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CREDIT-SUMMARY PAPERS

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SMALL FARMER CREDIT SUMMARY PAPERS



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Preface to the Volume

Three different sections are included in this volume, similar in the respect that they were prepared subsequent to the preparation of the Country Papers and Analytical Papers and serve to summarize or comment on the analysis and the discussion of the analysis in the ten field workshops held in the period March thru May 1973.

The Summary by the study director is the product of a single author, with biases which were inadequately suppressed. It tries to cover most of the major points made in the Analytical Papers, but it makes some of them less well, makes some of them differently, and puts more emphasis on certain subjects that interest the author or caught his attention during the Spring Review. Time did not permit circulating a draft among the Analytical Paper authors. In fact time did not allow preparing the paper with the thoroughness a proper summary of these excellent twenty papers demands. Since the author is an economist, he undoubtedly gave economic factors too much weight. To help correct this, two short sections from the Analytical Paper on cultural factors are reproduced in appendix c. All in all the "findings" discussed in this summary are broadly consistent with other evaluations of small farmer credit programs that have been issued in the last year. An example is the report from the workshop on small farmer credit organized by the Research and Training Network of the Agricultural Development Council in April 1972. The reader may want to read the RTN report (appendix d) to see how critical opinions about the performance of small farmer credit programs are beginning to coalesce. This Summary is a revision of and replaces the draft paper entitled Issues Paper for the Workshops, dated February, 1973. That paper should and hopefully will be thrown away.

The Comments were prepared by three agricultural economists eminent in the field of rural development. Their criticism and commentary of the Analytical Papers was solicited in order to bring a fresh perspective to the Spring Review, the perspective of generalists who had not been previously involved in the Review and might therefore find gaps and weaknesses in the analysis.

The report on Lessons from the Workshops is an excellent restatement of the principal findings of the Spring Review as well as a documentary of the workshops and the differences which appeared in the workshop discussions between the tentative conclusions presented in the draft Analytical Papers and the positions of the participants. Feedback from the workshops played an important role in the process of revising the Analytical Papers and the Summary.

E. B. Rice
Director of the Spring Review
AID/PPC/PDA

June 19, 1973

SUMMARY
of the
SPRING REVIEW OF SMALL FARMER CREDIT

by
E. B. Rice
Director of the Spring Review
AID/PFC/FDA

Washington, D.C.
June, 1973

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ABSTRACT

The historical program selected for critical evaluation in the AID Spring Review of 1973 is small farmer credit. The subject is both timely, because of the increased emphasis by AID on the small farmer equity issue, and urgent, because of accumulating evidence that existing small farmer credit programs, which absorb a large share of AID's agricultural funds, are almost everywhere falling short of their targets. For the Review, AID was able during the period June 1972 thru January 1973 to assemble a large number of comparable case studies drawn from different parts of the world, to analyze them, and to report on the lessons of experience. The network of USAID Missions makes possible the rapid collection of source material. The research focused on three principal themes: (1) the role of institutional credit in small farmer development, (2) the major institutional alternatives for delivering small farmer credit, and (3) certain policy issues, such as interest rates, that appear to be critical to the success of these programs. The tentative conclusions drawn from the research were refined during a series of ten field workshops in the spring of 1973, and will be presented at a final conference in Washington in July. The entire evaluation is limited by the fact that credit is only one of the factors in a small farmer development strategy, and, though the study found a handle on the broader subject, it cannot, in itself, recommend an overall solution to the small farmer problem.

With respect to the role of credit, the conclusions are that credit is necessary in the long term process of capital formation on small farms, but that an infusion of new public credit is not always needed and the conditions under which these funds can successfully affect small farmer productivity are more restrictive than commonly supposed. If technologies and markets are not set to reward small farm adopters for taking risks and investing borrowed funds, credit from whatever source will be wasted. Technologies and markets - the factors determining profits - are found to be generally unattractive to small farm operators. The high rates of default characterizing many small farmer credit programs appear to be one of the consequences. At the same time small farmers in favorable economic circumstances are seen to respond to suitable incentives, and to invest in new technologies. Here the source of funds is not only institutional credit programs but also on-farm savings and informal moneylenders, especially for investments that don't include any large, lumpy, expenditures. In fact these other sources are often adequate to finance the initial period of technological change. If small farmers are not adopting an allegedly improved technology for basic food crops, the explanation usually does not involve the lack of credit.

With respect to institutional alternatives, the conclusion is that none of the major delivery mechanisms - cooperatives, credit unions, commercial banks, rural banks, supervised credit agencies, etc. - is demonstrably superior. They share the same problems - default, low production impact, drift toward a large farm clientele. Nevertheless, the effort to group farmers at some point in the delivery process seems essential to correct the major institutional problem - the high cost of individual loans. That gives the nod to coops and credit unions, but these suffer from serious

management and political weaknesses that government will have to help eliminate. At the same time private banks - commercial branch banking networks and individual rural banks - appear to have an important role in both supplying and delivering credit. And moneylenders and merchants in the informal credit market have advantages that could be imitated. One need not choose between these alternatives; rather the job is to exploit the strengths of each and coordinate their activities. Rural banks and cooperatives can help each other. The fact that government credit agencies do not figure in the previous comments is not accidental. Government administrative resources are scarce and in order to rapidly expand the credit clientele in small farmer programs, government should find ways to harness the private sector. One caveat is in order. There are areas where the village political structure is such as to distort and frustrate any program aimed at small farmers.

With respect to the critical policy issues, a formidable argument is presented in the Review for raising interest rates from the subsidized and even negative real money levels, where they commonly sit, to a level that reflects the scarcity value of capital, inflation, risk, and administrative costs. Such a shift will not depress investment and will allow small farmer credit institutions to achieve financial viability while enlarging their portfolios of small farmer clients. Higher interest rates will also attract more financial savings into small farmer credit programs - both commercial bank funds and rural deposits. The Review takes a position in favor of subsidy for some small farmers, but against passing that subsidy via concessional credit terms. In fact it recognizes the equity, or welfare, objectives of small farmer programs and is concerned only that these objectives do not compete with and undermine the efficiency, or production, objectives. The default phenomenon is explained partly by the lack of profitable investment opportunities for small farmer borrowers, and partly by a number of other factors which cannot be corrected by improved collection techniques. More analysis of default is needed to determine its causes and cures and also to show that "high" default rates are not a tolerable cost of the small farmer development process.

Finally, the Review makes a few recommendations on the foreign aid contribution, recognizing that AID's job of translating the research results to operational policies has yet to be done. It was clear in the workshops that some of the findings, though of increasing acceptance among academics and donor agencies in the developed countries, would meet strong resistance in the LDCs. A general warning is offered against giving aid for credit programs in which the conditions for success have not been reasonably well satisfied. The report concludes with a recommendation that AID be better prepared than before to analyze and backstop small farmer credit programs in the future.

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I. INTRODUCTION

A. Design of the Spring Review

The Spring Review began in March 1972 with the design and subsequent implementation by the Agency for International Development (AID) of a world wide research program. A workshop sponsored by the Agricultural Development Council (ADC) in Washington, D. C. in April of that year brought together many of the persons who were later to write for the Review (the workshop report is included as an appendix to this report). The subject of the Review and ADC workshop - small farmer credit - had been previously selected by AID missions overseas as one requiring attention. The selection reflected three factors: (1) growing interest within AID in the problems of small farmers, (2) recognition that the preponderant share of AID agricultural funds were devoted to farm credit, and (3) increasing evidence from many of the developing countries (LDCs) that existing small farmer credit programs were falling short of stated objectives.

The focus of the research has shifted since the initial period. At first it was to look primarily at on-going small farmer credit programs (SFCP) to see whether some institutional forms and policies appeared superior to others in delivering credit efficiently to small farmers. We call these the "institutional" and "policy" sets of issues. However further discussion suggested that the resources of the Spring Review be used to take a look as well at a more fundamental set of issues, those concerning the "role" of credit, and, in particular, the role of public institutional credit in small farmer development. The argument was that since the record and image of SFCP in many areas of the world were already coming under considerable criticism, it was necessary to probe more deeply into the small farmer problem and ascertain whether difficulties evident in the delivery system were indeed due to institutional and policy errors or to economic and cultural constraints that called for corrective action broader than or other than an infusion of new institutional farm finance.

Between June and January 1973 sixty major and ten shorter country papers (CP) were assembled (fifty-five of them were fresh studies, the rest were reprints), along with a small number of special papers that did not fit the CP category. The authors of these primary papers were found in different professional communities. About one third were AID personnel, one third were LDC government personnel, and the rest were university professors and other experts. Between November and February, sixteen comparative analytical papers (AP) were prepared, based primarily on readings of the CP. Three more APs were added later. Each AP covered or was supposed to cover a discrete subset of issues, though some overlap was deliberately built in. The plan was for the AP together to treat as comprehensively as possible a broad range of issues that were important to the "institutional", "policy", and "role" themes.

The emphasis of the final set of AP is on the "role" theme and those "policy" issues which were inextricably bound to it. This emphasis is partly explained by biases introduced in the process for selecting AP authors - they were predominantly social scientists drawn from U.S. academic circles rather than credit experts drawn from operating programs - experts whose preoccupation with institutional organization and method issues is predictable and would have dominated

their analysis. Such preoccupation is not to be disrespected: had time and resources permitted we would have pursued both inquiries vigorously. The "institutional" papers we have collected are as provocative as the others. Rather the emphasis is explained by the fact that it became clear in the ADC workshop and in the early Review analysis that the difficulties found in SFCP were not due mainly to institutional factors. The point has been made before. The terminal report of 1968 by Ohio State University (OSU) for a contract with AID to examine experience in the agricultural credit field and determine guidelines for establishing effective credit institutions, says the following:

"The conclusion here is that the apparent deficiencies of credit institutions in the performance of their assigned responsibilities and attainment of goals are, in major part, the mirror images of environmental deficiencies and assignment to the institution of excessive responsibilities and functionally unattainable goals."

