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INFORMAL CREDIT

TO THE CAMPESINO WORD OF HONOR IN MEXICO

ANADEGES' past experience and future plans

Dr. Rodrigo A. Medellín

October, 1989

The ANADEGES Group is a network of some 20 autonomous NGOs that work mostly in the rural sector of Mexico, in support of peasant (campesino) and indian groups, communities and organizations. It began in 1982, from three pre-existent NGOs. Anadeges in a nutshell:

Theoretical framework. A new social phenomenon is emerging in the South: a massive transit of people from traditional poverty to modern deprivation. Their economy is like a barrel they keep trying to fill up with water (fruit of their labor); but adverse socio-economic forces have bored many holes in the barrel. As the water is poured in, it flows out. The barrel is always empty, and the resources flow to other social sectors: "modern" urban industry, capital flight, transnational corporations, government corruption, international transfers, etc. Generally speaking, each type of campesino interaction with modern economic markets opens a new hole. As a result, the productive capacity of the rural sector has collapsed, and a social macro-crisis has ensued.

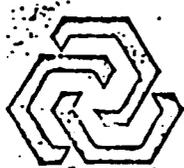
Invalid solutions. Many "rural development" projects simply try to pour more water into the empty barrels, without having closed the holes. This is useless; still worse, the holes usually grow bigger. On the other hand, gigantic development programs --many financed with foreign aid-- are like tornadoes that simply wash away the barrels: they completely destroy the campesino economy. In both cases the poor become more deprived.

A different approach. Each of the Anadeges organizations tries to act as a plug campesinos can use to counteract adverse forces and close barrel holes. So far the results have been encouraging. Free from these resource drainages, people are better able to satisfy basic needs, and define more freely their own life-style.

Assumptions. After years of working in the country side, Anadeges has confirmed that: 1) in general campesinos are well organized for whatever is possible at any given moment; 2) they are aware of their plight, and struggle very hard to close the holes in their particular barrel; 3) they don't always have the necessary means to do it successfully. Consequently, they need external complementary support, in their own terms and for their own purposes, especially in their dealings with the "modern" sector.

Methodology. Anadeges has designed a number of specific programs to provide this external support --appropriate technologies (AT), among others. But it never promotes the campesino participation in its projects. Quite the opposite: Anadeges informs campesinos, and their local advisor(s), of the menu of programs, and waits. If invited to participate in the campesino struggle to close holes, Anadeges tries its best to respond rapidly and efficiently, but always in a subordinate position and with a low profile.

Internal organization. Anadeges has both regional and specialized organizations: credit, AT, marketing of produce, training and technical assistance in agriculture, husbandry, forestry, legal advice... Activities are coordinated around specific campesino controlled projects. Women and environment are special concerns.



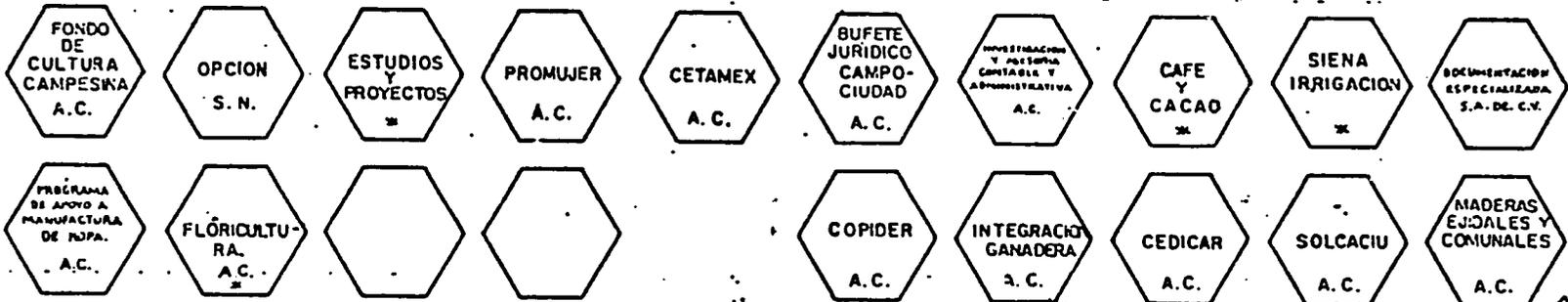
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AUTONOMIA, DECENTRALISMO Y GESTION

