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9. ABSTRACT

This paper presents three basic assumptions which, with one exception, are its focus. The exception is the issue of "economic rationality", which is familiar to all concerned with development in the Third World, but which is seen as warranting a brief discussion in the introduction. Part II deals with the cultural context of small farmers as borrowers, i.e., various factors affecting the demand for credit. Following this, Part III treats the cultural context of credit programs as lenders, i.e., factors conditioning the supply of credit available in functional terms to small farmers. Part IV shows various implications of the preceding Parts II and III--what happens when these two cultural systems interact and what are the likely points of difficulty. Part V concludes by comparing general differences between formal and informal sources of credit.

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CULTURAL AND SOCIAL FACTORS AFFECTING SMALL FARMER PARTICIPATION IN FORMAL CREDIT PROGRAMS

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THE POLITICAL ECONOMY OF DISTRIBUTING AGRICULTURAL CREDIT AND BENEFITS

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CONTENTS

Acknowledgments iii

CULTURAL AND SOCIAL FACTORS AFFECTING SMALL FARMER PARTICIPATION IN FORMAL CREDIT PROGRAMS

I. INTRODUCTION 1

Premises about Small Farmer Credit 1
Economic Rationality 2

II. THE BORROWERS. 6

General Factors. 6
Social Organization. 9
Attitudes and Values 11

III. THE LENDERS 16

General Factors. 16
Social Organization. 18
Attitudes and Values 20

IV. INTERACTION BETWEEN BORROWERS AND LENDERS. 22

General Factors. 22
Social Organization. 23
Attitudes and Values 27

V. ALTERNATIVE SOURCES OF CREDIT. 29

VI. IMPLICATIONS 33

REFERENCES CITED 35

THE DISTRIBUTION OF AGRICULTURAL CREDIT AND BENEFITS: POLITICAL ECONOMY AND SMALL FARMERS IN LESS DEVELOPED COUNTRIES

I. ECONOMIC FACTORS 39

II. POLITICAL FACTORS: COERCIVE REGIMES 43

III. POLITICAL FACTORS: NON-COERCIVE REGIMES 44

IV. CONCLUSION 49

REFERENCES CITED 51

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After a first draft of "The Credit Connection" had been prepared, several members of the Working Group participated in Regional Workshops on Small Farmer Credit organized by USAID. James W. Converse, Assistant Professor of Rural Sociology, attended workshops in Costa Rica and Ecuador in March 1973; Harry W. Blair, Assistant Professor of Political Science at Bucknell University and a Visiting Fellow with the RDC during 1972-73, attended workshops in the Philippines, Bangladesh and Turkey during April 1973; and Cynthia Gillette, Department of Anthropology, attended workshops in Kenya, the Ivory Coast and Ghana during April and May 1973.

The final draft of this paper reflected the discussions and experience gained from these workshops and it was presented by Miss Gillette and Mr. Converse at the concluding Review in Washington in July 1973. Harry Blair made a number of contributions to the final draft and wrote an additional paper which expanded on certain issues raised in but not dealt with fully in the first paper. His essay on "The Distribution of Agricultural Credit and Benefits" is included in this publication.

Other members of the Working Group, which was chaired by Norman Uphoff, Assistant Professor of Government and Chairman of the Rural Development Committee, were: Davydd J. Greenwood, Assistant Professor of Anthropology; Arthur G. Hansen and Patricia A. Kluck, Graduate Students in Anthropology; Gillian P. Hart, Graduate Student in Agricultural Economics; and Norman K. Nicholson, Assistant Professor of Political Science at Northern Illinois University and a Visiting Professor at Cornell during 1972-73. The authors gratefully acknowledge the assistance and contributions of these members of the Working Group. We also express appreciation to staff and secretaries of the Center for International Studies for their help in this project.

CULTURAL AND SOCIAL FACTORS AFFECTING SMALL FARMER PARTICIPATION IN FORMAL CREDIT PROGRAMS

PART I: INTRODUCTION

An analytical paper cannot encompass "all you wanted to know about culture and credit but were afraid to ask." We have necessarily chosen to delineate and discuss certain issues that we find most salient under the heading of "culture and credit." In effect, these are premises about small farmer credit that we think have some general and empirical validity. To begin with, we present these basic assumptions which, with one exception, are the focus of the succeeding parts of this paper. The exception is the issue of "economic rationality," which is familiar to all concerned with development in the Third World, but which we think warrants a brief discussion in this introduction. Part II deals with the cultural context of small farmers as borrowers, i.e., various factors affecting the demand for credit. Following this, Part III treats the cultural context of credit programs as lenders, i.e., factors conditioning the supply of credit available in functional terms to SFs. Part IV shows various implications of the preceding Parts II and III--what happens when these two cultural systems interact and what are the likely points of difficulty. Part V then compares general characteristic differences between formal and informal sources of credit.

Premises about Small Farmer Credit

1. Small farmers are capable of making, and generally do make, economic decisions that are rational, given the local institutional and cultural milieu, or put another way, that small farmers qualify as "economic men."

2. The farming community is already structured in terms of regularized patterns of economic social and political interaction and shares certain values and attitudes which directly affect what happens when outside sources of credit become available, i.e., there is a borrower's culture.

3. Credit programs develop their own cultural characteristics and operate within the context of a wider

sponsoring society which influences the basic values, attitudes and norms for behavior followed within the credit organization itself, i.e., there is a creditor's culture.

4. All economic transactions are embedded in particular cultural and institutional settings which influence the nature of these transactions, i.e., there is a social and cultural context surrounding any credit relationship.

5. Formal credit agencies are at least partially in competition with informal sources of credit available at the local level, and that there are some fundamental and important differences between these two types of credit, i.e., that credit programs establish a new set of social relationships and introduce a new and possibly disruptive element into community life.

Economic Rationality

It is now widely accepted that small farmers (for which the abbreviation SFs will be used) are rational in making economic decisions, given the constraints and opportunities available within their own cultural milieu. Yet despite the verbal recognition of this, government programs seem to ignore the implications which follow from accepting the idea of economic rationality.

One of the clearest indications of this contradiction between government practice and professed belief is the emphasis on supervision of credit. Upon examining the operations of credit programs, one discovers in almost every case that program officials assume the following: that SFs will "waste" credit on consumption; that they will not use credit productively; and that they will not adopt new technologies unless introduced with supervised credit.

All three assumptions are misplaced. First there is the artificiality of the distinction between "investment" and "consumption." Every economist will, when pressed, readily concede that the division between the two is arbitrary and unreal, yet the categories continue to be enshrined in the canons of economic theory and practice. Thus a loan used for educating a son or replacing an aged bullock may be classified as "consumption," despite the presumed positive effect on production, because the loan is not employed as the program intends. The second assumption comes from the tendency to attribute a production potential to new technologies that is both higher and more intrinsic than the facts warrant. It is widely known, though often forgotten, that increases obtained on experimental or demonstration plots are rarely duplicated at the farm level and must be significantly discounted in the transition from research station to farm. Potential profits must be further discounted if the farmer is using only part of the total package of new inputs or practices, and discounted still further if he receives minimal training in the use of the package (see Philippines, Smith, for an excellent case study).

There are additional difficulties in adopting new technologies which may influence the real profits to the farmer, including marketing or storage facility inadequacies, price instability, uncertain demand for new varieties of crops, and indefinite availability of transportation. Most credit programs limit their efforts to trying to change the practices of the farmers, while separate institutional constraints may act as limiting factors and reduce the farmer's motivation for adopting new farming practices. For instance, if the farmer is a tenant, he will be forced to share additional net returns with the landowners so his net profit is considerably reduced.

