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DEVELOPING EFFECTIVE RURAL CREDIT INSTITUTIONS

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1

Developing Effective Rural Credit Institutions

Back in the mid-thirties, about 32 years ago, we started a program of supervised credit, a program of trying to combine credit and some professional counseling into an effective tool in the elimination of rural poverty.

Speaking frankly I must say that we have been only moderately successful. Half of the poor people in the United States today live in rural areas. And rural areas hold far less than half the total population.

These are not statistics that we can use to claim total victory.

But we can use this admission of the fact that we do have rural poverty and rural problems, as an introduction to some remarks we would like to make about rural institutions and rural credit systems.

For we would hope that in so doing you would understand that when we espouse some ideas and propose some principles we are doing so in a spirit of humility.

The most that we can really claim is that our programs have been successful in varying degrees. We can not possibly claim that they have been completely successful. And of course we would not

attempt to claim that what we have tried to do with some success is necessarily the solution to another country's problems.

Within this framework, allow me to talk about some of our ideas, our dreams, our suggestions.

We noticed back in 1934, and we have continued to observe, that the other lending institutions do not fully meet the needs of the rural community.

We were not alone in making this observation. Obviously others made the same observation or our organization would never have been brought into existence.

Obviously others have noted through the ensuing years that there were areas not served by other credit systems, otherwise our activities would not have been enlarged and expanded.

In short, you could describe the role of the Farmers Home Administration as that of an agency that fills the gap left by other credit agencies in serving the needs, of the poor, the distressed, the handicapped, and in general the "little fellow" in rural America.

This is not a bad definition for it creates a strong if somewhat blurred image of an agency that is on the side of justice and right.

It is a poor definition in that it in no way explains just what it is that we do.

We will come to a more detailed description of all of our activities later.

But right now pursuing the line of thought that I have established let me tell you some more about my kind of agency.

I believe that the role of an agency devoted to rural development is the role of ferreting out and interpreting the needs of the disadvantaged.

The poor do not have pressure groups.

At least they should have skilled counsel at the bar.

Through the years we have attempt to perform this function.

In the very beginning my agency was created by an Executive Order of President Roosevelt. And that was as it should have been.

The rural poor in the thirties did not have lobbyists to represent them in Washington.

So the President represented the rural poor before the committees of Congress.

This happened again in 1937 when the law was passed that led us to make 100 percent loans to tenant farmers repayable over 40 years at three percent interest for the purchase of farms.

That law came about because a Presidential Commission served as a focal point for all of the liberal groups that abhorred the plight of our tenant farmers.

The tenant farmers did not come to Washington to lobby in their own behalf.

The same procedure is taking place today.

In the past five years some amazing changes have taken place in our authorities. We have been given authority to serve a wider band of family farmers including part-time farmers and farmers with very limited resources. We have been given authority to make loans to families at the bottom of the economic ladder for a wide variety of purposes including small businesses and service trades. For example we now make loans for machine repair shops, for fishing boats, for country stores.

We have been given authority to make loans for housing adapted to the needs of elderly people, for farm labor housing, for housing projects in which low-income families build the houses and we

furnish the materials and the supervision.

We have been given authority to make loans and grants to poor communities that need water and sewer systems.

All these, and more, authorities have been given to us.

And by and large they have been given because we pointed out the need.

Today as thirty years ago, the people at the bottom of the scale do not have lobbyists in Washington.

There is, today, an awakening taking place among the low-income people in the United States. They have spokesmen today that they lacked even two years ago.

Perhaps in the future in my country the poor will be able to express their needs in a highly audible fashion before Congress.

But that has not been the case in the past.

And until that day comes I believe that a basic function of an institution concerned with rural development is to represent its rural constituency in whatever chambers a hearing is granted. But especially in Congressional chambers. And such an agency must go

beyond making recommendations for basic legislation. Such an agency must review existing legislation each year and suggest needed modifications. In other words such an agency must make way for tomorrow, such an agency must challenge the status quo.

I also believe that a rural development agency to be successful must be staffed with a rather special type of person.

First of all its members must be for the most part rural people, born and raised in rural areas. There is absolutely no substitution for this. We see today in Washington urban people who with all the good will in the world try to understand and even prescribe for, rural problems. These people are doomed to failure.