The massive size of the research program brings to the "role" theme a legitimacy which may not have been apparent before.

Following the drafting of the APs, a team of AP authors and Washington-based AID (AID/W) staff journeyed around the world to conduct a series of workshops in the period March thru early May, 1973. Six were regional workshops - two each in Latin America (San José and Quito), Asia (Manila and Ankara) and Africa (Nairobi and Abidjan) - bringing the team together for three days with representatives from countries in the area. Four were shorter country workshops - in Vietnam, Bangladesh, Ghana and Nigeria - limited to the team and representatives of that country. The purpose of the workshops was to provide a forum in which the AP authors could (1) describe their tentative findings to USAID, other donors, and LDC professionals who were responsible for planning, implementing or evaluating SFCP, and (2) get feedback from the participants allowing revision and improvement in the AP and in the policy statement which AID will subsequently prepare. For reasons already given the Spring Review team was not competent to discuss in depth certain organization and method issues that have arisen in previous seminars dealing with agricultural credit. A report written by Gordon Donald of the lessons learned during the workshop episode is included in this volume.

The Spring Review formally ends in July, 1973 with a conference in Washington. Unlike the field workshops, the conference will be presented with the final set of AP, it will be directed primarily at the staffs of AID and other foreign aid donor and implementing agencies, and it will push beyond the thematic issues raised at the workshops to their implications for small farmer strategies and operational programs. Three new short papers commenting on the AP will be made available, prepared by experts in the field of rural development who have hitherto not been involved in the Spring Review and could be expected to judge the completeness and significance of the research program. An AID position paper will be written following the conference. Appendix a is a preliminary agenda for the conference. Appendix b is a listing of all the printed material, including authors and titles, to be distributed freely (while the edition lasts) at and after the conference.

To the extent that the Spring Review causes USAID missions and cooperating governments to request consulting help to adapt some results to specific situations, AID/W will develop a capability for response. This activity is part of the "follow thru," and may be accompanied by rather more systematic efforts to apply the results and to encourage additional research on high priority questions left unanswered. It is planned to evaluate at a later date the impact of the Spring Review to see whether the total costs of this type of massive, accelerated, accumulation, analysis and extension of secondary data - costs which will total between \$400,000 and \$500,000 - are justified.

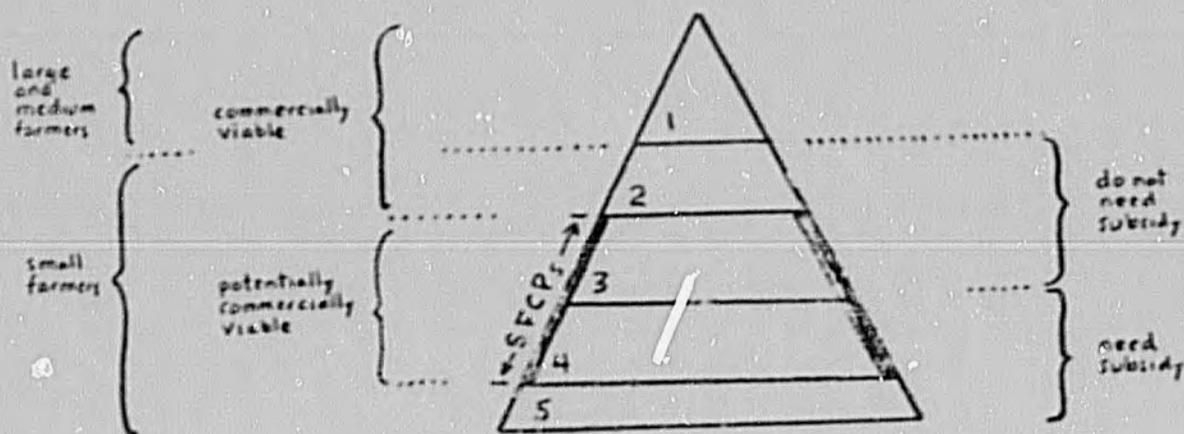
B. Definition of Small Farmer

No satisfactory single definition is available to distinguish small farmers from medium and large farmers in all parts of the world. The small farmer syndrome is generally recognized - families owning or leasing small, often discontinuous plots and trading in a local village market without access to supplies and services essential to modern technologies, without expectations of living much above the subsistence level, and without political influence. The problems are sufficiently similar to justify a common research program and look for transferable lessons. But heterogeneity must be recognized: a twenty acre rainfed maize farmer on a Brazilian hillside is a different economic animal than a half acre Bengali paddy farmer on the flood plain of Bangladesh.

The failure to find a satisfactory, single definition did not seriously constrain the analysis except perhaps in the following respect. In some countries, especially in Latin America, there is great disparity between large and small farmers. Small farmer programs are designed primarily to reduce that disparity. These programs, operating with limited budgets, tend to concentrate on the more responsive small farmer clients. In other countries - Nigeria, Bangladesh and Korea would be examples - all farmers really are small farmers and any rural development program that concentrated on the more responsive clients could be accused of creating the same disparities that a Latin American program aims to eliminate, even though the two programs are practically the same! What is happening of course is that in Latin America one set of inequities are being reduced and another set instituted. With limited budgets, SFCP always run these risks: the more they succeed with a limited group of responsive participants, the more the non-participating small farmers may fall behind. This is a political issue in Nigeria and Bangladesh; it is not yet a political issue in parts of Latin America. So in the Spring Review we ended up confusing small farm credit programs with smaller farm credit programs.

The problem can be illustrated on a diagram presented at all the workshops and shown below. The diagram does not distinguish small farmers from large farmers except with a line, but does try to differentiate several categories of small farmers.

Four basic types of small farms are identified: (1) those already operating as reasonably profitable commercial enterprises with access to commercial credit group 2; (2) those which have the potential to become profitable enterprises if access to technology, inputs and markets at fair prices were possible group 3; (3) those which have the potential to become profitable enterprises but will need special incentives - subsidies - during an unspecified period of time group 4; (4) those with such poor resources that improved access or even new technology would not provide a viable farm enterprise capable of supporting the farming unit without permanent subsidy group 5 - this includes landless farm laborers, garden plot farmers, etc.



In most countries the core of the small farm problem involves group 3 and 4. The SFCP included in the analysis dealt with these two groups, and recommendations are aimed at them. It was necessary to isolate group 5, those farmers without potential commercial viability unsupported by non-farm income or permanent subsidy. Efforts to sustain these persons in farming, on their farms, by definition involve land transfer or an income transfer wholly distinct from the "infant industry" type of subsidy implied for group 4. Arguments between officers with groups 3 and 4 on their minds, and officers with group 5 on their minds, are endless arguments. We don't mean to discredit programs aimed at group 5. But that group's problems are not the ones we chose to focus on. It was difficult enough trying to distinguish between groups 3 and 4. We remain uncertain of their relative sizes, or whether group 3 as we defined it (potential commercial viability with no need for special subsidy except for equal access to services that commercial farmers already enjoy) exists at all.

The problem mentioned above involving comparisons between Latin America and Nigeria, etc., is easily shown. In Latin America the contrast between group 1 and all others is overpowering, and SFCP that graduate any small farmers into group 2 can claim success. In the other situation, group 1 does not exist, and SFCP must avoid exacerbating the real or incipient conflict between 2 and the other small farm categories.

C. Limitations

The analysis suffers from giving insufficient attention to the experience with several important SFCP. The massive rice-credit program in Indonesia referred to as the BIMAS program was underrepresented. The earliest and largest of all the supervised credit programs in Latin America - ACAR in Minas Gerais and subsequent derivatives in other Brazilian states - was not adequately incorporated (two older papers on ACAR are included in the volume of additional papers - vol xvi - to partially correct this error). Also, the vast history of SFCP in India was given insufficient attention. The number of Indian Journal articles dealing with small farmer issues may already equal the output from the other LDCs combined.

Another type of omission was the failure to bring in examples of credit schemes operated by large, commercial agri-business. These are generally recognized as being among the most successful, though they are limited in size. A new book on SFCP in Mexico* provides a few case studies, three of which are reprinted somewhat out of place in the Spring Review volume on informal credit (vol xv).

A more serious limitation arises from the predictable consequences of examining a single instrument of small farmer development. In the first place we concentrated on seasonal credit (as do most SFCP) and didn't learn enough to differentiate adequately the needs and problems associated with medium and long term credit. Since the latter credit terms usually cover the "lumpy" investments, their importance in small farmer capital formation is necessarily greater than short term credit. In the second place, any study limited to credit is unable to assess precisely the relative importance of credit, on-farm financial savings, and on-farm family labor as factor inputs in the process of on-farm capital formation. Capital formation is the crucial economic activity explaining small farmer development. Policies that operate on credit transactions may be no more important to small farmer development than policies that operate on the rate and uses of on-farm financial savings and the allocation of on-farm labor. A few of the AP authors addressed this issue in part, but the CPs were not a useful source of comparative data. It is alleged that, of the real resources allocated to capital formation on progressive small farms, the share financed on credit has been historically low, say 20 percent. But a new school of thought has crystallized in the last year which attributes to credit and financial markets an importance in economic development exceeding that usually recognized. Two books on this subject were published in early 1973, both authored at Stanford University**. At least two of the AP authors associate themselves with this school. If their argument is correct, the role of credit in explaining small farmer progress is underestimated by the 20 percent share directly financed, because that share is critical to much of the rest of the capital formation process. Again, the Spring Review cannot speak from statistical evidence on this point.

In the third place, any study limited to credit is unable to quantify the trade-off between credit and other instruments of small farmer strategies. The Review was designed to throw light on this issue - to try to assess the relative impact of credit with that, for example, of research or roads. Some of the AP authors comment on the trade-off. Given the high costs of SFCP, it is impossible not to comment on these opportunity costs. But the comments are subjective.