A third misconception about supervision lies in the matter of fungibility. In a number of credit programs farmers are given loans "in kind" (e.g., fertilizers or seeds, coupons good only for irrigation water or pesticides, etc.) rather than in cash in the belief that they will thus be prevented from "wasting" their loan money on consumption. As is well known, however, peasants have little difficulty in exchanging fertilizers or insecticide coupons for money if they want to do so. In fact, the credit program might as well have given them the cash in the first place.

All this is to say that what constitutes "productive" use of credit available through formal institutions may be mistakenly construed by the lending agency, and that the commonly misperceived need for supervision serves in large measure merely to increase overhead costs. Another way of stating this proposition is to begin with the rationality assumption. In this Schultzian age of agricultural economics, it is very hard indeed to find anyone to assert that the SF is essentially irrational. But if we really believed the SF to be a "rational man," then we would give him a "line of credit" (making it clear, of course, that the loan must be repaid) rather than supervised credit.

Aside from the issue of supervision, there is a second area of discussion that frequently contravenes the principle of economic rationality: farmers who fail to participate in or support government programs are commonly considered unmotivated or tradition bound. Yet who is being more rational, the SF or the government change agent, is often an open question. We find a frequent conflict between formal economic models, which are based on universalistic assumptions and axioms, and informal economic systems, which represent actual consumption, demand, supply, investment and production patterns, with all the shifts and discontinuities introduced by social organization, political interference, monopsony, and the like. On the basis of formal models, the "modern" economic sector may appear to offer superior opportunities for economic reward, but within the realities of the informal economic system, this sector is frequently less well articulated than the "traditional" one. Economic growth depends on the functional integration of markets, prices, technology, inputs, consumption, savings, credit, etc. Failure to provide markets or inputs, storage facilities or credit means simply that the modern sector has failed to make its informal economic system work for whatever reason. Traditional economic systems may not be equitable or offer the same opportunities for growth, but they have the clear advantages of being coordinated, on-going systems; of being adapted to local conditions; and of providing reasonably predictable levels of income. On the basis of economic rationality, small farmers may well choose to follow traditional patterns if government programs are inefficient, are corrupt, favor the larger farmer, or simply fail to operate successfully.

In the case of small farmer credit programs, government strategies show a strong preference for devising encompassing plans based on formal economic models and relying on a fairly direct transfer of "modern" institutions. The result is little articulation with pre-existing institutions or with the informal economic structures operating in different localities. Banks rely on the ability of customers to reach their offices; on the use of a monetized system of exchange; on collateral for loans. To transfer such institutions into an environment that is poorly monetized with customers who are remote and largely immobile and who have little or no collateral is virtually to insure failure in reaching the small farmer. The institution itself is inappropriate for the conditions prevailing in the rural sector. The fact that participation on the part of the rural population is often disappointing should not be too surprising.

Given the millions of small farmers living in the developing countries, it is essential to recognize the inherent limitations of centrally planned and administered programs. In almost all LDCs it is quite unrealistic to assume that centrally trained and controlled personnel will be able to reach more than a very small fraction of these farmers. In order to expand beyond this miniscule coverage, it will certainly be necessary to rely on the farmers' own motivations and leadership potential. To this end it is worth the time and energy required to gain detailed information concerning local conditions, especially the informal economic system, and to attempt to adapt government programs to these conditions. The incorporation of farmers into the planning process could easily introduce data on local conditions as well as develop local leadership. The cost of not adopting this approach is often virtual failure of government programs to penetrate the countryside in any significant way. The time and money presently spent on supervision could be shifted toward more productive research and interaction between farmers and government agencies if program planners were more willing to act upon the premise of SF economic rationality.

This is not to argue, as we will amplify in Part II, that the choices and actions of small farmers can be seen and understood only or completely in terms of economic rationality. Many values apart from maximization of profit or income will figure into SF calculations, just as they do for Americans or Europeans--who buy "prestige" clothing and "trade-in" properly functioning automobiles, who usually prefer movies and sporting events to night school classes that could lead to higher personal incomes, and who purchase appliances on credit at a high interest rate rather than pay less by waiting, saving and paying cash. Appreciating the satisfactions of status or leisure and valuing immediate over deferred gratification do not make a person "irrational." Yet a double standard is often held out in economic analysis. What is seen as a matter of different tastes and preferences in more-developed countries is regarded as foppishness, laziness or incontinence in LDCs. People in either set of countries are capable of "economic irrationality," but most pursue their preferences and interests reasonably sagaciously, responding to economic opportunities (discounted by costs and risks) within a framework of economic and other considerations. This framework insofar as it is shared and affected by attitudes and experiences within the individual's community is an important part of what is called "culture."

PART II: THE BORROWERS

The aspects of small farmer behavior with which the country papers are most concerned are (a) how he uses credit and (b) how or whether he repays. What is needed is a wider perspective of circumstances and factors which influence the farmer, which condition his use of credit as well as his attitude toward formal credit institutions.

The first group of factors is concerned with some general characteristics widely applicable to agriculture in developing countries. These constitute one part of the environment in which the farmer makes his decisions. Many are beyond his personal control and limit the opportunities available to him.

The second group deals with various aspects of social organization and social structure. In analyzing credit programs, these factors are most important in establishing the farmer's access to productive resources within his community. Principles of social organization also influence the behavior expectations of the farmer and therefore condition many of his attitudes toward the credit agency.

The third group focuses on attitudes and values. The examples given for this section are intended to illustrate the relevance of knowing what the farmer himself considers important, how he feels about indebtedness and how the attitudes and values held within his community may sanction or reward different kinds of activity.

General Factors

In order to understand some of the fundamental differences between subsistence and commercial farmers we will distinguish a family farm firm from a profit-making firm (cf. Chayanov; also Greenwood). The goal of a family farm is to provide subsistence for all its members and to ensure their well-being as far as possible. Therefore it will utilize family labor even if the productivity of any member falls below the cost required to provide subsistence. With the resources available, the family farm firm will maximize total output, but will not necessarily maximize profit since the latter might require reduction of the work force so that the marginal net productivity of each unit of labor would be greater than zero. In order to promote profit, some members of the family would probably have to be excluded in the same way that a profit-making enterprise reduces its work force if the profit margin begins to fall.

The family farm firm's decision rule is quite rational for its members as long as the opportunities in other lines of economic activity are limited and the family remains as a social unit following a group minimum strategy. Also it is socially rational as long as land is scarce and labor plentiful, so that yield per acre, rather than per man-hour, ought to be maximized. Under uncertain market conditions, the family farm will choose to produce those crops which insure subsistence with minimal reliance on the market even if this means a loss of possible profit during years when the market price for alternative cash crops is good. If the resources of the farm exceed what is needed for subsistence, the additional resources can be used for money profit making. It should be noted, however, that seasonal increases in labor requirements may result in competition between subsistence and cash crops. The first priority of a family will be to care for the former at the expense, if necessary, of the latter. Since shortfalls impose a hardship greater than the luxury of windfalls, this priority makes good economic sense, unless new production systems can guarantee improved minimum standards of living.

Risk avoidance with respect to subsistence crops conditions all production decisions on the small farm. Package programs which alter farming practices for subsistence crops must have the full confidence of the farmer. He must believe that under the conditions on his own farm, the new inputs or practices will produce more than his traditional methods. Since at least part of his production will be consumed, he will also be concerned with the quality of new varieties in terms of texture, taste, and cooking characteristics.

