial banks' annual interest rates to borrowers are at present: short-term 9.0 to 9.5%; medium and long-term, 9.0% to industry and 7.5 to 8.5% to agriculture. The estimated weighted average interest rates charged by banks is about 9.5%, giving a spread of about 5.6% in relation to interest paid to depositors.

At the end of 1970 loans outstanding for agricultural purposes through the banking system totalled about E$13 million medium and long-term and about E$28 million short-term. Medium and long-term loans were generally for production purposes to commercial farmers, while almost all the short-term loans were for marketing. Production loans from the banking system were only about a half of one percent of the estimated value of the agricultural production during that year, a negligible figure.

(1) U. S. $1.00=E$2.30

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The commercial banks have been cautious in providing agricultural credit, partly because of the difficulties and risks of such credit compared with commercial credit, and partly because of the interest rate structure, controlled by the National Bank, whereby depositors receive the maximum allowable interest (at 6%) on one-year deposits. This has made it difficult to attract sufficient longer-term savings to support longer-term agricultural credit.

A few loans have been made by farm machinery dealers to farmers but no precise details are available. Little is known about non-institutional sources of finance, although they are thought to provide over half the country's short-term credit at annual interest rates of 40% to 60% or more.

Since its establishment in August 1970, AIDB has spent most of its time building its organization, recruiting staff and handling problems arising from some of its newly acquired investments. Nevertheless, by July 1971 it had approved 154 loans amounting to E$16 million. In the agricultural sector 136 loans amounting to E$13 million were approved; 22 were for less than E$10,000, 85 for E$10,000 to 50,000, 24 for E$50,000 to 200,000, and 5 were over E$200,000. About half of the agricultural loans were for cereal production, and 15 went to co-operatives. During the period AIDB made 18 industrial and commercial loans and investments totalling E$3 million.

These data suggest that the credit available for agricultural production purposes is negligible, and must be increased if the rate of agricultural development is to be accelerated. Unfortunately, there is very limited information available for use in designing a credit policy and system capable of meeting the changing and accelerating credit needs over the next decade. Accordingly, as part of the forthcoming IDA credit to AIDB, finance is included for a detailed survey by consultants to prepare proposals for a national agricultural credit programme with special regard to small farmers and their needs.

Small farmers in Ethiopia. Ethiopia is a country of small farmers. Some 85% of the population of 25 million are small farmers, and there are estimated to be about 4 million farms with a mean size per farm holding of 2.5 hectares. A recent survey in Gemu Gofa province showed that 92% of the cultivated holdings were less than one hectare in size, and all were less than five hectares in size. Data for other provinces are comparable for the less-than-five hectares category, but there was generally a lower percentage below one hectare in size. Holdings are also severely fragmented. A few years ago it was estimated that nearly half of the holdings in Shoa province were made up of three or more non-contiguous plots; in Gojam province this category contained 89%. Tenancy is common and many landlords are absentees. As will have been clear from the preceding discussion, the institutional credit system in Ethiopia touches only a totally insignificant and negligible fraction of the small farmers of the country, at most about one percent.

Ethiopian agriculture is characterized by low productivity despite the favourable natural conditions for farming. This low productivity is due to lacking knowledge of modern farming techniques and insufficient management, but also--and mainly--to nonavailability of yield increasing inputs, like fertilizers and improved seed, nonavailability of credit and of sound methods for making the necessary inputs and credit available at reasonable prices and in adequate quantities to small scale farmers. An efficient marketing system for farm products does not exist, and the rural feeder road network is totally inadequate.

CADU's place in small farmer development. The Chilalo Agricultural Development Unit (CADU) is a regional agricultural development programme of which credit is one of several essential components. This pilot programme was the first of what was planned to be a series of so-called comprehensive agricultural projects focusing their efforts on a limited geographical area and providing a multitude of co-ordinated services.

CADU has been important in determining the policies for small farmer development in Ethiopia. Subsequent agricultural development projects have in essential respects been modeled after CADU and adopted its package approach to rural development. Most notably, CADU has received replication on a nation-wide level through the minimum package project which aims to promote increased production by providing technical assistance and high-impact inputs such as fertilizer, seed, credit, and marketing facilities to small farmers in selected accessible areas throughout the country. Each area ("minimum package area") covers about 10,000 farmers and the project is expected to expand at the rate of 10 additional areas or 100,000 farmers per year. This programme scheduled to continue through 1975 has a loan request pending with the IBRD; other donors include SIDA, FAO, and USAID. Its total foreign assistance component for the period 1973-75 amounts to E$50.4 million.

CADU's main contribution to Ethiopian agriculture has thus been to provide a design for an approach to small farmer development as well as a testing ground for methodology connected with this process. While CADU with its own activities only can reach a very small fraction of the Ethiopian small farmers, its impact in a wider perspective has been substantial since it has shown that programmes to improve incomes and expand output of small farmers can work.

TURKEY

by:
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in cooperation with
The Turkish Republican
Agricultural Bank

Beirut
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revised

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INTRODUCTION

DESCRIPTION OF TURKEY'S INSTITUTIONAL AGRICULTURAL CREDIT SYSTEM

Several institutional sources of agricultural credit exist in Turkey, but none matches the Turkish Republican Agricultural Bank (hereafter referred to as the "Bank") which occupies a dominant position with the widest coverage of the country and above 90 percent of all the institutional agricultural credit granted to farmers. The remaining share of agricultural credit is provided by four important public sector agencies -- the Sugar Company (monopoly), the State Farms, the State Supply Organization, and the Meat and Fish Company as well as four other private and semi-official banks -- the Aegean Bank, the Sugar Bank, the Grape Growers Bank and the Tobacco Producers Bank.

The institutional sources are generally characterized by 1) insufficient portfolio, 2) low rate of turnover, and 3) high rate of delinquency. In 1967, total supply of farm credit amounted to $432.35 million which satisfied only about 40 percent of the actual requirements. The Agricultural Credit Cooperatives account for a sizeable share of farm credit disbursed. (This establishment was under the Agricultural Bank, but has recently become autonomous). These cooperatives disbursed $28,347,902 to 970,621 farmers in 1970. The average loan was $116.21. However, about 75 percent of the outstanding loans of these cooperatives are not liquid, according to State Planning Organization estimates.[3]

SMALL FARMERS AND THE INSTITUTIONAL CREDIT SYSTEM

Small farmers are not adequately touched by the institutional credit system in Turkey. The Law of the Bank indicates that the distribution of agricultural credit should favor small farmers and necessary administrative facilities should be provided to them. Small farmers in Turkey are characterized by 1) small volume of production with usually little or no marketable surplus, 2) diversified and complex structure of operations, 3) difficulty in separating production and consumption expenditures, 4) seasonal nature of production and heavy dependence on nature, 5) surplus agricultural labor, 6) insufficient ability for presenting collateral, 7) inadequate social expenditure and lack of infrastructural facilities, 8) inseparable social fabric from economic activities, and 9) lack of agricultural technology. There is, then, an obvious difference between the credit needs of small farmers and those of large farmers and merchants. However, considerable injustices exist in the distribution of credit among different income groups, the least privileged of whom are the small farmers. For instance, the lower half of 1.3 million farmers receiving credit in any year from the Bank received an average of $23 in loans; about 74 percent received loans below $71.5. The amounts indicated are barely enough for maintenance of a farming family, let alone the possibility of covering the year-round costs of production.

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3. Hassan Umit, "Problems of Agricultural Credit with Special Emphasis on Usury, Review of the Faculty of Political Sciences, Ankara, Vol. XXV, No. 4, p. 93.

Especially, if the larger size of rural as opposed to urban families is considered, it is clearly seen that the underprivileged credit borrowers are being served an insufficient dole rather than credit. The authors conjecture that the minimum amount of farm credit should be around $200 per year after family maintenance has already been taken care of. In addition, there are 3.1 million farming families in Turkey. More than half of them have no access to institutional credit.[4]

MAGNITUDE AND RELATION OF THE SUPERVISED CREDIT PROGRAM TO SMALL FARMERS

The Supervised Credit Program (hereafter referred to as the "SCP") serves only a small minority of the total farmers, roughly 0.4 percent. The SCP had started with the objective of serving the medium-size farmers almost exclusively. However, it is now serving the small famers too, but the number of these small farmers in the SCP is estimated to be as low as 10 percent.

Reaching small farmers is not important in the SCP. The policy makers have designated priority for medium and large-size farmers in order to influence agricultural production. Another reason for not choosing small farmers is to demonstrate the effect of the SCP by using large- and medium-size farmers. However, it is intended to make the SCP accessible to a larger group of both small and large farmers when the program becomes fully established.

A recent policy change, reaffirmed in October 1972, places emphasis on including more small farmers in order to attract a larger number of loan applicants under the SCP.

4. Hassan Umit, "Problems of Agricultural Credit with Special Emphasis on Usury, Review of the Faculty of Political Sciences, Ankara, Vol. XXV, No. 4, p. 93.

SMALL FARMER CREDIT IN TURKEY

BY

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SUMMARY

The Supervised Credit Program of the Turkish Republican Agricultural Bank started in 1964 as a pilot operation in two provinces. By 1972, the program had spread to 40 of the 67 provinces of Turkey. Within these 40 provinces were 277 Bank branches with 205 agronomists serving as supervisors. By July 31, 1972, 43 million dollars had been approved in loans to 22,000 farmers (about 0.4 percent of all Turkish farmers). These are mostly middle-income farmers. Low-income farmers are not attracted to this program because of (1) the long-term (5-year) farm plan to accompany the loans throughout the plan period (this involves a substantial obligation on the farmers part from which small farmers are discouraged by their traditional nature), (2) the larger size of the loans needed to carry out the plan (as compared to other sources of credit open to them where they can borrow smaller amounts), (3) the negative connotation of the Turkish name for the program (Kontrollu Zirai Kalkinma Kredileri) which means "The Controlled Agricultural Development Credit," (4) the priority designation of the Bank is not encouraging small farmers to participate in such programs (at the present stage of Turkey's agricultural development the limited resources are aimed toward influencing total agricultural production) and (5) inability of small farmers to furnish adequate tangible security.

In the last 2 or 3 years, the program has suffered from (1) a high delinquency rate (47 percent in 1970), (2) a decline in the number of new borrowers, and (3) less intensive supervision than that originally planned.

Although the Supervised Credit Program appears to be an innovative undertaking that combines credit with technical assistance, the necessary link could not be adequately provided between these two major components of an ideal program. Many frustrations evolved in getting the other technical organizations to coordinate with the Agricultural Bank. Such coordination still has not materialized and no satisfactory solution is in sight. The Bank, by itself, is far from furnishing the optimum level of technical assistance which characterizes an effective Supervised Credit Program.

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In the eyes of the borrowers, the Agricultural Bank represents a welfare organization with mostly outdated procedures of operating a credit mechanism. This situation was not encouraging to run the program effectively within the existing structure in Turkey. Therefore, a process of revitalization and dissemination of a new attitude toward agricultural credit was needed; such a process could not have come through the Agricultural Bank because of the obvious difficulties involved as well as the minor relative impertance of the program among the Bank's other activities.

JORDAN

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INTRODUCTION

The institutional agricultural credit system in Jordan is constituted of two main semi-autonomous agencies, namely, the Agricultural Credit Corporation and the Jordan Cooperative Organization.

The Agricultural Credit Corporation issued, during the last twelve years (since the date it began operation in 1960), a total sum of $ 26 million as loans for the purposes of land improvement, livestock development, purchase of machines and equipment and farm constructions. Average annual loans issued during last five years was $ 1,755,[illegible] and total outstanding loans at the end of 1971 amounted to about $ 16.5 million.

The Jordan Cooperative Organization's outstanding loans by the end of 1971 amounted to $ 2,156,000. These are issued to cooperative societies who in turn issue short-term or seasonal loans to members. The agricultural cooperative movement in Jordan started early in the fifties. There are about 150 agricultural cooperative societies in East Jordan with a total number of members of about 5,838 members. Originally cooperative work proceeded in extending seasonal loans to members of the cooperative societies, production inputs and limited marketing services. However, the cooperative movement has not, so far, accomplished its objectives in agricultural development represented in group actions to procure production inputs, marketing crops, land consolidation to reduce costs of production and increase farmer's returns. There are only a few cooperative societies which are characterized by a large number of members and activities and full-time management. These newly established cooperatives do not cover all agricultural areas and there is still a need for an increase in the number of similar cooperatives.

On the other hand, since farmers (especially small farmers) savings are so small, and farmers depend upon credit to invest in agriculture, and since loans issued by both the Agricultural Credit Corporation and the Jordan Cooperative Organization did not cover farmers needs for capital to invest in agriculture farmers had to borrow from non-institutional sources at a high rate of interest.

These non-institutional sources of credit are constituted mainly of private money lenders, commission agents, land lords, village grocers agricultural input suppliers, and exporters in the vegetable and fruit markets. In addition, farmers buy agricultural machinery on credit from dealers who borrow from commercial banks. Commercial banks credit to farmers is mostly in this indirect form. It is believed that the non-institutional sources of agricultural credit form the largest share of the aggregate agricultural rural indebtedness, though there are no statistics to measure its volume as this sort of lending is made against the signature of promissory notes, or may be recorded as an entry in the lender's book. Therefore only an approximative picture of the sources and quantities available for agricultural loans exists. Non-institutional credit is mostly short-term or seasonal and it is certain that the interest rates charged (whether explicitly or implicitly) by these lenders are high and exploitive.

In nature, the small farmers in Jordan are first of all too small to enjoy any advantages from economics of scale. The fact that 36 percent of the total number of holdings in Jordan in 1965 was below one hectare in area is enough to assert this point. However, this problem is made more cronic by adding to it the fact that there is a lack of a sufficient quality and quantity of inputs (including management) to these small farmers, which deteriorates the productivity of the small farms they have. Insufficient capital for investment, or capital provided on exploitive terms by non-institutional lenders is another main problem. In addition, the improper selection of enterprise and the unfavourable cost-return balance further keeps their income low and this low level of income in turn makes them unable to move to a better level of technology, invest in their land or free them of the need for continuous credit even to produce the minimum they can produce. This unfavourable process goes on in a vicious circle.

Only a small part of the small farmers are touched by institutional credit. The Agricultural Credit Corporation is not reaching those farmers who own less than 2 hectares in land area (who constituted about 45 percent of the total number of holdings in 1965) in addition to not reaching non-owner operators (share-croppers and renters). Besides this, even if we consider that all the members of the cooperative societies in East Jordan are small farmers, the 5,838 members represent a small share of small farmers too. However, the Agricultural Credit Corporation was established to give credit to all farmers in Jordan, big and small. But the fact that the major part of the small farmers (the lower income category) is not reached by the Agricultural Credit Corporation might be due to three main factors: (1) tangible security requirement, (2) economic justifications and (3) loan procedures. However, it is felt that these farmers need something more than credit in order to develop and make productive use of the credit given to them. Consolidation schemes, land-tenurial reform, improved marketing and technical assistance are also needed to complement the injection of credit.

SMALL FARMER CREDIT IN JORDAN

By

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SUMMARY

The Agricultural Credit Corporation (ACC) of Jordan is a semi-autonomous agricultural lending institution giving loans to farmers for seasonal, medium and long-term productive purposes.

In 1959 Law No. 50 was enacted which established the ACC as the single agency consolidating all previously existing official agricultural lending agencies. In August 1960, the ACC began its operations. By 1968 the Jordan Cooperative Organization (JCO) discontinued its relations with the ACC and began operations as an independent semi-autonomous government agency giving short-term loans and services to cooperatives.

By the end of 1971, ACC had built up its loanable funds to more than 21 million dollars. This was done with help from AID (more than 3 million dollars in loans and grants) and the IDA of the World Bank Group (6 million dollars in loans).

As of the end of 1971 a total of 38995 borrowers (not all different people) had received loans totaling about 26 million dollars. During 1971, 1955 farmers received loans from ACC.

Jordan's land-owning people number about 90,000. This number is not more than half of all the farm operators of Jordan. Therefore, an insignificant proportion of farm operators are receiving loans from ACC. In fact none of the very smallest

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farmers received loans from ACC. Besides all the landless farmers, about 45 percent of the land-owners (all those with farms less than two hectares) also are not served by ACC. In spite of ACC's avoidance of this high-risk group of borrowers it still was able to collect only 19 percent of the money that should have been collected in 1971. This 81 percent delinquency rate is attributed to many factors such as the large number of bad debts inherited at the time of ACC's consolidated establishment in 1960, the June 1967 war, the 1968 drought, the 1970 internal crisis and the closing of the Syrian borders since 1970. Farmers attitudes that loans are gifts has also been difficult to overcome in ACC's renewed interest to improve its repayment record. In spite of these problems, the energetic and innovative staff of ACC is working to improve the ACC. Toward this end it has made some significant changes very recently. It is giving loans in installments. Payments for certain loan purposes are going directly to the supplier. A check on the farm is made before each succeeding installment is made. Supervision to control loan expenditures is now practiced on all ACC loans. A payroll deduction plan in some cases is another recent innovation in which farmers may have their loan repaid by having regular monthly deduction from government paychecks (from wages of family members who are government employees) made directly to the ACC. Interest charge waivers on some very old debts inherited from earlier agencies is an incentive to encourage repayment of at least the principal.

The ACC can be a sound institution with a bright future that would deserve the support of any individual or institution, domestic or foreign, if its most serious problems are solved.

IRAN

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SMALL FARMER CREDIT IN IRAN

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SUMMARY

The Supervised Credit Program started expanding in 1969-70 with the objective of helping the small farmers (Cooperative members and non-members) in areas of good development potential. That year the program covered a total of 8274 farmers residing in about 140 villages located in 27 different areas of the country. In 1970-71 it was expanded to cover about 20,500 farmers residing in about 540 villages, located in 40 different areas of the country.

The program has an efficient supervision system. That is, first a preliminary survey is made and the fields of potential agricultural activity determined. Then a farm plan is developed with the help of the prospective borrowers. The plan should specify the type of activity, the calender of undertaking the various activities, the inputs (kind and cash) required and the costs involved. It should also specify what is to be done collectively by all the farmer beneficiaries and what by individuals. Out of these plans the credit requirement is determined and the relevant accounts (collective or individual) are credited. Such accounts can only be debited at the time and of the amounts specified in the farm plan. If the farm plan in question indicates a need for raw materials, goods and services which should be collectively used, checks are drawn directly to the order of the suppliers of these to the extent possible. Throughout the whole process the program supervisor's approval is needed. Other people involved in the process of loan payment and repayment at the village level are: farmers' representatives, local leaders, extension agents or extension corpsmen, and other White Revolution Corpsmen.

The program has demonstrated good performance in terms of productivity of loans and repayment of loans. It suffers, however, from the poor performance by the other institutions n providing the supporting services such as marketing and extension.

It is recommended that the program be expanded and integrated more with the supplementary services needed.

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INTRODUCTION

AGRICULTURAL CREDIT SOURCES

At present the following sources provide credit to Agriculture in Iran:

Agricultural Cooperative Bank of Iran (ACBI)
Rural Cooperatives
Agricultural Development Fund
Bank-E-Omran
Commercial Banks
Government Agencies
Processers of Agricultural Products
Non-institutional sources

There has not so far been any countrywide study with respect to the share of institutional credit sources in the total credit extended to farmers. On the basis of the available piecemeal information however, it may be said that institutional and non-institutional credit sources share the market equally.

The institutional sources of credit are briefly described below.

1. Agricultural Cooperative Bank of Iran (ACBI)

This bank is by far the most important institutional credit source in Iran. It extends short, medium, and long-term credit to individual farmers and rural cooperatives. It also finances special government programs for improvement of agricultural production. During the agronomic year 1970-71, the ACBI advanced loans amounting to 119 million U.S. Dollars of which about 90 percent were short-term loans. About 75 percent of these loans were extended to cooperatives.

