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AGRICULTURAL CREDIT IN LATIN AMERICA: PERSISTENT PROBLEMS AND POTENTIAL PROMISES*

by

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**Economist, Inter-American Foundation, Rosslyn, Virginia. The views expressed in this paper do not necessarily reflect the views of the author's employing institution.

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Roger E. Soles**

SUMMARY

Institutionalized agricultural credit is both scarce and poorly distributed in Latin America. Many external and national funds have been channeled into the rural sector, yet few credit programs seem to be successful. Inflation and unreasonably low interest rates often erode the institutions' capital base and make such credit a subsidy.

While most credit programs "obviously" exclude landless laborers, renters under archaic forms of tenancy, sharecroppers, and colonists, small farmers are also denied institutional credit. A self-fulfilling rationalization allows for this: campesinos (peasant farmers)*** are viewed as already producing at peak efficiency; credit can only be productive if new, nontraditional inputs are used; but, such inputs are very scarce; therefore the campesinos could not use the credit anyway. Peasant participation, development, and social change are rarely successful components of agricultural credit programs.

Even self-help cooperative ventures often accept the notion that small farmers are producing at peak efficiency. While trying to offer a highly technified and integrated "package approach," these ventures too are subject to macro obstacles and many continuallly rely upon outside funds. Also, their package frequently is rather empty: new inputs are scarce; technical advisors may become supervisors and run the program--and its participants; and the vital marketing factor is often ignored.

It does not need to be proven again and again that a modern agriculture is a productive agriculture. Given the dimensions of the rural problem and the scarcity of modern inputs in Latin America, a great deal can only be done for a few. Projects, programs, and policies which defy conventional developmental wisdom are needed. A few alternatives are offered herein.

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***Spanish words are underlined and roughly defined upon their first usage.

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PART ONE

Traditional Problems, Conventional Remedies and Remaining Problems

I. Introduction

Agriculture's contribution to the development process--in providing food, capital, and labor to the industrial sector and increasing the size of national markets--heavily depends upon farm credit. Unfortunately, the amount and distribution of such credit are seriously defective. The following section briefly reviews some of the principal obstacles to expanding the funds and the number of people included in agricultural credit markets.

II. The Problem

Agricultural credit programs are often promoted in Latin America to answer the pressing problem of low agricultural productivity and production which barely keeps pace with population increases. After all, it is argued, in 1968, the $4.7 billion of institutional agricultural credit in all of Latin America only equaled the amount of such credit disbursed in Wisconsin, Minnesota and Michigan.[1] Also, only a very small percentage of the farmers in Latin America receive institutional credit. Less than 30% of Colombia's farmers receive institutional credit, in Nicaragua only 20%, Mexico about 15%, Brazil less than 15%, Honduras 10%, Paraguay 6%, Bolivia 5%, Panama 4%, and Guatemala 2%.[2] Finally, the rural areas are seen as too poor to provide much capital themselves, thus credit funds must come from outside agriculture. Both the absolute shortage and skewed distribution of such credit account for a low level of

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[1] Does not include farm mortgage credit, see D. W. Adams, "Agricultural Credit in Latin America: A Critical Review of External Funding Policy," American Journal of Agricultural Economics, May 1971, p. 164.

[2] Calculated from the AID Spring Review of Small Farmer Credit, Country Papers dealing with the countries cited, and Inter-American Development Bank (IDB), Evaluación de programas globales de crédito agrícola en seis países latinoamericanos, Departamento Técnico, División de Estudios Especiales, Documento sobre Desarrollo Agrícola No. 11, agosto de 1971, p. 24, and various sources of the number of farmers in these countries. Given the lack of complete comparability of the data sources, these are probably generous estimates.

technology and modern inputs being utilized, hence the low productivity and production.[3]

III. The Response to the Problem: Money at Low Interest Rates

In response to this critical need for agricultural credit, a substantial amount of external (i.e., U.S.A.) aid has been channeled into rural Latin America. One source states that between 1960 and 1968 over $1 billion of external assistance funds have gone into rural Latin America for agricultural credit from IDB ($439 million), IBRD ($255 million), and USAID ($221 million), plus an assortment of PL 480 and ambassador funds, etc.[4] The major recipients of these funds have been:

Country	Millions of dollars of rural credit assistance 1960-1968
Mexico	177
Brazil	122
Colombia	114
Argentina	101
Nicaragua	45
Paraguay	37
Costa Rica	30
TOTAL	626

Source[5]

The Inter-American Development Bank on the other hand claims that it alone has allocated over $1 billion of assistance to agricultural

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[3] Economists often utilize such concepts as "capital-output ratios" to measure the amount of credit used in the productive process. For example, in 1968 in the U.S. nonmortgage farm credit amounted to $25.3 billion. The gross value of U.S.A. output that year was $47.6 billion. Hence, the U.S.A.'s agricultural capital-output ratio was .53. In Latin America, for the same year, the capital-output ratio was only .36. Many Latin American countries have ratios much lower than that though some are higher. See D. W. Adams, "Agricultural Credit...," op. cit., p. 164. However, caution must be exercised in interpreting such figures because of the large subsistence sectors of agriculture in many countries...whose value of production does not enter into the normal commercial markets and is therefore not counted. Of course the counting procedures themselves may also be seriously questioned as to their accuracy.

[4] Ibid., p. 163.