The tendency to avoid risk can largely be explained in terms of economic costs and benefits. It should be added, however, that cultural norms may also influence a person's readiness to take risks. It is unclear at what point risk-taking becomes "gambling," but if a farmer's actions can be so interpreted by his peers, the negative valuation of his behavior becomes readily apparent. In accepting an economic risk, he may also be risking his social status, his marriage, and whatever political or ritual power he may hold. It is also important to recognize that risk aversion tends to increase as the resource base becomes smaller. For a farmer with very limited resources, even a small loss in absolute terms is a large one for him.

There are various factors which determine the real opportunities for increased productivity. These include the man-land ratio and the size of individual holdings, security of land tenure, soil fertility, availability of reliable sources of water, control of insects, freedom from debilitating illness, price stability, variations in demand for farm products. With respect to most of these variables, we can safely assume that smaller farmers are at a relative disadvantage. By definition, their landholdings are small, but they are also likely to have land of lower fertility. The small farmer is less likely to have reliable access to controlled water supplies, to have the means of controlling insect damage to crops, or to have secure rights to his land. He is less likely to have market information on demand for products or price changes. To the degree that he has only limited access to medical facilities or is unable to pay for such services, he is more likely to lose productive hours due to illness. These disadvantages serve to increase the risks faced by the small farmer and the need to avert risks if possible.

The family farm is also directly affected by the natural growth-cycle characteristic of the family. A man with several grown sons living at home has an advantage in food (and cash crop) production over a young family that must support children who provide only marginal amounts of labor. Marriage patterns also partially determine the size of the family group which in turn directly affects the productive capacity of the family farm unit. Men who are able to obtain more wives will be in a better position to increase production (yet more "modern" men are supposed to be monogamous). These various factors together affect the productive and competitive position of the family farm firm at any particular time and they shape the limits within which a farmer plans his agricultural activity. He cannot operate an optimally large unit when his children are young; he must retrench his production once they are full-grown and leave his home. What is economically "rational" at one time for a small farmer is not at another.

The type of crop being produced places important constraints upon farming operations. The seasonal cycle of labor requirements will vary according to the crops grown. Peak labor demand, the need for specific inputs such as credit, and the time of harvesting will be determined by the seasonal cycle. If the farmer is unable to maintain his minimal requirements until he has harvested his new crop, he will be most concerned about obtaining credit for "consumption" purposes to tide him over. Production credit, offered at the "wrong" time of year is quite likely to be used for other purposes.

Social Organization

The importance of social organization is that it places each individual in a particular position within his community under any given set of circumstances. An individual may be dominant or subordinate, powerful or weak, rich or poor, respected or despised. What he is or is able to become depends both on the kind of society in which he lives and on the position he is given within that society. An individual's access to productive resources is deeply influenced by social organization, and the structure of the community therefore provides an additional dimension to the environment of decision-making.

Kinship structures will affect farmer behavior in a number of ways. They will partially or wholly define his access to land and other productive resources; they will define many of the financial responsibilities he must meet to maintain his membership; they will partially or wholly define his relative power within the society. In addition, his kin group may provide a significant but informal source of credit. His membership in a given kinship group may entail inherited animosities and alliances vis-a-vis other groups. Attempts to build cooperatives across lineage or clan lines, for example, may therefore meet considerable resistance owing to the existing social structure.

The types of relationships which normally exist at the village level are characterized by multiple ties. In other words, a man who engages in an economic transaction with another may also be related to him by kinship ties, by political faction, by ritual responsibilities, or by common membership in some form of voluntary association. The complex interaction of such multiple ties, not just some calculation of individual profit, will shape the economic transaction. Someone who is politically dominant, or holds a higher status in the kin group, or is a ritual leader, can often obtain more favorable terms in any given economic transaction than will a man who is not a member of a powerful kinship group or is subordinate in other relationships. At the same time, it must be recognized that the former has certain obligations to the latter, for protection, for employment, for sponsorship, for aid in times of emergency. To replace these multiple bonds with the single-purpose connection of the credit agent/small farmer relationship is a very difficult task indeed.

The local political structure can facilitate or inhibit the operation of credit programs. A centralized village-level leadership can act effectively to ensure repayment of loans, whereas a factionalized structure would very likely have a good deal of trouble in monitoring default rates. On the other hand, a centralized village power structure is much more likely to direct loans to its own privileged membership and thus leave out more SFs than would be the case in a factionalized community, where competing leaderships could use loans to build and cement their followings among SFs. This incentive toward equity would be even more pronounced in an electoral situation, where rival factions could offer loans as part of their effort to entice the votes of SFs. (This brings the danger, of course, that the SF may think his reciprocal obligation discharged by voting for his patron, rather than by repaying the loan.)

Patron-client relationships of the sort described are extremely important in many societies. Where insecurity is common, attachment to some more powerful figure or family can provide some margin of security; indeed, the social mechanism of patron-client relationships helps to create that margin of reserve resources that can sustain larger numbers of people than would be possible otherwise. We do not want to idealize the relationship or the conduct of "patrons" as the balance of benefit certainly rests with them and the relationship can be quite exploitative and denigrating. At the same time, it must be appreciated that the relationship is complex and not without some functional features. Such ties have economic, social and political ramifications and may not be broken for economic reasons alone. The responsibilities of the patron are numerous and often include provision of production or consumption credit. Displacing him as a source of credit may be desirable from certain policy perspectives, but other sources of benefit for the small farmer may also be cut off thereby. Patron-client relationships are one very important facet of social organization at the local level and they need to be considered extensively and accurately by change agents coming from outside the community (cf. Foster 1963; Landé; Lemarchand and Legg; Powell; Scott; and Wolf).

A local community is, despite whatever cleavages or conflicts exist, an entity in which some mutual benefits derive from maintaining at least a minimum of social harmony. The prevalence of rituals and festivals in LDC communities around the world gives evidence of this. A community has its own schedule or calendar of seasonal activities, generally coordinated with and related to ritual activities connected with the agricultural cycle. Such coordination may be necessitated by seasonal peaks in labor requirements and traditional mechanisms for allocating the labor supply. Credit programs tied to new production practices, especially those demanding more labor, are likely to upset seasonal ritual and social activity and threaten the social organization of the community as a whole. Resistance to such practices has an objective basis and should be understood in such terms (Nicholson).

Attitudes and Values

Without knowing something about the values, attitudes and beliefs held by particular groups of farmers, it is impossible to understand how they will respond to formal credit programs. Attitudes toward work and division of labor, toward time and thrift, toward credit and indebtedness, toward government in general, are all critical factors influencing the farmer's use of credit and his willingness to repay.

Values relating to work and leisure condition both the kind and amount of activity that requires credit. In some societies, hard work signifies low economic status; leisure is seen as a luxury of the more well-to-do. To recommend that a man improve his economic condition through additional labor in his fields may sound like poor advice when *he* thinks that making a good marriage is his only real hope for improving his status, and he may be more right than wrong given the possibilities he confronts with limited factor endowments. Among the Digo in East Africa, older men still find manual labor demeaning since in the past that type of work was done only by slaves. Neighboring groups, and even the younger Digo men, hold less negative attitudes toward such labor and have generally been willing to do agricultural chores.