2. Rural Cooperatives

The number of cooperatives until the end of 1970-71 was 8,300 with a membership of 1.6 million or about half f all the small farmers. The total amount of credit extended by these cooperatives was 84 million U.S. Dollars in both cash and kind. Rural cooperatives extend mostly short term loans not exceeding 666 U.S. Dollars, each. The resources available to cooperatives are: government capital, credit from the Plan Organization, credit from ACBI and their own capital and reserves.

3. Agricultural Development Fund of Iran (ADFI)

This institution was established in 1968 with the purpose of long term financing of commercial agricultural projects. Until the end of 1970-71, i.e., after three years of operation, the credit contribution of ADFI was 187 million U.S. Dollars with the average loan size of 200 thousand U.S. Dollars. The recipients of these loans were commercial farmers or private firms engaged in agricultural activities.

4. Bank-E-Omran

This bank is concerned with the farmers who have gained ownership on Pahlavi's Land. It also extends loans to the Qashguaei Tribe. In 1970-71, for example, a total of about $ 1.2 million (93 million Iranian Rials) was extended to 5015 cooperative members in such areas. Credit cooperatives were established under the supervision of Bank-E-Omran.

5. Commercial Banks

The banking system in Iran is comprised of the Central Bank of Iran, seven specialized banks, and 20 commercial banks. The largest commercial bank is Bank Meli, Iran, which is owned by the Government.

The credit activity of the commercial banks for agriculture is a minor part of their total lending operation (in 1970-71 it was only about 10 percent). Bank Meli and Bank Saderat are the only ones which have a significant share in agricultural credit. But loans extended by these banks are short-term, unsupervised, and consumption-oriented.

6. Government Agencies

Credit is also provided under special government programs and agencies. The channels regional development authorities (i.e., Ghazvin and Khuzesbun), ACBI and Rural Cooperatives a special organization concerned with individual crops (such as tobbacco, sugarbeets, and cotton), and government agencies in charge of the distribution of farm machinery and fertilizer the programs for which credit is provided aim generally for improved productive practices of special crops, encouragement in the use of modern inputs, and enhancement of the general development of agriculture in special areas.

7. Processers of Agricultural Products

These are the processers of agricultural raw material such as cotton, oil, seeds, fruits, vegetables, and sugarbeets. The processing firms generally provide advances in kind. This type of credit is production-oriented and accompanied by some extension and marketing services.

AFGHANISTAN

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Kabul
November, 1972

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INTRODUCTION

The institutional agricultural credit system of Afghanistan is largely composed of the Agricultural Development Bank and its affiliates. Commercial banks give little or no direct credit to farmers, and lending by the urban money bazaars is predominantly to traders. Two agribusiness conglomerates, the Baghlan Sugar Company and the Spinzar Company also extend a limited number of loans to farmers in the form of physical inputs such as seed, fertilizer, and agricultural chemicals. The first of these conglomerates is scheduled to be studied under an A.I.D. contract to an Afghan research firm, and neither will be covered in this paper.

The Agricultural Development Bank reaches very few small farmers, although its lending activities are rapidly increasing. Most of these loans were to large farmers and as reported in the Asian Development Bank Planning Study, "AgBank's channels to reach small farmers are very limited" (12, p.168).

The small farmer problem in Afghanistan is critical to the country's progress. About 90 percent of the population is in agriculture, and 42 percent of the total number of farms are less than .38 hectares in size. Recent surveys have established that decision-makers on Afghan farms are typically in their mid-forties, heads of large households, and uneducated (but not unintelligent). The land that they own represents their major wealth and as in most economies capital inputs play an important part in production. As in most less-developed nations, Afghan farmers have limited access to purchased farm inputs.

While AgBank's activity among small farmers has been limited, it is a potential vehicle for development. The pertinent Ministries--Agriculture and Finance--as well as the president of the central bank, sit on the board of directors and policy formulation is coordinated with other developmental programs. Also, an IBRD financed team of foreign technicians actively participates in management and maintains liaison with bilateral assistance agencies. Finally, AgBank has played an innovative role in promoting new technology by importing farm machinery, water pumps, fertilizers and agricultural chemicals. As will be discussed, the AgBank's wide range of activities are gaining in momentum.

SUMMARY

This paper was prepared for the spring review of small farmer credit conducted by the United States Agency for International Development. The purpose of the review was to investigate Agency and other experience to see if it (1) indicates the conditions under which credit can play an important role; and (2) suggests a preferred set of institutional and policy instruments for rationing, delivering, supervising, collecting and refinancing small farmer credit, using a traditional or new system. Because small farmers have not been the focus of Afghanistan's agricultural credit programs, this study has limited application for the purposes of the spring review. Nevertheless, it is a useful review of the progress and problems of agricultural credit in Afghanistan from 1954 until 1972.

The Agricultural Development Bank (AgBank) of Afghanistan is the principal form of institutional credit serving Afghan farmers. Commercial banks and the urban money bazaars do not normally make loans for agricultural purposes. The agribusiness conglomerates, the Baghlan Sugar Company and the Spinzar Company make some loans to farmers, but even when their loans are combined with AgBank's, still less than 1 per cent of Afghanistan's farmers are reached by institutional credit.

The principal sources of credit available to Afghan farmers are other family members, bazaar merchants and clandestine money lenders. An examination of past studies and a brief field investigation revealed that:

1. Capital plays an important part in farmers' productive processes;

2. Farmers have a high rate of indebtedness, but loans are usually used for consumption purposes, such as weddings or a pilgrimage to Mecca;

3. Loans are usually made within family units at zero interest rate in keeping with Islamic doctrine;

4. Loans outside family units are obtained in secret from other villagers and nomadic money lenders;

5. A large amount of credit in kind is extended by rural merchants, who permit customers to pay for merchandise after harvest.

The institutional credit system began with the establishment of the Agricultural and Cottage Industries Bank in 1333 (1954/1955). The ACIB was established to promote agricultural development and to help reduce the extent of farmer indebtedness and mortgaging of land. While it probably accomplished the latter, the ACIB did little to insure its own longevity. Between 1333 (1954/55) and 1347 (1968/69) the ACIB lent out most of its initial capital subscription, but failed to collect repayments. The ACIB remained solvent through the meager collections and profits from supply operations, but had virtually stopped lending by the time it was rechartered as the AgBank in 1348 (1969/70.

AgBank was started with the remants of the ACIB accounts, a $5-million credit from IDA and a German management team sponsored by the UNDP. Forecful and competent, the team occupies senior management positions in AgBank and makes decisions in conjunction with their Afghan counterparts. Since their tour began, the team has helped AgBank to:

(1) Reorganize the loan portfolio (writing off loans totaling Afs. 100 million in the process),

(2) Renew lending activities and sharply increase the number and volume of loans,

(3) Reorganize the personnel system and initiate training activities,

(4) Develop a loan application and appraisal process,

(5) Revitalize the supply organization by selling tractors and water pumps,

(6) Coordinate activities with bilateral assistance programs. The latter has resulted in AgBank's assuming of extended duties, which include participation in a private sector fertilizer distribution system.

AgBank supplies credit to the Program for Agricultural Credit and Cooperatives (PACCA), and is a parent to the Agricultural Finance Agency (AFA). PACCA is a successfully integrated operation supplying credit, technical assistance and marketing advice to grape farmers. AFA operates in the Helmand Valley with U.S. technical assistance. Since 1350, AFA has had a vigorous lending history, a high rate of loan repayment, and has helped finance a substantial number of tractors.

AgBank has some problems at the government, agency and farm level. Problems at the government level are:

1. A lack of credit instruments, particularly the chattel mortgage,

2. A lack of discounting mechanisms that would permit the central bank to expand (or contract) the amount of credit available from AgBank,

3. Interference from the legislative branch, of the government,

4. Limited cooperation from the Ministries of Agriculture and Finance.

Problems at the agency level are predominantly in the supply of competent personnel, which is a foreseeable situation in a less developed country. Farmers' problems are mostly in understanding the mechanics of apply for, and accepting the responsibility of loans.

In the immediate future, AgBank appears to be meeting the goal of efficiency, but the goal of equity remains to be pursued. Largely because of the German management team, AgBank has become much more efficient in lending, collecting and its supply operations. However, almost all of the lending is to large farmers detracting from the goal of equity. If and when AgBank decides to include medium and small farmers as targets of opportunity, it will need to (1) decentralize by strengthening branch offices, (2) institute flexible lending policies and (3) implement farmer education programs.

Other sources of Credit

Traditional credit mechanisms have served to keep a substantial amount of credit flowing to Afghan farmers. A vast majority of the credit mobilized for production and consumption occurs within family groups. Lending that occurs outside family groups is usually clandestine and often at a high interest rates, reflecting the Muslim taboos against receiving interest payments. Because of this factor, it is extremely difficult to obtain accurate quantitative information about individual transactions, although a series of studies has developed some information about the supply and demand for loanable funds between landowners-cum moneylenders, farmers and shopkeepers.

The supply of credit outside of family transactions originates from nomadic Koochies, village leaders, other farmers, and shopkeepers. In describing the economy of the nomadic Koochies, Kakar (15) reported that the nomadic Koochies come from Peshawar, Pakistan, loaded with fabrics and other goods, take them into the highlands of the Hazarajat, sell on credit and return to collect payment in kind the next year. The payment in kind was often composed of land and Kakar concluded, "that in the Hazarajat...half of the agricultural land belongs to the nomads" (15, p.11). Another report of Koochi money lending was cited by Senzai and Harlan (29) in Nangrahar. They reported that, "Most of the farmers borrowed money from village people, but some borrowed from Koochi and Momand people (Momand is the name of a tribe)" (29, p.13).

In addition to the "village people," "supplying credit" cited by Senzai and Harlan (29), the Kunduz-Khanabad Survey (16) mention "farmers" and Tarzi-Stevens (31) noted "village chiefs or other leaders" as sources of credit (31, p.31). However, the "farmers" mentioned in the Kunduz-Khanabad study "turned out to be tribe or clan members who were not closely related and thus not classified as relatives." (16, p.III-5). Also the relationship described by Tarzi-Stevens was not a loan in the strict sense, but a situation where, "due to a lack of capital, most of these settlers work together with a village chief or other leader who has capital. The leader puts up the money to buy the sheep, the settler furnishes the labor and management, and any profits after the sale of the sheep are divided equally" (30, p.28).

Shopkeepers and other merchants provide a major source of credit. Scott mentioned credit sales by mill owners in the Helmand Valley (28) and Baranabas (6) said that in Baghlan the major source of credit was from lenders within the village or shopkeepers in Mehterlam, shopkeepers provide credit to farmers in the form of delayed payment (23), and in the Kodaman Valley, cloth sellers who were recently surveyed by the writer had extended substantial amounts of credit (see table 7).

The extension of credit by shopkeepers is referred to as, "Salam," and "Sud." Basically, "Salam" credit is interest free and "Sud" is where a higher price is charged to buyers who wish to delay payment. Although the Tarzi-Stevens report stated that "Salam" is looked upon with disfavor by Islam" (31, p.51), it is cited without disfavor in the dictionary of Islam (13). However, "Sud" is against the principles of Islamism and shopkeepers often avoid the issue by using the terms interchangeably. In conversations with shopkeepers and religious leaders in the Kodaman Vally, the writer found that delayed payment was an accepted practice. In fact, in the event of a bad harvest, debtors are not required to make payment and as discussed elsewhere, (21) it is one of a series of mechanisms that insulate rural poor from the shock of economic catastrophes.

A notable lack in the supply of credit to farmers in Afghanistan is the absence of rotating credit associations. As described by Ardener (4) a rotating credit association is a device whereby individuals in a group contribute funds at a specified interval, and then the collected funds are allocated to a member of the group by means of a lottery. Ardener found evidences of rotating credit associations in most of the less-developed nations, and her observations were supplemented by the writer's research in the Dominican Republic (22) and Miracle's (18) reports from Africa. In either the literature on Afghanistan, or in field research, the writer can find no evidence of this credit mobilizing device that is prevalent in other traditional societies.

Capital, as a productive input plays an important role, and the extent of farmer indebtedness is high in Afghanistan. Senzai and Harlan reported a 45 percent of indebtedness among farmers in Nangarhar (29, p.13), the Kunduz-Khanabad study reported 50 percent (16), and in the Marga area, Tarzi and Stevens reported that "Most of the settlers work together with a village chief or other leader who has capital" (30, p.28).

The available evidence cites a high use of credit for consumption purposes by farmers. The Kunduz-Khanabad study (16) found that 88% of the loans received by farmers were used for consumption purposes. Also, the Tarzi-Stevens study (31) reported that borrowing was most often for the Haj (a pilgrimage to Mecca) or to buy a wife for a son.

Most loans are obtained interest-free from family members and when farmers pay interest, it is high but not exhorbitant. In the Nangrahar study (29), farmers paid 33 percent for loans that averaged 6,024 Afs. in size. However, in addition to money, interest was paid in the form of corn or wheat and in land under the "Garaw" system at the rate of 5,000 to 10,000 Af's per jerib. The "Garaw" system is a device where the lender retains use of the borrower's land until the debt is repaid. Interestingly, the Kunduz-Khanabad (16) study also reported that interest rates averaged 33% and Barnabas reported rates between 21 and 50 percent. Also, the practice of "Salam" credit usually involves raising the purchase price about 10 percent. In the "Salam" credit, the loan may be repaid in one month, 6 months, or 2 years so the real interest rate is difficult to compute, although it probably approaches the levels cited above. It should be noted that these interest rates are historical and may be lower than present rates, which are reported to be rising.

Most of the loans received by farmers appear to be unsecured. The Kunduz-Khanabad study reported that few farmers had to provide security for their loans. Also in Mehterlam, the shopkeepers provided credit to "people we know" (23). In the Kodaman Valley interpersonal relations play an important role in determing credit reliability and a bad debtor is widely known (22). The protracted role of interpersonal relations is not surprising as social sanctions are the only recourse due to a lender except in the case of "Garaw." Even in urban areas, the commercial code only permits loans to be secured by land and not by other assets. As a final descriptive note, loans do not appear to be inherited and do default with the death of the debtor.

BANGLADESH

by;
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Comilla
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PROGRAMME CHARACTERISTICS

Background

Historical Summary

The small farmer in Bangladesh suffers from many handicaps, such as, poverty, scarcity of capital, indebtedness, absence of farmers' institutions, lack of education and training facilities, vagaries of Nature, inadequacy of physical infrastructure, and so on. Poverty drives them on to the grips of money-lenders of one kind or another at times of distress or at critical times of the year when they have to invest in cultivating their fields.

There is a variety of sources of supply of credit to the small farmer, such as, farmers' friends and relatives, private money-lenders, Government Relief Operations, Agricultural Development Bank, Traditional Co-operatives, new Co-operatives, Special Project area funds. These sources are very briefly described below:

Farmers' Friends and Relatives - Loans from these sources are available only among very close and intimate circles. Usually such loans are interest-free.

Private money-lenders (Mahajans) - In the past a professional class of money-lenders thrived on the miseries of the small farmers until the trend was arrested by the Debt Settlement Act of 1937. Professional money-lending is illegal now. But in the absence of adequate alternative sources, private money-lending still continues as a big source of supply of credit to the small farmer. Comparatively rich people in the village find it profitable to lend money to needy farmers. Farmers turn to them in utter helplessness. In times of distress such lenders make cash or grains available to known and needy farmers. These are repayable following the next harvest with very heavy profits. For big amounts or for comparatively long periods the loanee executes a deed of transfer of an agreed plot of land in favour of the creditor. Depending on the loanee's standing with the creditor the creditor allows the loanee to cultivate the plot until such time as the loan is paid off. If the loanee fails to pay off the loan with interests the creditor uses the transfer document and takes over the land. This process is partly responsible for gradual transfer of land from small to comparatively more prosperous people in villages. Despite the legal bans and plans to supply institutional credit the village money-lenders, traders, contractors, rich farmer continue to be a very important source of credit to the small farmers. The rates of interest and other terms for such loans are usually very disadvantageous to the small farmers. Interest rates etc. vary from time to time and from situation to situation. The creditors' presence and influence in the community are more important securities then paper transactions in the case of small loans. For big loans necessary legal steps as described above are resorted to.

Government Relief Operations - Takavi and Test Relief loans are usually advanced in times of severe distress. A part of such loans are, at times, given for agricultural rehabilitation. These are administered by the general administrative machinery.

Agricultural Development Bank - The Bank established in 1952 offers credit to such farmers as can offer acceptable securities. Comparatively rich farmers and organised plantations, such as, Tea gardens, Sugar Mills make use of the Bank's facilities. In addition to loans in local currency the Bank can help in import of foreign machinery.

Special Project Loans - Such facilities are available only in areas where special projects have been adopted by some development agency, such as, the Thakurgaon Irrigation Project area and the Ganges Kobadak Project areas of the Water Development Authority. In these cases, all inputs, including credit, are available through the project authorities. The terms and conditions of such credit vary from project to project and are usually easier than those of other credit programmes.

Traditional Co-operatives - Search for solutions to the problems of rural indebtedness and farm credit led to the establishment of a cooperative credit system in 1904 at the instance of the then British Government. It consisted of loaning of money at the time of need and realisation of loans after the main harvest. By about the end of the thirties the then province of Bengal was studded with numerous village credit cooperative societies. Their funds came from the Government. Government employees conducted the loaning and loan-realisation operations. This was some relief to the farmers.

With the establishment of the Debt Settlement Boards in late thirties these credit societies ran into difficulties. The Boards did not distinguish between the usurious money-lenders and the Government supported cooperatives. As a result, similar kind of dispensation (repayment over long periods) was made in case of cooperative loans as in the case of loans from private money-lenders. This inflicted a serious blow to the cooperatives.

During the war years of 1939-1944 almost everything was disrupted and so were cooperatives. Both investments and repayments were very poor. Following the war, the country steeped into political turmoil resulting in the partition of 1947.

At the time of partition parts of Bengal that then became East Pakistan had about 26,664* village-based rural credit cooperatives. For sometime the new province did not have any apex cooperative bank of its own. This was a big gap in the

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* Credit Inquiry Commission Report, Pakistan, 1959, P-20.

matter of servicing the field units. In 1948 the East Pakistan Provincial Co-operative Bank was registered. It, however, suffered from scarcity of resources. Administrative and financial difficulties led the provincial government to decide in favour of liquidition of credit societies at the village level and establishment of multipurpose societies at the level of unions (each union comprises roughly a dozen villages). It was thought that (i) the Union could provide a reasonable operational area that could sustain a viable cooperative society, (ii) multipurpose programmes (inclusive of supplies, marketing, etc.) should give these institutions more scope for economic activities.* By 1957 almost all the village-based old societies were liquidated and in their place about 4000 union-based societies were established.

The Union Co-operative Multipurpose Societies mostly stuck to credit business alone. They did not develop any programme of production, marketing or other services. Their management by the traditional village leaders did not exhibit the dynamism needed for an effective programme.

Except that parts of ADB loans are available for import of agricultural equipments, all the systems described above offered loans without supporting services and supervision.

New Co-operatives - The new co-operative credit system, developed through experimentation in Comilla, in the early sixties, combine credit with training, production plans, extension, supplies, supervision and savings. A two-tier cooperative institutional system has been developed. Primary producers at the village level join together in receiving and using the above named services for jointly prepared production plans. The Village Agricultural Co-operative Society (KSS) is supported with guidance, training, supplies, and credit by a federation (TCCA - Thana Central Co-operative Association) at the thana (approximately 150 villages). The thana association serves as a channel for distribution of essential inputs and services available from various agencies of the Government. It operates as a financing institution for purposes of credit supply and accumulation of savings. TCCAs use the services of the other thana level institutions, such as, the Thana Training and Development Centre (TTDC a Govt. outfit - with officers from various agencies of the Govt.) for training and departmental services. TCCAs also receive support from the Thana Council (a Local Government organisation until recently) for programmes of physical infrastructure. TCCAs receive their funds from the National Co-operative Bank (JSB) or the Central Co-operative Bank (CCB) of which they are members. TCCAs loan out funds to the KSS. The KSS loans out to individual members on the basis of agreed production plans and criteria fixed by the TCCA and discussed at KSS meetings. Establishment of KSS/TCCA form part of the Integrated Rural Development Programme (IRDP) described below.