In the fourth place, the partial perspective of the Spring Review means it cannot predict the consequences of rapid and widespread improvement of SFCP in any country. If large numbers of groups 3 and 4 small farmers were to revolutionize their technologies through an enlightened, integrated credit program, one would have to wonder whether the market plus the government stockpile capacity could handle the delivery of the new surplus. Obviously credit policies should not be altered without complementary changes in other policies.

* Simon Williams and James A. Miller, Credit Systems for Small Scale Farmers: Case Histories from Mexico. Austin, Texas: University of Texas, 1973

** Ronald L. McKinnon, Money and Capital in Economic Development. Washington, D.C.: The Brookings Institute, 1973, and Edward S. Shaw, Financial Deepening in Economic Development, New York: Oxford University Press, 1973.

These four limitations indicate the ultimate importance of sector analysis to the proper identification of small farmer development strategies. The excuses for limiting the Spring Review analysis to the set of issues surrounding credit are (1) time and money resources available to the Review and (2) the assumption that a well designed evaluation of the "role" of credit would give us a handle on the overall small farmer problem and prevent us from giving the credit component undue weight.

D. Success and Failure

Before entering the substantive discussion, a word must be added to the comment above concerning the "record and image" of SFCP in many parts of the world. The record and image as revealed in the CPs is not impressive and in fact suggests major defects in the strategy for small farmer progress. One common criticism is that the credit ended up in the hands of the wrong farmers. We feel both the record and image are deceptive, however, for three reasons. First, because many of the farm credit institutions and programs reviewed were not exclusively or primarily aimed at small farmers, a target group which has only recently commanded attention, and casual evidence that the credit was going to the large farmers was not treated as an emergency. Criticism of the low impact on small farmers does not in and of itself give grounds for criticizing the agricultural credit program as a whole. In fact, some of the problems of SFCP disappear when dealing with large farm credit. Second, because most of the programs were operating on tiny budgets and never intended to reach large numbers of farmers, a failure for which they are now being criticized. Third, because success in SFCP has generally been linked in the minds of men to the only readily available quantitative indicator, repayment rates, and these are sometime misleading. What we find is that rising farmer incomes on a few occasions could co-exist with high delinquency rates and institutional insolvency, and the failure of the institution does not necessarily imply the failure and end of the program. Thirty percent default rates are considered by some intolerable. But seventy percent repayment rates are no small achievement when dealing with subsistence farmers who have never participated in government programs or dealt with official credit collectors. To confuse the issue, consumption credit programs as in the Ivory Coast may have much higher repayment rates and no apparent impact on productivity or income. In other words, we are not entirely sure what default indicates. Judith Tendler makes some related points in her AP on objectives.

II. THE ROLE OF CREDIT

A. Discussion

Most small farmer programs allocate a substantial component of the program budget to revolving loan funds for farmers. Foreign aid donors - and AID is not alone - encourage this strategy. The case for such an allocation depends on a series of assumptions: (1) that small farmers need credit to adopt new technology, (2) that with credit many small farmers will be able to make the adoption, and (3) that they cannot get credit economically (or at all) from private sources. The Review research suggests that none of these assumptions may be correct, or at least that their universal application is untenable and their specific application to a country situation is probably unjustified in enough cases to suggest they should be tested country by country, even region by region. This is not a shocking conclusion. The assumptions have long been under attack.

Another assumption that must be challenged is that credit programs are an appropriate tool for carrying out a policy for direct income subsidization. SFCP by definition aim to increase incomes to small farmers. But they can do this in three ways, by helping the small farmer obtain the means to improve his production and income earning potential (e.g. production credit), by augmenting his supply of credit for consumption purposes (e.g. consumption credit), and by direct transfers of income via debt forgiveness and subsidized interest rates (welfare grants). It is customary to group these according to production objectives on the one hand and welfare objectives (consumption credit plus welfare grants) on the other, though all obviously have welfare implications. The APs refer to this as a distinction between efficiency and equity objectives. Most SFCP have multiple objectives.

No one in the Review challenges government's right to establish welfare objectives. No one says that consumption credit cannot be justified. No one argues that credit programs are not a convenient mechanism for direct transfer. What is argued is that production and welfare objectives can compete within the same program, compete to the extent consumption replaces investment and interest rate and debt collection policies are designed to accomplish an income transfer. The Spring Review was primarily concerned with defining the role of credit in the production process. That is the subject of this part (section ii) of the paper. The role of credit in a welfare program was explored only insofar as (1) it explains some of the formidable opposition to high interest rates and (2) consumption credit has a positive impact on productivity. These points are made in section iv.

If the AP authors reject the standard assumptions, they do not deny institutional credit a critical role in small farmer development. They do not claim that an increase in institutional credit without supporting technologies and services is always ineffectual, because there are cases where credit alone has made a difference. They do not claim that an increase in institutional credit during a technical revolution or period of food shortage merely substitutes for private funds that would otherwise have been offered, since some countries do not have a well developed private credit sector. They do, however, suggest a rather severe set of conditions under which institutional credit plays its proper role, conditions that are not satisfied by many on-going programs.

The latter may have to be revised, and so too some of the conventional small farmer strategies. Millard Long lays out a list of those conditions in his AP, and Chester Baker provides a formula to indicate circumstances which call for a farmer to borrow.

None of the tentative findings offered below will be confirmed till more information is available on decision making at the farm level and the influence of cultural variables peculiar to each setting. This is because the utility of credit is only determined in the calculations and pressures which lead each farmer, including the poorest, to choose between consuming, saving and investing his resources. The study of the farm level decision process has only recently begun.

B. Findings

1. The conditions for success of production credit in small farm agriculture are more stringent than commonly thought. In most situations those conditions are not satisfied and SFCP will fail to accomplish production objectives. The more important conditions are set by economic considerations at the farm level. The farmer must perceive the new technology or management system to be profitable. Three factors need to be considered - technology, product markets and the availability of supplies. One must ask whether the level of each is conducive to promote and sustain adoption.

Technology is not suitable. The new technology must offer increases over present yields so substantial as to persuade risk-averting farmers to depart from traditional practice. In cases where a new crop is introduced, the technology must offer an input/output price ratio of comparable appeal. As adoption becomes widespread, the increase in supply is going to affect prices of some crops, so that successful campaigns emphasizing these crops are necessarily short-lived. Thus diversified crop packages must be available for the follow thru. The APs suggest that technologies meeting these conditions are generally not available (for basic food or diversification crops) and have to be developed. A related problem is that new technologies once introduced exhibit unpredicted yield variations attributed to unfavorable external or on-farm conditions inadequately anticipated. Small farmers are extremely sensitive to risks of this sort. They will pass up new technologies if the latter pose any threat to subsistence requirements. Yield advantages must be striking and safe. The more typical case reflected in the CP is for SFCP to operate in an environment where technical opportunities offer only marginal advantages over traditional agriculture. In that situation the credit is often used for other purposes.

But there are exceptions. A quantitative study of 1,200 maize farmers in Colombia (delivered late to the Review and included in vol xvi), shows that the availability of INCORA (the land reform agency) credit has stimulated remarkable production increases and broken a critical bottleneck to small farmer progress. The author concludes that an improved technology was already available and waiting to be put to use. We heard a few local delegates at the workshops claim suitable improved technologies were available in their countries and that the case for new research was overstated.

Even within the travelling workshop group there was a division between what we might call the technology "optimists" and technology "pessimists". We need more information on the state of small farm technology in each country before speaking with assurance on this matter. The Review material suggests that the above mentioned delegates may be fooling themselves, or referring to cases where idle, but potentially productive, land and labor resources have been put to use simply by extending present technology to meet a real market demand. If these conditions exist, so much the better. However these are probably temporary blessings. In the long run the only way to assure a continuous stream of profits is to invest in research and thus provide the small farm borrower with a succession of cost reducing technologies. The close relationship between effective credit and improved technology is central to the argument of the Spring Review. Some countries are obviously better positioned than others with respect to the availability of improved technology. Indeed there may be significant regional distinctions, especially between the small-grain cereal basins in Asia, where the "miracle" seeds have been introduced, and the maize and tuber uplands of South America, which are alleged to be technology starved. Marvin Miracle - the nominal relationship is unproven - makes this point in his AP on regional distinctions.

Markets for the crops are not favorable. The market has to offer the small farmer substantial returns to investing borrowed capital. He will be concerned with both relative price levels and with the risks and uncertainties of price changes. The general conclusion of the Review is that relative prices of inputs and product, as perceived by the farmer and discounted for risk, are not favorable to adoption (there are of course major exceptions). In many cases this means that markets simply do not exist, or are so small and localized that any substantial increase in the small farm surplus will not be absorbed.

The marketing problem is easy to describe and difficult to solve. In some LDCs the solution involves several steps: development of the institutional and physical infrastructure for marketing; general increases in the farm product prices over the objection of urban interests; price controls, storage facilities and crop-purchase guarantee programs designed to reduce the frequency and magnitude of price changes, etc. SFCP typically have no authority to engineer price relationships or control markets. They cannot offer assurances or they lack the resources to honor them when emergencies develop. SFCP that do have some market control, as in Korea and Taiwan or with export-oriented purchasing authorities, are among the more successful cases. The ~~most~~ successful of all cases appear to be found among the contract credit schemes offered by private food and fiber processors which guarantee purchase.

Since prices and yields both affect profits, and, therefore, the success of SFCP (higher crop prices can compensate the farmer for lower yields) - a choice between administered pricing and new technology appears to present itself to governments anxious to succeed with or salvage SFCP. As mentioned earlier we feel that long run planning has to be designed upon a technology strategy rather than a pricing strategy.