Aside from the issue of work versus leisure, attitudes vary considerably toward different types of work. An interesting example was cited in the Special Paper on Moneylenders (Africa, p. 7) which stated that some groups in Zambia relegate agricultural endeavors to the provision of subsistence while wage labor supplies their cash income. Consequently, little investment is made in agriculture. This seems to be quite important in places where men regularly migrate to the cities or mines as laborers, and of course it affects the demand for agricultural production credit. In regions where cattle raising competes with crops, it is not unusual to find that men gain greater prestige from their cows and leave as many of the other agricultural chores as possible to the women. This generally means that men have only a minimal interest in crop production and may well resist changes which would require additional time, labor, and managerial inputs. If cattle represent wealth, there is the added difficulty of convincing people that increased crop production is important unless this can be easily converted into cattle or other things that are accepted as valuable by the group. Sexual divisions of labor can rather rigidly define some tasks as feminine and others as masculine. For a man to do a woman's job may subject him to severe ridicule. Yet this is what some of the supervised credit programs involve because they lack an appreciation of sex roles and their cultural content.

Time concepts will also affect borrowers' approaches to agricultural innovation and credit use. How long, for example, should a farmer work in his field? This may not be fixed by law but it will be defined by custom. New agricultural practices associated with credit programs may well exceed what are culturally defined limits on how long certain work or tasks should take. Spending more time at them can expose the farmer to ridicule. Each culture has norms prescribing what is a proper use of time, norms which it may take an outsider years to fully understand (cf. Hall). The attitude a farmer has toward a credit program will be influenced by the extent to which its agents correspond to cultural norms concerning time, for example, how long a visit constitutes a "proper" or "respectful" visit. Agents who do not spend "enough" time with a farmer when they come to see him will be seen as rude or will at least be advertising inadvertently how "foreign" they are.

Attitudes toward thrift vary significantly from one individual to the next, but in some cases such attitudes become cultural norms. In that case, variations between groups of people become important. An easy mechanism for measuring relative thrift is comparing the consumption patterns of peoples at similar levels of income. Penny found significant differences between Javanese, who spend larger amounts of money on food-stuffs as their incomes increase, and a tribal group, the Karo Batak, which spent little additional income on foods, clothing or housing, preferring to save increments in income in order to invest (cf. Penny and Singarimbun). Consumption patterns may also disclose differences in what cultural norms indicate as appropriate behavior for various age groups. Swift notes that among some Malays, expenditures on watches, bicycles, radios and fountain pens were thought proper only for young men free of family responsibilities; husbands were not expected to show an interest in such items (cf. Swift, p. 140). Similarly, Epstein describes differences in the levels of "display consumption" between the villages of Wangala and Dalena in southern India (cf. Epstein).

It is clear that people differ in the priorities they assign to various kinds of expenditures. Certain consumption items may have greater importance than investments which could provide increments in income, thereby affecting the demand for credit. At the same time it should be noted that living up to certain community norms for prestige has economic advantages, as one who conforms to the standards of a higher group may be able to achieve some of the advantages of that group in its economic relations with others. Expenditures for "prestige" thus are not necessarily only for "consumption" purposes but can have productive consequences for the individual at least, if not for the community.

Investment choices, such as whether or not farmers will choose to invest in cattle or chemical fertilizers, are certainly influenced by the expected economic returns but also be the norms and social pressures of peers. Some Malays, for example, value property, in the form of cattle, more than increases in daily cash income which is readily spent without giving lasting value (Swift, p. 138). Indeed, this cultural preference for property over income has some economic basis. Absolute increases in net income may be valued in and of themselves, or they may not. Conversion of income into other types of goods is often necessary before income is valued. The degree to which such conversions are possible will certainly influence farmers' motivations for adopting practices which offer to increase their income.

Substantial economic gains often incur jealousy on the part of others, and again, the result may be social and economic sanctions against the progressive farmer. This is particularly true if other members of the society believe that the farmer's gains were made at their expense (cf. Foster 1965). Alternatively, a society may have long-established mechanisms which inhibit the economic dominance of any one family, paradoxically making such a society more accepting of innovations.

Economic equality is often maintained through extensive social obligations, through the expectation that the more well-to-do must be generous to anyone in need of financial assistance, or through ritual obligations. It is through these mechanisms that a farmer converts economic goods into status within his society. Though it may appear ironic to outsiders, such mechanisms can offer incentives for agricultural innovation and for the productive use of credit. Such mechanisms also perform a social security function. Should misfortune befall a family in any given year, they can rely on the redistribution of wealth by those who were successful.

An extremely important difference in attitudes from society to society relates to the meaning given to credit. In English-speaking countries, for example, Shakespeare's admonition: "Neither a borrower nor a lender be," has constituted part of the folk wisdom about credit for hundreds of years. To those who provide credit, it is usually viewed as an input which can assist the farmer in raising his production and income. The farmer, on the other hand, may view credit basically as debt. This means being indebted--and not abstractly, but concretely to some person or institution. For some, indebtedness is seen as a sign of failure and a reflection upon a man's ability to provide for his family. For others it may signify the establishment of a reciprocal relationship defined by certain rights and obligations, often the latter more than the former. It reflects the bias of credit agencies that credit is not called debt in public or private communication. To call it debt arouses unfavorable emotions; one ought not to burden people with "debt" and it is a mark of financial immaturity to be "in debt."

One of the significant facts which has emerged from a number of the Country Papers is the lack of trust farmers have in government agencies. The reasons cited are generally related to the inefficiency of such agencies in meeting the needs of farmers. Farmers frequently believe that credit will be given too late to be useful, leaving them in debt without means of repayment. In other cases, loan approval may be completed in time but the inputs tied to the loans are not available or are late. These beliefs may or may not be based in fact. Where they are, it is misleading to deal with them simply as beliefs, rather than as facts. It is not farmers' attitudes that need attention but the performance of the public or private agencies involved. Where the beliefs are unfounded or rest on long-past experience, efforts must be made to demonstrate that confidence can reasonably be placed in the organizations.

Little mention is made in the Country Papers concerning the historical relationships between a government and the rural sector of that country. The distrust displayed toward government-sponsored credit programs may be rooted in a long history of antagonism between centralized power and the rural population (Greenwood). Center-periphery relations have generally in the past been characterized by taxation and military or labor conscriptions on the part of the center with a minimum of services going to the periphery. The changes in these relationships which are now occurring under the impetus of modernization and economic growth, as part of the policy of the center, are largely new to the peasantry. Governments are presently attempting to move into areas of activity which were previously controlled at the local level, and a critical question arises as to the legitimacy afforded to government programs by the intended participants. So long as the government is seen as distant and voracious, it is unlikely that farmers will view the programs as instrumental in meeting their needs.

A number of governments are clearly undertaking efforts to redefine the relationship between government and farmers, partly in an effort to gain political support and partly in efforts to modernize the agricultural sector. Such efforts include promises of benefits to farmers, and credit programs may be viewed as government grants or gifts in fulfillment of these promises (cf. CPs on Chile, Jordan, Malaysia). When farmers do not repay loans received under such circumstances, it should not be surprising.

PART III: THE LENDERS

Having considered cultural and social factors conditioning the demand for credit on the part of small farmers, it is appropriate to see how such factors affect the means for supplying credit to them. The behavior of lenders in the credit relationship definitely affects the way farmers respond to credit availability and it can only be understood after looking at the influences of lenders' attitudes, goals, rules of behavior, and forms of organization. This means looking at the creditors' "culture," to view it in somewhat novel but justifiable terms.

To see how credit programs for small farmers really operate, one needs to look at the broader setting within which the programs function. Most credit officials have little or no influence over this setting but must work within the constraints (and opportunities) it creates. The particular environment is generally accepted as tacitly by the officials as any peasant farmer accepts his environment and the values it holds forth as given. The social organization and social structure of this credit program environment shape behavior as surely as village organization and structure constrain the farmer to act in certain ways that are collectively rewarded. The values and attitudes reinforced by that environment affect not only the definition of overall program goals but also the way credit agents view borrowers and their own work.