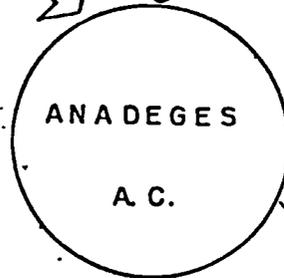
ASOCIADAS REGIONALES



ASOCIADAS ESPECIALIZADAS



EJIDOS COMUNALES ORGANIZACIONES MOVIMIENTOS CAMPESINOS Y SUS ASESORES



ASOCIADOS POR CONSTITUIRSE



COPIDER

COMITE PROMOTOR DE INVESTIGACIONES
PARA EL DESARROLLO RURAL, A.C.

COMISION DE INVESTIGACIONES, ASESORIA Y APOYO TECNICO.

COPIDER'S INFORMAL CREDIT PROGRAM TO THE CAMPESINO WORD OF HONOR

Within the organizational context of The ANADEGES Group, and its theoretical and methodological framework, COPIDER has managed a program of "credit to the campesino (peasant) word of honor" for small projects they define themselves --it is a credit with no guarantees, no collaterals, except the basic trust on the trustworthiness of the rural poor. For this purpose a revolving fund was established with foundation grants. Since December 1982, over 550 small projects have been funded. The program has been well received among campesinos, and the results have proved quite encouraging.

Some traits of the COPIDER credit approach are:

A. Assumptions:

1. Generally speaking, campesinos were trustworthy: they pay their credit if they have the resource. In other words, repayment of a loan is conditioned only to the availability of funds, and would not be hindered by greed or dishonesty. Their word of honor, along with a sense of class solidarity are the best guarantee.
2. In Mexico, most campesinos operate in part within a cash economy. They were accustomed to handling money and to keep simple accounts.
3. They are productive: their economic activities do yield results. The problem is that most often they do not see that surplus materialize into profits --income minus expenses--, because of the great number of mechanisms of surplus extraction they were subject to --holes in the economic barrel.
4. They know what they are doing. Campesinos have remarkable skills in their traditional activities, which in themselves are extremely complex --not having gone through a "job simplification process" so characteristic of industrial work. But they don't easily venture into unknown areas.
5. Consequently, if they are allowed to define themselves their own projects, they will always come up with sound, viable proposals of things they can manage themselves. They hardly need technical assistance, supervision or other kind of interference.
6. Most campesino organizations are strengthened by the frequent presence of local advisors to campesino organizations -- persons with permanent residence in the area, well in tune with day to day processes, and strongly committed to the organization's cause.



B. Methodology

1. Through formal and informal means of communication COPIDER announces the program. Initially a sheet with information was circulated. Later, knowledge of the program was extended by word of mouth.
2. COPIDER never promotes the program, but rather waits for campesino organizations to take the initiative. Following guidelines defined in the information sheet, campesinos formulate their project --with the assistance of a local advisor-- and, after requesting an appointment by phone, bring it to COPIDER's Mexico City office, or to a regional organization of ANADEGES.
3. Normally, COPIDER's credit committee performs a very rapid evaluation of the project --usually they are very sound, straightforward projects-- write down the basic information of the group or the organization, and makes an immediate decision, on the basis of criteria previously established. The process should take no more than 4 or 5 hours. If the group's representatives arrives at 9 a.m., they are normally out by 1 p.m. check in hand. (Only when the projects are more complex do we take additional time to have them evaluated by an expert on the subject.) COPIDER can do this because it works through a vast network of people with existing relationships with autonomous organizations in the rural sector. To a certain extent COPIDER knows "who is who" in rural Mexico, and has a "chain of trust".
4. If the group needs any other assistance to complement their local or regional human resources, it is referred to the relevant organization within the ANADEGES network, or elsewhere.
5. The loan is granted on the basis of the campesino word of honor. That means COPIDER trusts campesinos not only to repay the loan, but to make good use of the money for whatever other activity is beneficial to them, besides the approved project.
6. Having agreed on the date they are to repay the loan, COPIDER sends a letter or a telegram ahead of time to remind the group of its obligation.
7. It is very strongly stressed that COPIDER is not a bank, that this program is a Solidarity Fund for campesino projects, and that when a group repays a loan, that money immediately goes to another group or organization. So if they delay the payment, they as campesinos are hurting other campesinos. (This is a strong motivation.)
8. COPIDER's loans, along with other elements contributed by the ANADEGES network to the campesinos project(s), should enable them to retain an important share of the economic surplus they produce (but have lost up to now), and to increase it. In that sense, COPIDER's and ANADEGES' assistance should enable the campesino organization to begin a process of self-sustained resources accumulation. Consequently, we warn the group that as