Supplies are not always available in the quantity and at the time demanded. Shortages of inputs can ruin a SFCP. In most cases, however, the supply problem is less important than the other two (technology and markets) because it is better understood and more easily controlled.

The overall issue - whether profit incentives and other conditions favorable to small farmer progress generally prevail, or are met by SFCP - is perhaps the most important under review. The tentative finding that such conditions usually are not met would appear to be supported by the dramatic events in the last decade in those parts of Asia where the conditions were properly satisfied - where new wheat varieties, high wheat prices and falling fertilizer prices suddenly converged.

2. As a corollary to the first point, there is general agreement among the AP authors that the high delinquency and default rates (they are treated together in this report) occurring in most SFCP are attributable in part to the low yield and cash returns generated. Delinquency has other explanations which are reviewed by Richard Eckaus in his AP, and corrective action can take the several forms discussed there and in section iv. However the high incidence of both excessive default rates and negligible production effects of SFCP suggests a crucial functional relationship that ought to be considered in the design of small farmer strategies. We do not want to overstate the case. The typical participant does not suffer absolute losses in the credit program. If he did, default rates would run much higher and there would be little incentive to reapply for loans.

3. The default problem is also partly explained by psychological and cultural factors which warp the commercial relationship between lender and borrower. These factors intervene even when the basic profitability of the farm enterprise is demonstrated. Unless controlled, they can destroy a SFCP. Problems to be considered include not only those arising from the conflicting cultural orientation of loan agents and farmer borrowers, but the latter's attitudes and expectations about public service institutions - whether the credit authority will survive, whether collection can be enforced, whether government owes them this service. To capture the flavor of this "non-economic" argument a few pages from the AP prepared by a multi-disciplinary team from Cornell University are reproduced as appendix c.

4. Where the market incentives to adopt new technology are strong, most small farmers are able to finance some of their needs without resort to credit. This is especially true of seed-fertilizer packages which require no single, large outlay. The absence of credit however will probably inhibit widespread and rapid adoption, and prohibit the acquisition of expensive equipment and land. Dale Adam's AP discusses the choice confronting the small farmer between using cash income for consumption, investment or financial savings. Few small farmers are as desperate or isolated from commercial trade as the conventional subsistence model depicts. When investment profit signals are strong, most small farmers accordingly have the means to experiment, provided the cash requirement is small or is divisible. The evidence suggests they do finance the initial trials, especially if they have already seen a demonstration elsewhere. They prefer not to indebt themselves, especially to village lenders, during this highly risky initial stage. However some improvements, for example a water pump,

will be more than they can manage to self-finance. Also, they may later require credit to extend a new technology over all their holding, or to sustain the new level of cash outlay particularly as conflicting consumption demands (schools, bikes, radios, etc.) begin to materialize. This behavior differs from what one might have predicted, if one supposes small farmers had no liquid reserve, needed credit to get started, then financed additional investment out of their earnings. But it conforms to the scattered evidence that is beginning to become available. One can even assert that if a new technology requiring small, seasonal outlays - such as a HYV in an irrigated area - is not being accepted by small farmers the explanation probably involves profits and risks and not the lack of credit. One must stress, though, that the role of self finance in small farmer development is very much a function of the technology. It is important for seasonal outlays; much less so for medium and long term investments requiring major cash expenditures.

5. In many parts of the world the private credit systems (informal and formal) can meet any modest demand for credit generated by small farmers in the first few years of an adoption process. But these systems' supply functions are relatively inelastic. Exclusive reliance on the private sector, without complementary public finance, will almost certainly retard the wider spread of the new technology. When opportunities for investing funds profitably in agriculture are available to village merchants, commercial lenders and other actors in the private money markets, those opportunities are seized. Admittedly there are serious imperfections and fragmentation in the money system. If there were not, the use of public funds especially earmarked for small farmers would be unnecessary. But where profits appear, private funds tend to concentrate. And rates are not so high as to discourage small farmers from borrowing. Public funds distributed through a SFCP in these circumstances would partly displace private funds and lead to less than a proportional increase in expenditures. The initial availability of private funds is not a universal phenomenon, however. They appear to be scarcer in Latin America, where "lessons" from Asia, with its well articulated village money markets, do not apply. And nowhere is the supply of private funds inexhaustible. The village market will dry up first, as friends and relatives stop lending and money merchants run out of new cash. We argue elsewhere that the commercial banking system can and ought to be induced to expand greatly its operations in small-holder areas. But this development is not an early possibility. Thus other sources, either public or from within the small farm sector, have to be found to sustain the technological break thru.

6. Given the important roles played in small farm financed by on-farm savings and by the private financial sector, the role of public institutional credit is restricted even further than the conditions discussed in finding no. 1. A strong argument can be made that government supplies of institutional credit are essential to small farmer progress, but the application of government credit must be more carefully conceived and applied or it is likely not to accomplish production objectives. It is appropriate to repeat at this juncture two counter points made in the introduction, to put these comments on the role of institutional credit in better perspective. First, we said that the kind of financial investment discussed here accounts for a minority share of the physical capital formed on small farms during the development

process. Second, we referred to some new literature in this field, which argues that a well working financial market makes the rest of the system go.

7. Notwithstanding the sufficiency of the private credit system to finance some forms of small farmer progress, it may be important for government to provide public funds precisely in order to compete with that system and break the monopoly power of private lenders. Public credit is needed in this case not to promote small farmer adoption but to help with the transformation of the rural economy, a process which some observers claim is essential to continued small farmer prosperity but cannot occur without government intervention. Whether this is a problem, whether the private lenders have to be removed to achieve program goals or whether the latter can be achieved simply by providing small farmers with alternative and competitive sources of funds depends, of course, on conditions specific to each country.

8. It may also be important to develop credit and savings facilities in small farmer institutions simply to provide them with a secure financial base from which to run other essential services, such as marketing. Government credit provided for this purpose is needed not to promote small farmer production but small farmer institutions. The case study from Taiwan gives an example of this process.

9. Institutional factors can also argue against the creation of a SFCP. The power structure in certain rural societies appears to be so rigged against small farmer interests that SFCP objectives are more than likely to be frustrated unless government is prepared to challenge that power. Without evidence of this support, SFCP are a bad bet. Gotsch makes this point in a commentary included in this volume. Much of his research is devoted to study of these crucial matters. The issue is addressed again in section iii below.

10. The CPs demonstrate convincingly that most SFCP are designed without attention to the economic and cultural variables discussed above which can make the difference between success and failure. SFCP have to be firmly rooted to farm level analysis that confirms the profitability of investment. They also have to conform to or be protected from intervening cultural variables. Few of the programs studied in the Review appeared to have investigated any of these essential preconditions of success.

11. An important issue is whether governments and donor agencies should proceed with SFCP even though some of the necessary and stringent conditions for success have not been satisfied. Suppose, on the one hand, that the technical supervisory staff can be trained in the most promising of available technologies, and a fertilizer supply system can be built. Suppose the response to fertilizer tests on experimental farms makes the technology appear economically attractive at prevailing prices. But suppose also the SFCP authority has no control over product markets and prices, and that previous experiences suggest that yield increases at predicted levels might glut local markets and cause crop prices to drop. Should a government allocate funds for such a program, hoping the drop in price, if it materializes, is not so large as to eliminate farmer profits? The relevant consideration is the opportunity costs of the funds to be committed, whether those funds could contribute more to small farmer progress if invested instead in feeder roads, central storage facilities, rural projects offering off-farm employment, or another attractive alternative.

Given the high administrative overhead costs tied to SFCP, and the leakage of program funds due to default, it is correct to question the priority of poorly designed credit programs. Whether alternative programs typically are any better designed is a judgment the Review was unable to make. We can only raise the issue of opportunity costs and point out that it has been given insufficient attention in small farmer strategies in the past.

Suppose, on the other hand, that welfare objectives dominate the programs, though not to the exclusion of production objectives. The donor agency is faced with a hard decision. As Eckaus puts it: "The difficulty becomes one of trying to run a financially viable program which is not meant to be viable. This is not an economic problem but a political and administrative one. Therefore, it isn't a game for economists to be in. But it may be the only game in town. In such circumstances SFCPs are an imperfect tool, at best, for improving small farm production but one which should not be abandoned if political realities do not permit the creation of a more straightforward method. Yet unless continuing allocations of new funds are made to SFCPs continuing frustration is inevitable. Sophisticated economic advice is not likely to be important or useful." Does a donor agency place funds in such a program?

III. INSTITUTIONAL ISSUES

A. Discussion

Listed below are some major institutional forms for providing credit to small farmers. The list was made not so much to describe the universe but to point out the varieties of forms which could theoretically be harnessed by government to expand the supply of credit. Thus the list includes a few "informal" categories, but excludes others (e.g. friends and relatives) because they could not be organized.

List of Major Institutional Forms

	<u>Private</u>	<u>Public</u>
State Agricultural Bank, with branch banks		x
Supervised Credit Agency, with branch offices		x
National Development (or Reform) Agency		x
Regional Development Agency, incl. area pilot projects		x
Crop Purchasing Authority or Marketing Board		x
Government Organized "farmers associations," (Vietnam) and "cooperatives" (Korea)		x
Private Cooperatives	x	
Private Credit Unions	x	
Commercial Rural Banking Systems	x	
Conventional Commercial Banks, with rural branches	x	
Private processors and exporters	x	
Regional suppliers, distributors, and dealers	x	
Village merchants	x	
Village money lenders	x	

The list has many faults. The categories are not mutually exclusive: for example, many organizations administer "supervised credit" even though they go by other names. Also control may be shared between private and public authorities and the shares may differ within class: the "private" rural banks of Vietnam seem to be subject to greater public control than the rural banks of the Philippines after which they were designed. Finally, some important institutional examples fall between the lines. The impressive Caja Agraria of Colombia is one of these: a semi-autonomous branch banking organization which sells fertilizer and other supplies and helps with seed selection and multiplication.