General Factors

Credit agencies operate as only one element of the government's banking programs, which is to say that they generally lack autonomy and must be responsive to pressures originating outside their organization. A credit agency acts as a tool of national policy. Governmental or policy changes are frequently marked by drastic reorganization of credit institutions or the creation of totally new programs. Changes within the government can also expand or curtail the amount of funds available through the credit agency or the terms on which funds are made available (and thus indirectly affect the amount). In some cases, the credit agency is dependent upon particular ministries or departments for supporting activities. For example, credit tied to the introduction of new farming practices may require coordination between the credit agency and the Ministry of Agriculture, and this coordination may simply be unachievable because of ministerial rivalry, inter-bureaucratic ill will, or the like. Administrative factionalism, with its lack of communication, its interagency jealousies and competition for scarce resources can hinder the effectiveness of a credit program more seriously than will various rivalries or uncooperativeness of castes or factions in a village.

If the credit agency is a tool of national policy, the goals and targets of the program will generally be determined by the sponsoring government (or even an international agency if it provides support for the program). Though the ends of external sponsors may be compatible with those of the local community, the instrumentalities and priorities can be quite out of phase with the needs and preferences of the local population because the focus of decision-making is quite removed from the micro level. The structure of credit programs is such that they are usually highly dependent on outside pressures. The consequence is often discontinuities or curtailment of credit operations. This will generally not be seen as a "social" or "cultural" condition, but it reflects culture-bound means of operation every bit as "irrational" to the farmer as his behavior may often appear to credit agents.

Credit programs are themselves reluctant to accept risks, and much effort is expended in finding ways and means to reduce risks. One method widely adopted is the effort to organize farmers into cooperatives. The theory here is that making loans to groups of farmers in a cooperative (which will relend the money to individual farmers) allows scale economies and reduces administrative costs per dollar lent. Perhaps as important is the diffusion of responsibility for possible failures if the loans are not repaid. Quite irrational incentive structures may be created for SFs thereby, but this will likely go unperceived.

Another risk-averting response is close supervision over the granting and use of loans. The significance of defaults in SF credit programs should not be under-estimated, for after all, if a credit program loses too much money, it will have to go out of business. Still, it is altogether possible to place too much emphasis on default, to the point where all other aspects of a credit program are forgotten. There are two factors which may lead to this myopia. One is an underlying assumption that farmers would not use credit for productive purposes without supervision, and therefore would otherwise be unable to repay the loan.

The second involves the bureaucratic need to measure performance in some way that has an aura of objectivity and exactitude. Increase in the agricultural productivity of clients might be a good measure to use, but a much easier one is the default rate, which requires little work outside the administrative headquarters building. The credit agent's retention and promotion then come to depend on keeping low the default rate in the loan portfolio that he is managing. And just as the SF worries about how the atmospheric weather will affect his crop, so the agent worries about how the bureaucratic weather from above will affect <u>his</u> crop, that is, his career. The agent responds to the worry by averting risk, which means minimizing the default rate, or at least showing that defaults happened despite his precautions.

For these risk-averting reasons, the agent will want to lend only to "creditworthy" people, or in other words big farmers, even though paradoxically it is the big farmers who are often the worst defaulters in actual fact (Lele). The results of the emphasis on "creditworthiness" are doubly perverse from the equity standpoint. To begin with, the bigger farmers are already getting what amounts to a subsidy from the small farmers who repay their loans while the big men do not. Then when stiff collateral requirements are imposed for the sake of "creditworthiness," the SFs get eliminated from the credit program altogether. The rich are thus twice favored: not only do they default more, but they also get most or all of the loans.

An important question is whether or not the additional administrative costs of supervision are proportionate to reductions in the risk of possible default, or how effective supervision is in reducing the default rate. "Supervision" has become something of an article of faith, however, and there are few indications in the Country Papers that it is examined very instrumentally. A cultural perspective on the lenders' behavior suggests that complex application procedures and evaluation of creditworthiness have more than a few elements of ritual, whereby a greater probability of success is thought to be assured if all the prescribed practices are strictly adhered to.

<u>Social Organization</u>

While the forms of organization differ among various credit agencies, they can be described as "bureaucratic" with at least as much confidence as the farmers' communities can be called "traditional." Each designation somewhat obscures the range of variation, yet each suggests a fairly common set of organizational forms and behaviors. There are several implications which follow from the "bureaucratic" organization of credit programs. In the first place, they have a formal organization chart which establishes a hierarchy of positions. Authority flows from the top down and the delegation of power may be such that actual control remains at the top, on the underlying assumption that knowledge and ability increase as one goes up the hierarchy, and that the whole represents a system which should operate smoothly through a chain of command. Formal sets of procedures minimize ambiguity in decision-making and presumably standardize the activities of the agency. These procedures are determined by the authorities or experts at the top who are also most distant from the actual relationship with the borrowers. The nature of these procedures can generally be described as meeting criteria important to the internal functioning of the credit program; to the borrower, and perhaps even to the field representative, they are most appropriately called "red tape." There is a penchant for government programs to require large amounts of information, more than can reasonably be used. (Els.where we have argued for "optimal ignorance"--cf. Ilchman and Uphoff, pp. 260-262.) These programs also commonly disperse more information than is useful, as when credit programs as a matter of routine send written reminders to farmers who neither read nor write. It is unusual for such organizations to decrease the amount of information handled, though the advantage of reducing administrative costs has prompted some banking systems to do so when dealing with small farmers.

As a bureaucratic system, the requirements for staffing the organization chart are also formalized. There is considerable concern with the level of formal education achieved by staff members. College degrees become badges for <u>ascriptive</u> status, crowding out consideration of promoting less-educated staff members whose only claim is achievement or accomplishment on the job. Almost every Country Paper mentions the need for more qualified staff members, but only a few mention that members of the educated elite, often drawn from urban areas, have difficulty in communicating with the rural poor or in winning their confidence. Performance criteria in staffing give way to formalistic criteria, to the detriment of the credit program which needs persons who can understand the small farmer's language, community, perceptions, and needs. It is common for field officers to adopt an impersonal and official stance (even uniforms in some cases) vis-a-vis the borrower, thereby hindering communication, despite the obvious need for two-way information flows.

Bureaucratic culture can become rigidified from either the top or the bottom. Whether or not staff members are expected to address their superiors formally, how much time can be spent in informal or unstructured discussion of program problems, how rigidly deadlines for particular activities are enforced--all of these hierarchically imposed norms of behavior affect the morale of the staff and the factual knowledge of program leadership. If credit is late in reaching the farmer and this becomes a consistent pattern, then it also becomes the "norm," supported by informal understandings and unofficial rules followed by the personnel. Changing this pattern can be as difficult as altering the "traditional" planting date for a particular crop.

On the other hand, formal organizations which are supposed to be responsive to direction from the top have informal means of circumventing superiors' requirements. Thus, an innovative leader at the top of the agency may be as frustrated by the behavior of his staff as his field agent is frustrated by the persistent activities of small farmers, neither group being very responsive to what they see as "outside" interference in their life routines.

Attitudes and Values

Only persons can have feelings or express convictions, but organizations come to embody and reinforce individual attitudes and values. These attitude sets, along with individual cultural backgrounds, greatly affect agents' abilities to deal with SFs.