* Rahman, Mahmoodur. Union Co-operative Multipurpose Society under the Old System and Village Co-operative Society based on Comilla Approach - a comparative picture; BARD, Comilla, Aug. 1972, P-4.

Various studies indicate that institutional arrangements cover only about 15% of the credit needs of the farm sector. The rest are provided by others.

Sources of Credit

Sources	Percentages	
a) Well-to-do rural people	52.06	
b) Friends and relatives	25.59	
c) Cooperatives	7.73	Institu-
d) Agricultural Development Bank	5.36	tional
e) Taccavi	0.77	
f) Other source	8.49	
	100.00	

Report of the Committee of Agricultural Credit Government of East Pakistan, Dacca, 1969. P-49.

<u>Local Government Institutions</u> - It is relevant to take note of the local government institutions that grew during these periods. Elected local bodies have played an important role in rural Bengal since the beginning of this century. Under the Local Government Acts Union Boards at the level of approximately a dozen villages, Local Boards at the level of sub-divisions and District Boards at the level of districts were established. These institutions sponsored very limited development activities. They did not concern themselves with any commercial or credit functions. In a few years' time the Local Boards were found redundant and were abolished. The Union Boards and the District Boards continued as feeble development agencies with limited resources at their disposal. They were mostly dependent upon government allocation of funds. By the middle of thirties selected Union Boards were vested with powers to sit as Union Bench Courts to dispose of small litigations. During the war-years, like cooperative credit societies the local government organisations also suffered. After the partition of 1947 District Boards continued as before. Similarly the Union Boards mainly continued to take care of local law and order matters.

<u>Basic Democracies</u> - In 1959, the local government system in the country underwent a big change. Under the Basic Democracy system, in addition to the Union Councils (in place of Union Board) and the District Council (in place of the District Board) and the District Council at the Thana level and a Divisional Council at the Divisional level were set up. The Union Councils worked as electoral colleges for provincial and national legislatures. These, however, did not directly affect the cooperative institutions.

V-AID Programme - In 1953 Government of Pakistan sponsored the V-AID (Village Agricultural and Industrial Development) Programme. It tried to help the villagers to improve their lot by providing motivational guidance and technical assistance to the villagers to help themselves. The programme created a lot of enthusiasm among the people. But it failed to fulfil its objectives because of its inherent weaknesses in administration and in the basic approach to rural problems.* It was abandoned in early sixties.

Rural Works Programme - In 1962-63 the Rural Works Programme was adopted for implementation through the local councils. This programme provided resources for construction of rural physical infrastructure (roads, drains, culverts, etc.). It also provided additional employment opportunities to the farmers in the dry season. Gradually the Rural Works Programme created conditions for expansion of an irrigation programme for winter season.

The Thana Irrigation Programme (1967-68) opened up possibilities of better winter cultivation for new crops. Fertilizer, better seeds, pest-control, training and extension services with irrigation increased the possibility of production. These, together, increased the demand for credit. To begin with, the process was slow but with the availability of high yielding varieties (rice seeds supplied by International Rice Research Institute) there was an explosion. Since then the demand for inputs including credit has consistently risen. Physical improvements in crop yield has helped stabilization of farmers' institutions.

The Thana Training and Development Centre - The Thana (also called Police-Station), until recently, the permanent Govt. office nearest to the villages was a centre for the police and revenue collection. The Rural Works Programme was used to construct physical facilities for establishment of a elaborate development outfit at the Thana. The new centre was named a Training and Development Centre. It is staffed by a team of technical officers from various development agencies of the Government headed by a generalist leader.

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* Mohsen, A.K.M. The Comilla Rural Administration Experiment - History and Annual Report 1962-63, PARD, Comilla, October 1963, P-3.

Since liberation in December 1971 the new Government has adopted a number of measures to give relief of the small farmer. Land revenue on farm holdings of upto 8.30[1/] acres has been abolished. Arrears of revenue dues have been remitted. There is a general expectation and a demand from some quarters that arrears of loans should also be remitted. The Government have said that more time would be given for repayment of loans but there would be no exemption from repayment. They have also assured the availability of required credit for accelerating agricultural rehabilitation with stress on food self-sufficiency programmes.*

Recently, the Government has nationalised the country's commercial banking system. A question has arisen as to whether the general banking system should not be equipped to handle the credit needs of small farmers. The nationalised commercial banks have a total of 1,092 branches in the country. They have an obvious advantage of better coverage. On the other hand there are 62 Central Co-operative Banks (CCB) and 52 Thana Central Co-operative Associations (TCCA) affiliated to the Jatiya Samabaya Bank (JSB). They receive funds from the JSB but keep their receipts with the commercial banks. They thus use JSB only as a source of funds, not for purposes of deposits or normal banking. JSB, CCB and TCCA on the other hand have acquired experience of handling risk-bearing small agricultural credit operations.

<u>Integrated Rural Development Programme (IRDP)</u> - Since 1970 the Government have a programme of Integrated Rural Development under implementation. Under this programme rural institutions of local government and of development are being assisted to implement their programmes in an integrated fashion. This is done under the policy guidance and supervision of a high-powered Rural Development Board. The IRDP is now in operation in 33 thanas of the country. 50 other thanas are scheduled to be covered by January 1973. Government wishes to cover the entire country (413 thanas) by this programme in about 5 years' time from 1972. If this programme goes well, the Thana Central Co-operative Association would assume a very important role.

To sum up, there are several institutional credit channels to meet the small farmer's needs. But their coverage is very limited. Supervised credit through cooperatives (JSB/TCCA/KSS) are gaining increasing importance. They use farmers' institutions (KSS-TCCA), offer services (Training, Extension), supplies and include savings.

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* Prime Minister's message to the National Co-operative Seminar on 30-6-1972.

1/ 1 Hectare = 2.471 acres

2. Relations to National Credit System

As stated earlier, public institutional credit to the small farmers is funnelled through different channels - The Agricultural Development Bank, Cooperatives and Relief Loans, etc.

The ADB receives its funds from the Government and the Bangladesh Bank. It has arrangements for receiving of deposits and paying interests on such deposits at a slightly higher rate than other commercial banks (present rate of ADB interest on savings deposits is 4½% and the same for other commercial banks is 4%). The volume of deposits with the ADB, however, is small. The ADB does not have facilities of advances for commercial purposes. The ADB has 77 branches in the country. Its coverage is thus very limited.

The Jatiya Samabaya Bank (JSB) receives its resources from the Bangladesh Bank (BB) at a preferential rate of interests 2½%, against guarantees by the national government. JSB lends to the CCBs according to the latters' demand (subject, of course, JSB getting funds from BB) at 4½%. CCB loans out funds to UCMPs at 6% and UCMPs to farmers at 9%.

TCCAs affiliated directly to JSB (33 as in June, 1972) receive funds from the latter at 4½% interest. Such TCCAs are under the IRDP. They distribute supervised credit at 10% interest plus a service fee of 5%. The service fee is spent on supervision, training and extension services rendered by TCCAs.

TCCAs not directly affiliated to JSB are linked with CCBs. They receive funds at 4½% interest and realise 7% from the primary societies who distribute loans to individual loanees at 9%.

Takavi loans are usually interest-free and distributed through the general administrative machinery, union councils, local relief committees.

The institutional steps of the three credit agencies, as described above, can be diagrammed as follows:

Agency :	ADB	Cooperatives			Govt. Loans Takavi /Test Relief
Source of Fund	BB	BB/Govt. Guarantee			Government
		JSB			Relief Deptt. Agri. Deptt. Dist. Admn.
	ADBB	62 CCB			
			29 TCCA		
	Branches	4135 UCMP	Village Societies	33 TCCA IRDP	Sub-Divn. Admn.
			TIP Groups	KSS	Union Councils
					Union Agri.Committees
	Individual Loanees	Individual Loanees	Individual Loanees	Individual Loanees	Individual Loanees

Credit needs have been estimated by different groups, at different times, in different fashions. It has also been stated by some of these groups that in general roughly 15% of the total credit need is met by established institutional sources. Of these the ADB meets about 5.36% and co-operatives 7.73%.

3. Other Programme Activities

Of the three credit agencies mentioned earlier the ADB and the Takavi loan agencies do not concern themselves with other rural development programmes. Cooperative credit through CCB and UCMP is linked with the irrigation programme in TIP areas. Cooperative credit through the TCCAs/KSS is linked with irrigation, inputs supply, training, extension services, joint planning, assessment of individual needs, weekly meetings, savings. Special project area loans are accompanied by necessary supplies and extension services.

4. Relation to pre-existing local institutes

The credit programme through the TCCAs competes with programmes of the ADB, CCB/UCMP. It does not compete with the Takavi which is a distress loan. The new programme aligns itself to irrigation. It approaches other agencies to facilitate supply of seeds, fertilizer, pesticides and so on. It demands grouping of farmers as an essential precondition to consideration of loan demands. It prescribes a procedure of organisation, a period of probation before registration. It insists on weekly meetings at the village levels (for report by office-bearers, review of financial position, joint plans, etc.) and weekly training of elected KSS leaders at the Thana. Supervision, weekly review, savings, etc. are not popular exercises, to begin with. The demands or disciplines of the new approach make it more hard than the previous approaches. There is competition between the soft programmes (credit without insistence on plans, training, savings) and the hard programme (with disciplines). The hard programme also realises a fee for services rendered. But with a visible impact on production, the payment of fees for services received is not resented. There are voices of opposition here and there. This is inevitable when soft and hard programme prevail simultaneously and neither meets the entire need. It is reasonable to expect that with its ability to bring new benefits (through storage, processing, marketing, transportation, etc.) to the farmers it will acquire greater acceptance.

The new institutional pattern (KSS at the village level and TCCA at the thana level) has filled up visible gaps in the old pattern.

The new programme was evolved through a process of experimentation in one thana in the country at the instance of the Academy for Rural Development at Comilla. The Academy is manned by local people. It has access to foreign advisory services.

5. Agricultural Pattern and Potential

Bangladesh is a small country (55,126 sq. miles) with a big population (75 million). It is a land of small farms with fragmented holdings. 78% of its people are engaged in agriculture. It has 22.6 million acres of cultivable land with an overall cropping intensity of 148*. The country has a high birth rate and no prospect of expansion of its land resources. It has, therefore, hardly any alternative but to increase its productivity per unit of land.

Land in Bangladesh is fertile. But it has been subjected to continuous use without adequate nourishment. Annual flooding replenishes it partly but not adequately and not in all areas.

Rice, the main food crop, is grown on roughly 24 million acres. The bulk of the rice fields are used for two rice crops annually while some are uased for three and some for one. The country suffers from a chronic rice shortage.

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* Pakistan Census of Agriculture, 1960. A Summery of East Pakistan Data, Agricultural Census Organization. Ministry of Food and Agriculture, Govt. of Pakistan, P-4.

INDIA

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SMALL FARMERS CREDIT PROGRAMS IN INDIA 1/

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The principal sources of credit in rural areas are the private moneylenders and the cooperative credit societies. In recent years there has been a significant increase in institutionalization of rural credit, and the relative importance of private moneylenders has somewhat declined. At present, about 30 percent of the borrowings by farmers are from institutional sources. The total amount of short and medium-term credit advanced by cooperative credit societies increased from Rs.23 crores (or Rs.230 million) in 1950-51 to Rs.542 crorres in 1969-70. The target for the Fourth Plan is Rs.750 crores to be reached by 1973-74. The membership of agricultural cooperative credit societies has also increased from 17 million in 1960-61 to about 30 million in 1969-70. The target for 1973-74 is 42 million. As regards long-term credit, the Land Development Banks have made significant progress in recent years; between 1960-61 and 1968-69 the loans advanced by these banks increased from about Rs.12 crores to Rs.148 crores. The target for long-term credit is Rs.700 crores by the end of the Fourth Plan. Another significant development in recent years

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1/ Prepared for use in Spring Review on Small Farm Credit.

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has been the entry of the commercial banks in the field of agricultural credit. The volume of direct agricultural finance by these banks has increased from Rs.5 crores in 1966-67 to Rs.236 crores by the middle of 1971.

Although the progress of institutional credit appears to have been substantial in the last two decades, the small farmers continue to be handicapped in obtaining credit from cooperatives. The All-India Rural Credit Survey Committee which studied the position of credit in 1951-52 found that cooperative credit tended to flow in favor of the large farmers. The All-India Rural Debt and Investment Survey (1961-62) analyzed the data on borrowings from cooperatives per acre of cultivated area for the different asset groups; it concluded that per acre credit received by large farmers having assets of over Rs.20,000 or holdings of over 25 acres was twice that received by farmers with assets between Rs.2,500 and Rs.5,000, or with holdings of 5 acres or so. Those in the lowest asset bracket got only a quarter of the amount that the large farmers obtained.

Following factors are said to be responsible for channelizing greater proportion of cooperative credit to the larger farmers. (i) cooperative leadership and management are in the hands of the larger farmers; (ii) land ownership is used as almost the sole criterion for extending credit to the members; (iii) technical expertise and operational efficiency for dispensing production-oriented credit are lacking in the present cooperative set-up; (iv) lack of coordination between the agencies in charge of cooperative credit and those in charge of agricultural input supplies.

Credit and the High Yielding Varieties Program

The All-India Rural Credit Review Committee (1969) observed that the tenants and small cultivators in many parts of the country were unable to obtain credit needed by them for modern inputs. So far as the High Yielding Varieties Program (HYVP) is concerned, the credit requirement of the participants in the area concerned is estimated in advance of the cropping season and arrangements are made to provide the required credit through the cooperative societies. To avail oneself of this credit, the farmer-participant must be a member of the society, contributing to the share capital of the society concerned; in the case of old or continuing members, one requirement is that the intending borrowers must not be defaulters. These regulations are applicable to all farmers, large and small. However, in practice, several problems have arisen which seem to reduce the amount of credit that a small farmer can obtain. Where a farmer is not a member of a cooperative society, he has to raise money to purchase a share and to become a member. Generally, the share to credit ratio is 1:8 or 1:10. If the per acre credit requirement of a farmer is

Rs.400 and if he operates, say, 3 acres, his total credit need would be Rs.1200. To obtain a credit of Rs.1200, he must raise Rs.120 with which to purchase the share of the society and to become a member.

Although the official documents pass over this question lightly, an important factor which has prevented a greate flow of credit to small farmer is the latter's inability to purchase enough amount of shares. The reason why the larger farmers secure a greater proportion of cooperative credit and also a greater amount of credit per acre is that they are in a position to contribute substantially toward the share capital and obtain loans against their contribution.

Credit and the Small Farmers Development Agency

The All-India Rural Credit Review Committee recommended in 1969 that specific projects should be set up for the benefit of small farmers. Accordingly, in the Fourth Plan provision was made for 46 pilot projects in selected districts throughout the country and a Small Farmers Development Agency (SFDA) was set up in each of these districts. Briefly, the aims of the SFDA are to identify the problems of small farmers in its area, prepare appropriate programs, help to ensure availability of inputs, services and credit through the existing institutions like the cooperatives. The aim is to involve approximately 50,000 small farm households in the program in each district. Each project is estimated to cost about Rs.1.5 crores and a total sum of Rs.67.5 crores has been allotted in the Fourth Plan for these projects.

The SFDA has to identify the small but potentially viable farmers first in the area of its operation. It has been assumed that these farmers can be identified by the size of their holdings, which is taken to range from 2.5 to 5 acres in the case of irrigated or irrigable land and upto 7.5 acres in dry areas. In the case of Kerala and Mysore, the lower limit of the small but potentially viable farms has been taken to be 1 acre. For the benefit of the participants, the agency is to assist the institutions concerned with the distribution of inputs, marketing, processing and storage so that they develop adequate infra-structure in the project area. It would assist the agro-industries corporations and cooperatives to set up custom service units. In order that the services of these units are available at rates which the small farmers can afford, the agency would provide subsidies to these organizations at rates not exceeding 25 percent of the commercial rates fixed by them. Similar subsidies would be provided by the agency for investment in agriculture involving heavy capital outlay such as for dairy and poultry units. The agency would not extend credit directly to farmers, but would assist them in obtaining credit from the cooperatives and other institutional agencies. To help the institutional agencies in providing credit to the participants, the SFDA would contribute to a risk fund at 6 percent on additional loans by primary cooperative societies and at 3 percent on additional loans by Central Cooperative Banks. To stimulate flow of long-term credit to the participant, SFDA would provide a risk fund at 3 percent on total loans issued by the Land Development Banks. Assistance would be rendered to enable non-member farmers to become members of cooperatives and to draw their credit requirements.

Credit and the Marginal Farmers and Agricultural Laborers Program

A large proportion of small farmers who are not potentially viable would be left out of the programs initiated by the SFDA. To assist such farmers and agricultural laborers another program called the Marginal Farmers and Agricultural Laborers (MFAL) has been recently initiated by the Ministry of Food and Agriculture of the Government of India. In all 41 districts have been selected for the MFAL program, which is to assist about 20,000 families in each district. The program is to assist marginal farmers and laborers in developing subsidiary occupations such as dairy and poultry farming.

In the absence of cattle insurance schemes, the cooperatives and the commercial banks have been chary about providing loans to intending borrowers. Hence, both MFAL and SFDA have decided to provide subsidies to the credit agencies to serve as margins for their loans. Recently, the National Commission on Agriculture recommended that the small and marginal farmers who have produced cross-bred heifers should be extended financial assistance in the form of half subsidy and half loan for rearing heifer claves upto calving stage. This would mean that each farmer would get Rs.480 as subsidy and Rs.480 as loan. In the case of agricultural laborers, the Commission has recommended subsidy at the rate of two-thirds and loan at the rate of one-third, that is Rs.640 as subsidy and Rs.320 as loan.

As yet these programs have had very little impact since the problems of organizing a cross-breeding program on a large-scale and of marketing the milk produced have not been solved.

Evaluation

The major problem faced by small and marginal farmers in obtaining credit from the cooperatives is that they are not considered to be "credit-worthy": that is, they cannot offer collateral security in the shape of tangible assets as desired by the system. The "crop loan system" introduced in the Second Plan period was designed to change the criterion of creditworthiness from tangible assets to production potential. To ensure that credit was not used for consumption purposes, a part of the crop loan had to be taken in inputs. By and large, this system has been followed in the HYVP and also in the SFDA/MFAL programs. However, as various studies have shown, there is a considerable gap between accepted principles and actual practice. From the point of view of the cooperatives, there is a risk element involved in lending to small and marginal farmers if the crop fails and the loans are not backed by tangible assets as collateral. Of course this might be handled at relatively low cost by some form of crop insurance. To induce the cooperatives, the government provides an outright grant for building up special Bad Debt Reserve in Central Cooperative Banks and Primary Cooperative Societies. However, the scheme has not provided adequate for the purpose for which it was intended. So far as the commercial banks are concerned, they tend to finance according to usual criteria, and besides they do not feel they are in a position to provide constant supervision of the manner of loan utilization.

Recently, the National Commission on Agriculture has drawn pointed attention to the multiplicity of agencies in the fields of rural credit and input supply. In its view, the small and marginal farmers are unable to contact different agencies for different requirements. For crop loan, they have to approach the cooperative or the commercial bank; for long-term credit, they have to go to the Land Development Bank. Separate agencies have to be approached for inputs and services. The Commission, therefore, has recommended an integrated agricultural credit service. The recommendation is under consideration, although a working group set up at the National Seminar on Small/Marginal Farmers and Agricultural Laborers Programmes has expressed serious doubts about the prospects of the proposed organization where others have failed.