In addition a rural development agency must have a staff that is well trained. Rural problems are not to be handled by amateurs.

And the staff members must have analytical minds and be able to work with people and be interested in people.

Moreover such an organization must have both authority and technical skill.

I cannot overstress this point.

To have the authority to make loans in rural areas for farm development, for housing, for community development and to lack the technical skill to determine whether or not such projects are economically feasible or to lack the skill to motivate the people concerned is to waste the authority.

Conversely to have the technical skill to farm and to build houses and to give instruction in these fields is of little use without the authority that comes when you can provide the credit needed to carry out the projects planned.

Too many technicians, lacking the authority, also lack the discipline that the authority brings with it, and lacking this discipline dream impractical dreams and give impractical advice.

Equally important, is that a rural development agency must have its authority properly distributed at various levels. To the maximum degree possible authority should be delegated to the field level, to the office that is in direct contact with the rural people served. To the maximum degree possible the remaining authority should be delegated to the offices that supervise the bottom echelon. And this principle should prevail until the top group has little if any authority in making day to day decisions.

I believe that generally speaking in a rural development agency the policy that governs the agency's activities should be formulated at the national level, executed at the field level.

Now what we have just said infers that the field level offices will make most of the decisions.

How can these offices be equipped to perform this service?

By a carefully worked out set of loan making and servicing procedures.

We believe that with, of course, the proper training you can place a man in a field level office, give him a proper set of guidelines and turn him loose to help local people solve local problems.

We have tested this theory for 30 years. It is sound.

Another governing principle for rural institutions is that they must conduct their affairs so that the benefits of rural development accrue to the people who were responsible for the development and not to some distant landholder.

This also is not an easy principle to apply. If a tenant is to improve his land and benefit from the improvement, the lease he

holds to the land must provide for this benefit. Written leases are not easy to amend. Leases in too many cases are oral.

And overall a rural development agency to gauge its function and measure its effectiveness must look at the whole community, not just at a series of projects.

What matters the success of an improved leasing project if the area is being by-passed by the scheme for improved roads?

What matters if new homes are built or old homes are improved when markets are dwindling?

Every thing that is attempted in terms of building up farms and rural communities must be attempted within the framework of the entire community.

This is not to say that any one project should be discontinued because one or more sectors of the environment are weak.

Rather that projects should be devised to raise all related sectors of a community.

This does not necessarily mean master planning: though overall planning is desirable. It means applying common sense judgment. It means being aware of all that is going on in a given community.

Some mistakes should be made. Otherwise the course of action that is being followed is too conservative.

What I am saying is that in a general, broad, way, no rural development agency precedes along a given path without being aware of, and taking into consideration, all of the areas that lie along that path, all of the forks in the road, all of the bridges and all of the streams to be forded.

I would also like to point out the merits in building rural institutions that use private capital in financing rural development.

For some years now we have been able to induce private banks to provide us with the funds we need to help family farmers purchase and improve farms.

This principle of funding has now been extended to cover our housing programs and our community facility programs.

The system works in the following manner: Private investors make funds available to my agency, the Farmers Home Administration. We use the funds to make loans, we service the loans including the collection of repayments, and we guarantee the return to the private investors of their capital, with interest.

This system has several points to justify its adoption.

First of all by using private funds we are able to finance projects at a scale never possible with federal funds.

Second it enables local banks to serve their communities, develop customers and prosper without taking risks that might destroy them. For the banks are in no position to provide the supervision we give these loans.

Third it creates a public awareness of what is going on and a public support that no purely federal program could aspire to.

Fourth it draws funds out of the cities and returns this capital to its point of origin - the countryside.

Now with these broad principles stated, allow me to discuss some of the methods that we have found useful in serving rural people and their communities.

First of all we start out on the theory that we are not alone. There are scores of organizations that we can work with.

And most important of all, we have the strongest partner imaginable--the individual or the organization that wants the kind of help we can provide.

And we start with the strength gained from the knowledge that we

provide both authority in terms of funds, and technical skill in terms of farm and financial management and family counseling techniques.

I will not go into detail on the way we supervise our farm loans. You are familiar with supervised farm credit. You have demonstrated its value.

But let me tell you what happened when our agency began to expand its services from farm people to rural people as a whole.

When this expansion took place what happened to supervision?