Staff members who are members of an educated elite very likely will have an attitude of superiority to their clients and be reluctant to spend much of their time in the field, for they aspire to a white collar job and find visits to small farms demeaning. These feelings, whether inadvertently or openly, are communicated to farmers. Other attitudes are also communicated to the farmer--whether or not the agent sees credit as a productive input for agriculture or as a transfer payment or as an effort to gain political support in the rural sector. Ethnic differences between lender and borrower can exacerbate the effect of negative attitudes.

An important part of the culture of the credit organization comes from the particular assumptions and attitudes of agency personnel. In the Morocco study, it was mentioned that the staff tends to be highly authoritarian and emphasizes centralized control. This partially reflects the basic attitudes of Moroccan society and the value placed on strong masculine identity. Most papers failed to mention any basic relationship between the cultural values of the wider society and the norms of behavior exhibited within the credit program, though it is surprising how similar most bureaucratic credit programs are despite cultural differences among their environments.

The central concerns of credit programs seem to revolve around the financial aspects of their operations. Evaluations tend to concentrate on efficiency within the organization, the number of loans made, and bookkeeping. Less attention is given to the actual changes which occur at the farm level. Very little data were reported in the Country Papers which could measure the increases in production achieved through the use of credit, or the effectiveness of introducing new farming practices. Some Country Papers did mention that loans were too small to accomplish the kinds of changes in farm practices envisioned by designers of the program. What we observe is an encapsulization of the program whereby the internally accepted norms displace and substitute for external standards. The basic point to be borne in mind is that a credit program in terms of structure and values constitutes a cultural system of its own and needs to be seen as such when examining its effectiveness with small farmers.

PART IV: INTERACTION BETWEEN BORROWERS AND LENDERS

So far, borrowers and lenders have been discussed as two separate groups. In examining the interaction which takes place between them, our emphasis is on differences and on potential problem areas. This accentuation of the negative is deliberate, as it highlights ways in which misunderstandings and difficulties are most likely to arise.

There are several general elements necessary for a successful borrower-lender relationship. First, real economic opportunities must be available. These will be determined not only by the use of new inputs, but also by marketing facilities, prices, storage and transportation. The availability of economic opportunities is necessary but not sufficient for a successful credit program. There must also be effective communication if the farmer is to accept and follow the procedures required by the credit agency. Third, mutual trust and reliability are essential. Credit or other inputs must be available when the farmer needs them, and reciprocally, the farmer must repay his loan. Both parties need confidence in the other, but it is particularly important on the farmer's side since the burden of change is on him.

General Factors

Both farmers and credit agencies attempt to avoid risks, but the types of risks each will face differ. The farmer is concerned with anything that would reduce his productive capacity below subsistence level. Therefore, he is primarily concerned with access to resources, labor, weather conditions, and the like. Credit agencies, on the other hand, are concerned about sources of funding, insuring repayment, government support, and adequate accounting.

Political pressures acting on the credit agency affect the farmer only indirectly if at all. The farmer is much more responsive to local political pressures within his own community and may be only vaguely aware of political realities at the national level. The credit agent, conversely, is sensitive to national politics and may be only vaguely aware of the local political situation.

Changes in credit programs are rarely explained to the farmer. Reorganization and the creation of new agencies are often due to changes in national leadership or reevaluations of national goals. Such changes do not reflect a direct response to farmers but to a group of elite planners or politicians. The farmer may come to think that government-sponsored programs come and go, that they can be expanded or withdrawn at the whim of political officials, and that such programs are thus not to be considered reliable.

Changes at the local level affect the farmer more directly. His political faction may be deposed from power locally and his claim to particular parcels of land may be contested in court. If his eldest son dies, his labor force is reduced and he must meet the additional expenses of a funeral. A farmer's expenditure and investment strategy must be hedged with such considerations. For him, the economists' clear distinction between investment and consumption is not at all so clear. His demand for credit is thus conditioned by personal and often immediate considerations.

In short, neither the farmer nor the credit agency is as responsive to the other as to the particular set of risks and considerations operating on each separately. The growth cycle of the family is important to the farmer because it affects his productive capacity. Yet the credit agency for its convenience and efficiency seeks to treat all credit applicants in similar terms, irrespective of where each is in this family growth cycle. Government funding is more important to the credit agency because this affects its lending capacity, but maintaining the agency's standing with the government is not the farmer's concern. If the farmer is unable to repay his loan when his son dies, the credit relationship fails. If the credit agency is unable to get money to the farmer when funds are curtailed (or it is forced to give a loan that is too small to be effective), the credit relationship fails.

Social Organization

The credit agent generally operates within a bureaucratic hierarchy based on formal rules and procedures. Changes in the program are usually accomplished through formal meetings held by experts and top officials. The chain of command begins at the top and moves down the hierarchy.

The farmer also operates within a hierarchy of differential status and authority, but the rules and procedures will vary according to the type of society. Leaders may have to rely on persuasion or they may be able to command. Instead of a single hierarchy, the society may be made up of a complex set of cross-cutting groups. Knowledge of various activities may pass from father to son, or it may be achieved on the basis of merit.

In the context of the borrower-lender relationship, it is the credit agent who acts as the expert. This consistently places the farmer in a dependent, client position, no matter what his status within his own community. The field agent has most likely received a degree in agriculture, but his knowledge may be restricted to that gleaned in the context of formal education if his own background is an urban center. He believes in the package that he is selling to the farmer because of his educational background. It probably falls outside his responsibilities to conduct field trials under the farmer's conditions, and he probably does not know precisely how to allow for variation in farming skills possessed by individual farmers. He may also fail to take into account the limited availability of labor during critical periods of the agricultural cycle. The field agent is convinced that the package has potential for increasing production not on the basis of the actual conditions that confront him in the field but because of his formal learning.

The farmer, on the other hand, does not have a scientific background based on formal education, yet he does have considerable expertise. He must rely on his own experience and a personal, intimate knowledge of his farm. He is also more fully aware of other limiting factors operating in his area, such as marketing conditions, unavailability of labor, the likelihood of poor weather conditions, inadequate water supply, transport difficulties, and so on. The two individuals in the credit relationship will have different images of what the real economic possibilities are and what are the critical limiting factors. The credit agent will understandably emphasize the importance of that factor over which he has some control, but this will not necessarily persuade the farmer that credit will solve his problems.

The real economic opportunities will remain obscure to both the farmer and the field agent until the package is actually tried. But the interaction described above has obvious implications for the effectiveness of communication and the establishment of mutual trust. If the relationship is predominantly an expert-to-client interchange, the flow of information will go in one direction only. The farmer may be intimidated by the status differential. He may adopt a subservient stance vis-a-vis the agent, accepting formal education as a sign of superiority, as does the agent himself. The farmer probably asks few questions or raises few issues on his own initiative. At the same time, the failure of the agent to deal with the questions that concern the farmer may represent incompetence or an incomprehensible approach from the farmer's point of view. The farmer will not trust the agent's understanding of his farm or the other factors which limit his ability to improve his financial situation. To the agent, the farmer must appear simply ignorant and unappreciative of the scientific knowledge he brings.

The farmer may well view the credit agent as a "patron" of sorts and expect a wider variety of services and favors, while the credit agent sees his client simply as a borrower and is unprepared to become involved in local political affairs, in extending the period of a loan, or in supplying transportation. From the creditor's point of view, such activities represent a deflection from his purpose or even a form of corruption. Essentially this is the difference between multiple-tie relationships familiar to the farmer and a simple, single-purpose tie sought by the credit program.