The SFDA has begun to provide medium-term loans in its area of operation, so that each one of the small farmers can purchase at least one share in the primary cooperative credit society and become eligible for credit. Generally, the by-laws of all societies provide for a link between borrowings and shareholdings of a member - the upper limit of loans being eight to ten times the amount of share capital held. The Reserve Bank of India has recently agreed to permit the ratio between shareholding and borrowing to be raised to 1:20 in the SFDA areas. Although this development would help small farmers to some extent, the problem still would remain largely as it is today. The small farmers coming under the dairy and poultry schemes would each need medium-term loans of Rs.1500 to Rs.2500. Additionally, they would need short-term credit at least of Rs.1000. To obtain credit ranging between Rs.2500 and Rs.3500, the farmer would need to hold shares of the value of Rs.250 to Rs.350 if the ratio is 1:10, and Rs.125 to Rs.175 if it is 1:20. Since the medium-term loan offered by the SFDA for the purchase of shares in cooperative comes to only Rs.10 per farmer, there is a large gap between the requirement of the farmer and the assistance provided. The problem cannot be resolved by raising the quantum of medium-term loan, because the SFDA has only limited resources. In fact, each SFDA would have to provide at least Rs.6.3 million to enable small farmers in its area of operation to purchase enough shares for their credit requirement even if the ratio is 1:20. The total amount in 46 districts would be at least Rs.288 million.

That there is a risk involved in lending to small farmers cannot be denied; the cooperative overdues have been mounting at an alarming rate. Many cooperative societies are unable to function or to advance fresh loans to the extent required, because of the overdues. To what extent the problem can be solved by the special bad debt fund cannot be judged at this stage.

The problems reviewed so far relate mainly to the short-term credit. Problems of long-term credit are somewhat similar. Credit for the purposes of land improvement, installation of wells, or for the purpose of purchasing machineries and equipment are available if collateral securities in the shape of tangible assets can be provided by farmers. The small farmers are not a homogeneous group; they include owner-operators, tenants, mixed tenants and sharecroppers. The owner-operators alone can offer land as collateral security. Others are, therefore, excluded from the purview of long-term credit. Tenants and sharecroppers can obtain credit only if records are available to identify them as tenants and to identify the land they have leased-in. Unfortunately, such records are unavailable and in view of the prevailing uncertainties regarding land reforms tenancy contracts are seldom made in black and white.

In fact the problem exists even for the owner-operators. Land records are simply nonexistent in many states and where some records do exist, they are seldom up-to-date. In those few areas where revenue records do exist, they are village-wise records. Since farmers' holdings spread over more than one village in many cases, it become difficult to ascertain an individual's total holding. Where holdings are held jointly by several owners, a co-sharer is not entitled to get loans unless all other co-sharers agree
is not entitled to get loans unless all other co-sharers agree
for the mortgage. No executive authority is competent to determine a joint holder's share. Consequently, even though credit is available from the Land Development Banks, a substantial proportion of the small owner-operators are unable to avail themselves

of the credit. Preparation of up-to-date records of rights in land would of course require sustained efforts over a fairly long time; it cannot be done as part of a spectacular crash program. Nonetheless, this slow and painstaking effort seems to be essential so that the credit problems of small farmers can be resolved.

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INTRODUCTION

The Credit Schemes that are described in this Study have been designed to serve the credit needs of peasant farmers for agriculture which is organised principally around the cultivation of paddy. However, although the focus of the Credit Scheme has been on paddy it has covered other subsidiary food crops which were part of peasant agriculture such as chillies, onions and potatoes. Paddy has been the major crop in small holding agriculture. It already covered an extent of approximately 913,000 acres in 1946 steadily expanding to an acreage of 1,765,000 in 1970. The total number of operational holdings in 1970 has been estimated at 836,000. The small holding agriculture based on paddy was distributed throughout the Island although paddy had greater importance in some regions than in others. The Agricultural Credit Schemes that are discussed, therefore, had a nationwide coverage.

The credit available to the small farmer came from several sources. The schemes organised by the Government for the provision of credit for the farmer's agricultural activities was one such source. In the total credit system in the rural sector, non-institutional credit from professional and semi-profession lenders, private traders, the more prosperous farmers in the community, friends and relations loomed large as sources of credit and accounted for a major portion of the credit obtained, as would be described in the body of the report. The scheme of credit organised by the Government attempted to reduce the dependence of the farmer on non-institutional sources of credit which are usually available on terms much less favourable than those of Government sponsored schemes and most often extortionate in character.

The Agricultural Credit Schemes reached a significant scale of operations in the period following the achievement of independence in 1947. Under these schemes the main item has been the short-term credit provided to farmers to meet their requirements of working capital for

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agricultural operations during the cultivation season. They were usually expected to repay the loans with the proceeds from their harvest. The volume of credit at the commencement of the Scheme was small but eventually increased to a considerable magnitude. As will be described later in the Study, the schemes underwent significant modifications during the period 1947 to 1971. Of these major re-organisations and modifications the most important were those that were undertaken in 1963 and in 1967. It would be seen from the later sections of this Study that the re-appraisal and re-structuring of these credit schemes were necessitated mainly by the poor rate of recovery of the credit granted and the consequent reduction in the participation in the schemes as defaulting farmers became ineligible for further credit and dropped out of the scheme. During the operation of these Government sponsored schemes, there is evidence to indicate that the large bulk of the farming community still continue to depend heavily on non-institutional sources of credit for both agricultural as well as non-agricultural purposes.

From the commencement the loans under the schemes of agricultural credit organised by the Government had been channelled to the farmers through Co-operative Societies of which the farmers were members. Initially there was a marked degree of specialisation in the Co-operative Movement and separate societies were organised for agricultural credit, thrift, production and sales, retail distribution and so on. These were subsequently replaced by Multi-purpose Co-operative Societies which undertook several functions in the farming communities. The Co-operative Movement itself has been undergoing several reorganisations during the period under review; the most significant of these are the establishment of Multi-purpose Co-operative Societies in 1957 and the amalgamation of Primary Co-operative Societies to provide for greater efficiencies and better economies of scale implemented in 1971. Among the several functions undertaken by the Multi-purpose Co-operatives are retail distribution of consumer goods, distribution of farm inputs such as fertilisers, seed material and agro-chemicals, purchase of farming products, rural banking and the supervision of credit under the Agricultural Credit Schemes.

Until 1965 the Agricultural Credit Schemes were administered by Government Departments which used the Co-operative Societies as the lending agencies to provide the credit to the farmer. The Co-operative Societies obtained their loans from the Government and re-lent to the farmers in accordance with approved Credit Schemes. Subsequently the lending operation was taken over from the Government Departments by the People's Bank which was a State bank established by the Government in 1961 with the primary object of promoting banking in the Co-operative and rural sectors. In 1967 the Government made it possible for the entire commercial banking system to participate in the Agricultural Credit Schemes under which loans are granted through Co-operative Societies to individual farmers for their agricultural activities. This was done by means of a guarantee given by the Central Bank of Sri Lanka under which the Central Bank undertook to re-finance losses incurred by the banks in the operation of the loan schemes up to a limit of 75%. However, this guarantee has not resulted in any increased participation by the banking system, and the People's Bank continues to be the sole commercial bank providing credit under the Agricultural Credit Schemes.

The first Government sponsored scheme for providing institutionalised agricultural credit began in 1947. The rate of participation of farmers in Agricultural Credit Schemes sponsored by Government fluctuated sharply during the period of their operation. It is difficult to make an accurate estimate of the rates of participation but it is possible that during the peak periods credit would have reached about 35 to 45 percent of the farmers who were in need of credit. According to available data the majority of paddy cultivators operated on holdings less than two acres, although most of the paddy cultivators with holdings less than one acre would not be exclusively dependent on their paddy holdings but would have other sources of livelihoods as well. However the structure of holdings draws attention to some of the major problems confronting paddy farmers. The size of the holdings was small and unless cultivated at a very high level of technology, would not bring yields that would produce a reasonable income. At the same time technological inputs to increase productivity required resources which the farmer was often unable to mobilise. Therefore for this purpose he had to depend heavily on credit. Government Schemes of credit were available for specific agricultural purposes and did not cover all his needs. Consequently, farmers most often resorted to private non-institutional sources of credit which were very costly in regard to rates of interest.

The risks of cultivation in most areas was high as an assured supply of water were not often available. The risks were minimised in the case of paddy land which was served by large irrigation schemes but in rainfed areas as well as areas served with minor irrigation works weather was a critical variable. In facing these problems, Government's approach to the problems in the peasant sector was to develop a package programme which provided extension services to transmit new scientific methods, establish marketing schemes with guaranteed price for its produce, organise the supply of fertiliser, seed material, agro-chemicals and tractor services and provide agricultural credit to enable farmers to make full use of the package programme. Agricultural credit was therefore one element in the package programme. However as will be seen in the Study the scheme of agricultural credit was limited in its coverage and ran into numerous problems during its operations. Even so the Agricultural Credit Schemes during the period of peak operations augmented the resources of the farmer and enabled him to raise his technological level which he attempted to maintain in subsequent years even when he dropped out of the government credit schemes.

Historical Summary

Management of Agricultural Credit from 1947 to 1970

Government action for the provision of institutionalised agricultural credit began in 1947. The Government came forward with a plan in 1947 to establish Co-operative Agricultural Production and Sales Societies (commonly known as CAPS Societies). The scheme consisted in organising societies of agricultural producers, for the purpose of granting loans for agricultural production, the supply of manure, seed, chemicals and various other agricultural inputs, and the marketing of the produce under a guaranteed price scheme.

These societies were financed by the Government through the Department of Land Development, and the risks of default were borne by the Government. In each District there was a District Agricultural Committee headed by the Government Agent, of which the Assistant Registrar of Co-operative Societies was a member. A food production programme was prepared for the area under each CAPS Society and after approval by the District Agricultural Committee, it became the basis on which the society was to be financed. Loan applications were recommended by the District Agricultural Committee and the Registrar of Co-operative Societies, before they were sent up to the Department of Land Development. At this stage, the Credit Scheme consisted of two types of credit — farm credit to farmers as well as marketing credit to the co-operative societies. The farm credit provided during this period included both short-term credit to meet the working capital needs of the agricultural operations as well as medium-term credit for acquisition of capital assets such as agricultural implements and machinery. Under the scheme of marketing loans to co-operative societies short-term loans were granted for working capital for their marketing activities. This scheme also provided for long-term capital loans for co-operative societies for capital items such as the construction of go-downs and stores for both consumer needs as well as agricultural inputs.

Up to 1952, the Scheme was administered by the Land Commissioner, using co-operative societies as credit agencies at the village level. During the period from 1947 to 1952, the Land Commissioner had disbursed Rs 29.7 million as loans out of which a sum of Rs 9·9 million or 33·3% was outstanding at the end of the period. The data available do not indicate the actual amount in default.

In 1952, the Agricultural Credit Scheme became the responsibility of the Department of Food Production. In the first year of administration of the scheme by this Department, the quantum of loans granted almost doubled over that of the previous year. In 1957 the management of the scheme was handed over to the Department of Agrarian Services which replaced the Department of Food Production. At that time loan disbursements under the scheme since its inception was Rs 112·2 million, the amount outstanding was Rs 19·4 million and the amount in default was 6·5 million. The defaults were only 5% of the total disbursements.

The credit scheme under the management of the Department of Food Production, at least as far as the recoveries go, did admirably well, when compared with the performance in later years. During this period there was also an almost steady increase in the annual volume of loans granted. Considering the period before the introduction of the new Agricultural Credit Scheme in 1967 the highest annual volume of credit was granted in 1956/57, the last years of operation of the credit scheme under the Department of Food Production.

With the management of the credit scheme by the Department of Agrarian Services the annual volume of credit started to decline and in 1962/63 it was half of the 1956/57 volume. Further, by 1962/63 the rate of default had reached a new high of 9·4% of the total disbursement. According to the estimates derived from a survey[1] conducted in 1962 by

1 Survey of Coverage by Co-operative Societies reported in Administration Report of the Commissioner of Agrarian Services for 1962/63.

the Department of Census and Statistics and the Department of Agrarian Services, one-third of the Co-operative Societies were heavy defaulters on loans and as such were ineligible for credit under the scheme. The volume of credit was decreasing due to increasing defaults. The situation was so serious that the Ministry of Agriculture, Food and Co-operatives feared that its scheme to accelerate the adoption of improved practices which needed increased inputs and therefore better credit facilities, was in serious jeopardy. In 1963, the Ministry appointed a committee to examine the functioning of the scheme. The committee looked into the problem of expanding credit and the associated problem of defaults. Based on its recommendations the annual volume of agricultural credit was increased. However, no action was taken to implement the committee's proposals regarding the recovery of loans. The outcome of this scheme, in the words of a subsequent committee, was as follows:

> "The percentage of overdue loans has increased from about 9 percent on 30.9.63 to 11·4 per cent one year later and to 15·8 percent on 30.9.69. In the absence of effective measures to ensure the recovery of loans granted, the number of cultivators on whose behalf applications were received from Co-operative Societies during the Maha 1964/65 and Yala 1965 cultivation seasons, even in areas which were not affected by drought, was less than the corresponding number received during Maha 1963/64 and Yala 1964. During the year 1964/65 the total number of societies which received loans from the Department was only 1,401, although during the same year the number of societies which functioned as purchasing agents under the Guaranteed Price Scheme was about three times that number." [1]

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[1] The Report of the Committee on Agricultural Credit submitted to the Minister of Agriculture and Food on 11.6.1966; unpublished document.

As a result of the report of this Committee, Government decided to reorganise the existing schemes and establish one credit scheme which was to be administered separately from other credit schemes so as to serve agricultural purposes exclusively. This scheme was put into operation in 1967 and has been referred to as the new Agricultural Credit Scheme. It will be so described in the rest of the report. In order to make this scheme as effective as possible and ensure a high rate of participation by farmers the Government decided to give a waiver of debts to farmers and co-operative societies which had previously defaulted in their loan repayments. The detailed manner in which this scheme operated will be commented upon in later sections of this report. As a result of this waiver of their debts from the introduction of the new Scheme, most farmers and co-operative societies became eligible for agricultural credit under this Scheme.

At present credit is provided under three separate Schemes:

(a) The extended credit scheme which was inaugurated in 1963 by the People's Bank,

(b) The Rural Bank Scheme which was inaugurated by the People's Bank in 1964. Multi-Purpose Co-operative Societies, each with a membership of about 300 and having a good record of loan repayment were generally selected by the People's Bank on the recommendations of the Co-operative Department as societies that were suitable for the opening of a Rural Bank within that society. 'Rural Bank' is the name given to the Loans and Savings Department of a Multi-Purpose Co-operative Society;

(c) The new Agricultural Credit Scheme which was introduced by the Government in 1967.

All three schemes are operated at village level, through Co-operative Societies and these cover the entire Island.

The People's Bank which was established in July 1961, is the chief financing agency for the co-operatives which operate these credit schemes. The People's Bank provides credit facilities to the co-operative societies for the purchase of consumer goods, purchase of agricultural produce under the Guaranteed Price Scheme, purchase of agricultural inputs to meet production requirements of the farmers and credit for agricultural purposes.

In addition to credit given under these three Schemes, the rural sector obtains a certain amount of credit from the Branch Bank network, specialised credit institutions and credit schemes operated by Government Departments for specific purposes and also from non-institutional sources.

The picture relating to rural credit will not be complete without mention of a recent development. In 1971, the government established a new institution to co-ordinate and promote development activity at the village level — the Divisional Development Council. This Council consisted of representatives of the main village institutions (such as the Local Government Authority at the village level, the co-operative society, the Rural Development Society, the Cultivation Committee) together with the government officials of the different development agencies working at the village level. These Councils were expected to formulate village development plans, monitor the implementation of government programmes, identify small-scale investment opportunities in their areas, and promote small scale enterprise on a co-operative basis. Approximately 500 such Councils have been formed and numerous small projects in the agricultural and industrial sectors have been formulated and submitted to government for financing. The government has implemented a scheme of financing by which part of the capital cost of these projects is given as an outright grant, and part as a repayable loan through the People's Bank. The projects are being implemented primarily through the multi-purpose co-operative societies or through special co-operative societies established for their implementation and management. This is the first occasion on which credit has been channelled into the rural sector for capital development on as significant a scale. Up to date the majority of projects initiated under this scheme are in the agricultural sector; these include development of land for cultivation of subsidiary food crops, lift irrigation for similar purposes, animal husbandry projects etc. A sizable number of small industrial and infrastructural projects are also being implemented. The beneficiaries of these schemes are primarily the educated unemployed youth in the rural sector. While this programme is being briefly described here to provide an overview of the flow of credit to the rural sector, it will not be included as a part of the small farmer credit system which is analysed and evaluated in this study. The scope of the Divisional Development Council programme extends beyond that of agricultural credit to the farming community already employed in agriculture. Its primary objective is that of creation of new employment opportunities in agriculture, industry and other economic activites in the rural sector with a view to absorbing the educated unemployed youth in productive employment in the rural sector.

(b) <u>The Co-operative Movement</u>

As the Co-operative Society is the agency through which the credit schemes function, a short account of the development of the Co-operative Movement in Sri Lanka will be apposite to the study.

The history of the Co-operative Movement in Ceylon can be divided into four broad periods: (a) Period prior to 1947, (b) From 1947 to 1957; (c) From 1957 to 1967, and (d) From 1967 onwards.

Graduation Policy

There is no fixed Graduation Policy as such but successful borrowers are able to win the confidence of their respective committees and are eligible to obtain further loans as they are considered creditworthy customers with a good repayment record.

Other Sources of Credit

In Ceylon the majority of the other sources of credit are from the non-institutional sources such as professional money-lenders, semi-professional money-lenders, landlords, commission agents and traders, boutique or trade credits, boutique loans and friends and relations. [1]

(a) Professional and Semi-Professional Money-lenders. According to the survey data, professional and semi-professional money-lenders are the most important sources of credit and together they provided 28.8% of the amount borrowed, 24.3% of the debt currently outstanding and 15% of the total outstanding debt. A person who engages himself in money-lending as his main occupation was considered a professional money-lender whereas a part-time money-lender engaged in lending in addition to his main occupation, for example, a school teacher who engages in money lending, was considered as a semi-professional money lender. These classes of lenders would lend at a high rate of interest, mostly on the pledge of security and on comparatively stringent terms. The terms on which credit is extended by them and the high rates of interest generally charged impose an economic burden on the peasant that is detrimental to the attainment of the objectives of increased agricultural production.

(b) Friends and Relations. According to the survey of rural credit and idebtedness of 1969 conducted by the Central Bank of Ceylon, among the specified categories, friends and relations were one of the most important sources of credit to the rural sector. Friends and relations were those lending out of consideration and friendship or relationship and not as a

[1] Report of the Survey of Rural Credit and Indebtedness 1969 conducted by the Central Bank of Ceylon.

part of business transactions. Of the total debt 25.8% of the amount borrowed in the reference period of the survey, 21.0% of the total amount outstanding and 25.4% of the amount currently outstanding were from friends and relations. However all loans from friends and relations were not free of interest though to a very large extent these were so. The absence of any interest as such was an indication that these loans were obtained on personal understanding and trust among the creditor and debtor. These factors account for the importance of this source of credit to the rural sector.

(c) Boutiques. In regard to credit given to boutiques a distinction has been made between trade credit and loans. Trade credits were more important of the two and represented as much as 10.5% of the total amount borrowed although its percentage share of the total amount outstanding was much less at 1.5% and was 2.8% of the total amount currently outstanding. Trade credits from boutiques is a facility that is commonly extended by traders to their customers to tide over periods of low cash receipts.

(d) Landlords, Commission Agents and Traders. A feature of equal importance that is revealed by the survey is the significance both of commission agents and landlords as other sources of credit. In peasant agriculture which is characterised by a preponderance of tenant cultivators the landlord would normally be an important source of credit. But the relative insignificance of the landlord could be a reflection of the degree to which credit transactions between the tenant cultivator and the landlord take place in kind.

The commission agent, on the other hand, is important as a source of credit largely in the vegetable-growing areas and, to a lesser extent, in the tobacco-growing area. Traders were in general urban based and advanced money to the cultivator on the mortgage of the expected crop. Their activities too were limited mainly to the vegetable-growing areas.

KOREA

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INTRODUCTION

In the Republic of Korea the farmer's rice yields per hectare are among the world's highest, and prices for all farm products are also high by world standards. Even so, because of the extremely small scale of his farming operation, the average Korean farmer's income is low, often at a subsistence level, and his ability to finance capital needs for agriculture with his own savings or with earnings from the sale of agricultural products is limited. Because of this, the demand for credit in Korea is high.