[5] Ibid.

development in Latin America; $400 million of which for production credit, and of that, $200 million specifically destined for small and medium-sized producers.[6]

Finally, for illustrative purposes, one accounting of AID's agricultural credit program shows the following funds being made available between the creation of AID and 1972.[7]

(In thousands of dollars)

	Loans		Grants		
	In local currencies	In dollars	In local currencies	In dollars	Total
Bolivia	7,780	9,350	1,910	--	19,040
Brazil	82,000	--	--	--	82,000
Chile	39,060	12,500	5,400	200	57,160
Colombia	35,000	38,500	--	--	73,500
Costa Rica	--	22,250	--	--	22,250
Dominican Republic	10,335	10,480	--	--	20,815
Ecuador	--	10,700	--	800	11,500
El Salvador	--	8,900	650	--	9,550
Guatemala	--	25,000	270	1,370	26,640
Haiti	--	--	1,200	140	1,340
Honduras	--	6,000	--	400	6,400
Mexico	--	40,000	--	--	40,000
Nicaragua	--	12,400	--	--	12,400
Panama	--	2,810	--	--	2,810
Paraguay	2,415	9,000	280	--	11,695
Peru	--	28,800	300	--	29,100
Venezuela	--	10,000	--	--	10,000
TOTALS	176,590	246,690	10,010	2,910	436,200

Most of the institutional agricultural credit in Latin America is distributed at low or concessional rates of interest in order:

1. To reduce the exploitation of the peasant farmers from money lenders who charge exhorbitant interest rates;

2. To induce conservative and traditional farmers to use modern and productive inputs; and

3. To offset pricing policies (e.g., low urban food prices) which adversely affect the farmer.

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[6] IDB, op. cit., p. 1.

[7] Data supplied by AID, Washington, D.C.

IV. Traditional Methods of Implementing Agricultural Credit Programs

Most efforts to expand rural credit in Latin America (in terms both of volume and of the number of participants) have followed three basic institutional approaches. They are illustrative of the problematic macro context within which any credit program must operate.

A. Through Established Financial Institutions

Commercial, national and/or agrarian banks have often been utilized to extend credit to the rural sector to increase agricultural productivity. They may receive funds to then reloan to farmers and/or they may receive an inducement to establish both special programs and staffs for small farmers, supervised credit programs, etc. The rationale for funding such rural "outreach" programs is that there will be low start-up costs because of the existing physical plants, equipment, and experienced staffs in sound banking principles. Funds may also be granted (or loaned) to enable the institution to spread its financial infrastructure into the hinterlands by establishing field offices.

IDB funds have gone to the Instituto de Fomento Económico (Panama), Departamento Agropecuario del Banco Nacional de Fomento (Paraguay), and the División de Crédito Rural del Banco Nacional de Nicaragua.[8] AID has supported such programs in the Banco Nacional de Costa Rica, Banco Agrícola de Bolivia, Banco Nacional de Fomento (Honduras), Caja de Crédito Agrícola, Industrial y Minero, and the Banco Ganadero (both in Colombia),[9] and the IBIRUBA project in southern Brazil.[10]

According to Charles Nisbet this approach of extending the credit infrastructure has "thus far been extremely disappointing.... These programs have made no noticeable progress at integrating the small farmers into the money economy...the small farmers still operate outside the institutional credit market...too little of the loan monies end up as productive loan credits for small farmers...repayment records were poor... and production was little affected by these programs."[11]

Such programs fail to reach small farmers partly because of reciprocal socio-historical biases between financial institutions and the

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[8] IDB, op. cit.

[9] (Colombia, Tinnermeier.)

[10] B. Erven and M. Rask, "Credit Infusion as a Small Famer Development Strategy--the IBIRUBA Pilot Project in Southern Brazil," Ohio State University, Agricultural Finance Center, Occasional Paper No. 48, December 1971.

[11] C. T. Nisbet, "Some Thoughts on Extending Agricultural Credit to Small Farmers in Developing Countries," mimeo. 1972, pp. 1 and 2.

peasantry. Banks traditionally lend to those with either security or "experiences," large-scale producers and farmers. Grants or loans of money do not change "bankers' mentalities," nor the attitudes and procedures of their staffs who are newly designated "to serve the small farm sector." Peasants, moreover, are suspicious of dealing with the established financial institutions which may demand a mortgage or a lien on their few tangible assets. In short, programs designed to broaden the clientele of established financial institutions have not been successful. Inertia and suspicion on both sides--as well as economic reasons to be specified later--have kept them apart.

B. New Financial Institutions for the Peasantry

To overcome or simply to bypass the inertia of the established financial institutions towards serving the small farm sector, new "campesino-oriented" credit institutions are established. Prominent agencies thus established include both the Mexico Ejidal Bank, and the Caja Agraria of Colombia in the early 1930s, and Bolivia's Banco Agrario in 1942. More recent examples include a supervised credit program in Colombia operated by INCORA, ACAR (Asociación de Crédito y Asistencia Rural) in Brazil, SCICAS (Servicio Cooperativo Interamericano de Crédito Supervisado) in Guatemala, and INDAP (Instituto de Desarrollo Agropecuario) in Chile.

The older "peasant-oriented" institutions are often criticized for not serving the peasants. Mexico's Banco Ejidal has been accused of "creating more problems than it solved [by driving many campesinos into debt];"[12] it is very doubtful if the Caja Agraria is in fact "campesino oriented"--though it now claims to again be moving in that direction;[13] and Bolivia's Banco Agrícola though also specifically directed by law to serve campesinos now pleads with the government to be allowed to do anything but.[14]

The "new" campesino credit agencies recognize that credit funds per se are not productive and hence have also emphasized the use of modern technical inputs and practices--in short, the "package approach" of supervised credit and extension activities.

However, these programs and agencies often regress toward either serving the larger farmers or simply have not been effectively serving many campesinos. INCORA's supervised credit program, after an initial

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[12](Diaz)

[13]R. E. Soles, "Rural Land Invasions in Colombia: A Study of the Macro- and Micro-conditions and Forces Leading to Peasant Unrest," unpublished Ph.D. dissertation, University of Wisconsin, 1972, Chapter 4, and Tinnermeier, op. cit.

[14](Royden)

flurry of expansionist activity in Colombia's countryside, is now seen to be reducing its activities to concentrate on the few campesinos it has already settled on its irrigation and parcelation projects.[15] The largest of the ACAR programs in Brazil (in Minas Gerais) reached only 5 per cent of the small farmers--which is at least better than the 2 per cent reached by the SCICAS program in Guatemala.[16] INDAP, on the other hand, in Chile apparently did provide credit for a substantial proportion (47 per cent) of its potential clientele through a program of credit in kind (e.g., loaning bags of fertilizers instead of money) to organized groups of campesinos.[17] Credit to organized groups of campesinos also appears as one of the key mechanisms of the Puebla project in Mexico.[18]

In sum, special campesino-oriented credit programs and agencies have not had a spectacular success beyond show-case farms and projects. Nisbet cites six reasons for their poor performance:

1. Confusion on the part of the designers if the programs are for productive investments or for social welfare.

2. Failure to define "economic size" limits which allowed larger farmers to participate and receive funds.

3. Copying U.S.A. models of rural programs by foreign and urban national "experts" who had little knowledge of campesino credit problems.