Ethnic differences, common where agents are drawn from educationally and economically more advanced groups in the country, can easily accentuate the gulf between lender and borrower. Language may prove a difficulty and complicate the problems of communication. Invariably, it is the borrower who is forced to speak the lender's language, rather than vice versa thereby introducing a distortion into their relationship beyond misunderstandings due to inadequate expression of meaning in a different tongue. Beyond this, field agents generally tend to concentrate their efforts on groups which share their religious beliefs, their language, or their ethnic identity.

Particular aspects of the program design can create a negative response on the part of the borrower. Surprise visits to his farm may be demeaning or simply inconsiderate if he feels obligated to extend hospitality in ways that are not easy to arrange on the spur of the moment. In societies where great respect is accorded to the elder person, accepting instructions from a young field agent reflects badly upon the older man who accepts such advice and supervision.

It has already been stated that supervision and the establishment of farmer cooperatives are largely responses to risk on the part of the credit agency. Again, these actions are not responses to farmers' demands but to the internal needs of the credit program. In other words, these decisions typically follow the top-down planning process so characteristic of bureaucracies. It is not the farmer who initiates the demand for supervision and cooperatives, but the experts. It is the lenders who define what constitutes "legitimate" uses of credit and then try to enforce that definition. Farmer cooperatives become a prerequisite for obtaining a loan under some programs in order to reduce administrative costs and generate peer group pressures for repayment. While farmers may join such formal structures in order to qualify for credit, there is little reason to expect that such organizations by themselves will develop the informal leadership or appropriate structure which would make the cooperative effective.

Cooperatives are not the only aspect of credit programs that have failed to engage the active participation of the SF. In fact, he is systematically excluded from all decision-making processes and planning though there are a few programs which provide a position within the organizational chart for a farmer representative. However, any farmer who sits at meetings with high ranking officials suffers the immediate disadvantage of low status. It is likely that the farmer feels the inferiority of his position and may well speak only when asked a direct question. It is also likely that he will be co-opted to the point of view of the official experts, in which case he becomes less a representative of an alternative set of interests or experiences than a member of the organization itself.

By any formal criteria, the farmer possesses less expertise than any member of the credit agency. It follows that the farmer is not expected to know how to improve the agency's operations. If there are problems, experts are consulted and not the clients. We have mute evidence of this in the Spring Review itself; in all the pages compiled and all the research carried out for the Country Papers, how many borrowers' opinions have found their way into the reports? Not having access to the field, we are not in a position to generate such information ourselves but we sorely feel the lack of it. It might have been even more useful if farmers who do <u>not</u> seek credit from formal sources had been asked why they did not do so.

Attitudes and Values

Attitudes toward work are important for both borrowers and creditors. Such attitudes will directly affect the reliability of the farmer in his use of credit, and also the reliability of the credit agent in administering credit. Many attitudes toward work are associated with prestige factors, and neither party in the credit relationship will be anxious to undertake tasks which are demeaning to their status. We would note that criticisms of persons "not working," "not innovating," "not taking risks," etc. are applicable to lenders as well as borrowers.

Mutual images of the other party, if negative, can seriously impede credit operations. To reiterate some of the possible images of the credit agent, the farmer may see him as indifferent, incompetent, inefficient, unreliable, patronizing, and an outsider. The agent may think of the farmer as not only ignorant but stupid, tradition-bound, lazy, irresponsible, inferior, and lacking ambition or motivation.

Other important differences in attitudes and values are presented in the following list which contrasts alternative perspectives of borrowers and lenders.

Things seen by	Borrowers as:	Lenders as:
CREDIT	Debt or a government grant	Productive input or a means for teaching good credit habits
MULTIPLE TIES	Meaningful involvement	Deflection or corruption
UNIFORM TREATMENT	Arbitrary, failing to take extenuating circumstances into account	Fairness, avoiding the debilitating effects of "special favors"
SUPERVISION	Control by outsiders, patronizing, demeaning	Assitance for farmers to use credit productively

It should be clear that the discrepancies in knowledge, behavioral expectations, and cultural background all contribute to the problems of establishing mutual trust and confidence.

That both sides can feel quite justified in attributing all fault to the other side derives from the cultural gulf between them. Neither understands the social organization or the attitudes and values of the other well enough to appreciate his behavior. We do not despair of improved "cross-cultural" communication between credit agents and small farmers, however, because we would expect that credit programs could, with an insight into the divergent social and cultural premises of the borrower and creditor, assist their agents to understand the differences and modify his approach to small farmers accordingly.

PART V: ALTERNATIVE SOURCES OF CREDIT

Other Analytical Papers and some Country Papers have dealt with this subject, so we need not discuss it very extensively here, but there are some observations to be made in line with an analysis of cultural and social factors affecting the small farmer credit relationship. One reason for considering alternative sources of credit here is that the farmer's environment contains numerous sources, and not, as is often thought, just moneylenders. Alternative sources of credit range from relatives, to rotating credit societies, to merchants, to moneylenders, and of course, farmers' own savings constitute one source of investment capital. Innovative arrangements not fitting any particular category are possible, like the one reported in the Country Paper on Ecuador, where a system of delayed payment for labor had been devised as a method for gaining credit.

Second, there appear to be some important reasons why a farmer might actually prefer informal sources of credit over that which is offered through formal institutions. Informal sources of credit seem to share a number of characteristics that make them appealing to the SF and at the same time differentiate them from formal credit programs. Informal sources tend to be relatively flexible and free of red tape or complicated procedures. The creditor is generally well-known to the borrower and often has additional ties of relationship to the farmer. The source of credit is nearby, the loans are unsupervised, and the farmer has more control over the size of loan he can obtain. The lender knows the borrower personally, knows his creditworthiness, and is usually prepared to give the loan when the latter needs or wants it.

In contrast, formal sources of credit tend to be inflexible and complicated. It is administered by strangers who frequently lack respect for the small farmer and behave in an impersonal and even officious manner. The borrower must frequently travel considerable distances to get the loan and also to repay it. In circumstances where the credit agent requires some "side-payment" to expedite the loan, the effective rate of interest may be substantially raised. Loans are limited in the uses to which they can be put and are subject to visits to check up on the farmer, the latter entailing status costs to the borrower. The agent controls the size of the loan, and loans may take anywhere from a month to a year to obtain barring unforeseen--and unexplained--delays. In short, the farmer has less control over the entire process and is consistently placed in a dependent and inferior relationship.

Perhaps equally important in considering informal sources of credit are the potential social or political benefits which may be gained from the economic ties maintained within the community. The local moneylender may be in a position to offer other kinds of services or favors to the farmer, while the credit agent restricts his relationship to the formal role of lending and possibly providing extension services. The outsider does not participate in local political factions nor in the competition for social status. He may be largely unaware of the subtleties of achieving upward social mobility within the local community and certainly cannot be an ally in local affairs. If the farmer should include the credit agent in the normally complex relationships in his community, this would be viewed by the creditors as an unjustified imposition or even as corruption. For the farmer, it may simply be an attempt to maximize locally defined benefits rather than subscribe to the limited goals and benefits prescribed by outsiders as being legitimate.

In case of emergencies, the local lender is very likely aware of the situation and can adjust the conditions of the loan accordingly. It would all have to be explained to the outsider, who may think it an excuse anyway, and the farmer would have to travel to the source of formal credit in order to make any changes in the term of the loan if they were permitted. Probably the credit program would not make any allowances for family emergencies such as illness, funerals or weddings, as these are seen as consumption items.