Supervision, in our opinion, stayed.

Today in addition to farm loans we make housing loans.

With each housing loan goes detailed counseling in regard to the elements of a good house, the necessity of planning for expansion, the choice of site, landscaping, the merits of one type of building material versus another, the earmarks of a good floor plan.

And when the house is under construction our people periodically check every move of the builder to make certain that foundations are properly poured, plumbing is properly installed, and wiring meets local codes.

This is supervision.

And this kind of supervision in the housing field enables us to make a 100 percent loan for the construction of a home before the first shovel of dirt is moved on the site. This kind of supervision produces a house that satisfies the borrower and provides security of a value that is over and above the amount of the loan.

Here is another example.

Today in addition to farm loans we make loans for rural community water systems.

When leaders in a rural community come to us and tell us they want to talk about borrowing enough money to build a water system, we go with them step by step along the road that leads to final completion of such a system.

We help them test the market for funds.

We encourage them to make a survey that will show how many of their neighbors would support a community water system.

We suggest that they get a preliminary plan for their water system from an engineer before they go to any further expense.

We review the preliminary plan and advise them as to whether or not the project is feasible.

And we continue to work with them in this fashion until the project is completed. And after the project is completed we meet with them once a year to review their progress.

This is the kind of supervision that enables us to make loans for the construction of rural water and waste disposal systems in areas where no other credit source will venture capital.

Now this supervisory technique did not develop to the point it has reached today without many years of trial and error.

It all started with farm management supervision thirty years ago and I frankly admit that when we started out:

we could not make a farm plan.

we could not analyze a farm business to determine its strong points and its weak.

we could not reorganize a farm so as to turn an unsuccessful operation into a successful one.

we did not know how to make landowners out of tenants.

Hundreds of meetings and thousands of discussions have been held during the thirty years that have passed since we started to build a

supervised credit system. Some of our people have this method so deeply imbued in their system that they practice the fine art without realizing what they are doing.

Whether or not we can transfer these skills to the youngsters that are joining our staff is a serious problem. But we seem to be making the transition. We have an in-service training program that works wonders with new employees.

Now I have talked about the transfer of our supervisory techniques from individuals to groups.

Let me tell you in a little more detail about the experience we have had in working with groups. These notes are significant we believe because there are certain facilities that farm and other rural people need that can be obtained only on a group basis. And moreover the very formation of groups may lead to something significant in terms of people working together on a broad basis for social, economic and political gain.

First of all when we talk about working with groups we are speaking of any group of rural families in which the families are working together for a common objective. Such groups can be formally organized or informally organized. This includes cooperatives,

corporations, village governments, and nonprofit associations.

What do we mean by nonprofit associations? By nonprofit associations we mean a group of people that have formally organized to provide themselves with a needed service and to do so without profit so far as the organization is concerned. This type of organization has proved useful in that it is, in most parts of the United States, the easiest type of organization to form.

We believe we have picked up some rather useful means of motivating these rural groups. Actually these are the same means that we developed with individual farmers back in the days when our work was almost entirely with individual families.

First of all we point out the economic benefits. These may be greater than the group had envisioned.

Second we show how the members of the group by contributing labor and management can make a vital contribution of their own. This is of basic importance for we furnish practically all of the funds and unless the group can be made to realize that their contribution is vital they are apt to feel that the entire undertaking is a government project and in so doing withdraw the basic ingredient for success--group effort.

Third we show how the income that will be produced with the loan will be sufficient to repay the loan. This sounds simple until you realize that we make loans for 100 percent of the cost of developing a project and most people have been taught to believe that a project cannot earn enough to repay the entire development cost.

Fourth we use those devices of supervision that I mentioned earlier--we work closely with each group, point out what laws they must conform to, indicate the steps they have to take in acquiring engineers, lawyers, or other technical help.

If I could take you on a tour of the States I could show you many examples of our success in this participation in community development effort but without that advantage let me briefly list some of the community activities we have played a role in organizing.

We are, for example, working with groups of low-income rural people in the development of self-help housing projects. In these endeavors a group of from five to ten families who need better housing than they now possess work together to build themselves new homes. They buy the materials on a group basis, thus affecting some savings in material costs, and they share labor in the construction of the homes. In so doing these families are able to cut the cost of a new home by about 30 percent.