4. Programs were operated in traditional banking manners and often by personnel transferred into the new agency from the banks.

5. Financing only covered technical inputs but not consumption or marketing needs.

6. Programs were saddled with short-run political objectives to show a "new" government or administration's concern for the poor peasant, etc.[19]

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[15] H. Felstehausen, "Agrarian Reform: Colombia," in P. Dorner (ed.), Land Reform in Latin America: Issues and Cases, Land Economics Monograph No. 3, Madison, Wisconsin, 1971.

[16] IDB, op. cit., p. 24.

[17] Ibid.

[18] (Diaz)

[19] C. T. Nisbet, op. cit., p. 3.

C. Graduate and Guarantee Loan Funds

A third approach does not appear widespread in Latin America; rather than channeling new funds to the campesino sector, it attempts to "graduate" campesinos into the normal credit channels by combining experience for the farmer with inducements to the banks. Campesinos may first be "prepared" by a supervised credit agency and then "graduated." The banks are then to provide funds to proven "good credit risks." Sometimes a guarantee fund is also established--or is the only mechanism established--to insure the campesinos' first loans and thus induce the bank to begin and to continue to make credit available to small farmers.

The theory behind this approach is appealing as the insurance monies can be used to cover a great number of people; "graduates" exit from the program and new people enter the system. Several national development foundations in Latin America have utilized this approach in private rural credit schemes and variations are found in the Fondo de Garantia y Fomento para la Agricultura, Ganaderia y Avicultura of Mexico, and parts of the INCORA and INDAP program.

The "Fondo" of Mexico is essentially an "in-house" insurance operation of the Banco de Mexico, S.A. It has received about $250 million in loans from AID, IDB and IBRD. Its function is to guarantee long-term credits given to medium-sized producers and groups of ejidatarios (communal farmers). Though not geared to peasant farmers at present, the "Fondo" program may move in that direction in the future. So far, approximately 18,000 persons have received 55,000 loans.[20]

It is not clear if guarantees were offered by INCORA and INDAP to the banks. But in both cases it is clear that the campesinos did not want to be graduated to the higher priced commercial credit. Also, in Colombia the banks were not prepared to receive an influx of new borrowers since their credit resources were already strained and in Chile the campesinos organized to maintain their favored positions of receiving low-cost credit from INDAP.[21]

Loan guarantee funds may be based on an attractive but faulty assumption: that sufficient loan funds are available which can be readily redistributed to campesinos from present allocations. Additionally, if banks only have a set amount of capital available for agricultural loans, they can only earn a set amount of profit. Administrative expenses must be balanced against projected repayments of the loans. If no risk loans are in the offering, a bank may profitably shift some of its funds over to the small farmers. But, if guarantees are withdrawn, regardless of good repayment records, the additional administrative expenses of the small

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[20] (Uriza)

[21] (Colombia, Schwinden, et al.), CPP 2, October 1972, and (Chile, Nisbet).

loans may tip the balance back to making only a few big loans. Successful long-run guarantee fund programs depend on banks' increasing willingness and ability to reduce administrative overhead and voluminous paperwork in processing a high volume of small loans.

V. Macroeconomic and Legal Impediments to Agricultural Credit Programs

Agricultural credit programs, be they "outreach" programs of traditional banks or new campesino-oriented agencies, tend to evolve towards serving the larger producers--even when specifically designed to serve peasants. The macroeconomic and legal framework of many Latin American countries, within which such programs must operate, simply impedes effective and growing programs for campesinos.

A. Inflation and Interest Rates

Inflation is a critical problem for many nations in Latin America. Argentina, Brazil, Chile, Colombia, Peru, and Uruguay all suffered inflation rates averaging 10 per cent per year throughout the 1960s.[22] Other countries have also suffered periodic spurts of inflation and/or devaluations of their currencies.

Prudence demands that credit programs charge--what appears to North Americans exhorbitant--interest rates to cover administrative expenses and to increase their capital base. For example, if inflation averages 10 per cent, reasonable interest must exceed the 10 per cent by the amount necessary to cover administration at the minimum. If real growth is also to be included, then 15 per cent or more may be required. However, responding to various pressures and the urgent need for agricultural credit, many Latin American governments prohibit charging more than what in this context is merely a nominal interest charge. In Colombia, for example, though inflation averages over 10 per cent per year, the Caja Agraria charges only 8 to 13 per cent (depending on purpose and other terms) on its loans while commercial banks charge between 15 to 20 per cent.

In sum, institutionalized agrarian credit in many countries is a subsidy: in real terms farmers pay back less to the lending agency than they received. Therefore, an organization finds its agricultural credit program simply peters out unless it receives new capital influxes.

B. The Lack of Voluntary Savings

Deposited voluntary savings do not fill this gap. Financial institutions obviously pay a lower rate of interest to their depositors than they collect on their loans. If the institution is primarily an agricultural agency, then the problem is doubly serious. If the rate of inflation outstrips the rate of interest received on loans, it surely outstrips the

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[22] D. W. Adams, op. cit.

interest rate paid on savings deposits. Since money thus deposited loses real value, there are low rates of voluntary savings in inflation-prone developing countries.

Although it may not be economically rational for persons to save in such economies, they do. Banks, credit unions, etc., may require a savings deposit or a share be purchased by a loan applicant. Also such deposits may be considered prestigious (establishing one's identity as a member of the middle class). People also respond to advertising and appeals to patriotism to buy bonds, etc.