One distinction which the list fails to make is between credit organizations which operate savings programs, or can otherwise tap private capital sources, and those whose expanded capitalization depends on public funds. The first organization plays a role in increasing the supply of credit as well as in delivering it to small farmers. Commercial banks are examples. So are credit unions. Most IDC credit co-ops, however, function solely as delivery and collection mechanisms.

As the Spring Review progressed, it became apparent that the search for a "superior" institution would lead us astray. The choice was not either/or in any case, since in most countries these forms coexisted and, each with its special advantages, more than one could play a role in an improved SFCP. Further, some of these institutions could be vertically integrated. Small, independent rural banks could extend the state banking system down to district centers, as they do in Vietnam. And the co-ops could play an intermediary role between the rural banks and individual farmers. In the first few workshops we tried to compare rural banks with co-ops. In Manila, however, the delegates spoke of successful attempts by co-ops to seek rural bank credit, and efforts by government officers to establish associations of villagers to receive, allocate, and police group loans made by rural banks. Thomas Carroll had anticipated this conceptual drift with a suggestion that the Spring Review try to identify successful "systems" of institutional credit rather than compare alternative organizations.

Another question that arose was whether it was better to establish special new institutions for small farmers or reorient the existing financial structure to service the small farmers it has traditionally ignored. This matter is dealt with below.

A distinction has to be made between institutional success and program success. There are several SFCP which appear to have had considerable impact on small farm practices, at least in the limited area in which the program operated, and yet the institution was a financial mess. The reasons for institutional failure are often due to the unrealistic interest rates and other policy variables which are imposed by government on credit agencies. Failure in these cases should not be attributed to institutional form. Usually, however, institutions are judged, and support withdrawn, on the basis of financial rather than program variables.

B. Findings

1. Institutional form seems not to matter as much as the economic factors discussed in section ii, or those major policy issues which confront all institutions and are discussed in section iv. If one institutional form seems to work better in one country, the reasons have less to do with the form itself than with the policies and powers with which it was equipped to carry out its mandate, with its leadership, and with the cultural milieu in which it is placed. Farmer attitudes about repayment of debt, for example, constitute a crucial cultural factor which helps determine the proper institutional approach. Having said this, it is necessary to add that some approaches have particularly attractive advantages.

2. One of the advantages of most interest in those countries where SFCP have been able to reach only a small share of the prospective clients is the capability to handle large numbers of clients and to do it cheaply. That capability is a function of at least three factors: administrative skills; low cost delivery, supervision and collection methods; and access to large supplies of funds. This suggests the following components of a SFCP strategy:

- ✓ Decentralizing elementary decisions on credit transactions e.g. on farmer selection, loan amounts and enforcement techniques, so as to make use of local administrative skills on matters where the headquarters staff has no particular advantage.
 - ✓ Grouping farmers wherever possible for transactions related to credit, including technical supervision. The Review was unable to explore the differences and advantages of the various types of farmer associations that have been used in the past: coops, credit unions, community development organizations, farmer syndicates, ejidos, communes, corporate bodies, etc. In some of these the group loan is the final loan; in most the group loan is relented to individual members and the association plays an intermediary role. We are not recommending against loans to individuals, only that individuals be grouped at some stage in the credit system so that the small farmer - credit agent ratio is greater than one to one.
 - ✓ Using institutions that already have widely dispersed operations and/or administrative competence in the credit field, even though they may not have prior experience with small farmers.
 - ✓ Getting access to private institutional money markets and making terms attractive to those marketeers.
 - Providing for internal or associated savings programs, not excluding forced savings measures, to give an additional source for continued expansion of credit resources. These general guidelines have some specific implications, as spelled out in points 3 thru 8.
3. Established, urban-oriented commercial banks offer some of these advantages and would constitute a great source of support for SFCP - if these banks could be induced to cooperate. To date these banks with few exceptions have avoided small farmer clients. Some observers argue the banks will never be persuaded to make the adjustment. That is a minority view among the AP authors. In general we feel every effort should be made to encourage and facilitate that participation, starting with the development of central bank rediscounting services, and an increase in the legal ceiling on interest rates.
4. Rural banking systems similar to the ones developing in the Philippines and Vietnam have similar advantages to regular commercial banks and probably could be copied in other countries.
5. Private cooperatives have outstanding features, including local participation, group sanctions against delinquency, and multiplication of scarce technical training, and would appear to have a role in any small farm program were it not for two severe limitations which can only be overcome by enlightened government intervention.

The Managerial Problem. Cooperatives suffer more than other institutions from the shortage of local managerial expertise. This is partly due to low salaries, a factor that most private co-ops are not able to overcome. It is also due to the attraction which persons of the requisite managerial abilities feel for headquarter jobs. John Brake makes this point in his AP. To keep

good managers in the field, many will have to be placed there by headquarters and kept there with special inducements. Some observers suggest that the managerial problem confronting a widespread cooperative movement can be met through a massive management training program. It is doubtful whether without government help the training program or the placement program can be carried out.

The Power Problem. To realize their potential advantages co-ops must acquire political and economic leverage they are not likely to earn through their own efforts. Co-ops truly representative of small farmer interests face an uphill battle against a rural "establishment." The battle can be won only if government intervenes. Other suggested solutions, for example combining village co-ops into regional associations, and developing a federation of those associations at the national level, can help the co-op movement accumulate power. But these solutions will in most cases be inadequate. The more common outcome is for the co-op to be taken over by the establishment, and small farmer interests to be partly or completely abandoned. Several corollaries to this point are:

Cooperatives will be more effective, and require less government support, in homogeneous or relatively classless rural societies.

In the typical, class structured, rural society, cooperatives are a viable mechanism for small farmer progress only if government is committed to them. Without such commitment, cooperatives often preserve only the facade of small farmer representation and may do more harm than good to small farmer interests.

One effective form of government intervention in some circumstances has been to provide to co-ops monopoly rights in the marketing of principal food crops, or in whatever cash crop the co-op members specialize. This is not a universal prescription, since some co-ops will be unable to handle the job efficiently, and others, controlled by larger farmers, will use monopoly privileges to the disadvantage of the small farmers.

6. The evidence suggests that group activities characterized by some measures of compulsory participation have greater degrees of success. The source and explanation for compulsion must be familiar and acceptable to the farmer, rather than rest in "remote" central government headquarters. This is another argument for decentralization of program management. It is also an argument for designing SFDP around technologies or finance systems which are group oriented and where "delinquency" will be regulated by the group. Irrigation-based technologies are among those inherently coercive.

7. One proposal for reaching large numbers of small farmers is to involve the private informal financial sector - the "moneylender connection" as it were. This network could be harnessed in addition to or complementary with the institutional approaches just discussed, thus admitting the limited staff capacity that any institutional approach is going to face in the near future. The advantages and disadvantages of the moneylenders are listed at considerable length elsewhere (see Charles Nisbet's paper in the volume on informal credit - vol. xv). The advantages include low overhead and other administrative costs and a personal familiarity with clients that can substantially reduce the rate of default. The disadvantages include the predictable tendency of those informal

lenders to concentrate on the progressive small farmers (group 2 and some of group 3), a tendency shared with institutional lenders but less easily regulated in the informal market, and the problem of giving additional power to those rural classes whose economic power in most societies must be reduced. (The validity of the "exploitative" model, which assumes moneylenders and merchants everywhere have monopoly power in the small farm sector and use it, has not been satisfactorily demonstrated in all countries). With respect to the "moneylender connection", three tentative conclusions were drawn from the Review:

Village money lenders, merchants, rotating credit societies and other instruments of the informal local credit system appear less attractive than hoped as potential collaborations in SFCP.

The smart strategy is for conventional credit institutions to imitate these village agents by adapting their positive features. Miracle explains one such proposal in his AP on institutions.

Categorical use of the word "money lenders" is inappropriate, since there are important differences between informal systems. While the village agents described above may be hard to organize and control, suppliers and purchasing agents operating at the regional level may offer an important exception. Potential disadvantages could thus be reversed. Since these agencies are the dominant source of credit in some small farm areas (see Clifton Barton's fascinating paper on Chinese middlemen in the Mekong valley, vol xi) it may be both useful and possible to incorporate them in SFCP. Barton argues in his paper for credit to these merchants. The Review could not give this subject the attention it deserved.

8. Equally important as the proper appreciation of factors associated with individual credit mechanisms, there is need to link them together in a mutually reinforcing system rather than treat them as alternatives. Banks and other institutions which have access to private urban financial markets can deal with co-ops and other institutions (and perhaps merchants) which have stronger ties to the villages and serve as "grass root" intermediaries. Institutional solutions must be flexible enough to take advantage of the particular attributes of each institutional form and combine them where possible.

9. Credit institutions working within an integrated program have better overall success. A distinction must be made between credit-providing institutions which themselves carry out complementary functions such as extension and marketing, and institutions which specialize in credit but are closely linked in integrated programs to other functionally identified organizations. A number of the AP authors find some support for the specialization strategy, letting the credit institution concentrate on the single, difficult task. But that position presupposes the existence of complementary institutions. Where extension and marketing services don't exist, or are being performed ineffectually, a new multi-purpose agency may be indicated. There is evidence that multi-purpose agencies (regional development or settlement authorities, Caja Agraria, etc.) generally have had a better record than specialized credit agencies. This suggests the latter have trouble locating or coordinating with complementary institutions. The inconsistency is resolved by relating the advantages to the stage of development. In countries with a weak rural institutional infrastructure, the concentration within a single institution of scarce managerial and financial resources by priority region, settlement block, or crop program makes initial sense. Among

other things it allows planners to identify clear and unambiguous project objectives. But the proliferation of semi-autonomous regional and crop authorities presumably becomes undesirable eventually, and, as more institutional resources develop, functional specialization appears inevitable.