far as credit is concerned, COPIDER will lend money to them only once. Subsequently, they must manage with their own resources or gain access to bank loans. Thus, COPIDER avoids being burdened by a captive clientele and is constantly able to support new groups.

9. In some cases COPIDER has received a loan application from a group in extreme poverty, with meager natural resources, and consequently with very low likelihood of repaying a loan --but with potential because of its organizational process and fighting spirit. In such instances COPIDER refers these groups to foundations that can provide them with a grant to start a process that might later enable them to work on credit. In cases that are not as extreme, COPIDER compensates the burden by reducing the rate of interest charged on the loan.

C. Projects funded

Funds were provided for agricultural, live-stock, forestry, small agroindustries, hand-crafts, marketing, mining, services projects, basic staples supply programs, among many others. Practically anything that was of interest to campesinos COPIDER has funded. Nearly 40% of the projects have been for production of basic staples, especially corn.

COPIDER has provided credit to a wide gamut of campesino organizations: ejidos, unions of ejidos, communities, cooperatives, women's and youth groups. Loans in COPIDER's current program range from \$100 to \$4,000 with an average of \$1,200.

Projects financed are spread through 20 out of 32 states in Mexico, but are concentrated in five --Guerrero, Michoacán and Oaxaca make up 50%, and the figure rises to 75% when Tlaxcala and Guanajuato are added. These states represent areas that are relatively poor, have a high percentage of campesino populations, and are characterized by more initiative and peasant mobilization than other parts of the country.

D. The impact on the campesino situation

It is obviously impossible to assign the effect of a complex campesino process to a single variable such as a loan. Moreover, the theoretical framework indicates that many factors have to be present for the loan to have a positive impact. Yet, assuming the presence of those other factors, the credit resources become a critical factor, and one that breaks bottlenecks, complements idle infra-structure, provides initial momentum, etc.

Within this framework, the initial assumptions were validated. The impact of the program among campesino groups ranges from good to outstanding --with a few failures. The rate of repayment was higher than expected --above 90%. The program has been successful in benefiting groups that had truly been excluded from institutional financing.

INSTITUTIONAL CREDIT
--AND TECHNICAL ASSISTANCE--
FOR INFORMAL CAMPESINO ORGANIZATIONS

By late 1985 the COPIDER program had been so successful, that the demand for this type of credit had grown beyond the institution's capacity to raise funds for it. Two steps were taken: First, the idea was suggested to other organizations within ANADEGES --so far there are three more such programs: Oaxaca-Chiapas, Guerrero, Coahuila. It was also proposed to several state governments. By now over 10 states have adopted it.

Second, ANADEGES decided to launch a larger, more ambitious program that could tap on bank and other institutional funds, to expand its capacity to mobilize credit for campesino groups that have no access to banks, along the same guidelines as the COPIDER credit program. It took over three and a half year to be set in place, but it is now operational.