In the aggregate, however, even middle and upper class Latin Americans do not enthusiastically deposit money in savings accounts. Studies of Brazil and Chile, for example, indicate that the marginal propensity to save in these countries declines as wealth increases. The wealthy prefer to invest their funds in consumer durables, land, houses, or stocks which do not lose their real value but generally keep pace with inflation.[23]

VI. Why Credit Programs Are for Large Landowners

High inflation and artificially low interest rates not only means that agricultural credit is often a subsidy, it also means that campesinos are excluded from such programs and private sector funds. Since the credit is a subsidy, someone has to incur the loss. Governments may replenish funds, but the banks--which may be required by law to allocate a set portion of their funds to agrarian purposes--or the credit agency wants to avoid losses while handling the funds or program. An obvious way to avoid or reduce losses is to reduce administrative expenses. That is, get the money loaned out quickly and in as few loans as possible. Ergo, a few big loans to the landowners.

Landless laborers, renters under archaic forms of tenancy, sharecroppers, colonists, or communal farmers, who lack a legal title to a specific plot of ground, in general do not qualify for agricultural production credit. In many regions these people comprise a majority of the rural population. Though such persons may theoretically benefit from agrarian investments via increased employment or lower food costs, two factors common to agricultural credit programs defeat such "spread effects." First, such credit programs often entail a good dose of a modern agriculture. Secondly,

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[23] For discussions of the low savings phenomena in Brazil, Chile, and elsewhere see: N. Leff, "Marginal Savings Rate in the Development Process: The Brazil Experience," The Economics Journal, September 1968, pp. 610-23; M. Mamalakis, "Negative Personal Savings in the Chilean National Accounts: An Artifact or Reality?," paper No. 36, Economic Growth Center, Yale University, mimeo., August 1967; G. Ranis, "Mobilizing Private Savings for Regional Investment," Conference on Regional Development and Planning, Barranquitas, Puerto Rico, March 1967.

Lest we in the U.S.A. become too smug, let it be noted that savings accounts here are not all that profitable either, and the rich prefer other investments, etc. See Parade in the Washington Post, December 24, 1972.

production is often geared to export crops in order to generate foreign exchange earnings.

Minifundistas (very small farmers, generally with less than five hectares) are often excluded from agricultural credit programs too. Though they are known to be users of credit, most frequently they are forced to rely on prestamistas (private money lenders, generally connotated as "loan sharks"), who charge high interest rates, or middlemen and shop owners who purchase cheaply the campesinos' crops while still green and maturing in the fields. However, rather than serving as sources of production credit, these informal channels generally provide the campesinos with emergency and consumption loans.[24]

The exclusion of small landholders, along with the laborers, renters, etc., from conventional credit programs is rationalized by the notion that "unfortunately you just can't work with minifundistas, agricultural credit programs must concentrate on middle-sized farmers who have sufficient land which can be put into production."[25] Ironically, though, on a per hectare basis, the minifundistas are by far the most productive farmers,[26] rather than being encouraged to reach higher production levels, they are, at best, "benignly neglected."

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[24] Also though impressionistic evidence may indicate otherwise, some studies in Latin America (as vs. in Asia) seriously question the extent and exorbitancy of such informal credit sources. In Ecuador, Brazil, Colombia, and Guatemala only a small percentage of the total rural credit comes from such noninstitutionalized sources, often at interest rates which though high if compared to banks, etc., are not usurious when inflation is considered. Also much of this informal credit may take place between relatives, friends, etc., or be credit in kind and repayable in services, etc., rather than cash. See: (Money Lenders, Nisbet); Stizlin, "The Characteristics and Significance of the Non-Institutional Credit Market in Rural Ecuador," Ohio State University Agricultural Finance Center Research Paper No. 11, December 1967; B. Erven, "An Economic Analysis of Agricultural Credit and Policy Problems, Rio Grande do Sul, Brazil," unpublished Ph.D. dissertation, University of Wisconsin, 1967; C. T. Nisbet, "The Relationship Between Institutional and Informal Credit Markets in Rural Chile," Land Economics, May 1969; R. Tinnermeier, "New Land Settlements in the Eastern Lowlands of Colombia," Land Tenure Center Research Paper No. 13, December 1964; E. Montero, "The Allocation of Agricultural Credit in Colombia," unpublished M.S. thesis, Ohio State University, 1969; S. Tax, Penny Capitalism: A Guatemalan Indian Economy, Washington, 1953.

[25] An official of a development organization here in Washington, D.C., who shall remain anonymous.

[26] This point is not as controversial as once thought to be, for a cross-national comparison of productivity per hectare by farm size, see P. Dorner and D. Kanel, "The Economic Case for Land Reform: Employment, Income Distribution and Productivity," in P. Dorner (ed.), op. cit., pp. 52-53.

Such neglect may stem from the view (best represented by T. Schultz in Transforming Traditional Agriculture) which claims that minifundistas are presently producing at peak efficiency. Just to provide them with credit would not result in appreciable increases in either production or well-being. In short, credit will not be productive unless the farmer can purchase and use something "new" (e.g., hybrid seeds, fertilizers, pesticides, etc.).

The crucial issues, therefore, involve the availability, distribution, and use of new inputs. First, the modern inputs (hybrid seeds, fertilizers, etc.) are in extremely short supply in Latin America. Also the main products of the Green Revolution, namely, high yield seeds, require careful crop management, exact and timely uses of fertilizers, and either ideal rainfall or expensive irrigation. If the new seeds are distributed on the basis of supply and demand, only the already prosperous farmers will be able to afford them and thus increase the income gap in the rural sector.

If campesinos are to use the new inputs, the credit program must be married to a massive educational and extension program. Since the use of these new inputs implies a "modern agriculture," mechanization is also believed to be an integral and necessary part of the package. Therefore, programs of consolidating small units is erroneously[27] deemed necessary, though the need for irrigation may call for some consolidation of small parcels. In short, the costs for these extensive and expensive activities lessen the likelihood that campesinos will be able to adopt the "new" Green Revolution methods. And, since the new inputs are scarce anyway, even the larger landowners will not be able to use them on a sufficient scale to meet national production goals.