The relationship between the moneylender and the farmer is one of mutual knowledge. For his part, the moneylender does not require a credit investigation of the borrower, a formal pledge of collateral or detailed promises as to how the loan will be spent because he already has an intimate knowledge of the borrower's creditworthiness, of what can be extracted in case of default, and of how the money will be spent. The farmer, for his part, knows on the basis of empirical experience what the rate of interest will be, what the penalties for default will be, and what mitigating circumstances will be accepted by the moneylender. It is highly unlikely that the moneylender would dispossess the farmer of his land (unless property values are rising and it could be resold profitably), since the creditor earns more over the long run by being paid, in effect, a share of the borrower's output as a payment for the input of capital than would be gained from a dispossession and sale. On the other hand, formal institutions with their requirement of collateral raise the spectre that the farmer might lose his land, possibly through circumstances beyond his control.

Some Country Papers describe the moneylender as a voracious, grasping parasite who threatens to destroy the hapless peasantry; at the same time he appears to be offering credit to anyone for any purpose. It is more likely that the moneylender is a businessman who must exercise some caution and shrewdness in order to receive a return on his money. He undoubtedly screens potential borrowers on the basis of creditworthiness. While his interest rates are certainly higher than the subsidized rates offered by a government-sponsored program, they may not be greater than the opportunity cost for his capital (Long, Moneylender; Nisbet, Moneylender), and the farmer may be willing to pay the higher price for the advantages of flexibility, efficiency, and lack of supervision.

A third reason for looking at alternative sources of credit is to allow a re-examination of the assumption that SFs do not have good credit habits and will not repay loans. One of the objectives of some formal credit programs is explicitly that of teaching farmers good credit habits apart from the purpose of replacing the moneylender. It should be evident that many small farmers have considerable experience in credit relationships within the informal credit market. It is also fairly safe to assume that within this market, there are reprisals for defaults and that a person does establish a reputation for creditworthiness among his peers.

Defaults to formal credit agencies may result from a lack of creditworthiness on the part of the small farmer, or from inappropriate farm plans, loans that are too small to raise production significantly, reduction in the family farm labor force through death or marriage, or other problems at the farm level. On the other hand, it may simply be due to the fact that farmers are not penalized for failure to repay or see others who manage to evade penalty. While they may be perfectly aware of the repercussions involved in defaulting on a loan from a relative, a merchant or a moneylender, it is sometimes unclear that repayment to the government is really necessary. In a real sense, it is the government who is asking the farmer to make drastic changes in his farming practices, for the sake of national goals of increasing foreign exchange earnings, meeting production targets and improving agriculture. The farmer has probably much more limited targets which require less radical changes in his production techniques. If he complies with the changes required by the credit program, as far as he is concerned, why shouldn't the government pay for that cooperation on his part? In programs that are under pressure to meet targets set by top officials or that are involved in buying political support in the rural sector, sanctions against default tend to be weak. Under these circumstances, it is not the farmer who is acting in an irrational or noneconomic manner but the credit agency. If the farmer can get the money without having to repay, he would be foolish not to take advantage of the situation. As far as the credit agent is concerned, he has lost the money but he has met his target.

The observations are not intended to imply that informal credit is a substitute for formal credit programs. The impact of informal credit mechanisms on income distribution within communities can be quite undesirable, as those with surplus income above subsistence use it to generate still more; formal programs offer at least the possibility of more equitable distributional consequences. Beyond this, and probably more directly relevant for government objectives, the formal programs permit inter-regional transfers of funds; surplus savings in one region that has few new technological opportunities for profitable investment can be moved to another region where such opportunities abound, thereby increasing output, income and employment at least in the aggregate. Or conversely, funds could be moved in the name of equity from one region of rapid agricultural growth to another of lower growth, where opportunity costs might well be too high for non-equity oriented market forces to supply credit.

What appears to follow from our discussion is an appreciation of why informal credit channels can compete favorably, even at higher rates of interest, with the subsidized formal programs in most developing countries. The lesson we would draw is that the latter should learn some lessons from the former, indeed trying to beat the informal competition in terms of service and net benefits to small farmers. The moneylender, rich uncle or large farmer operate basically within the cultural framework of the SFs, sharing many of the same attitudes and values and being subject to the same social organization. Formal credit programs cannot make themselves part of the communities in which they operate; this would be expecting too much. But they can follow different organizational rules, recruitment practices, group norms and so forth to reduce the socio-cultural differences that now hinder formal programs.

PART VI: IMPLICATIONS

(1) The foregoing analysis implies most clearly the importance of questions pertaining to cultural and social factors. They are as important as the questions raised by economists with respect to economic returns, technical co-efficients, market demand or pecuniary profitability. For a given environment, there is such a thing as cultural or social feasibility which even takes precedence over economic feasibility because the viability of a particular "economic" undertaking depends on supportive behavior of individuals and groups, which may not be forthcoming because of cultural and social factors.

(2) A second implication, stemming from the fact of great variability in cultural norms and social structures, is that very specific knowledge of local conditions is needed for operation of a "successful" credit program with small farmers. Local conditions vary in complexity, immutability, etc., but they are in any case diverse. Programs designed for a whole country, or even for a whole region, are likely to be inappropriate and unproductive in certain localities because they do not "fit" with particular patterns of family organization, ethnic relations, power structure, or community attitudes.

(3) Credit programs are best seen as "add-ons" to an existing local situation, constituting only one of the many forces there, even in the realm of credit. Just as one must acknowledge in technical terms that credit affects only one aspect of production opportunities, so in cultural and social terms, credit is only a part of the matrix of individual and group interactions, economically, socially and politically. As such, credit programs have only limited ability to induce change. They should be seen as an influence rather than as a lever. This view does not make them unimportant but only counsels a more realistic perspective on their potentiality for changing local economic, political and social relationships.

(4) Beyond this, it would be useful to consider alternative designs for credit programs which would take social and cultural factors more fully into account. We are struck by the basic similarity of practically all the credit programs reported in the Country Papers--essentially hierarchical, bureaucratic, "professional" activities attempting to manipulate small farmers' behavior with little or no feedback from

farmers themselves. We are not in a position to re-design credit programs but we can see from our analysis how consideration should be given to modifying the hierarchical lines of authority and communication, reducing status differentials between agent and farmer, involving farmers in credit decision-making in a substantive way, recruiting credit agents more from local environments, changing incentive structures to make agents more responsive to local communities, dropping or greatly modifying the "supervision" function of many credit programs, etc. Credit programs design is clearly a responsibility of national governments, but donors could themselves be more receptive to or encouraging of innovative efforts.

(5) We would want to state also the implication coming from our analysis that in some circumstances formal credit programs for small farmers may not be feasible. Even if credit were an economic panacea--which it is not--in some communities or situations, social norms or group organization are adverse to the operation of externally-sponsored, formalized institutional credit activity. This should be recognized and accepted. Probably the most common cause of such infeasibility will be the existence of a local power structure which short-circuits any effort to get resources to the small farmer or to preserve the benefits of innovation for him. Supporting farmer organizations as a separate rural development activity may be one way of affecting local power relations, which once altered may make a credit program viable. But it is unlikely that credit programs on their own can alter the local situation or achieve developmental objectives in rural areas where social structure and group norms are otherwise unsupportive.

We recognize that these are not especially encouraging implications. In part they reflect the caution which comes from "taking everything into account." Our intent is not an immobilizing one, however. The "successes" chalked up in 20-25 years of experience with credit programs are more likely than not to have been scored in terms of internal, organizational criteria, rather than effective economic, social and political change at the community level. Thus these implications seem to be supported by the weight of experience thusfar accumulated, and the stock-taking and impetus for re-design and re-direction of credit programs signified by this Spring Review seems quite appropriate.

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