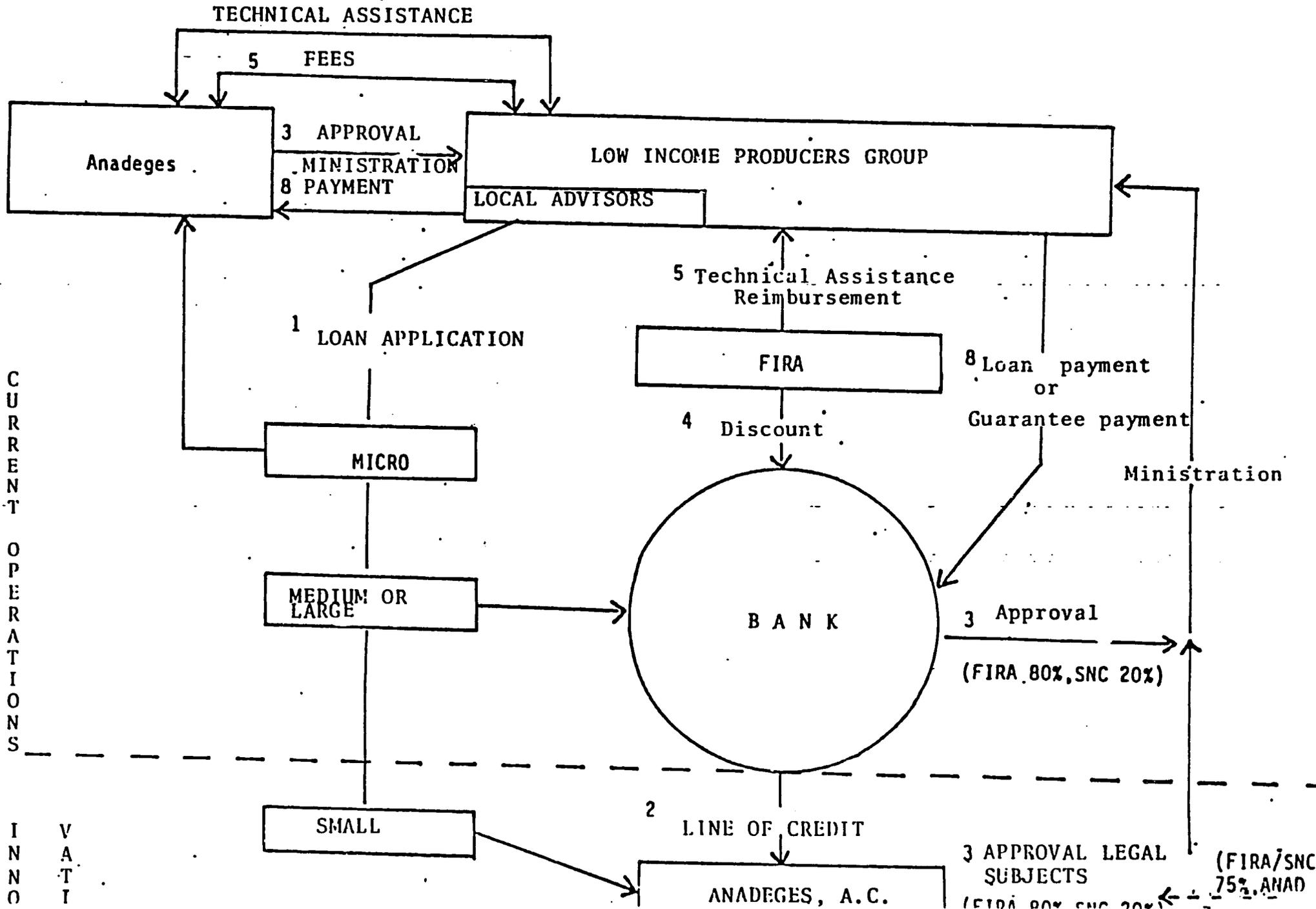
- A. Bank credit to campesino groups that do not meet the legal requirements of banks.

ANADEGES, A.C., has signed an agreement with FIRA (Fideicomisos Instituidos en Relación a la Agricultura) a trust fund of the Mexican government in charge of providing incentives to banks so they grant loans to low income rural producers. In the agreement a very innovative provision is included, that enables banks to make small loans (up to US \$6,000) to campesino groups that are just beginning their development process, that have an economically viable project, even though they might not meet the legal requirements (be formally established as a credit recipient according to Mexican law). They have been called "Precarious Subjects". The agreement establishes that the bank will be able to lend the money on the basis of a 100% guarantee (75% from ANADEGES and 25% from FIRA). ANADEGES provides the technical assistance for the projects. Once the groups acquire the necessary legal status, the terms of the guarantee will be reversed (ANADEGES 25%, FIRA 75%). Previously, these groups had absolutely no access to bank credit, or they had to wait many months, to achieve their legal status, before receiving the credit.

So, with this arrangement the group receives the credit first, and then goes through all the red tape necessary to acquire legal status. Thereafter, the groups will have all the necessary requirements to have access to bank credit, and the bank will have a credit record of the group.

See diagram in the following page.