The material which follows is a description of the role and functions of the National Agricultural Cooperative Federation (NACF). It is simultaneously a discussion of institutional agricultural credit, rural banking, farm cooperatives, cooperative marketing, execution of government grain buying programs and fertilizer marketing. Because NACF performs all of these roles it represents an institution with integrated functions. Perhaps it is somewhat of a unique model in this respect since most countries have more separated units for rural banking, government credit and farm cooperatives.

Korea's institutional agricultural credit system is predominately NACF. The NACF has 140 city and county banks, 776 primary cooperatives engaged in banking, and 311 branch offices engaged in credit activities for a total of 1,227 credit "windows". There are very few other banks at the county or lower levels. NACF's agricultural loans outstanding as of December 31, 1971 totaled 236 million dollars, and loans granted in 1971 alone totaled 206 million dollars, or about 30 percent of total rural credit. Loans made to small farmers by all private sources are, of course, considerable, but those from trading companies, large scale machinery dealers, etc., probably do not represent a very large percent of farm credit. The bulk of private credit comes from other farmers, relatives, local moneylenders, small shop keepers, etc. These sources account for about 70% of rural credit, including credit for consumption, emergencies, welfare and festive occasions.

In terms of scale of farm business and land area farmed, nearly all of Korean agriculture can be classified as "small farmer" agriculture. The land reform of 1949-51 established a ceiling of 3 hectares per farm on developed land and the average size of farm is only one hectare in size, comprised of about half paddy and half upland. In terms of access to, and use of technology adapted to such farms, Korean farmers are "modern" as contrasted to the stereo-type subsistence farmers. Nonetheless, because the NACF provides small percels of credit to 2,500,000 farm households, its credit operations are clearly of the "small farmer type".

Thus the small farmer is the main consideration of policy makers and, because of NACF's diverse activities, virtually all farmers benefit from NACF's existence at one time or another. Nearly all farmers receive fertilizer loans. In value terms, about 30% of this fertilizer is sold on credit, with a majority of farmers purchasing some of their fertilizer on credit. In addition to fertilizer credits, about 75% of farmers receive other types of loans from NACF

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Attached is a data sheet which shows the Korean agriculture economy to be labor intensive, with high land productivity, having achieved a very respectable agricultural growth rate along with a spectacular industrial growth rate. Farmers' incomes have therefore lagged in growth relative to the non-farm sector and are constrained by the size of farm operated rather than lack of demand for food, prices received, or failure to adopt modern technology. In the past few years prices paid for farm inputs, including credit, have about kept pace with prices received. To the extent that input prices could be reduced it would, of course, have a significant beneficial effect on farm income. The availability of credit, as well as its price, are considered important requisites for improving overall agriculture productivity, but development of better technology is even more critical.

Other Sources of Credit

The average farm size in Korea is so small that the savings of farmers are insufficient to meet their monetary needs for production or for consumption. As a result, credit plays a major role in the life of the Korean farmer. According to surveys conducted by the NACF's research department, at some time during an average year well over 90% of all farm households are indebted. This indebtedness is seasonal, increasing rapidly with the [illegible], reaching the peak around September every year, and [illegible] after harvest. At the end of December the indebtedness falls to [illegible] of all households.

The average [illegible] per indebted household in 1964 was $165. This figure includes [illegible] in cash and in kind, with cash debts representing 55% of the total. The ratio of cash to in kind credit was found to vary widely depending upon cropping pattern and size of farm.

The medium-sized farm tended to have more debts than either the large or small-sized farms. This can be accounted for in part by the fact that larger farms tend to have larger incomes and in many cases do not need loans, and the smallest farms, even though they need loans, have difficulty obtaining them because they cannot meet the requirements necessary for approval of a loan application.

In 1964 survey, farm households totaling almost 70% indicated that they had borrowed from private sources. About 40% of these indebted households obtained more than 80% of their total debt from private sources and another 15% obtained between 60-80% of their total debt from private sources.

Private credit sources are accessible to the farmer and because the lenders are fellow villagers, security or elaborate application and screening procedures are not necessary. Despite the high interest rate of private credit (average of 60% per year), it is the credit most readily available to farmers throughout the country. Low interest institutional credit (NACF) is not sufficient to meet the demand, is not available everywhere, and

Table 1 — Data on the Korean Economy

A. Basic Data

Total Land Area		9.9 million hectares
Total Arable Land Area		2.1 " "
Land Used in Double Cropping	1.4 mil. ha.	
Total Cultivated Land Area	3.5 " "	
Total Population		31.5 million
Urban	17.0 million	
Rural	14.5 "	
Farm Households		2.5 "
Annual GNP Growth Rates, 1961-70 period in 1965 Constant Prices		
National Average		9.3 percent
Mining and Manufacturing		16.4 "
Agriculture, Forestry and Fishery		4.4 "

B. Agricultural Production, 1970

Product	Area (Ha.)	Yield (MT/Ha)	Production (MT)
Rice	1,213,353	4.6	5,460,000
Barley and minor grains	1,208,815	2.7	3,144,900
Pulses	368,224	.75	276,837
Sweet Potatoes	127,930	16.70	2,136,400
White Potatoes	53,975	11.20	604,500

C. Major Agricultural Exports and Imports (Millions of Dollars, 1970)

Exports		Imports	
Fruits and vegetables	$19.5	Cereal grains	$244.8
Ginseng	15.6	Sugar	28.9
Tobacco	13.5	Feed	23.2
Total	$48.6	Total	$296.9

D. Exchange Rate Used in This Paper, Won to U.S. Dollar

1961	=	130	1967	=	275
1962	=	130	1968	=	282
1963	=	130	1969	=	305
1964	=	257	1970	=	317
1965	=	272	1971	=	374
1966	=	272	1972	=	400

involves relatively complicated and time-consuming application and security procedures before approval for the loan is given. The major bottleneck is the amount of loanable capital, and until the NACF can substantially increase the amount of funds available for extending credit to farmers, the private lenders will continue to flourish.

Private sources of financing are traders, moneylenders, farmers, relatives, and friends. They usually are residents of the same village as the borrower. The traders customarily sell farm supplies and daily necessities to farmers on credit and receive payment in cash or in kind after harvest. They live in towns in the vicinity of the farming villages, as do money lenders. Over 50% of all farmers extend loans to other farmers, at one time or another, and at the same time they extend loans to others, they are also borrowing money. These money-lending farmers are distributed among all farmers with no regard to the size of farm holding. The concepts of interest rate differentials, risk factors, and inflation are apparently very well understood by Korean farmers.

About 60% of all private credit funds were borrowed from other farmers, 28% from relatives and friends, and the remaining 12% from traders and money lenders. The Ke funds run the gamut of these sources except for traders and money lenders. That is, money obtained from other farmers, relatives and friends might have been obtained through a Ke society. The "Ke" dealings explain why farmers sometimes borrow and lend at the same time.

The great majority of private financing is for credit in kind, mainly for staple foods. Because farmers, friends or relatives live in the same farming village as the borrower, a high percentage (about 60%) of credit from them is credit in kind. Credit from money lenders and traders, who are based in towns, is well over 80% cash rather than in kind credit. Much of this credit in cash is advanced for the payment of agricultural production costs, and credit in kind from these sources is usually advanced for farm supplies and daily necessities.

While some private credit from friends or relatives is interest free, a survey by the NACF's research department shows that interest-free credit is only about 5% of all private credit. The same survey showed that 47% of private loans have interest charges of over 5% per month (60% per year) and 44% were between 3 and 5% per month. The average rate is about 5% per month. These private loans are usually made in the spring and repaid after the fall harvest. In almost all cases, the terms of private credit are less than one year. Because the majority are made among people in the same village, most of the loans are without security. The basis of the loans are largely personal friendliness and creditors are usually confident in collecting loans made.

TAIWAN

by:

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Rural Capital Markets and Small Farmers in Taiwan 1952-1972

by
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- Abstract -

Taiwan has a very comprehensive system of institutional agricultural credit. The cornerstone of this system is the Farmers' Associations which handle a large part of the credits granted to agriculture. In addition the Land Bank, the Cooperative Bank, the Farmers Bank and a number of private banks and government agencies also make loans directly to farmers or channel funds through the Farmers' Associations. Because there are few large farm units in Taiwan most of the institutional credit is directed at small farmers. No special small farmers credit programs, as such, exist in the country. Taiwan, therefore, offers an opportunity to study how an entire credit system has serviced small farmer needs.

The year end outstanding balances on agricultural loans in Taiwan increased from roughly $30 million U. S. in 1956 to something over $400 million U. S. in 1971. The proportion of intermediate and long-term lending to total lending increased from less than one-fifth in 1956 to over one-half in 1971. A substantial part of this expansion in credit portfolio was provided by voluntary savings mobilized by the Farmers' Associations. Relatively high interest rates plus rapidly increasing rural incomes were major factors which induced this savings. Profits realized by Farmers' Associations from credit-savings operations have been very important in providing their strong economic foundation.

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An analysis of Taiwan farm record keeping data collected over the 1960 to 1970 period suggests that average as well as marginal propensities to save have been quite high among Taiwanese farmers. Average propensities to save may be as high as one-fifth and marginals range between one-third and two-thirds.

Over the 1960 to 1970 period credit use by the average farm record keeping family more than tripled. Farms in all size ranges were apparently able to increase their credit use more-or-less in the same proportion. Farmers financed most of their increase in operating expenses during this period through use of more credit. An analysis of the economic returns from the application of operating expenses to the farms' production processes suggested that marginal returns provided significant incentives for use of credit throughout the period.

We conclude that rural capital markets have played a vital role in Taiwan's development. They have efficiently allocated credit to producers and have mobilized surplus rural funds to further expand the agricultural credit portfolio. The use of realistic interest rates on credit and savings, the availability of high-payoff technology, and appropriate credit-savings policies have allowed the rural capital market to equitably service small farmers in Taiwan.

The Formal Rural Capital Market in Taiwan

A number of agencies have credit and savings activities in rural areas of Taiwan.3/ These include the Farmers' Associations, the Land Bank of Taiwan, the Cooperative Bank of Taiwan, the Farmers' Bank of Taiwan, some commercial banks, credit cooperatives, savings companies, postal savings, and various governmental agencies. The relationships among these agencies, the Farmers' Associations, and the farmers are shown in Figure 1. As can be noted only part of these agencies deal directly with the farmer. A number of the agencies channel their resources through the Farmers' Association or through farmers cooperatives. Since almost all of the farmers in Taiwan are small farmers, the formal rural capital market is largely tailored to meet their needs. The Farmers' Associations, the Land Bank of Taiwan and the Cooperative Bank of Taiwan are the most important sources of agricultural credit for farmers. Institutional savings by rural people mainly flow into Farmers' Associations and into postal savings.

A breakdown of amounts of agricultural loans by various years and agencies is shown in Table 4. It should be noted that the importance of the Farmers' Associations is understated in this Table, since the Associations allocate substantial amounts of funds listed as balances for other agencies.

The gradual increase in the proportion of formal loans with a
We cannot conceive of the FA's being so successful if capital market policies of other less developed countries had been adopted. That is, if savers were offered low or negative real rates of interest on deposits, if credit were granted at concessional interest rates, and if FA's were forced to incur substantial administrative costs entailed in a supervised credit program. Taiwan's capital market policies have allowed service institutions to grow and flourish, while other countries have not.

Informal Credit-Savings Systems in Rural Taiwan

A significant part of the rural capital market transactions in Taiwan takes place outside the formal institutions described above. These informal transactions include credit from local merchants, borrowing or lending among friends or relatives, and participation in various forms of rotating credit associations huis. Unfortunately with data currently available it is impossible to document the magnitudes of these transactions. People familiar with rural Taiwan generally

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3/ Much of the information in this section was drawn from Chen and Bailey [7].

consider the amounts of these transactions to be substantial, however. The huis appear to be especially important with many rural families participating in at least one, and some families having multiple participation. A brief description follows of how a rural hui operates in Taiwan.

Rural Huis

Informal rotating credit associations can be found in many parts of Asia as well as Africa [1]. Huis, the Chinese version of these associations, have had a long history in Chinese societies [13, 47]. The specific make up of huis in general varies a good deal. There are, however, common arrangements which run through all huis whether in urban or rural areas. This includes a core of participants who agree to make regular contributions to a fund which is given in whole or in part to each contributor in rotation [1, p. 20]. The number of participants, the amount periodically contributed, the method of determining fund distribution, and length of time between distributions vary widely from hui to hui.

In rural Taiwan the organization of the huis tends to follow similar patterns. A hui is usually organized by someone who needs a sizeable amount of cash. He invites 10 to 20 of his friends and/or relatives to join. Typically each individual is asked to contribute a certain amount of paddy rice, or money to the hui at harvest time, approximately every six months. The organizer of the hui receives the initial distribution of rice or money at the time the hui is organized.

TABLE 4

Year-end Outstanding Balances of Agricultural Loans in Taiwan by Lending Agencies, 1956-1971

(Current Million U.S. Dollars)*

Agency	1956	1963	1967	1971
Total:**	33.1	111.3	280.0	425
I. Agriculture Credit Agency**	17.2	71.7	220.0	330
a. Farmers' Association	6.6	10.8	27.3	35.0
b. Land Bank	7.0	33.8	92.7	101.1
c. Cooperative Bank	3.6	27.0	85.7	127.8
d. Farmers Bank	--	--	14.6	66.1
II. Banking Agencies**	2.8	4.7	11.0	16.0
a. Commerical Banks	1.2	4.7	11.0	16.0
b. Credit Cooperatives	1.3	--	--	--
c. Savings Companies	.3	--	--	--
III. Government & Semi-Government** ***	13.0	35.0	48.6	59.3
a. Provincial Food Bureau	4.8	5.6	12.4	17.7
b. Taiwan Sugar Company	5.4	12.4	11.8	12.2
c. Monopoly Bureau	.7	.4	--	--
d. Provincial Supply Bureau	--	--	--	--
3. JCRR	2.2	16.7	24.0	29.2

*Converted to U.S. dollars using exchange rates listed in Appendix B, Table 5.

**May not sum due to rounding.

***Total figure includes a few loans from agencies other than those listed.

SOURCE: Lu, Nien-Tsing, Agricultural Credit on Taiwan, Research Department, Land Bank of Taiwan, March 1960, pp. 23-26 (in Chinese); and "Loan Statistics of Agricultural Credit Institutions in Taiwan," published quarterly by the Farmers Bank of China.

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Land Bank of Taiwan

The Land Bank of Taiwan was established on September 1, 1946, as a banking institution specializing in land and agricultural finance. The establishment of this bank was in fact the reorganization of the former Taiwan Branch of the Hypothec Bank of Japan with the taking over of the assets, liabilities, and business of the latter by the former. It is purely a government bank. As a government-owned and operated bank, the by-laws of the Bank specify its function as: to accommodate land financial needs, to promote agricultural and forestry developments, and to assist the government in carrying out its land and agricultural policies.

This Bank maintains its head office in Taipei with 24 branch offices located in the major cities and townships of the Province. Though vested with the major responsibilities of providing long and intermediate term financing to agricultural enterprises, the bank also engages in general banking business. It extends, besides farm loans of many kinds, real estate mortgage loans to industry as well as to urban residents.

As a government bank, the Land Bank occupies a unique position in agricultural financing. During the period of 1953-1962 when Taiwan's land reform program was in progress, this Bank acted for the government in collecting from the farmer and paying to the original landlords the land price of the transferred land. The Bank also issued land bonds to finance implementation of the land reform program. These bonds were unique in that their face value was expressed in physical units of rice and sweet potatoes rather than in monetary terms.

The Cooperative Bank of Taiwan

The Cooperative Bank of Taiwan was also established in 1946 through reorganization of the former Taiwan Cooperative Treasury, which had been organized in 1923 as the Taiwan Cooperative Association by the then existing 290 cooperatives. These were mostly credit cooperatives, having 130,000 members scattered over the urban as well as rural areas. Of the total capital stock, 60 percent is held by the Provincial Government and 40 percent by cooperative associations.

The basic policy framework of the Cooperative Bank is specified by law. Within these legal limits, policy is jointly established by the cooperative association stockholders and the Provincial Government. At annual meetings, the association stockholders elect six members to the Bank's 15-member board of directors. The Government retains majority control of the board through appointment of the other nine members.

With the head office established in Taipei, this Bank has 23 branches operating in major cities and townships. In addition, the Bank designates from among farmers' associations and credit cooperatives

*Much of the information in this appendix was drawn from Chen and Bailey [7].

76 general, and 148 remittance agencies serving in smaller towns.

Farmers' Bank of China

The Farmers' Bank is a national bank specializing in agricultural finance. It was originally established in 1933 on the Mainland to service farmers in four provinces near the headquarter in Hankow. In 1935 it was converted into a bank servicing the entire country.

It was not until 18 years after the withdrawal from the mainland that it was reactivated in 1967. In 1972 the bank had a total capital of 4.5 million U.S. dollars entirely provided by the central government. Bank loans cover the following: (1) agricultural production loans, (2) processing loans, (3) marketing loans, (4) fisheries loans, and (5) loans to farmers associations and cooperatives. Loans to growers usually go through township farmers associations. At present the bank has only offices in Taipei, Taichung and Kaohsiung. At the end of 1971 the bank had an outstanding balance on agricultural loans of approximately 65 million U.S. dollars. This made up approximately one-fifth of the total credit to agriculture provided by specialized agricultural banking agencies at that time.

Commercial Banking Agencies

Though not significant in the amounts of loans made, general banking institutions also provide credit to farmers and agricultural businesses. In general they do not receive many rural deposits. The commercial banks in Taiwan are centralized organizations which have branches all over the island. There are presently three commercial banks all of which were reorganized in their present form in 1946 from the existing commercial banks. The three commercial banks have, in total, 169 branches in addition to the headquarters (two in Taipei City and one in Taichung City). Unlike the farmers' associations which have mutually exclusive service areas, the three commercial banks have competing branches in many localities. A number of smaller townships, on the other hand, are not serviced by any of the three commercial banks.

The loans extended to farmers by commercial banks are primarily secured with either real estate or chattel mortgages. Owing to their location and business characteristics, commercial banks are not easily accessible to small farmers and their services are to a great extent limited to large farmers and related agricultural businesses. These banks usually only provide short-term farm credit.

Credit Cooperatives

There are at present 82 credit cooperatives in Taiwan. Although most of them are organized and operate in municipalities and cities, some are established in the big townships of urbanized rural areas. Since the membership is also open to farmers, many farmers have interests in these credit cooperatives. Farmer participation in these non-agricultural credit cooperatives, however, is largely limited to those with better financial positions living in semi-urban areas.

Credit is available to the farmer members of these credit cooperatives, although it is not necessarily identified as agricultural. The loans made to farmer members are generally unsecured short-term loans not exceeding six months in term.

Savings Companies

Savings companies accept deposits from and extend loans to individuals. They are somewhat similar to the savings and loan associations of the United States, being share stock companies rather than cooperative organizations. There are eight saving companies operating in Taiwan. One is government owned, serving the entire province with 41 branches. The other seven are privately owned and cover mutually exclusive business areas within which business is conducted through a total of 35 branches.

Agricultural financing and saving is a part, probably a very minor part, of the credit business of these savings companies. The loans made by these savings companies are secured loans of short-term not exceeding six months.

The Provincial Food Bureau

Besides those specialized banking agencies described in the preceding sections, there are certain government and semi-government agencies providing farm credit to the farmers. Although some of these agencies only grant loans to special groups of farmers, some cover all farmers and the amounts of loans extended by them are quite significant.

The Provincial Food Bureau (PFB) is one of the most important of these. Being a branch of the provincial government, PFB is charged with the responsibilities of collecting, storing and distributing foods. Its objectives are primarily procuring food for distribution to armed forces, civil servants of governments at all levels, school teachers, the dependents of these personnel, and other special groups such as mine workers and extremely poor families. With the food it controls, PFB also conducts market prices of foods. It withholds or injects food stocks into the market to counteract market price fluctuations.