Therefore, if immediate increases in production are the goal, credit programs must concentrate on increasing the traditional factors of production: namely, to put more land into production. Since the minifundistas already use (all of) their land efficiently, credit must go to those who are not using all of their land--the "medium" or "middle-size" farmers.

Consequently, agricultural development programs in general, and credit programs in particular, have often exacerbated social ills. Rather than change rural structures they have perpetuated cleavages. Even when successful in promoting production, they often skew the distribution of benefits against the rural poor.

Resume

Though the need for capital is great in rural Latin America, credit programs confront a serious set of macroeconomic and legal obstacles to

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[27] "Erroneously" because there is nothing inherent in biological inputs which demand their utilization on a large scale. They can be applied to gardens by hand as well as to large fields by machinery. But, some economies of scale for wells, pumps, etc., may dictate larger sized fields.

effective implementations, especially for the marginal classes and small farmers. The double squeeze caused by high inflation and low interest rates collectible on agricultural loans inhibits sustained capital growth. Most such credit programs, be they implemented by banks or new campesino-oriented agencies seem to suffer an inherent tendency to evolve towards paring administrative costs and emphasizing national production goals to the exclusion of the peasant. Farmers eligible for credit are landowners, who either pledge land as a security or qualify for special treatment by putting underutilized land into production. Minifundistas increasingly become ignored as conventional credit programs "mature"--if indeed they were ever included.

PART TWO

Self-Help Credit Ventures

I. Introduction

It has often been proposed that ventures which are peasant-organized and controlled offer the best hope for the sustained capitalization and development of the rural masses. This section will briefly examine two of the more familiar self-help approaches to providing agricultural production credit: credit unions and the more recent proposals of the multipurpose cooperatives.

II. Credit Unions

CUNA credit unions, while claiming a good growth record in Latin America,[28] have been primarily for middle-class city dwellers, who, as members, finance purchases of consumer durables.

The inflation problem is sometimes met by credit union investments in inventories--large volume purchases of consumer durables whose value keeps pace with inflation, e.g., radios, TVs, washing machines. While economically rational for their members, such hedging reduces the union's liquidity: fewer loans can be granted for other purchases.

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[28] CUNA claims 1971 was a record growth year in Latin America: savings increased 44 per cent and membership 27 per cent. However, it also admits that much of the growth is "due to new data recently collected from Peru," from existing but previously unreported credit unions. See CUNA, Progress: CUNA/AID Quarterly Report, CUNA/LARO, June 1972, p. 1.

The liquidity problem has in part been met by external (AID) funding.[29] According to CUNA International "experience has demonstrated that it is desirable and constructive to obtain foreign loans to increase the working capital of the cooperative movement."[30] Outside funds are desirable partly because of the macroeconomic framework noted above. Since credit unions pride themselves on their low-cost loans, they also pay a low dividend to their depositors. Hence, voluntary savings are not attracted. As a CUNA bulletin put it: "It is obvious that if the dividends which are paid on savings are not equal or greater than the purchasing power lost by inflation, the members do not have an incentive to save."[31]

CUNA is studying this problem. The manager of IFICOOP of Chile, Walter Sommerhoff, proposes doing the obvious, tacking on a reajuste inflacionario (inflationary readjustment) to the interest rates paid on savings and collected on the credit union loans. "This demands the abolition of the traditional 1% [per month that is collected on loans] in countries where inflation is a persistent phenomenon."[32]

While such a measure guards against inflation, the problem then becomes which price index do you use? The wholesale, or consumer retail, or wage, or foreign exchange rate index or what? Also, there is often a considerable "lag factor" between the increases in such

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[29] For example:

Country	Equity Capital and Reserve of Federation	Loans Received and Date	From
Bolivia	$636,000	365,000 (1965)	AID
Peru	872,000	1,000,000 (1963)	IDB
Ecuador	N/A	2,400,000 (1963)	AID
El Salvador	N/A	2,000,000 (1963)	AID
Guatemala	N/A	2,000,000 (1963)	AID
Honduras	N/A	1,500,000 (1963)	AID

Sources: Data from COLAC, Confederación Latinoamericana de Cooperativas de Crédito y Ahorros, Panama and CUNA, Mobilizing Saving [sic], undated, Washington?, pp. 5-6.

[30] CUNA, Selecciones Técnicas (Panama?), undated, p. 1.

[31] Ibid.

[32] Ibid.

indices and equivalent increases in wages and salaries. Aside from legal obstacles to raising interest rates, credit unions would face protests from their urban middle class members as users of such credit facilities. In short, CUNA's credit unions in Latin America have not been very aggressive in mobilizing members' voluntary savings, but then again who can blame them?

Reported "savings" or "shares purchased" growth statistics for credit unions in Latin America often refer to members' forced or compulsory savings as versus voluntary savings. A borrower fills out a loan application for 100 units of currency. He is forced to capitalize the credit union by, say, 10 units, so he really only receives 90. This method is justified because "Compulsory savings help members develop habits of 'thrift' and increase their own self-sufficiency as well as help capitalize the credit union."[33]

When credit unions move from the servicing of urban clientele to the rural countryside the inflation problem will persist. And, because of stringent laws governing interest rates on agricultural loans, the problem of inflationary erosion may well worsen. Even in Venezuela, where inflation is not a problem, rural credit unions are hampered by lack of working capital and liquidity. Holmes reports that while rural Venezuelan credit unions were sensitive to local problems, and enjoyed low administrative costs and low default rates, liquidity problems seriously impeded growth. The low interest rates charged on loans reduced dividends paid on savings and voluntary savings were not attracted.[34]

III. Multipurpose Cooperatives

Since credit is only useful if there is something for the farmer to buy which will help him become more productive, credit unions, cooperatives, etc., are branching out into supplying seeds, fertilizers, etc. They also offer technical assistance necessary to utilize the new practices. In essence they try to provide an "integrated package approach."

Despite planning and good intentions, problems also plague the "integrated" ventures. Given the scarcity of the "new" inputs, large landowners ordinarily have the "inside track" in purchasing them. Volume buying by large membership cooperatives may offset this, but not unless governmental policy preferences for already "modern" (i.e.,

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[33] AID, A New Production Credit Program for Increasing Village Agriculture in Developing Countries, AID Private Development Assistance Series Report No. 2, August 1970, p. 29.