COMPREHENSIVE CREDIT PROGRAM FOR POOR CAMPESINOS



-8-

B. Grants and Loan Agreement with the Ford Foundation

Since ANADEGES has no capital of its own, it required funds in order to provide guarantees for bank loans to these precarious campesino subjects. We have just closed an agreement with the Ford Foundation in New York. This Foundation has made an interest free loan to ANADEGES for US \$500,000.00 for a seven year period, to be kept in an investment account in a N.Y. bank, plus a grant of \$50,000.00 as a loss reserve fund (to cover the guarantee in case of a loan default), plus a grant of \$290,000.00 to cover the operation costs of the program (administration, technical assistance) for the first three years. Besides, the interests earned by the \$500,000.00 in N.Y. will be channeled partly to the loss reserve fund, and partly to cover the costs of technical to the projects, and legal assistance for rural groups to acquire legal status.

This program is already in operation, and is having excellent results in terms of helping campesino organizations to improve their productive capacity and their quality of life.

C. Need for complementary resources: Revolving fund for bridge loans

To attain full efficiency in the bank program, Anadeges is looking for a grant of between US \$150,000 and \$200,000 to establish a revolving fund for providing bridge loans to rural groups that have requested a small loan to a bank within the FIRA-ANADEGES program, in order to respond with greater speed and opportunity to their needs. Once the bank has granted the loan, the money would be returned to the revolving fund.

FUTURE PLANS TO EXPAND INFORMAL CREDIT

Most of the organizations of the rural poor belong to what has been called the "informal" sector. It is appropriate to provide them with formal (legal) status when their production activities will be formally linked with the "modern" sector, and will be requiring frequent and growing amounts of bank credit. But, when they only need a few, relatively small credits, it is wiser to keep their informal nature informal.

Since that is the case of thousands of groups in Mexico, ANADEGES is looking for an opportunity to expand substantially its programs of informal credit through one of the two following systems, or a combination of both.

A. Informal credit through a program of bank disintermediation

1. Agreement with informal Loans and Savings organizations.

There is in Mexico a large network of so called Cajas Populares de Ahorro (CPA, or Popular Savings Cashboxes) a kind of informal loans and savings (L&S) organizations, that receive savings from its members (mostly in small or medium size cities) and, when the need arises, provides them with loans. In practice, they have larger savings than loans. The excess resources they now deposit in bank; the banks in turn lend that money to urban industry or to the public sector. It never returns as loans to the rural poor, for example. ANADEGES will suggest to CAP that part of that excess cash be lent to groups or organizations of the rural poor for their own small self-help projects (up to US \$10,000 per group), at the same rate of interest it now receives from banks, and with a guarantee of 100% from ANADEGES, who would also provide the technical assistance. Thus, informal rural groups would receive loans while maintaining their informal status.

2. Guarantee Fund

To establish a Guarantee Fund for this program, ANADEGES would be looking for an interest free loan anywhere from 2 to 5 million US dollars, to be deposited in a bank abroad for a 10 year period, plus a half a million dollar grant to establish a Loss Reserve Fund. The interests earned by the Guarantee Fund would be used in part to increase the Loss Reserve Fund, and in part to cover technical assistance and administrative costs of the program. After 10 years the loan would be returned.

With this we could have the two situations covered: the groups that will be requiring bank loans for a long time, and the groups that only need credit on a limited basis.

B. A large loan for COPIDER style credit programs "to the campesino word of honor."

As a final stage in this expansion program, ANADEGES is looking for the opportunity to receive a large loan (5 to 10 million dollars) to be used in COPIDER style credit programs in the different regional organizations of The ANADEGES Group.

Two problems have to be solved:

First, most sources of these types of funds are international agencies that deal only with national governments. Therefore, the loan would have to be channelled through an agency of the Mexican government.

Second, these type of loans are usually granted in hard currency. ANADEGES would be hard pressed to repay in the same currency, if the credit program is for low income producers, at the same subsidized interest rates fixed by the Mexican government.

ANADEGES has explained these two problems to FIRA, who has agreed in principle to be the government agency that receives the loan, insures it against currency devaluation, and channels it in Mexican pesos to ANADEGES. At the maturity of the loan, ANADEGES would repay FIRA in Mexican pesos, along with the agreed interests, and FIRA would repay the foreign lender in hard currency, with the agreed interests.

ANADEGES is now looking for the possible source of this loan.