We play a role from start to finish in each of these projects. In the beginning it is our field man that explains to people needing new homes how the self-help housing program works. We lend the families the funds they need to buy the building materials. We hire a skilled carpenter to train the families in construction techniques and provide overall supervision of the project.

But though our role is a prominent one the members of the group make all the final decisions. No step is taken unless they agree to take it. When there is a disagreement among the members they reach their decision by voting. The group chooses a chairman from among their membership to conduct their meetings and assume responsibility for taking such steps as are needed to carry out the wishes of the group.

Another example of group effort is the cooperatives financed by my agency as a part of the war on poverty. We make loans to a wide variety of cooperatives that are formed by, and serve the needs of, low-income rural families.

Most of these cooperatives provide farm equipment that the families need, but as individuals can not afford to purchase. This equipment which ranges all the way from tractors to spray rigs to mechanized cotton pickers is a prime factor in enabling small farmers

to compete with their larger neighbors.

We have also financed cooperative grain elevators, farm markets, processing plants, and farm supply centers.

A third example of group action aided by my staff is the grazing associations. The smaller livestock farmers have difficulty in many areas in obtaining adequate grazing land. We encourage groups of farmers to organize and bid for large tracts of grazing land when such land is placed on the market. We advance the funds for the purchase of the grazing tracts and provide technical assistance in helping the groups organize an association that will enable them to use the grazing areas on a cooperative basis.

A fourth example of group action is represented by the rural families that form nonprofit associations and build needed water and sewer systems. In several states this activity has now reached a scale where the local people are looking forward to the day when an adequate supply of running water will be available to every rural home.

A fifth example is in the field of rental housing for elderly people. Here civic-minded leaders, church groups and others, form nonprofit associations and build housing adapted to the special needs

of senior citizens. In similar fashion rental housing is also being provided for farm laborers.

I hope that in this brief discussion of our work with individuals and rural groups I have not created a picture of the federal government dominating the field of rural community action.

In each of these endeavors when I speak of the assistance we provide and the measures we take to motivate individuals and groups I am talking about a partnership effort.

In the long run we can do nothing to help rural people unless they take the initiative.

This is a sensitive process.

Perhaps I can indicate the degree to which the rural people we work with assume the leadership role in the various activities we help them initiate and finance, by pointing out that a typical field office of my agency will be serving 150 to 200 families who have individual farming and housing and small business projects and another 20 groups of families engaged in developing water and sewer systems, housing projects, recreation areas, grazing associations and equipment cooperatives. Obviously this ~~scale~~ of activity can only succeed when the people involved carry the leadership and the management burden.

In conclusion may I summarize the basic principles that we believe are essential in any supervised credit program:

1. The planning with the applicant of the enterprise to be financed with the loan, the making of the loan, the assistance in carrying out the plan, the collection of the payments due on the loan--all of these functions should be carried on by the same person.
2. The approval of a loan application should be based on the repayment ability of the applicant, not on the amount of security that can be offered.
3. To the extent possible all of the applicant's needs should be adequately financed. In stating this principle we recognize that applicants that are handicapped by lack of education, poor health, and underdeveloped skills cannot utilize all of the capital that would be needed to raise their level of living to the optimum level.
4. Repayments should be scheduled to fall due when income produced with the aid of loan funds becomes available.
5. Borrowers should be so motivated and supervised that the decisions made in planning the use of loan funds and carrying out the plans are their decisions.

In essence these are a rather simple set of principles.

But it is our firm belief that a supervised credit system cannot succeed unless each of these principles is observed.

They represent a rather marked departure from the older forms of credit systems. More and more, these principles are being adopted in my country by all types of lending institutions.

I hope that what I have had to say in indicating what we believe to be some of the characteristics of a viable rural development agency, ways of extending the supervised credit technique to nonfarm loans for rural development, some of the devices we use in working with rural groups, and the basic principles of supervised credit, has been of interest to you.

May our two countries move along together in strengthening family farms, strengthening rural communities and alleviating rural poverty. We can take comfort in the progress we have made. We can take satisfaction in knowing that if we continue to pursue these objectives we will be building a secure and prosperous future for all of our people. A country can not reach the ultimate in development unless all sectors of the country are developed to their full potential.