[34] D. N. Holmes, "The Economic Nature of the Credit Union and Its Role in Rural Credit Reform: A Case Study of Venezuela," unpublished Ph.D. dissertation, UCLA, 1969.

large-scale) farms are changed. Similarly, technical expertise in the form of extension agents, etc., is scarce. Somehow private ventures in rural production credit must either create or hire their own--which means additional and costly overhead expenses--or have a claim on the governments's extensionistas (extensionists) lest they fail to provide timely and consistent technical support. Also, when the vital technical assistance is available, the need for technical decisions may "take precedence" over democracy. Technicians "know" what is best, therefore the campesinos must follow.

Finally, these approaches rarely do more than attack one side of the farmer's problem--that of increasing his production. How he markets increased crops may exacerbate his predicament. The local markets may become saturated, prices plummet, and incomes stagnate or decrease. The marketing problem plagues the Ecuadorean "Directed Agricultural Production Credit" (DAPC) program and also plagued the Bolivian DAPC program.[35] Marketing means more than just trucks to bypass local middlemen; it entails talented managers, processing and storage facilities, price supports, etc. Such large-scale facilities and programs are often absent in Latin America, especially for campesino-produced crops aimed at the domestic market.

The main problem with projects touting an "integrated multipurpose package" approach is their basic aim: to modernize agriculture--to bring together all of the new and mechanical and modern and technical components of agriculture. It is doubtful if such projects will ever suffice "to get agriculture moving" except for a very small number of participants. In reality this approach is not new; "integrated" governmental land reform projects often entail the same philosophy.

The point need not be proven time and time again that a modern agriculture is a productive agriculture. The problem is how to get more of the basic factors to the rural masses so that the many can participate in development. If the lack of agrarian reform--which would allow the masses access to the basic factor of land--can be taken as an indication of the development "priorities," how long will it be before the many will have access to all of the modern inputs?

For the present and foreseeable future (no matter what the ideology of the government in power) these modern inputs are, and will be, scarce. Most either are imported or, if produced domestically, are produced on a small scale for the very limited market. If a DAPC or a multipurpose cooperative could obtain all of the inputs and infrastructure to "put it all together," these factors would probably have to be reallocated from their present usages. Such projects may be the model for the long-run future goal, but for the present other more pressing problems must take

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[35] R. H. Keeler, et al., "Evaluation of the Directed Agricultural Production Credit Program in Ecuador," AID Spring Review of Credit for the Small Farmer, CSP No. 5, February 1972 and (Royden).

precedence. In short, the project, if successful, would simply have to remain "a project"; small and localized.

Resume

Many believe that programs which are campesino-controlled and capitalized offer the best hope for the sustained capitalization and development of campesinos--via credit unions, some revolving funds, multipurpose cooperatives, etc. Many of these approaches are rural transplants from apparently successful urban models. Though offering the apparent advantage of freeing campesinos from the vagaries of public policies of bureaucracy or banks, few such institutions have registered documented successes. The growth of such ventures may often be suspect and many appear to be continually reliant upon external influxes of capital. Also, while touting a "package approach" to campesino problems, the package often turns out to be rather empty: many of the necessary components are simply not available for campesinos and most packages only concentrate on the production side of the problems, hence ignoring the vital marketing problems from which the campesinos receive their incomes. Finally, the basic aim of such package programs may be seriously questioned. Undoubtedly a modern agriculture is a productive agriculture. The problem is how to increase the availability of and the access to the basic factors so that more people are included in the process of development itself.

PART THREE

Some Potential Promises

I. Target Populations

A. Must Minifundistas Be Excluded?

The vast majority of Latin American farmers do not receive institutional credit. The vast majority of Latin American farmers also possess less than five hectares of land. Obviously there are cultural, socio-political, and institutional reasons for this correlation. But, are there empirical--on farm--economic reasons for this as well?

How small is a "small farmer"? Could a peasant with less than five hectares efficiently increase his production, raise his standard of living and be incorporated in the developmental process via agricultural credit programs? Or, is the argument empirically true that campesinos are so highly efficient that just providing credit will not increase production unless a new technology is also introduced. Is the peasant farmer, though no longer scorned because of attributed laziness, inherent ignorance, or uncompromising conservatism, nonetheless condemned to a subsistence agriculture because he is so efficient at it? Peasants constitute the overwhelming majority of rural persons. Programs and policies which ignore the peasantry have a rather hyperopic view of development.

Agencies, organizations, and institutions which are concerned with development in general, and with agricultural credit in Latin America in particular, could perform a valuable function by sponsoring credit projects specifically aimed at and for those on the thought-to-be not potentially viable units. Rigorous evaluations specifically documenting how--at the farm level--the credit was utilized, might empirically challenge the peak efficiency issue and the "utilizability" of credit by the smallest of the small farm sector. If this concept was successfully challenged and documented, a significant contribution to "knowledge" upon which present discriminatory credit policies are based, would be made. Such farm level studies documenting how the existing situation and farming methods, income, etc., changed with institutional credit inputs are lacking in Latin America. Most "evaluations" of farmer credit programs focus on the credit institution--amounts disbursed, interest rate structures, cost per loan, repayment and default rates, etc. These and other variables may well be dependent functions of other factors (socio-political, attitudinal, etc.) rather than of the ability of the peasants profitably to utilize credit.

B. Credit for Nonowners?

When agricultural credit programs are initiated, the assumed target population is the farm owner. Yet if peasant farm owners have been omitted from rural credit programs, small renters, sharecroppers, colonists, laborers, etc., have certainly been ignored. In many parts of Latin America, farmers and owners are not synonymous; other tenure and tenancy and laborer types often make up a substantial portion--or even a majority--of the rural population.