The PFB procures foods, mostly grain, in several ways. The most important means is through fertilizer-barter and loans. Chemical fertilizers are imported from foreign countries and obtained from domestic manufactures , the governmentally-owned Taiwan Fertilizer Company. These are distributed to farmers on a 40 percent spot barter and 60 percent loan basis. For the bartered portion, farmers are required to turn in stated amounts of paddy (unhusked) rice on the spot. The remainder is scheduled to be repaid in kind after harvest. This is essentially a loan in kind and is also repaid in kind.

In addition to fertilizers, the PFB also provides needy farmers with production loans and production materials such as power tillers, water pumps and engines, pesticides and sprayers. In most cases, these loans are scheduled to be repaid in grain, because the PFB is primarily interested in controlling sources of food supply.

The PFB maintains seven district offices in the province, but its loan operations are entrusted to the township farmers' associations on a fee basis and it has no direct credit contact with farmers.

Taiwan Sugar Corporation

The Taiwan Sugar Corporation (TSC) is also a government enterprise. But instead of being tied to the provincial government, it is an agency of the central government. The TSC monopolizes the sugar refining industry of Taiwan. Except for a handful of small scale sugar refineries which manufacture only brown sugars, it controls all of the centrifugal sugar refining business and currently operates 22 large scale sugar mills with modern equipment.

Two major sources provide raw sugar cane to the Taiwan Sugar Corporation for processing. One is the sugar cane plantations belonging to and directly operated by TSC. The other is the so-called contract farmers who supply TSC with raw sugar cane at a pre-announced sugar support price. Because 15 to 18 months are required to grow sugar cane in Taiwan, it is necessary for the TSC to finance the period between planting and harvesting. Based on acreage, the contract sugar cane farmers are supplied with seedlings, chemical fertilizers, and operating expenses, as well as some living expenses to tide them over the financial gap. These loans are made either in cash or in kind, to be repaid after harvest and processing of the cane. The loans are made by the sugar mills directly and are not related to the local farmers' associations. They constitute an important source of financing to the farmers in the southern part of the island where the sugar cane is grown.

Tobacco and Wine Monopoly Bureau

The Tobacco and Wine Monopoly Bureau is an agency of the Taiwan Provincial Government which monopolizes the production and distribution of tobacco and wine in the Province. Its monopoly profit alone generates a net income constituting about half of the provincial revenue.

For the implementation of the tobacco monopoly, the production of tobacco leaves and their post harvest treatment are placed under strict control of the Monopoly Bureau. For the growing of tobacco, a farmer is licensed by the Bureau, which has the sole right to allocate and authorize tobacco acreages to the applying farmers. This Bureau supplies production loans to the farmers to meet their cash needs during the production period. Loans are extended to the farmers by the local farmers' associations, to be repaid after harvesting of the crop. The Bureau, however, provides no production materials. Chemical fertilizers for tobacco are supplied by the Provincial Food Bureau.

Provincial Supply Bureau

The Provincial Supply Bureau (PSB) is also a provincial enterprise which is vested with the responsibility of regulating commodity flows, other than food, to stabilize the domestic market. It has the privilege of importing certain materials to meet demand requirements.

Two of its activities are directly related to farmers. One is collecting jute for delivery to the gunny bag factories, and the other is procuring hogs for export, mostly for shipment to Hong Kong. To guarantee the necessary raw material supply to domestic gunny bag manufacturers and to assure reasonable jute prices for farmers, the PSB provides production loans to be repaid in the delivery of jute. Similar production loans are extended to hog farmers who agree to surrender hogs of slaughtering weight for shipment to Hong Kong and Japan. The carrying out of the actual business, the extending of loans and the collecting of jute and hogs, are all entrusted to the local farmers' associations.

Postal Savings

In addition to mail services, the postal system in Taiwan also performs several types of financial services. These include making financial remittance for people, providing opportunities for postal savings, and provision of life insurance. Because of the widespread network of the postal system many people avail themselves of the savings services. There are at least three reasons for the popularity of postal savings among rural residents: (1) Post offices are readily accessible to rural people. At least one post office is found in every township. (2) The post office is generally recognized as a safe place for people to make deposits. The government guarantees the return of this fund with interest. (3) Postal savings deposits or withdrawals can be made in very small amounts. Farmers feel comfortable in doing this because they often go to the post offices seeking mail services and find it convenient to save at those times.

The post office system is not a formal credit agency, although a depositor may borrow an amount not exceeding 70 percent of his savings account balance. Since the interest rates charged on loans are much higher than on deposits, few people utilize this option. Credit through the post offices, therefore, is relatively unimportant. The amounts of savings deposits however, are sizable amounting to almost 300 million U.S. dollars at the end of 1971. A significant portion of this originates in rural areas.

The Joint Commission on Rural Reconstruction

The Sino-American Joint Commission on Rural Reconstruction (JCRR) is a special organization in Taiwan. Although not a pure government agency, it is a joint establishment of the Republic of China and the United States of America, based on the China Aid Act of 1948. Its highest authority is a three-man (formerly five) commission, the members of which are appointed by the Presidents of the Republic of China and the United States.

The function of JCRR has been to administer American aid of all kinds--loans, grants and technical assistance--to agricultural, rural health, and related projects. As a means of financing agricultural development in Taiwan, the JCRR has made two major categories of loans. One is loans to agricultural organizations such as Farmers' associations, irrigation associations, Fisherman's associations, and fruit marketing cooperatives for the conduct of their business. In most cases, these are long and intermediate term loans for physical facilities. The other is loans to the credit departments of the townships farmers' associations for relending to the farmers for production purposes. Loans in second category now constitute a very important source of financing directly available to farmers.

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A brief summary of the various agricultural credit agencies in Taiwan and their lending practices is presented in Table A-1.

TABLE A-1

Purpose of Agricultural Loans, By Lending Agency and Class of Security

Agency	Purpose: Secured Loans	Purpose: Unsecured Loans
Farmers Associations	All Purposes	All Purposes
Farmers Bank of China	Production Processing Marketing Fisheries	Production
Land Bank of Taiwan	Housing Farm Ownership Land Improvement Marketing & Processing Fisheries	Farm Production Farm Irrigation
Cooperative Bank of Taiwan	Marketing Processing Fisheries	Farm Production Operating Capital for Cooperatives
Commercial Banks	General	
Credit Cooperatives	General	
Savings Companies	General	
Joint Commission on Rural Reconstruction		Farm Production
Provincial Food Bureau	Power Tiller	Fertilizer Food Production Irrigation Farm Implements Rice Production Seed Production Hog Production
Taiwan Sugar Corporation		Sugar Production and Family Living
Tobacco & Wine Monopoly Bureau		Fertilizer and Implements
Provincial Supply Bureau		Jute Production Hog Production

Source: Lu Hien-Tsing, Agricultural Credit on Taiwan, Research Department, Land Bank of Taiwan, March 1960, p. 33 (in Chinese); and "Loan Statistics of Agricultural Credit Institutions in Taiwan," published quarterly by the Farmers Bank of China.

VIETNAM

by:
USAID/Vietnam

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SMALL FARM DEVELOPMENT

AND

CREDIT IN VIETNAM

BACKGROUND

A review of agricultural programs sponsored by GVN/USAID to increase agricultural production and to develop the rural sector indicates much progress has been made; however, the full potential has not been attained and many problems must be resolved before Vietnamese agriculture can be classed other than underdeveloped.

Both the farm populace and GVN have shown their desire to promote agricultural development. Through participation in programs such as livestock improvement and the "Green Revolution", farmers have demonstrated their willingness and capability to modernize their operations and thus increase production, improve their standard of living and contribute to the growth of the national economy.

The GVN has supported agricultural growth by the importation of such agri-inputs as improved breeding stock, feed ingredients, farm equipment, fertilizers and pesticides, increasing the extension, research, veterinary, pest control and other services of the MLRAFAHD to better serve farmers, providing loan funds to the Agricultural Development Bank and purchase of stock in private rural banks. This support has been readily accepted by small farmers and there is every indication that increased support of the same nature would be efficiently and effectively utilized by small farmers to produce food and fiber at an increased rate.

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One of the major problems to be resolved if agriculture is to flourish and reach its full potential is "how to more efficiently use the agricultural resources available or more specifically, how can farmers supplement their own capital resources to more fully utilize their land, water, labor, management, capital goods and other resources." The best answer to this question appears to be "an effective supervised agricultural credit program." This paper cites the sources of credit in Vietnam, the adequacy of credit and some of the credit problems of small farmers.

Agricultural credit availability in Vietnam may be grouped into two broad categories - institutional and non-institutional. Institutional credit is available from commercial banks, the Agricultural Development Bank and Private Rural Banks. However, the commercial banks are neither strategically located or capitalized to serve the rural sector and their agricultural loan portfolio has never reached 1% of their annual lending. The Agricultural Development Bank with the Central office in Saigon and 47 provincial branch banks and the 35 private rural banks are, therefore, the only meaningful sources of institutional agricultural credit. Non-institutional credit is available from friends, relations, business-men, professional money lenders, etc.

It is the mission's policy to support institutional credit.

Farmers and fishermen throughout Vietnam use a large amount of credit from non-institutional sources and pay an annual rate of interest ranging from 40-200%. It is sometimes difficult to calculate the actual rate of interest because the money lender may make several small cash advances throughout the crop growing season or he may furnish part of the credit as supplies; however, the interest is calculated over the entire year although the farmer only has the use of some of it for a short time. Frequently, money lenders do not supply sufficient credit to complete the cropping cycle and just before harvest time when the farmer's need is greatest and his bargaining position is poorest the money lender offers to buy the crop, he makes a low estimate of the crop yield and price. This way he benefits at the expense of the farmer from the interest on his money, a low unit price for the paddy and a larger crop volume, particularly if improved practices were used. As might be expected this type of credit is an inhibiting factor in getting farmers to change from traditional to improved methods of farming since it is more costly to use the additional inputs and because they benefit little, if any, from the higher yields.

Improved farming operations require improved genetic stocks of livestock, poultry, and crop seeds, nutritionally balanced, high protein feeds, animal health products, fertilizer, pesticides, and other modern production inputs. The cost of these inputs is usually in excess of the operator's own capital resources and he is reluctant to use credit for the purchase of these inputs unless he is assured that they can be used profitably. Thus, we feel that a program of supervisory assistance that will provide the what, when and where answers regarding the proper use of these inputs are very important and this is one aspect of the program which we feel needs greater emphasis in the future.

The small farmers of Vietnam have demonstrated a willingness to adopt modern adapted agricultural production practices but one of the most serious problems faced by them is obtaining the capital needed to implement this more intensive and costly type of farming operation.

The Agricultural Development Bank and private rural banks are trying to meet this credit need by making loans to operators of small farming and fishing units at equitable rates and terms to modernize their operations. The 1971 ADBV Annual Report shows the following crops and equipment were financed with ADBV loans:

Crops:

- 269,238 ha rice
- 12,227 ha secondary crops
- 3,269 ha orchard
- 555 ha sugar cane
- 49 ha coffee
- 2,500,000 kg of pond fish
- 5,000,000 liters of fish sauce

Equipment:

- 1,917 tractors and tiller
- 2,898 water pumps
- 193 rice mills
- 486 sprayers
- 5 tea rollers
- 4 flour mills
- 943 marine engines
- 3,186 fishing boats

This is only a partial list but indicates the range and diversity of lending activities. It should be noted that about 90% of the 269,238 hectares of paddy financed was for improved rice varieties and that a number of loans also were made for improved swine and poultry programs. Bank records indicate that each unit of credit supplied for production purposes has produced two units of increased agricultural production.

The ADBV recognizes the need for short, medium and long term credit and are attempting to provide credit both in the amount and on the terms needed to maximize farm production. Each year the ratio of medium and long term credit has increased and it is expected that about 10% of the total credit advanced in 1972 will be for medium and long-term development purposes.

GENERAL COMMENTS

The Director General of the Agricultural Development Bank has continuously urged his provincial bank staffs to reach more small farmers and to make every effort to increase loan fund availability through deposits and savings. The number of farm families receiving credit has increased steadily from 69,704 families in 1969 to 170,611 in 1971. It is interesting to note that 50% of the families receiving credit in 1971 were "first time" borrowers. It should also be cited that approximately 198,000 families (about 1,000,000 people) will have benefited from ADB credit in CY 1972.

Accounting methods currently used by ADB does not identify extension of maturity dates of loans or prepayments; however, it appears the loan capital recovery is at least 96%.

Bank officials are proud of their record but are not complacent. Future plans which are ambitious but attainable include:

1. Obtaining more funds to loan to small farmers through bank loans from international lending agencies, sale of bonds, discounting with commercial or private banks, and from deposits and savings.

2. Doubling the loan volume by 1975.

3. Adjusting interest rates (paid and charged) as economic conditions warrant.

4. Providing improved services to farmers - credit counseling, technical, supervisory service, etc.

5. Developing the capability to process and service long term loans.

MALAYSIA

by:
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Robert G. Hoover
Bank Pertanian Malaysia

Kuala Lumpur
September, 1972

INTRODUCTION

THE AGRICULTURAL CREDIT SYSTEM

1. Malaysia is not unlike other developing countries with respect to agricultural credit and the smallholder. The plight of the smallholder is recognized and an earnest desire exists to improve his lot. Credit has been proposed in many instances as the answer to the smallholders problem. But quite generally, the lack of credit has been only one of his problems. Consequently credit schemes have not been as effective or successful as they would have been if other essential factors for profitable farm operation would have been resolved first, or at least concurrently.

2. Aggragate data on credit used by agriculture in Malaysia is generally unavailable except for certain institutional lenders. The sometimes sketchy data, however, reveal a rather typical pattern for developing countries. The majority of farmers use some form of credit. The principal source, at least in numbers of loans, has been the money lenders or middlemen in their various forms. Commercial banks generally are not involved with the smallholders but do serve the large estate sector. The Cooperative approach to credit has been tried but with quite limited success. Various small scale governmental efforts have been tried, also with varying degrees of success. The most recent effort in dealing with credit needs of agriculture has been the creation of Bank Pertanian Malaysia (Agricultural Bank) with substantial funding and a broad range of authorized lending activities.

3. Non-institutional sources of credit in Malaysia, as elsewhere, takes many forms. In two individual studies in separate states conducted in 1965-66, provision shops were a principal source of credit. They accounted for nearly two-thirds of the average amount of borrowing per farm. Nearly all such credit was dispensed in "kind" rather than cash. Relatives, pawn shops, padi dealers, machine shops and friends share more or less equally in an additional one-fourth of the average amount borrowed. Cooperatives, Government and other types of shops accounted for the balance.

4. Among institutional lenders, there are 37 commercial banks in Malaysia operating a total of 343 banking offices. They have about M$278 million or 11% of their total loans in primary agriculture. Probably about three-fourths of this amount is for tree crops and forestry. Virtually all of this amount would be in the estate sector. Risks involved in financing the smallholder are greater than normally acceptable to commercial banks. Despite the considerable number of branches, physical facilities are inadequate for servicing the rural areas. Specialized agricultural credit expertise has not yet been

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widely developed. Profitability, especially of the shorter term loans, is not attractive. The relatively short term nature of their deposits is not suitable for the longer maturity needs of many other farm loans.

5. Bank Negara (the Central Bank) is urging greater participation in the rural areas by commercial banks, and some response has been indicated. Major expansion in the smallholder sector may likely be slow, however, because of the institutional factors that have been cited. Bank Negara has also taken an active interest in other ways regarding farm credit. It is receptive to offering discounting facilities where appropriate. It also played a major role in various developments which led to formation of Bank Pertanian.

6. Bank Kerjasama (Cooperative Bank) has had a long experience in extending agricultural credit through cooperative societies, with somewhat limited success. Total loan outstanding amounted to about M$9.2 million at the end of 1971. Effectiveness has been limited by lack of efficient management to plan and carry out credit operations, particularly at the local society level. Coverage has been limited to cooperative members, a relatively small percentage of the nations farmers.

7. Several finance companies have been a significant source of hire-purchase funds for tractors and lorries in the agricultural sector. They work primarily through dealers rather than directly with farmers. Data is not readily available on their loans outstanding for agriculture but it is probably in excess of M$3 million.

8. The Federal Land Development Authority, while not a credit agency per se, is nonetheless, a major provider of farm credit. Loans outstanding to settlers for land development and settlement amounted to over M$300 million at the end of 1971.

9. Numerous other Governmental agencies have evolved in years past either for lending to farmers or with agricultural credit as a major function. Their effectiveness and level of current activity varies. Among these are various state development corporations, various state padi planters boards, MARA (Council of trust for indigenous people of Malaya), the Federal Land Consolidation and Rehabilitation Authority and others.

10. A number of States have established Padi Planters Boards. Among the more active, and therefore not representative, is the Kedah Padi Planters Board established in 1955. Its initial purpose was to give loans for land redemption. Loan outstandings amounted to about M$4 million at the end of 1970. Several other states have smaller operations. Limited growth and repayment problems have been typical with these several boards.

11. Two finance corporations were established during the 1950's by the two State Governments of East Malaysia for the purpose of providing rural credit. They are relatively limited in size and at least one is facing rather substantial loan repayment difficulties.

12. Various State Economic Development Corporation are engaged in agricultural project which may have an agricultural credit component. MARA has also engaged in some direct farm loans but has largely withdrawn from this field in favor of Bank Pertanian. The farmers associations are legally authorized to engage in farm credit activities and many are so involved. Numerous other small special purpose credit schemes have also been introduced from time to time by other Government agencies and State Governments.

13. Bank Pertanian Malaysia is the newest and most ambitious effort to deal with the agricultural credit problems of Malaysia. Its scope of authority is sufficiently broad to cover every type of legitimate agricultural credit need. This includes fisheries, forestry and agro-based industries in addition to crops and livestock. It started business on 1 January, 1970. After a period of establishing a foundation of policies and procedures, the Bank is now pushing ahead rapidly. During its first 2½ years of operation it made about 18,000 loans, mostly to small padi farmers. Outstandings in mid-1972 amounted to M$7.2 million with more than twenty times this amount under active investigation.

INDONESIA

By:
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December, 1972

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RURAL CREDIT IN INDONESIA - THE BIMAS PROGRAM

The Indonesian First Five Year Development Plan (1970-74) aims to promote the living standards of the majority of the people, while at the same time laying the firm foundation for national development. This will be done in several stages. In the first stage, the focus will be on agricultural development, especially the meeting of the people's need for food (mainly rice).

The agricultural sector is the largest sector in the Indonesian economy. It accounts for about 55% of Indonesia's Gross National Product and 75% of its employment. In addition, it is an important source of foreign exchange providing more than 60% of Indonesia's exports. As the largest and most important sector in the Indonesian economy, it is the foundation for all development efforts.

The promotion of agriculture, and especially food production, will have a great effect on Indonesia's growth. Greater production should mean more stable prices which will add to overall economic stability, which is a prerequisite to rapid development. Increases in agricultural yields will also stimulate the processing industries, such as hulling, rice milling, crumb rubber manufacture, and wood and paper industries. Other sectors of the economy also support and stimulate the agricultural sector and are in turn stimulated by it.

Farmers, however, are experiencing considerable difficulties because their land holdings are small and they lack technical and managerial skills, as well as capital. These cultivators are likely to be hesitant about participating in a development program that does not provide training and capital. The Bimas program, which provides education to the farmers through the extension or guidance programs as well as production loans, helps meet these needs. While both these elements have existed for some time in Indonesian programs, they have not been provided simultaneously. Information and agricultural loan programs, both of which existed even prior to World War II, have both been modified to take changing conditions into account.

Bank loans can play an important part in the field of agricultural development, but the Bank cannot by itself solve the economic and social problems of the cultivator. In helping to build a more effective agricultural structure, the Bank needs both business and Government stability as well as cooperation among other Governmental agencies and institutes which deal with agricultural problems.