10. The argument for government involvement made earlier with respect to cooperatives can be extended to all forms of SFCP. Since these programs by definition imply redistribution of economic (and political) opportunity, they cannot succeed with large numbers of small farmers without confronting existing rural power. In most countries the confrontation will oblige the small farmer forces to withdraw unless government supports them directly or takes action on other fronts--through land reform for example--to reduce the opposing force. Gotsch's important writings on this subject have been referred to above. Tendler reminds us that national political involvement in SFCP, often criticized as incompatible with local participation and control, may be essential to program success. There has been less political involvement in SFCP in Latin America than in Asia, and less impressive SFCP results. If small farmer rights cannot be guaranteed, a good case can be made not to support SFCP.

11. Credit institutions take years to mature. A record of financial weakness and program shortfalls in the first decade or two seems to characterize most case studies submitted to the Review even though the institution eventually reached a position of respectability. While the directions of some small farmer credit institutions need to be changed, and other institutions may have to be abandoned, a degree of patience will not go unrewarded. The apparent contradiction--living with failure--is justified by the assumption that institutional growth has a pattern somewhat independent of program success, and the long, disappointing, institution building process probably cannot be avoided. The highly respectable farmers associations of modern-day Taiwan went through difficult periods in earlier decades. Both the co-ops (FaCoMas) and Rural Banks of the Philippines have been subjected in the past to considerable criticism, and have undergone substantial alteration. Yet as years pass their image improves and they are given additional responsibilities. The rule should be wherever possible to work with and build upon existing institutions, rather than replace them.

12. Newly created SFCP are often handicapped by having been saddled with partially incompatible goals and no established priorities. The problem is inherent in small farmer programs, which mix efficiency and equity objectives. It is even worse in small farmer credit programs because the latter have to follow rules of financial discipline in order to help unruly, financially undisciplined clients. The multiple goals usually include a) high recovery rates, b) increased production, c) increased welfare and d) support to the "small farm sector." This set of goals gives confusing signals. Any harsh treatment of delinquents is out of line with notions of welfare. Production goals inspire credit agents to seek farmers at the progressive end of the small farm spectrum, in effect abandoning the fundamental equity thrust. Since the conflict is irreconcilable, SFCP must learn to live with second best solutions. However, one point needs to be stressed. The record shows that second best solutions are unstable, and SFCP that try to reach all objectives gradually concentrate on debt recovery and production. They tend to narrow rather than expand their coverage in the small farmer sector. To guard against this tendency, SFCP apparently need to give clear priority to the role of supporting the "small

farmer sector" and establish criteria to measure whether that ambitious role is being performed.

13. SFCP need to create a self-evaluation mechanism to measure progress toward the multiple goals. Few present programs have such a mechanism. Without it, the program shifts and goal displacements mentioned above are almost inevitable.

14. Notwithstanding the argument for insisting that SFCP give continuing emphasis to the fundamental equity consideration, it is essential that credit institutions remain viable and survive as financial intermediaries. Their historic and often criticized concern for debt repayment is legitimate. This point has been used to exclude small farmer clients from bank portfolios, an exclusion no longer permissible. But banks and other lending organizations must be allowed to operate on sound business principles. Given the difficulties inherent in small farmer credit, some form of government subsidy may be necessary to cover certain unusual "developmental" costs which are atypical of conventional credit transactions - for example the costs of technical supervision and the portfolio losses due to an apparently irreducible rate of default attributable to cultural and psychological factors beyond any development agency's control. The argument for applying sound financial standards to SFCP - adjusted only to allow for extraordinary "developmental" costs - is placed at an end of this section to get attention.

IV. MAJOR POLICY OPTIONS

A. Discussion

A number of issues are singled out here for individual attention. They are not related to "role" and "institutional" matters, but insofar as they arise with all programs and confront all program planners, they warrant special treatment.

B. Findings

1. Interest rates applied in SFCP are generally much lower than rational economic policy would dictate. If they were raised from say, the five percent level to the twenty percent level there would be few losses in terms of program goals and some major gains. Losses allegedly would result from a reduced demand for SFCP credit and, as a consequence, decreased investment and production. However, that argument assumes that farmers are sensitive to changes in the interest rates of the order proposed above, and that the low rates are necessary to induce small farmers to use credit for productive investment. This position has now been challenged. We are persuaded that small farmers would not be investing anyway if expected profits were of such small size to be eliminated by the suggested rise in interest rates. Also, small farmers are accustomed to and undeterred by village rates set considerably higher. Thus, if rates were to shift upward within the range mentioned above, we would not expect this to cause small farmers to withdraw from institutional credit to any significant extent. It follows that the theoretical case for low interest rates is untenable except as they serve welfare objectives.

The case against low interest rates as presented in the AP by Claudio Gonzalez-Vega, and in the workshops by him and Adams, is, however, formidable. The low rates do not cover operating expenses and portfolio losses of the credit institutions, let alone the costs of technical supervision which may or may not be separately financed. Several authors, including Anthony Bottomley in a comment included in this volume, itemize the costs to the lender which ought to be recovered through interest charges but cannot at prevailing rates. Thus low rates jeopardize the financial integrity of the credit institution. Low rates also encourage SFCP to minimize losses by concentrating on the more prosperous, reliable farmers, particularly those with collateral. The bulk of the small farm sector is excluded. Diversion of funds from target farmer groups is almost unavoidable, since demand for credit exceeds supply at the low rates and a rationing process in which the typical small farmer is disadvantaged is set in motion.* Finally, low rates depress the supply of credit--first and most important by discouraging commercial banks from seeking small farmer clients and second by inhibiting the deposit of rural cash savings in financial intermediaries.

Adams has called the low interest rate policies offered small farmers a great hoax. He says they do the small farmer more harm than good. He insists that rationalization of interest rates is one of the most important policy reforms countries could undertake in the field of small farmer finance.

* One must also consider the distortions of relative factor prices caused by low interest rates. The underpricing of capital encourages capital intensive techniques in labour surplus economies.

A few other AP authors question the importance of the interest rate issue. While accepting the points made above, they make several additional ones: (1) that since many of the input and commodity markets in which the small farmer operates suffer from monopoly and other distortions, correction of interest rates is not likely in all cases significantly to improve economic efficiency; (2) that institutions must charge much lower rates than money-lenders because the latter offer many more services; (3) that the hypothesized effects of higher interest rates on the supply of commercial credit and rural savings are untested except in a few countries; and (4) that LDC governments, politicians, farmers and scholars support low interest rates and, right or wrong, that opposition will not be easily overcome. These arguments would appear only to partly blunt the main thrust of the high interest rate argument. Without offering high rates as a panacea to the problems of SFCP, one must support efforts to correct the remarkable distortions and difficulties attributable to the prevailing low rates.

2. Subsidies for small farmers can be justified on several grounds, but it is a mistake to use the credit mechanism as a vehicle for subsidy. The argument against subsidized interest rates has already been summarized. The argument against passing subsidy to small farmers by dealing gently with delinquency is that this permissiveness destroys the disciplines which are vital to institutional viability (an exception is mentioned below in the passage on default). There are three main reasons for subsidizing small farmers: (1) to redistribute income to them from other sectors, (2) to maintain subsistence levels among extremely poor farmers (group 5), and (3) to encourage production of the "potentially-viable" farms classified as group 4. These are legitimate reasons, but we argue that the subsidy should be incorporated in the price of services and supplies, rather than in the price of credit. Subsidy will create distortion and lead to some inefficiency where ever it is made. We say the effects on credit programs are particularly damaging.

3. There is a stronger argument for subsidies to institutions which supply credit than for subsidies to farmer-borrowers. This suggests that while interest rates to farmers may be raised, interest rates to commercial banks and other financial institutions should be lowered as an incentive to expand their small farmer portfolio. The suggestion, however sensible, can be expected to meet strong popular resistance.

4. The commercially "non-viable" farmers (group 5) present a problem with which the Spring Review is unable to cope. Production oriented planners exclude this group out of hand. Welfare oriented planners concentrate upon it. The definitions and distinctions made on page 3 are discomfoting, because one must ask whether farms physically incapable of fully supporting a family could nevertheless profitably absorb small farmer credit to bring them to their full farm potential and provide as much on-farm income as possible. Why exclude group 5? As Thomas Carroll points out elsewhere, to make non-viable units viable is the heart of the development business, and institutional forms can be invented to economically organize and service farmers at the bottom of the pyramid. It is clear that the limit between groups 4 and 5 is flexible and will drop as technologies, extension agents and other services become more efficient at this level of enterprise.

5. Supervision of the use of new technology is agreed to be an essential component of most SFCP. It is clear from the experience in Asia with high yielding wheat varieties, and from comparable episodes elsewhere, that many small farmers can learn and adopt new methods without the support of extension services. Nevertheless, there was remarkable unanimity among participants at the workshops, whenever the value of supervision was questioned, about the importance of advisory assistance in accelerating a diffusion process and in ensuring that the small farmers properly apply the entire recommended package of practices rather than a single, attractive element. Supervision appears to be best organized by crop or some other concentrated program line rather than in the manner traditional, all-purpose extension services have been formed. Whether supervision is unified with the credit service, or linked to it in a separate service, was an unresolved issue. The solution depends upon circumstances peculiar to each country. If the credit and supervisory services are unified, the costs of supervision can justifiably be separated from the costs of credit operations and charged to the government budget rather than the borrower. It is impossible to disassociate the supervision issue from the technology issue. Without a superior technology, which meets yield and incentive conditions suggested earlier, supervision makes little difference. Some supervised credit agencies have trained agents beyond the level of competence which they brought to the agency, but the new level offered no measurable advantages to the small farmer clients. The credit, the supervision and the training had very low value. It is clear that the technical extension program contemplated here differs from the standard extension model.