Thus, another relevant issue which must be addressed is: could nonland owners profitably and/or effectively utilize institutionalized agrarian credit? Are there various means and mechanisms of promoting credit programs especially tailored for these people? If so, a "significant contribution" would lie in the rigorous documentation and evaluation of these projects--so that, with proper dissemination of the evaluations, policy-making agencies might have a more solid base upon which to develop their policies and programs.

II. New Technology: Is It Available, Is It Applicable, Is It Needed?

For many, "new technology" is synonymous with the high yielding varieties, new packages of inputs, etc., emitting from the Green Revolution. Some of the "peak efficiency" studies are based on the use of these inputs, or based on investigations that "x farmer(s)" use fertilizers rationally and cannot improve their output by using more of the fertilizer.

Yet, again from a developmental viewpoint, the problem is not those few farmers who do use maximum or rational amounts of fertilizers, pesticides, or herbicides. The problem is the many, indeed the vast majority, who do not use any of the nontraditional, nonfarm produced inputs. However, in Latin America, while few peasants do use modern inputs, it is posited here that there are only rare cases where they have not heard

about, and would not like to try "modern," yet non-Green Revolution, products and practices.

From the individual farmer's viewpoint, some new technologies may well be available--even at the local agricultural supply store. However, though aware of the existence of such inputs, because of their poverty, lack of credit worthiness, or the untimeliness of the available credit, the small farmer cannot utilize these available and relevant technologies. Hence, he must resort to his own seed selection from his harvested crop, perhaps some animal manures, and other traditional production methods, which produce the traditional results.

Again, well-documented small farmer credit programs at the farm, as well as at the institutional level, would prove to be most useful. Is the highly technified Green Revolution the only feasible solution to rural production and development problems? Or, might there be a "middle way," utilizing known and applicable technologies which have not been disseminated in the peasant sector because of institutional practices based on questionable economic development dogma?

III. Rural Credit Purposes

A. Consider Consumption

Rural credit problems and needs are more complex than merely short-term production credit for seeds and fertilizers. Campesinos have need of various types of credit if they are to escape the "vicious circle" of poverty. Yet, because of beliefs of their lack of credit worthiness, or fear that credits will only be consumed subsidies or "welfarish," many rural credit institutions hesitate to make loans beyond immediate planting/production needs.

However, oftentimes campesinos are forced to sell their green crops still in the field at low prices, or to take out high cost loans, in order to receive consumption goods on which to subsist. A self-perpetuating debt peonage results because of such needs and practices. Logic would dictate that a well-designed, timely and available institutional consumption credit program would be most effective in breaking this vicious circle. Yet, it is a fact that most agricultural credit institutions do not make such loans because they are not "directly productive."

Thus, consumption loan programs in conjunction with production credit programs should be attempted with greater frequency and documentation. Well-documented projects might well prove--or disprove--the concept that such credit is indeed a "wise investment." Success of a credit program does not have to be measured only in terms of increased production--the conditions and relationship of the lives of the campesinos should also be explicitly considered as a worthwhile objective to be measured and evaluated.

B. Labor Production

Also related to the rural credit problem is the nature of the production credits receivable by campesinos. If and when such credits are available, often they are made only for the purchase of nonfarm produced inputs (hybrid seeds, chemical and biological inputs, etc.). Less frequently is the farmer able to obtain credits to hire labor to more intensively cultivate his crops or extend his area under cultivation. The seasonality of agriculture places critical demands on and for labor utilization. If the farmer cannot hire and pay for more laborers--even though open unemployment or disguised underemployment may abound in the area--he cannot use it, and it remains an unutilized resource.

Hence, there may well be a potential contribution to make by supporting agricultural production credits for increased labor usage on small farms. Would such credits be rationally utilized? Or would they be squandered by the recipients? Are the small farms so intensively cultivated over their entire land area and a potential for greater intensification of cropping patterns on these farms? The Caja Agraria of Colombia is basing an experimental program on these questions and funding campesinos to 100 per cent of their labor costs. Might not similar experiments be supported and vigorously evaluated elsewhere?

C. Investment Capital

Finally, few campesinos receive long-term investment credits. A case can be made that if the campesino is truly to escape the vicious circle of poverty, he will need to make larger and longer term investment in his property. Irrigation and water systems, leveling or terracing of the land, livestock purchases, storage facilities, building, and mechanical inputs, etc., cannot be financed out of one year's earnings or profits. However, investments of this magnitude and duration may be necessary if the peasant is to reorganize his production unit and achieve a higher and dynamic level of production and living.

Yet, fearing the peasant would become too heavily indebted, most financial institutions do not make such credits available to the peasantry. One rural credit institution, Mexico's "Fondo de Garantia y Fomento para la Agricultura, Ganaderia y Avicultura," is guaranteeing long-term investment credits so campesinos can continue to receive short-term production credits as well. The effects of this program should be closely scrutinized. As of yet, there is little evidence or empirical knowledge--only speculation and hesitancy--concerning the viability of long-term investment credits for the small farmer.

IV. Group Credit Mechanisms: Something Innovative? Something Useful? . . . For What?

"Group credit mechanisms," as used here, refer to means by which individuals band together and solicit, guarantee, and receive one large loan which they then divide among themselves. Such mechanisms merit attention:

A. To Reduce Administrative Costs of Credit Institutions

The administrative costs to an institution to process a loan are relatively fixed, irrespective of loan size--it takes just about the same amount of time and paperwork to process a large loan as it does a small loan. Because of this inverse relationship, institutions naturally prefer to make a few large loans--thus excluding the small farmers. But, when small farmers band together to present the credit institution with only one loan application, and thus lower the administrative costs to the institution, at least part of the economic rationale of institutional preference for the large farmers and large loans is eliminated.

Such group credit mechanisms are part of the Puebla project in Mexico and do appear to be effective in extending institutional credit services to a large number of small farmers. The "Puebla groups" consist of between three to nine members who intimately know and trust each other. The farmers register as quasiformal associations at the local mayor's office, signing a simple document that they will be held collectively responsible for the loans that they receive. Additionally, some members will pledge their goods as collateral for the credit. The social sanctions of the members appear to guarantee a low default rate within the group--each makes sure the others repay their share of the loan. For the bank's part, it then makes one loan for 45 hectares of corn rather than nine loans for five hectares of corn each. This project thus merits serious study not only for farmer adoption of new cropping patterns, but also for demonstrating one potential mechanism for removing the practical economic inhibitors of the financial community to serve small farmers.