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Agricultural Loan Policy of the BRI

The Bank Rakjat Indonesia (BRI) provides agricultural credits for the production, processing and selling of agricultural products, along with aid for cultivators in such areas as animal husbandry and small vegetable trade, which are pursued mainly when there is no work in the rice fields. Investment credits are necessary for the purchase of farm tools (hoes, tractors, sprayers, etc.), along with equipment for processing (hullers, corn mills), and marketing (trucks, scales, warehouses).

Problems of Agricultural Credit

In implementing loans in the agricultural field, a number of problems must be considered. In Indonesia the clients for rural loans are generally small cultivators with a limited capacity to use capital, but together they form a huge market. In order to deal with them, it is necessary to have efficient systems of lending, organization and administration. The use of village units for channeling of loans under the improved Bimas system has yielded positive results, although further improvements are still needed. The production effort cannot stand on its own, but must be supported by the marketing of the products. The risk element in a rural credit program is significant and, in addition, operational expenditures are high. In order to ameliorate this problems, it is necessary to have a system of dividing the risks between the Bank and the Government.

Bimas Loan

1. Bimas Loan

The problem of increasing rice production has been a priority Indonesian concern since World War II. At the present time, the problem is how to increase the domestic yield in order to keep up with the ever increasing demand; carry out rice purchasing and marketing in such a way to prevent price drops during the harvesting period and increases during the scarce period; and avoid the great price differentials between regions which can disturb the distribution of rice throughout Indonesia.

During the implementation of the first five year development plan, emphasis is being directed toward agricultural development, with first priority given to meeting the demands for food, particularly rice. Efforts are being made to increase the paddy yield from 10.5 million tons in 1969/70 to 15.4 million tons in 1973/74, a 47.3% increase in yields over a five year period.

In order to achieve this target, efforts have been and are being made to expand the agricultural land, particularly through more intensive use of already cultivated land. This intensification program is being implemented by the application of the so-called "panca usaha" (five efforts: utilization of manufactured fertilizer, use of insecticides, use of improved seeds, improvement of irrigation, and better method of planting, i.e. improvement in plant technology).

The area covered by the intensification program was about 2,500,000 hectares in 1969/70 and is expected to be broadened to 4,000,000 hectares in 1973/74. It is expected that the average yield of milled rice per hectare can be increased through the intensifcation program from 1.38 tons per hectare in 1969/70 to 1.66 tons of rice per hectare in 1973/74 -- an increase in yield amounting to 20.3% per hectare during the five year period. The raising of yields, and the consequent growth in the living standards of the cultivators, must be carried out primarily by the cultivators themselves, although outside assistance is being provided.

To achieve these aims, the Bimas ("mass guidance") was implemented in 1965, following a preliminary pilot project in 1963, which was followed with the mass demonstration in 1964/65.

Bimas is a mass system of information dissemination being implemented by several governmental institutes and agencies. The term "mass" refers to the fact that Bimas covers a large wet paddy area and involves a large number of cultivators using a large number of tools. The Bimas program has taken several forms over the years: Group Bimas, where emphasis is on a great deal of cooperative organization; Bimas Gotong Royong, where foreign contractors help supply the means of production; and Improved Bimas, which has improved the provision of service to the cultivators. Under Improved Bimas, there has been progress, particularly in the areas of training and demonstration to enable the cultivators to apply the "five efforts" and utilize modern technology; loan organization and procedure enabling the cultivator to receive the loans more quickly, easily and inexpensively; distribution of means of production to the cultivators; and in the system of purchasing, processing and harvesting to enable the cultivator to receive a reasonable profit and price. It is anticipated that such improvements will increase the cultivator's yields and incomes and enable them easily to turn over their loans.

2. Bimas Loan

The Bank of Indonesia catagorizes loans into four groups:

Group I - 12% per year. Loans in the fields of fertilizer import and distribution and for special areas such as Bimas (rice).

Group II - 15-18% per year. Loans in the field of poultry farming, crude rubber production and export of Java tobacco.

Group III - 21-24% per year. Loans in the fields of export products and for the distribution of the nine basic commodities, agricultural products, animal husbandry, fisheries, industries and public transportation.

Group IV - 25-36% per year. Loans in the fields of trade and other distribution activities not covered in Groups I through III.

As a bank operating in the rural sector, the BRI has the volume of its loans divided as follows: Group I - 10%, Group II - 10%, Group III - 45% and Group IV - 35%. However, it has been difficult for BRI to divide its loans in this way, particularly because loans in the agricultural field involve a greater risk than other loans due to natural catastrophes such as floods and problems such as pests. Because of this, and particularly in the area of Group III, BRI receives a liquidity loan with an interest of 5% from the Bank Indonesia as well as part of the loan for Groups II and III which include the fields of fisheries, animal husbandry, crafts and small industries.

In order to help the cultivators participating in the Bimas program, BRI provides them with a special loan with a 1% a month interest rate. This is helped by a liquidity loan of the Bank Indonesia with a 1/4% a month interest rate. The Bimas loan is given in the form of a parcel containing the means of production such as fertilizer, seeds and insecticide, along with cash to help the farmers during the pre-harvest period. This loan parcel, which forms the cultivator's input, is worth 1/5 to 1/3 of his estimated output. This is why the period of the loan is fixed at one month after the harvest or seven months at the most because the Bimas loan must be turned over (repaid) with the cultivation profits. Like general loans, the Bimas loans must be sufficiently guaranteed. However, since this is a mass program, this presents special problems.

3. Bank Apparatus

The BRI is a Government Bank which follows the Branch Banking System. Therefore, all of its loans, including the Bimas loans, are given out through its branches. It is very difficult for the BRI to distribute the Bimas loans, which involve thousands of cultivators and thousands of hectares of wet field because its branches are limited to the District towns. At the present time, there are only 219 branches. Therefore, in the first Bimas program the loan was distributed to the participating cultivators through agricultural cooperatives (group system).

This method of loan distribution and repayment did not run well, owing partly to the cultivator's lack of experience with cooperatives and the dishonesty of some of the cooperative's leaders. These problems continued under the Bimas Gotong Royang program, and it was therefore necessary to find other means for distribution of the Bimas loans.

To help meet this problem, rural Bank units, later called village units, were established. Initially, on an experimental basis, the credit was directly delivered to the cultivators through the village units (personal approach). This type of loan distribution was later known as "improved Bimas" (Bimas Yang disempurnakan) and was carried out in the region of Jogyakarta during the 1969/70 and 1970 cultivation season. Due to it success, the experiment was expanded to other regions of outer Jogyakarta in the 1970/71 season, and the number of village units was expanded to 538. With the continued success of the program, the number of village units in the 1971/72 season increased to 1047 (including some in the outer regions of Java) and to 1300 in the 1972/73 season. The improvement in loan realization since the implementation of the first Bimas program is shown below:

BIMAS Cultivation Season	Realization of Loan Rp.	Balance of Loan Rp.	Balance of Loan %	Report
C.S. 1965/1966	$ 102.067	$ 5.552	5.44	Nov. 67 *)
C.S. 1967/1968	2,150.959	535.334	24.89	Apr. 70
C.S. Dry 1968	2,494.839	1,291.067	51.75	Oct. 70
C.S. 1968/1969	5,309.904	2,585.199	48.69	Apr. 71
C.S. Dry 1969	477.343	279.181	58.49	Oct. 71
C.S. 1969/1970	1,647.633	783.772	47.57	Apr. 72
C.S. Dry 1970	335.319	94.418	28.15	Jun. 72 **)
Gotong Royong (COL) 1969/1970	1,002.960	479.887	47.85	Apr. 72
Gotong Royong (COL) C.S. Dry 1970	265.561	133.916	50.43	Jun. 72**)
Improved Pilot Project C.S. 1969/1970	195.084	3.783	1.90	April 72
Improved Pilot Project C.S. Dry 1970	146.588	4.200	2.87	Jun. 72**)
Improved Bimas C.S. 1970/1971	20.285.609	2,582.978	10.33	Jun. 72
Improved Bimas C.S. 1971/1972	17,501.563	11,505.414	65.79	Jun. 72***)

*) Not yet 4 seasons = latest report available

**) Not yet 4 seasons = latest report

***) Period has not come yet come

Source of data: Loan Report of BRI BIMAS

(Rp. 417 = $1)

The above figures show that loan turnover under the Improved Bimas program through the village units have been improving. This is believed to result from several factor . The cultivators feel that they are receiving better service because they can acquire the loan promptly and not have to go to the town where the BRI branch is located. Also, the cultivators now have direct contact with the bank (in the form of the village units) and feel responsible for the loan they have received. Finally, the bank teller who stays in the village can participate in the implementation of the Bimas and know the condition of the crop and the harvest time.

Despite the success achieved in loan turnovers, the cost of establishing and running the village units is very high. Supplies must be purchased and at least three people, a credit examiner, a cashier and a bookeeper/administrator, must be hired. For the time being these people are being given part-time jobs, with the monthly wages sufficient to cover their needs at the village living standard. In order for the village units to meet their expenditures, it is felt that they must expand their activities to other areas of rural credit such as livestock, fisheries and small village handicrafts. It is estimated that it will take about three years for a village unit to increase its activities so as to meet its expenses.

Since the village unit will be encompassing more activities, a number of criteria have been set up for their establishment. They are (1) the village unit must cover an area of 600 to 1,000 hectares on Java or 1500 to 2000 hectares on the outer islands (about 5-6 villages), (2) the area has a good yield potential, (3) the area has a good infrastructure network and (4) there is a real willingness to work by the people themselves.

Government assistance during this three year transition period is very much needed. This is believed justified because the village units Bimas program are part of the developmental effort. Incidentally, the establishment of 1300 village units means employment for 3900 people, which provides some improvement of the unemployment problem.

In the areas where village units have not, or cannot, be set up, BRI mobile units are being used. About 200 units are now in use. They have the advantage of being able to serve a wider area than the village unit due to their greater mobility.

4. Result of Bimas Project

The Bimas project has made a great contribution to development in the field of agriculture. The increase in rice yields has resulted in greater stability in rice prices and resultant general economic stability. (Editor's note: This paper was prepared before the current rice crisis.) The increase in rice yield will also bring an increase in the income of the small farmer. Another result of the program is increased employment in the fields of agricultural extension, banking, fertilizer, and processing and marketing of yields. The successes of the rice Bimas program are a recommendation for similar programs for other food crops. This year a Bimas pilot project for several secondary crops such as corn, ground nuts and soybeans is being conducted, while a pilot Bimas poultry farming project is being implemented.

Conclusion

In attempting to accelerate agricultural development in Indonesia, and particularly in raising the food (particularly rice) yield, it is necessary to provide loan facilities so that the cultivators, who are mostly poor, can be induced to recognize and apply the new technology. A rural loan must be treated carefully. It is being provided not only for the promotion of greater yields, but also for the improvement of the socio-economic status of the cultivators and small employers. Based upon its experience in Bimas and other programs, the Bank realizes that it cannot carry out such programs on its own. As a business, it cannot be responsible for the risks, high operational costs and losses. Help from other agencies are needed. Improvement and expansion into others areas such as fisheries, animal husbandry and smallholder plantations are also necessary.

The balance of the BRI credit shows in what areas it is currently being utilized.

Balance of BRI credit per economic sector.

Category		
BIMAS	$ 23.9 million	(16.64%)
Livestock	1.0 million	(0.70%)
Fishery	2.2 million	(1.51%)
Other farming	46.6 million	(32.45%)
Industries	14.6 million	(10.18%)
Export	4.3 million	(2.96%)
Trade	24.8 million	(17.27%)
Services	7.6 million	(5.30%)
Investment	16.6 million	(11.59%)
Others	2.0 million	(1.40%)
TOTAL	$ 143.6 million	(100%)

(Exchange Rate: Rp. 417 = U.S. $1.00)

Source of data: Report of the Statistics of BRI Credit, Dec. 1971

In order to go into new fields, it will be necessary for BRI to solve the problem of liquidity capital availability. It will also be necessary to have coordination in rural credit distribution. The BRI is pleased at the assistance they have received from the World Bank, the Asian Development Bank and other domestic and foreign institutions.

If the present credit apparatus operating through the village units can be successful, the prospects of agricultural development and the development of the Indonesian community in general are bright.

THAILAND

by:

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USAID/Thailand

Bangkok
December, 1972

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Introduction

Thailand's rural credit system is composed of private, commercial and institutional credit structures. The private and commercial lenders operate within the "free capital market" and extend credit on an arbitrary non-institutional basis. This category usually includes private money lenders, shopkeepers, mill-owners, neighbors and friends or family members. The institutional credit system includes lenders who are legally organized in the form of a bank, corporation, association, or cooperative, and who follow certain acknowledged business rules, have a limited or unlimited liability and are, at least to some extent, under the guidance of the government. Credit activities of the government itself which are administered through public institutions are included in this category.

Historically, the role of the institutional credit system in rural Thailand has been quantitatively limited. Private lenders, primarily relatives and neighbors, have provided most credit. At present, estimates of yearly rural credit needs for all purposes range from $500 to $600 million (27, 45). Approximately fifty percent of total rural credit continues to originate with relatives and neighbors (9, 29, 45). An additional forty percent is provided through the commercial system with local store owners and crop buyers contributing the largest shares. Institutional sources lend the remaining five to ten percent. The IBRD estimated that the probable minimum size of total production credit extended in 1970 was US $ 230 million (55). Of this, institutional credit sources contributed $ 43 million or about 18%. (By value, institutional credit accounted for 5% of production credit in 1962.) In 1970, institutional credit affected approximately seven (7) percent of Thailand's 4.3 million farm families (55).

The institutional credit system in Thailand is very complex. Two of its main characteristics are multiple outlets from which credit is extended and a large number of sources from which credit is drawn. the major sources of loanable funds for institutional lenders include the Ministry of Finance, the Bank of Thailand (Central Bank), the commercial banks, and the Royal Thailand Government (RTG) Budget. The Ministry of Finance provides the Bank for Agriculture and Agricultural Cooperatives (BAAC) with funds through the purchase of capital shares. The Bank of Thailand became involved in providing resources to the agricultural credit system in 1967 when amendments to the Bank's Regulating Decree made it possible for banks to rediscount promissory notes arising out of transactions in agriculture and other agriculturally related activities. Several of the commercial banks use their loanable funds to provide agricultural credit. Finally, the RTG annually provides limited funds to various governmental agencies for extending agricultural credit.

The institutions from which agricultural credit is extended to farmers include the BAAC, the commercial banks, the cooperatives and RTG supervised farmers associations. The BAAC provides agricultural credit both to individual clients and to agricultural cooperatives and farmers groups. The BAAC's share of the aggregate institutional agricultural credit through loans to individual farmers grew from $5.8 million (32% of

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the total) in 1966 to $27.1 million (64% of the total) in 1970. The BAAC loaned to 190,000 individual borrowers in 1970 which represented 65% of all farmers receiving institutional credit. The commercial banks dispersed $5.4 million in agricultural credit during 1970 (13% of the total). This amount represented a $ 1 million decrease from 1969. Cooperative loans accounted for 78% of agricultural credit ($ 6 million) in 1966. In 1970 cooperative dispersals were 21% ($ 9 million) of total institutional credit. The RTG sponsored farmers associations contribution to credit in 1970 was $ .6 million.

Small farmers in Thailand do not consist of any homogenous or easily identifiable group. For purposes of the USAID Spring Review on Small Farmer Credit, the term "small farmers" will be applied to operators of family sized farming units whose income and farm size is below the average for the region in which they reside. A general comparison of the BAAC client and the typical Thai farmer is presented below.

The agricultural census of 1963 indicated that one quarter of Thailand's farms were smaller than 1 hectare (6.25 rai) and that 75% of farm operations were smaller than 5 hectares. Five percent of land holdings were larger than 10 hectares. A Ministry of Agriculture study in 1970 placed the average farm size at 3.4 hectares. By region, the average rice land per family in 1967 was 3.88 hectares in the Central Plains, 2.58 hectares in the Northeast, 2.16 hectares in the North and 1.46 hectares in the South (41). By comparison, the BAAC client farm averages more than 5 hectares. Less than 20% of the BAAC clients in each region operate farms smaller than the average for that area.

Rural incomes in Thailand are very low. The National Statistical Office's 1968-1969 Household Expenditure Study shows the following average annual rural cash household income by region: $ 626 in the central plains; $ 267 in the northeast; $ 362 in the north and $ 355 in the south. By comparison a small USOM sample found that BAAC client rural cash income is: $894 in the central plains; $720 in the northeast; $467 in the north and $678 in the south. Again, substantially fewer than 20% of the clients received cash incomes which were less than the regional average. The average cash income of the poorest 50% of farmers is substantially lower, especially if a comparative analysis is made between the 1962/63 and 1968/69 Household Surveys (See Table 1).

SUMMARY

The Bank for Agriculture and Agricultural Cooperatives(BAAC) was established by government decree in 1966. The BAAC took over the agricultural cooperative lending activities of the former Bank of Cooperatives and also instituted a direct credit program for individual farmers. The analysis in this paper focuses on the BAAC's individual farmer credit program which, by value of loans extended, accounted for 75% of the Bank's operations in 1971.

The BAAC's farmer loan program expanded rapidly after 1966. By the end of 1971, 58 branch banks staffed by 1,893 field personnel were in operation and had registered 262,089 farmer clients eligible to receive short, medium, and long term loans. In 1971 the BAAC dispersed 308,903 loans valued at $24.4 million to 214,934 individual borrowers. The BAAC's repayment rate deteriorated in 1970 and 1971. At the end of 1971 the level of the Bank's authorized arrears (delinquent loans which are refinanced) by both number and volume were 38% of the outstanding principle. Only four percent of the loans by volume and five percent by number were defaulted.

The BAAC has used a system of informal joint liability groupings in rural areas to simplify collateral requirements, help decrease administrative supervisory costs, and increase repayments. The Bank is currently experimenting with new program ideas and techniques in order to improve both its farmer services and its financial standing. These include the initiation of a long term farm development loan program, a credit program to assist in marketing produce, and an intensified credit supervision program.

THE PHILLIPPINES

by:
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The Agricultural Executives, Inc

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Manila
October, 1972

Note

Peso conversion presents some problems because of devaluation. To present converted figures at official exchange rate at any given time in past few years would distort reality. Labor and other local costs have only gradually risen since devaluation while fertilizers and other inputs which could have been expected to rise rapidly, have been subjected to price controls. A dollar conversion will make it appear that small farmer loan availabilities declined in the 1970-71 period when in fact they increased. Similarly, dollar conversion would show a decline in pesticide use in 1970 and moderate increase in 1971 when both years are reported to have shown marked increases in usage.

The credit trends appear to us to be more accurately represented in the peso figures than they would be by actual dollar equivalents at the prevailing exchange rates. In order to express these trends in dollars, it might be best to simply convert pesos at the current exchange rate.

Approximate exchange rates are as follows: To February 1962--₱2.00:$1.00; February '62 to Feb. '70--₱3.60:$1.00; subsequently the peso was allowed to float and currently has stabilized around P6.70:$1.00.

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SMALL FARMER CREDIT IN THE PHILIPPINES[1]

Next to Japan and Taiwan, the amount of institutional credit supplied to agriculture on a per hectare basis in the Philippines is the highest in Asia.[2] A few years back, a credit and cooperative marketing scheme initiated to alleviate the credit situation in the rural areas gained widespread attention. Recently, the successful rural banking system of the country has been used as a pattern for similar schemes in other developing countries.

Philippine Agricultural Credit System

The Philippine agricultural credit system is predominantly in the hands of the private sector. About two-thirds of all credit accommodations for agricultural production and a sizeable proportion of agricultural marketing loans were supplied by private institutions. On the other hand, government financial agencies have been organized for specific purposes which in turn supplies the balance of total credits made available to agriculture.

Although the agricultural credit system is predominantly in the hands of the private sector, the government exercises strict supervision of all financial institutions through the Central Bank of the Philippines. Control measures are aimed at regulating the volume and nature of credit generated by these institutions. Rules are also designed to sustain the confidence of the public on the banking system.

Almost all financing institutions serve agriculture as a part of a broader based credit operation. There are only two institutions which operate primarily in the rural areas and cater to the needs of small farmers.