6. Financial savings may be generated in rural sectors at rates much greater than commonly thought and their accumulation is highly desirable. The experience in Taiwan, Zambia and elsewhere provides evidence to support this hypothesis. The savings will be provided partly by small farmers themselves, especially where a variety of farm enterprises exists and the income and expenditure cycles differ among farm families. An important part of the savings will come from urban and non-farm rural depositors, however, perhaps the majority share. Interest rate policy will help determine the level of deposits. But to encourage savings, government must not only raise interest rates but provide the legal basis and security for deposits and help develop the physical facility. Rural banks and provincial branch banks offer such facilities. So do some credit cooperatives. The long run importance to small farmer development, and rural development in general, of the ability to generate within the sector itself much of its own capital requirements is such as to suggest government should encourage credit institutions which offer the savings facility. Moreover a savings facility in a credit institution can strengthen the institution and, as in Taiwan, with time provide a base for carrying other institutional functions which are not self-supporting.

But we don't want to exaggerate. We cannot pretend that in the early years rural savings will finance a large share of institutional credit needs. Some of the AP authors question the importance of rural cash savings, partly because the alleged savings response to institutional incentives remains untested in most countries and in any case is not necessarily rational, partly because cash savings are at best a poor indicator of aggregate farm savings and investment. One cannot even assume that as deposits grow, corresponding decisions regarding real investment are also made, that is, that real resources are withheld from consumption. But to the extent SFCP can encourage small farmers to borrow and invest in farming, the conversion of financial savings to real investment is accomplished.

7. Consumption credit appears to have no role in SFCP that emphasize production objectives, but that judgement may be both incorrect and politically unacceptable. To prevent leakage of loaned funds into nonproductive expenditures, SFCP sometimes tie the loans to farm inputs or deliver credit in kind rather than cash. Yet there are arguments against such rigid control of loans. One of them holds that in welfare terms consumption expenditures are as easily defended as production expenditures, and small farmer programs which limit credit to production deal with only part of the small farmer problem. Given the scarcity of program funds, a foreign aid agency may want to reject this argument and insist on investing in income-increasing projects. But other arguments are less easily rejected. One says that since funds are fungible, earmarking credit for production is to a large extent meaningless and impossible to enforce where credit is given in cash. Another cites the danger in giving credit in kind -- of discovering too late that production technology formulas were wrong and had locked the farmers into sub-optimal practices. Another powerful argument is the one presented by Baker in his AP. He maintains that a secure source of credit, available for family emergencies and other consumption items as well as for production purposes, will persuade small farmers to reduce the level of liquid balances held at home. Baker feels these balances are substantial, supporting the argument made elsewhere about the savings potential. If the small farmer has confidence in a source of credit to cover emergencies, he may invest the excess liquid balances in his farm. Thus the availability of consumption credit can have a positive influence on productive investment. The so-called consumption loan program of the Ivory Coast may be a case in point. Actually the argument here is not for consumption credit per se, but for an open line of credit. This position had some appeal, but the issue was addressed only superficially in the Review and the AP team is not prepared to vote for or against consumption credit.

8. Collateral was another factor given too little attention in the Review. Recognizing the difficulties most untitled or tenant small farmers will have in securing a loan except by mortgaging the crop, several of the authors nevertheless recommend that liens on the anticipated crop are probably not enough to ensure the financial success of the SFCP. However, this judgment may be overly influenced by the record of SFCP operating in areas without a profitable technology. Repayment rates are high enough in some programs that do not require additional collateral to suggest that where the conditions for successful credit programs obtain it may not be necessary. This does not mean that cadaster and land titling programs should not be pressed vigorously. Establishment of the legal base for mortgage could not fail to enhance the small-holder's credit worthiness.

9. Graduation policies are necessary for SFCP which give special services, privileges and subsidies to small farmers for a period of time calculated to bring them to commercial viability. When that position has been reached, and assuming that the normal commercial banking system is prepared to deal with them, the successful small farmer must be graduated out of the special program to make way for new clients. In general, however, SFCP fail to graduate clients. Rather, the low interest rates encourage older, successful clients to continue in the program and collectors, who need to keep repayment rates high, to try to keep these credit-worthy borrowers from leaving. Graduation has a different meaning in cases where the commercial banking system is induced to deal straight away, though on special terms, with inexperienced farmer-borrowers. Here gradu-

ation is not a process of moving from special to regular institutions but of shifting within the same institutional system from one set of terms to another.

10. Default and delinquency rates in small farmer credit are generally higher than would seem acceptable. But we are uncertain about the relative importance of each of the alleged causes. Thus corrective action is difficult to design and the most obvious policy - to intensify collection methods - is unlikely to succeed. Earlier it was said that the default problem was probably related to the low profitability of the farming enterprise financed through credit. In such a case the remedy lies either in adjusting input and output prices, changes which can have quick effect, or in the development of new technology, a strategy that is not going to relieve the default situation in the short run. Where default is partly explained by the farmer's feeling that the loan does not have to be repaid - an attitude that is often explained by generous government policies in the past - corrective action will have to be based on an educational program that also may take years. This brings up another important point about default. That is, that twenty or thirty percent default rates may not be as unacceptable as they may seem. First, rates of this magnitude (provided they don't worsen) are probably not indicative of unprofitable technology, lack of faith in the institution, or the afterglow of earlier government give-away programs. If these factors prevailed, the rates would be higher or grow higher. Twenty or thirty percent rates mean the great majority are repaying, and the delinquents may be the group of poor performers we would expect in any educational program dealing with unsophisticated peasants. One could even argue that it is wrong to apply criteria of financial discipline at the beginning of a SFCP operation, since that could equally be considered one of the objectives.* Of course the institutional deficit must be covered by some form of subsidy, and the default disease cannot be permitted to infect the clientele who are accustomed to repay institutional debt. Also, the notion that a credit program should accept, as normal, losses of this magnitude in dealing with peasants is repugnant to most credit experts, including some of the AP authors. There are enough cases of SFCP with very low default rates to suggest to these experts that twenty to thirty percent default rates not only should but can be corrected.

* Eckaus and others cite scattered evidence that default is more prevalent among medium and large farmers who enjoy political immunity to punishment, than among small farmers. If SFCP were restricted to small farmers, repayment rates might rise!

V. FOREIGN AID

A. Discussion

Agricultural credit programs supported in the past by AID and other donor agencies should not be judged solely on criteria measuring the success of SFCP. The concern for small farmers, or, better said, for the involvement of masses of small farmers in rural development, is relatively new to these agencies and the slow progress in that direction gives more reason to re-program for the future than to criticize the past. Most of the policies and options discussed in the preceding parts apply, of course, to donor agency programming. In the near future AID will prepare a policy position paper suggesting ways in which the Agency can apply the research results from the Spring Review. Two of the more obvious implications will be repeated here, because they are of special significance, and one that has peculiar relevance to AID will be added. The third point refers to problems highlighted in the paper on the history of AID programs in agricultural credit (vol. xviii).

B. Findings

1. The case can be made that donor agencies should not be as readily prepared to provide, as they have provided in the past, support for SFCP that do not meet certain minimum conditions for a successful production impact. The opportunity cost of these aid funds is high; other programs in support of small farmer development may have greater effect.
2. In those cases where a new technology with alleged advantages over conventional practices is not being adopted by small farmers -- this comment applies to the typical case where technology carries modest or divisible costs -- the explanation probably lies in the technology, or the markets, and not in the lack of credit. Adding credit won't make much difference.
3. AID should be better prepared to evaluate small farmer program proposals involving credit and to ascertain whether the conditions for success obtain. AID should also be better prepared to backstop SFCP once they have been implemented with AID support, in order to identify and adjust to difficulties and breakthroughs that emerge.

VI. CONCLUDING REMARK

We are impressed with the extraordinary difficulty of analyzing the reasons for success and failure of SFCP. This is a reflection of the fact that we are trying to find partial solutions for perhaps the most intractable of development problems, a problem for which partial solutions obviously won't work and to which few solutions of any sort have been profitably applied by interventionist forces in the past. Nevertheless the review of the credit component has given us a handle on the overall small farmer issue, and we hope after the Review to be able to improve upon existing AID programs. One of the factors complicating the study was that it has become fashionable to criticize coops, supervised credit and other agencies of small farmer development, and these criticisms have tended to obscure the many substantive achievements,

including the creation of institutional structures now available for constructive action, and the many small farmer beneficiaries of programs already under way.