B. To Reorganize Minifundia: Entrepreneurship, Extension, and Mechanization

Group credit mechanisms may also be a potential instrument to help overcome some of the inhibiting factors of the extremely small and fragmented parcels. Entrepreneurial and managerial ability and extension activities are limited and costly to provide to and among individual tiny parcels. Some reorganization of many tiny parcels into larger sized units can greatly facilitate and thus enhance the adoption and spread of innovations and new technologies, as well as make better use of entrepreneurial talents. Group mechanisms which bring farmers together to receive credit may also thus pave the way for a voluntary banding together of their parcels (or parts of parcels) into a larger sized unit on which better supervision and application of new technologies and innovations may occur.

Similarly, over a larger land area, mechanical inputs may be used which simply would not be feasible for an individual minifundista to purchase, yet would be profitable to utilize. For example, a small pump sprayer, carried on the back, may be too large a purchase for one farmer to buy who would use it only a few hours per season. But within a group, a sprayer, coffee husker, or other processing machinery may be economically utilized over a larger land area. Or, small tractors which would allow for more timely and deeper plowing (increasing aeration and drainage of the soil, etc., to increase production) may not be labor-displacing, but rather increase the utilized land area and employ more labor.

The reorganization of extremely fragmented minifundia has often been proclaimed as necessary for agricultural development. Yet both the implementation mechanisms, as well as the desire by the peasantry have been lacking. Minifundia reorganization is most often interpreted as consolidating farms and moving people off their land. Little attention has been paid to reorganizing the fragmented parcels and farms to include all of the people affected in situ.

The theories of significant production increases through some economies of size by the application of entrepreneurial talents over a larger area, the adoption of technological and biological innovations, and judicious use of mechanical implements, etc., must be tested. Perhaps the most significant test of such hypotheses would be in the voluntary consolidation of the units by the campesinos themselves--to test new and voluntary land tenure models. Group credit mechanisms might well serve as the leading edge toward such reorganizations: small farmers, seeing the advantages of coming together to receive credits, may also attempt to partake of the advantages of bringing together their production units.

C. To Organize and Mobilize the Rural Sector

Finally, it must be recognized that group credit schemes may play their most important role in fomenting rural organizations. Socio-political and educational groups often have difficulty coming and staying together when they are formed solely for such ends. Associations for economic advantage may demonstrate greater durability and viability. Once a rural group has demonstrated, or learns of the advantages of working together for economic ends, it may also become aware of similar tactics and strategies in the more socio-political arenas. Group credit mechanisms may play a very important role in this pre-formal organizational stage. Existing informal--friendship, kinship, social or neighborhood--associations may be brought to a higher and more dynamic stage of development via group credit arrangements. Or, similarly where formal organizations exist such as marketing, purchasing, or consumer cooperatives, or peasant unions, they may become more dynamic and vital instruments for social chang if even a greater economic bond is fashioned among the members via group credit mechanisms.

In short, be it just to bring rural people together to share an economic advantage for the first time, or better yet, to vitalize existing formal and informal associations so that meaningful, dynamic, and potentially powerful rural organizations can exist, group credit mechanisms may play a vital role. Social change and development may rapidly follow the more mundane economic changes.

V. Seed Savings: Another Approach to the Problem

Agricultural credit projects often concentrate on the amount of seed capital needed to reach a "break-even point" at which the interest earned on the loans is sufficient to cover administrative costs and perhaps provide for some future growth. Yet, the long-run efficacy of this approach

may be a dubious proposition. The demand for agricultural credit is great. Can sufficient funds be solely generated from the interest earned on the allocated capital? The supply side of agrarian capital must grow rapidly. Agriculture is the largest single sector in Latin America, employing the most people, it cannot continually receive outside funds. It must provide for its own growth by mobilizing its own capital. Hence, might it not be profitable if the problem were turned around?

Rather than supplying projects with enough seed capital so they can "break even," are there experimental models which concentrate on the people mobilizing their own resources? Though credit unions often speak of "raising money from the mattress," they do not seem to have much success. Increased rural savings have been attracted in other parts of the world by stimulating savings deposits through higher dividend rates, mobile banks, insured accounts, and various lottery plans. Some form of an example from Vietnam might bear attempting in Latin America.

Peasants there may open one of several types of savings accounts, all of which pay dividends which cover inflation. They may open a "regular account" which guarantees a profitable rate of interest, or, they may open an account which pays a slightly lower dividend and assigns the difference in dividends to a lottery fund. Drawings are held frequently--with great fanfare--and the winning savings account number(s) receives a sum which is considerably higher than the rate of earnings on the "regular accounts." Peasants are thus encouraged to make periodic savings deposits and the financial institution experiences a real growth in capital.[36]

Lotteries and games of chance are certainly not new to Latin America and are legitimate fund-raising devices for various enterprises. Applying the lottery element to agricultural credit ventures may well encourage and stimulate the needed long-run capitalization.

In short, a modification of an existing institution might have a substantial effect upon raising local capital. Rather than concentrating efforts on how peasants spend the funds, it might be better to help them raise their own funds. Such a venture could provide a model to numerous types of organizations and institutions to further the expansion of agricultural credit in Latin America.

Resume

Agricultural credit is both a delicate and a potentially powerful tool for development. To achieve meaningful development rural credit policies and programs must be aimed at and designed for the vast majority of Latin America's rural peoples--peasants. The need for leap-frogging into highly technified modernity must be questioned in view of the scarcity of basic inputs, the nature of the problem and the complex credit needs of the campesinos. Group credit mechanisms deserve special attention as means to extend institutional credit inputs, possibly to reorganize minifundia and to mobilize the peasantry. Finally, as rural capital needs are great, emphasis must also be given to new methods and mechanisms to mobilize that capital within the agrarian sector itself.

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[36](Vietnam, An-Nhon).