The financial institutions serving agriculture and their corresponding contributions to total credit volumes (1966-1971) are as follows:[3]

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[1] This paper was prepared by Dr. Orlando J. Sacay for the Spring Review of Small Farmer Credit sponsored by the United States Agency for International Development.

[2] Shigeru Ishikawa, Agricultural Development Strategies in Asia, (The Asian Development Bank, 1970), p. 43.

[3] For details, refer to Tables 1 and 2.

Government Agencies	Percent of Production Credit	Percent of Marketing Credit
1) Development Bank of the Philippines	3.7	1.2
2) Philippine National Bank	25.8	11.2
3) Agricultural Credit Administration	1.1	0.5
Subtotal	30.6	12.9
Private Institutions		
4) Commercial Banks	46.7	87.1
5) Private Development Banks	1.5	-
6) Rural Banks	20.3	-
7) Savings Banks and other Non-banks	0.9	-
Subtotal	69.4	87.1
Total	100.0	100.0

Development Bank of the Philippines

The Development Bank of the Philippines, a government-owned and controlled corporation, with 26 branches and 29 agencies, is the leading development and long-term financing institution in the country today. Its guiding philosophy is industrialization and the corollary diversification of the pattern of exports. Promotion of the establishment of private development banks in the provinces and cities has become an added function.

Of the total value of approved loans during 1965-71, 21.6 per cent were for agriculture. However, due to the precarious financial position of the bank, actual releases declined from 22 per cent in 1967 to only 5 per cent in 1971.[4/] This unfavorable development was brought about by a considerable drain in loanable funds to large advances on guarantees made by the bank on foreign loans.

Agricultural Loans. Agricultural loans may be classified as ordinary (straight) or special. Special loans are loans which are granted through a special

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[4/] Melisa Agabin and Verden C. Dangilan, "Development Bank of the Philippines," Agricultural Credit Report, April 15, 1972, Table 2 and 3.

financing program, of which there are 30. Priority for the granting of loans under these has been given in the financing of rice, coconut, and livestock production.

Small loans constitute 78 per cent of the number of agricultural loans and 24 per cent of the value of loans approved from 1965-66 to 1969-70. These loans averaged ₱2,210 while loans over ₱5,000 averaged ₱42,430.5/ The strict collateral requirements precludes tenants and lessees from using the loaning facilities of the bank. It is in no way a small farmers' bank.

The Philippine National Bank

The Philippine National Bank with 142 branches and agencies is the oldest government credit institution. Assuming a wide range of activities in the past, this agency has finally settled to perform a commercial banking function. It grants mainly short-term loans although it holds equity in an investment and development corporation and was drawn into guaranteeing foreign long-term loans to build sugar centrals.

The bank has also been used to finance government corporations engaged in price stabilization. Past due loans from government corporations, which have little chances of recovery, constitute two-thirds of the total past due loans comprising 34.4 per cent of loans outstanding. The bank now suffers from a liquidity problem as a result of overextending its financial resources.

Financing for the Sugar Industry. About 30 per cent of PNB loans during the past 5 years (1967-71) went to agriculture. Of this volume, 78 per cent went to financing sugar producers. The share of sugar, however, has been increasing. In 1971, 93 per cent of all agricultural loans went to sugar production.6/ This high percentage is caused by the necessity faced by the PNB to protect its guarantees on foreign loans for the construction of sugar centrals.

6/Manuel Soliven, "The Philippine National Bank," Agricultural Credit Report, April 15, 1972, Appendices D and E.

The PNB is by no means a small farmers' bank. Production loans are primarily secured by real estate. While there are no available statistics on loan recepients, the average size loan of ₱4,166, as compared to DBP's ₱6,950 average, is indicative that borrowers are the relatively larger farmers.

Agricultural Credit Administration

The Agricultural Credit Administration is the only government agency exclusively preoccupied with serving the needs of small farmers. Funds are continuously pumped into the system with direct government appropriations. Its operation is not financially viable due to its perpetually poor collection performance.

Once responsible to promote the organization of farmers' cooperative marketing associations, its powers have been trimmed to registration and financing of cooperatives. Loans to farmers are extended through 295 agricultural cooperatives which have remained active out of 668 previously organized.

Lending Operation. ACA's lending operation has kept many of these cooperatives alive. A major source of income is the cooperative's share of interest payments discounted in advance and also spent for operation before these are even collected from farmers.

Of the loans granted during the past 6 years (1966-71), 72 per cent were extended to farmers to finance production.[7] The rest were loans for marketing purposes granted to farmers and cooperatives.

Loans are extended to small farmers on a non-collateral basis. The average size during the past 6 years was ₱618. It is held certain that the loan recepients of ACA belong to the lowest stratum of farmers.

Commercial Banks

Private commercial banks numbering 37 and operating 426 branches in the country supply a major portion of total credit available to agriculture,

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[7] C.S. Sarmago, "The Agricultural Credit Administration," Agricultural Credit Report, April 15, 1972, Table 3 and 6.

especially for marketing purposes. However, accommodations to agriculture is only a minor part of their operation, representing only 6 per cent of total credits granted.[8]

Commercial banks normally keep credit to agriculture at the minimum. Commercial banks derive their income from short-gestation low-risk repetitive transactions with credit-tested permanent clientele. This income opportunity cannot be offered by high-risk agricultural loans and those with a long-term turnover.

Agricultural loans are generally limited to post-harvest activities and relatively stable agro-industrial enterprises. This set-up necessarily shuts off the loan windows of commercial banks to small farmers.

Rural Banks

The rural banking system supplies the main bulk of credit to small farmers. Although privately owned, rural banks draw heavy financial support from the Central Bank in addition to assistance they receive in the training of their officers and employees. Initial paid-up capital is matched on a peso-for-peso basis. The rediscounting window of the Central Bank is wide open to rural banks at preferred rates of interest.

There are 539 such banks, not only a few are family-owned. The system, to a certain extent, has chanelled landlord capital into the banking business, a development considered favorable to effecting meaningful land reform.

Almost 90 per cent of loans were chanelled to agriculture in 1971. About 97 per cent of agricultural loans were short-term loans for production. A significant proportion (42 per cent) of these loans financed rice growing. The average agricultural loan granted by the rural banks for the period 1966-71 was ₱1,085, an amount somewhat larger than ACA loans although significantly below the DBP and PNB averages.[9]

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[8] W. Geonzon, "Private Commercial Banks," Agricultural Credit Report, April 15, 1972, p. 16.

[9] Zosimo Q. Topacio, Jr., "The Rural Banking System," Agricultural Credit Report, April 15, 1972, Appendix A.

Some emphasis has also been placed on coconut (15 per cent) and livestock (13 per cent) production.[10]

With the financial assistance they receive, rural banks are able to carry on a viable banking operation on the basis of small loans. The cost of lending in 1971 averaged 7.8 per cent, 4.9 per cent representing administrative costs and 2.9 per cent being the cost of money. Repayment too has been good, with only 2 per cent of outstanding loans under litigation, the amount being almost fully covered by reserves for bad debts. Loans, however, had been well secured, 81 per cent being protected by real estate collateral.[11]

Supervised Credit Scheme. Recognizing the need for rural banks to break away from the traditionally collateral-oriented policies in order to pass on to the lower-rung farmers the financial benefits received by the rural banks, a supervised credit scheme was implemented with the establishment of the Agricultural Guarantee and Loan Fund (AGLF). This program supplied 100 per cent of the funds and assumed 70 per cent of the losses for loans to farmers who had no collateral to offer. However, after 5 years of implementation, the AGLF faced difficulties in expansion. It accounted for hardly 3 per cent of the total agricultural loan volume granted.

Loan Supervision. Loan supervision has been considered a major problem since government technicians were assigned to perform this responsibility. Fortunately, a number of measures have been introduced to offset this. The program has since then been revised to encourage rural banks to hire their own technicians. An Agricultural Loan Fund has replaced the AGLF. From this fund special time deposits earning 3 per cent per annum are placed with rural banks. Loans generated out of this fund can be rediscounted at 3 per cent per annum provided banks hire their own technicians.

To protect rural banks from losses from unsecured loans, the Agricultural Guarantee Fund was established. Recently, the guarantee was raised from 70 per cent to

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[10] Central Bank of the Philippines, Nineteenth Annual Report of the Rural Banking System, Appendix C.

[11] Ibid., Appendix B.

85 per cent in order to further encourage these banks to participate more actively in the supervised credit program. Rural banks are at present also being encouraged to grant loans to groups of farmers who would guarantee each others' loans, an attempt to reduce the cost of loan administration and instill greater social consciousness among farmers in the repayment of loan.

Small Farmer Credit Institutions

Some twenty years ago, there was not a single institution, government or private, which served the credit needs of farm households in the rural areas. Interest rates from unregistered money lenders, the small farmers' most frequent and usually the most available credit source, were usurious. Interest rates of 100 to 200 per cent were not uncommon and social unrest prevailed in highly tenanted areas.

Two credit systems for small farmers were therefore instituted in 1952 to ease the situation; the rural banking system and the Agricultural Credit Administration, then called the Agricultural Credit and Cooperative Financing Administration (ACCFA). The rural banking system has blossomed into a dynamic rural credit institution that it is now. On the other hand, ACCFA was a failure as a credit program because of poor collection. Nonetheless, investment on the ACCFA program was considered by some as a justifiable political cost in quelling on imminent rebellion.

Availability of Credit

While the ACCFA program has somehow managed to at least survive, the rural banking system has slowly but surely gained ground in the rural credit field. The impact of institutional credit in the rural areas may best be illustrated by the average interest rates farmers pay then and now.

A study in 1957/58 in Nueva Ecija showed that the interest rate paid by farming households averaged 52 per cent per annum. Only 9 per cent of loans were obtained from institutional sources. The rest were provided by landlords, private money lenders, merchants and relatives.[12]

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[12] Jose P. Gapud, "Financing Lowland Rice Farming in Selected Barrios of Munoz, Nueva Ecija," Economic Research Journal (Sept. 1969), p. 79.

By 1969/70, another study showed that the average interest rate paid by farming households had declined to 22 per cent. About 27 per cent of households obtained credit from institutional sources.[13/] The interest charged by unregistered sources had also substantially declined, a clear indication that the expanded availability of institutional credit had cut deep into the profits which these unregistered sources used to enjoy.[14/]

While several studies would show varying magnitudes, the fact is that established institutions now supply a significant portion of the credit needs of small farmers and in the process, force non-registered sources to bring down their own credit charges. It is estimated that about 30 per cent of farmer borrowers are reached by institutional sources.[15/]

Inequities

However, in spite of the significant advances attained in supplying credit to farmers, major inequities still remain. The agricultural credit system heavily favors the better off sugar producers.[16/] Furthermore, only about one-fifth of total credits to agriculture are enjoyed by the small farmer category. Considering that small farmers (under 10 hectares) constitute 95 per cent of the total farmer population who till 70 per cent of the existing cultivated farm area, the distribution of credit is indeed inequitable.

This problem is further magnified if the distribution of credit within the small farmer group were examined. It was estimated that farmers with under 3 hectares and who have no collateral to offer share only 1.6 per cent of production credit.[17/] This group constitutes 73 percent of the total farmer population farming 39 per cent of the country's cultivated area.

13/ Institute of Philippine Culture (IPC) - Bureau of Agricultural Economics, "Socio-Economic Study of Nueva Ecija Rice Farmers, CY 1969-70."

14/ Refer to Tables 3 and 4.

15/ Refer to Tables 5 and 6.

16/ Refer to Tables 7, 8 and 9.

17/ Refer to Table 10.

TABLE 1

Loans Granted for Agricultural Production [1/] by Financing Institution, 1966-1971

(million ₱)

Year	1966	1967	1968	1969	1970	1971	TOTAL (1966-71)	%
I. Government [10/]								
1. ACA [2/]	9.1	16.3	23.9	23.4	30.9	32.3	135.9	1.1
2 DBP [3/]	42.1	77.0	135.4	97.7	70.5	24.0	440.7	3.7
a. Prodn. inputs and farm operating expenses	*	38.3	66.8	55.6	*	11.7		
b. Capital assets	*	38.7	68.6	42.1	*	12.3		
3. PNB	409.6	521.7	493.3	482.5	553.0	672.0	3132.3	25.8
Sub-Total	460.8	615.0	652.6	603.6	654.4	728.3	3714.9	30.6
Percent	34.6	35.6	35.5	31.8	26.5	25.3		
II. Private								
4. Commercial Banks [4/]	595.5	736.9	775.8	836.9	1275.4	1451.1 [11/]	5671.6	46.7
5. Private Development Banks [8/] - Total	22.0	38.5	25.0	22.6	30.2	40.0	178.3	1.5
a. Prodn. inputs and farm operating expenses	*	*	4.9	4.1	5.6	5.2		
b. Capital assets	*	*	20.1	18.5	24.6	34.8		
6. Rural Banks - Total	247.5	334.1	377.5	418.7	496.5	606.4 [9/]	2478.6	20.3
a. Prodn. Inputs and farm operating expenses [6/]	247.5	314.8	362.3	409.2	490.0	592.9		
b. Capital Assets [7/]	-	19.8	15.2	7.5	6.4	13.4		
7. Savings Banks	4.6	1.8	2.3	2.3	1.5	0.4	12.9	0.1
8. Non-Bank. Financing Institutions ** [5/]	2.4	2.1	5.1	15.6	22.2	53.5	100.9	0.8
Sub-Total	872.0	1113.4	1185.7	1294.1	1825.8	2151.4	8442.2	69.4
Percent	65.4	64.4	64.5	68.2	73.6	74.7		
GRAND TOTAL	1332.8	1728.4	1838.3	1897.7	2480.2	2879.7	12157.1	100.0

* Breakdown not available.

1/ Generally includes short-term input and longer term capital loans to agriculture, fisheries and forestry. Data from 1968 reflect loan volumes granted to the private sector only.

2/ Loans granted for FY ending year shown at top. These are short-term loans maturing 60 days after harvest.

3/ Loans approved for FY ending year shown at top. Actual loans released for agriculture average 84% of approved loans over the period 1966/67 - 1970/71.

4/ Commercial banks data as secured from the Central Bank include renewals. These are mostly short-term maturing loans.

5/ Include NIDC, PDCP, Bancom Development Corp., Mutual Bldg. and Loan Assns. and Stock Savings and Loans Assns. Data exclude ACA loans.

6/ Data include short-term production loans under special financing programs.

7/ Include medium and long-term loans under AGLF, CB-IBRD and other special financing programs in addition to ordinary loans.

8/ Including some marketing and/or commodity loans not separable. Loans classified as short-term are assumed to be production loans while those classified as medium and long-term as loans for facilities.

9/ Figure includes December estimate by CB Dept. of Rural Banks.

10/ Exclude funds channelled by government institutions to private financing institutions.

11/ Include estimate of ₱737 M for July to Dec. (Only January to June data available at CB).

SOURCES OF DATA:

1) Agricultural Credit Administration (ACA).
2) Development Bank of the Philippines (DBP)
3) Philippine National Bank (PNB)
4) 7 & 8 - Central Bank, Dept. of Economic Research
5) DBP, Dept. of Development and Rural Banks and _Annual Reports_
6) CB, Dept. of Rural Banks

(Adopted from the Agricultural Credit Report.)

PAKISTAN

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Co-operative Credit in perspective ______ A Case Study of West Pakistan

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Introduction:

The credit needs of the agricultural sector of the economy have been met traditionally from the non-institutional sources. The common non-institutional sources may be counted as market intermediaries, professional money-lender, village shopkeepers, friends and relatives, and the land-lords. They have been a regular source of finance, though uncertain to a degree, for the small as well as the large farmers both for consumption as well as production purposes of short and long-term nature but mostly at prohibitive costs. The indebtedness from the non-institutional sources has never been looked upon as something positive, especially in traditional agriculture. It was under this psychological attitude that Darling exhorted that the farmer in this part of the world,' is born in debt, lives in debt, and dies in debt'.[1] Yet the farmer has not escaped from the non- institutional credit. According to an estimate, 90 per cent of the agricultural credit comes from non-institutional sources.[2]

In order to relieve the farmers of the burden of unproductive debt, governments have been promoting institutional arrangement to meet the production credit needs of the farmers, particularly that of small farmers. It has been the considered opinion that credit should be cheap, involve simple procedures, and be readily available. Keeping in view these objectives of credit supply, government selected the channel of the Revenue Department for the disbursement and collection of loans under the 'taccavi' loan system. The land Improvement Act of 1883 and the Agriculturists loan Act of 1884

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1) M.L.Darling, The Punjab Farmer in Prosperity and Debt,(Madras: Oxford University printing Press, 1932), p. 258.

2) Mahmood Ali ,Dilawar Ali Khan, and Mohammad Hussain Bhatti,
3) Farm Credit profile and Supervised Credit in Rural Pakistan, (Mimeographed),(Lyallpur:West Pakistan Agricultural University,1972),p.52.

were passed in this respect but the latter .. Act was replaced by the West Pakistan Agriculturists' Loan Act of 1958. Under the provision of this Act, loans could be granted for short, medium and long-term credit needs of all types of farmers in the country. The funds are provided by the provincial governments. The loan distribution and collection is executed at no cost to the borrowers. Small loans are granted against the personal surety whereas the large loans are given against the security of land.

It is not known as to the type and extent of farming community covered through 'taccavi' loans. However, these loans are not popular among either the small or progressive farmers as is revealed from the fact that no loan application was received in one of the agriculturally progressive districts of the Punjab Province during 1970 and the loanable funds were returned to the public exchequer as unutilized .

The limitations of the 'taccavi' loan system were realized quite early by the government.. It was, therefore, supplemented through the Raiffeisen Cooperative Credit system.. This system also failed to fulfill efficiently and adequately the credit needs of the small farmers. The credit cooperatives are reported to have advanced over the decade ending December, 1967, a sum of Rs. 507 million. Although the share of small farmers in this loan money is considered to be quite substantial but it is far below the total production credit needs of the small peasantry..

Realizing the inadequacy of the earlier two institutions and to meet the challenge of increasing demand for farm credit, Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan were established in the years 1953 and 1958, respectively. Both of these institutions were, however, amalgamated in the year 1961 to form the now existing Agricultural Development Bank of Pakistan. With the expanded participation of the government and the international aid giving agencies, this bank has developed into a mighty organization. A major part of the Bank's loanable funds have been disbursed to popularize the use of modern farm technologies. However, in this case, too, the main beneficiaries have been the well-off large sized farmers.

The flow of institutional credit into the farm sector is tabulated below.[1]

Table 1: Institutional Credit Supplies to the Agriculture Sector in West Pakistan (Rupees in million)

Years	A.D.B.P.	Taccavi	Cooperatives
1960-61	30.9	13.7	64.6
1961-62	46.9	11.2	66.9
1962-63	40.7	9.1	67.5
1963-64	46.7	11.2	50.7
1964-65	40.5	29.3	40.7
1965-66	68.0	11.2	48.0
1966-67	100.5	9.6	46.4
1967-68	106.2	11.1	41.9
1968-69	51.4	11.2	NA

Source: Government of Pakistan, Ministry of Agriculture and Works, Year-Book of Agricultural Statistics, 1969.

The institutional credit arrangements have thus existed in his country for the past 90 years but they have failed to meet the credit needs of the farming communities in general and the small farmer in particular. It is estimated that the credit institutions have not so far created a clientage of more than five per cent of the total farm population.[2] Institutional credit facilities need to be expanded and streamlined particularly to effectively serve the interests of small farmers who lack necessary collateral and ability to manage the necessary funds to adopt new farm technologies and to improve the resource-mix on their farms and to emancipate them from the strangle-hold of usurper money lenders.

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1) As against this institutional credit supply the total annual institutional credit needs of the farm sector have been estimated to be something like 771 million rupees. see, F.Kuhnert, et al., Agriculture and Related Industries in Pakistan,(Paris: Development Centre of the Organization for Economic Cooperation and Development, 1970),p.234.

2) Inspite of the significant improvements in the institutional credit to agriculture is estimated to cover only from 10 to 15 per cent of total requirements. See, Ibid, p. 229.