APPENDIX A

AGENCY FOR INTERNATIONAL DEVELOPMENT

SPRING REVIEW OF SMALL FARMER CREDIT

WASHINGTON CONFERENCE

July 12-13, 1973

Preliminary Agenda

Thursday, July 12

0830 - 0930	Registration and Coffee
0930 - 0945	Welcome Address and Introduction to the Review
0945 - 1000	Presentation: "Trends in Donor Credit Programs"
1000 - 1715	<u>SESSION I - THE ROLE OF CREDIT</u>
1000 - 1100	Presentation: "The Role of Credit" Comments Discussion
1100 - 1130	Coffee
1130 - 1230	Panel: "Subsidized Welfare Programs" (Should donor agencies support subsidized credit programs directed at welfare rather than production objectives?)
1230 - 1400	Lunch
1400 - 1515	Panel: "Alternative Small Farmer Production Programs" (Are small farmer production objectives better achieved by shifting funds from credit to other programs?)
1515 - 1545	Coffee
1545 - 1600	Presentation: "The Problem, Significance and Treatment of Delinquency and Default"
1600 - 1715	Panel: "Handling Delinquency" (How can high delinquency and default rates be corrected in the short and long term?)
1800	Reception

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Turn Over

Friday, July 13

0900 - 1215	<u>SESSION II - COOPERATIVES, BANKS AND MONEYLENDERS</u>
0900 - 1000	Presentation: "Banks and Moneylenders" Comments
1000 - 1030	Presentation: "The Comilla Coop and its Replication in Bangladesh"
1030 - 1100	Coffee
1100 - 1215	Panel: "Politics of Coops" (How can skeptical farmers be grouped, dubious governments be persuaded, and larger farmers neutralized?)
1215 - 1330	Lunch
1330 - 1530	<u>SESSION III - INTEREST RATES</u>
1330 - 1430	Presentation: "The Case for High Interest Rates" Comments Discussion
1430 - 1530	Panel: "Selling a High Interest Rate Policy" (How do donor agencies overcome the formidable support for low rural interest rates?)
1530 - 1600	Coffee
1600 - 1645	Spring Review Follow-thru and a Research Agenda
1645 - 1715	Summary and Closing

APPENDIX B

List of Spring Review Papers

COUNTRY PAPERS

Note: R=reprint

- Vol I Mexico and Central America
 Mexico: Fondo de Garantía y Fomento Para la Agricultura, Ganadería Y Avicultura
 J. Uriza S. et al; Chapingo
 Credit among Small Farmers: The Case of the Puebla Project of Mexico
 H. Diaz C; U. of Wisconsin and Puebla Project
 The Supervised Credit Program in El Salvador: 1961 to the Present
 R. A. Vazquez et al; USAID and ABC
 The National Development Bank of Honduras
 R. W. Santos et al; NDB, ACDF and USAID
 The Rural Credit Program of the National Bank of Nicaragua
 C. R. Ramirez; NBN
- Vol II Costa Rica
 The Agricultural Credit Project of the Agricultural Sector Program of Costa Rica
 A. L. Brown, ATAC
 Small Farmer Credit in Costa Rica: The Juntas Rurales
 C. Gonzalez-Vega; Stanford U. and U. of Costa Rica
- Vol III South America
 Small Farmer Supervised Credit in Peru
 O. Carranza; Min Ag.
 A Review of Small Farmer Credit in Bolivia
 T. C. Royden, Utah State U.
 Instituto de Desarrollo Agropecuario (INDAP-Chile)
 C. T. Nisbet; Evergreen State College
 Rural Capital Markets and Small Farmers in Brazil, 1960-1972
 R. L. Meyer et al; Ohio State U.
- Vol IV Ecuador
 National Development Bank: The Supervised Agricultural Credit Program in Santo Domingo de los Colorados
 G. Guzman; NDB
 Ministry of Production/Central Bank Trust Fund: Farm Development Programs in Ecuador
 J. F. Casals; Trust Fund, Central Bank
 The Directed Agricultural Production Credit Program of the National Federation of Savings and Credit Cooperatives of Ecuador
 M. Benitez C.; FEEOAC
 Evaluation of the Directed Agricultural Production Credit Program in Ecuador
 R. H. Keeler et al; FEEOAC and USAID
- Vol V Colombia
 The INCORA Supervised Credit Program
 J. Schwinden and G. Feaster; USDA
 The Use of INCORA Supervised Credit in Colombia in 1969
 D. G. Dalrymple; AID/FFC/FDA
 Small Farmer Credit Activities of the Colombian Agricultural Bank
 R. L. Tinnermeier; Colorado State U.

Vol VI

Africa

- Banque Nationale pour le Développement Agricole: Prêts de Soudure
The Staff; BNDA
- Centre National de Promotion des Entreprises Cooperatives (CENAPEC)
Samuel Nneke; IMADES
- Institutional Credit for Smallholder Farmers: A Case Study of the
Western Nigeria Agricultural Credit Corporation (WNIACC)
A. Ijose and J. N. Absalu; U. of Ibadan and Ife.
- Small Holder Agricultural Credit in Eastern Nigeria: An Analysis
of the Fund for Agricultural and Industrial Development
S. Ugoh; U. of Nigeria
- Agricultural Credit Strategies for Nigerian Farmers
A. Osuntogun; U. of Nigeria
- A Review of Small Farmer Credit in Ghana: The Rice and Maize
Schemes of the Agricultural Development Bank
J. B. Goodwin and R. Salley; USAID and Harvard DAS
- Organizational Structure and Administrative Procedures
D. Goodman; USAID/Nigeria
- Government Small-Farmer Credit Programs in Morocco
N. Ulsaker; USAID
- The Local Mutual Credit Union System and Small Farmer Credit in Tunisia
W. F. Johnson; USAID
- Small Farmer Credit in Sudan
T. Stickley and M. H. Abdallah; AUB
- The Cooperative Credit Scheme in Uganda
D. C. Frederickson; ACDI and USAID
- The Role of Money in the Development of Farming in the Mumbwa and
Katete Areas of Zambia (R)
R. A. J. Roberts; U. of Nottingham and FAO

Vol VII

Kenya

- A Survey of Farm Credit in Kenya
G. F. Donaldson and J. D. Von Pischke, IBRD
- The Vihiga Maize Credit Program
Peter Weisel et al; USAID

Vol VIII

Ethiopia

- The Credit Programme of the Chilalo Agricultural Development Unit
(CADU) in Ethiopia
Johan Holmberg; SIDA
- The Chilalo Agricultural Development Unit as a Program Intermediary
for Foreign Assistance in Ethiopia
John M. Cohen, Haile Sellassie I U.

Vol IX

West Asia

- Small Farmer Credit in Turkey: The Supervised Credit Program
of the Turkish Republic Agricultural Bank
T. Stickley and S. Satana; AUB
- Small Farmer Credit in Jordan: The Agricultural Credit Corporation
of Jordan
T. Stickley and M. Hayek; AUB
- Small Farmer Credit in Iran: The Supervised Agricultural Credit
Program of the Agricultural Cooperative Bank of Iran
T. Stickley and E. Hosseini; AUB
- Agricultural Credit in Afghanistan: A Review of Progress and Problems
from 1954 until 1972
D. G. Norvell; USAID

Vol IX West Asia (cont)
Agricultural Credit for Small Farmers in the Middle East
T. Stickley et al; AUB

Vol X South Asia
Small Farm Credit in Bangladesh
M. Solaiman and A. Huq, BARD, Comilla
Comilla Cooperative Production Loans - A Note on the Cost of Capital
J. F. Stepanek; USAID
Comilla: Reassessment and Replication, the Cooperative under Stress
D. Myers; AID/ASIA/SA
The Role of Cooperative Credit in Small Farmer Adoption of the
New Cereal Varieties in India
M. G. G. Schluter; Indian Institute of Management and Cornell U.
Cooperative Credit for Small Farmers in India
S. Abraham; USAID
Small Farmer Credit in India, Selected Papers (some R)
Several
Interim Report on Credit Services for Small and Marginal Farmers and
Agricultural Labourers (R)
National Commission on Agriculture, Government of India
The Cooperative System of Small Farmer Credit in Sri Lanka
G. Gunatilleke, et al; Marga Institute, Colombo

Vol XI East Asia
Farm Credit in Korea
R. B. Morrow and P. E. White; USAID
Rural Capital Markets and Small Farmers in Taiwan, 1952-1972
D. W. Adams et al; Ohio State U and JCRR
The Rural Banking System in Vietnam with Credit for Small Farmers
N. An Nhon; ADB
Credit and the Small Farmer: Case Study of the Mekong Delta,
South Vietnam
C. G. Barton; Cornell U.
Short Term Padi Production Credit Scheme in the Muda Irrigation
Project Area of Malaysia
L. K. Wai and R. G. Hoover; BPM
The BIMAS Program in Indonesia, Selected Papers (some R)
Several

Vol XII Thailand
Bank for Agriculture and Agricultural Cooperatives (BAAC)
M. D. Ingle, et al; USAID
Amphur Farmer Groups; End of Tour Report (R)
A. F. Gamble; USAID and ACDI
Amphur Farmer Groups: In Depth Report (R)
A. G. Gamble; USAID and ACDI

Vol XIII The Philippines

- Small Farmer Credit in the Philippines
O. Sacay; The Agricultural Executives, Inc.
Credit and Small Farmer Development in the Philippines
O. Sacay; The Agricultural Executives, Inc.
Small Farmer Savings Behavior
O. Sacay; The Agricultural Executives, Inc.
Palay Productivity and Profitability in Iloilo, 1971-72
K. F. Smith; USAID

Vol XIV HIV in Pakistan

- A Micro-Economic Analysis of Small holder Response to High-Yielding Varieties of Wheat in West Pakistan (R)
Refugio L. Rochin; Michigan State U.
Diffusion of Dwarf Wheat Production Technology in Pakistan's Punjab (R)
M. K. Lowdermilk, Cornell U.
Field Survey of Small Farmers in Sahiwal District, Pakistan (R)
M. Naseem, U. of California, Davis
Credit Availability and the Viability of Small Farms in the Pakistan Punjab (R)
M. Naseem, U. of California, Davis

SPECIAL PAPERS

Vol XV Informal Credit

- Informal Lenders as Suppliers of Development Credits to Small Farmers in Developing Countries: Attractive or Deceptive Alternative (Latin America - Moneylender)
C. T. Misbat; Evergreen State College
Some Aspects of the Utilization of Existing Credit Sources by Institutions Applying Public Funds to Small Farmer Credit Programmes in Africa (Moneylender)
R. A. J. Roberts; FAO/CARIPIO Working Group
Credit for Small Farmers: Indonesia, Malaysia, Thailand (Moneylender)
M. F. Long; Harvard DAS
A Study of Agricultural Tenancy in the Philippines, Chapter IV: Usury (R)
R. Burcroff, U. of Washington
Zambia: Private Borrowing and Lending Arrangements Involving Cultivators Cash Savings (R)
R. A. J. Roberts; U. of Nottingham and FAO
Credit and the Small Farmer, Case Study of the Mekong Delta, South Vietnam
C. G. Barton; Cornell U.
The Rotating Credit Association: A "Middle Rung" in Development (RP)
C. Geertz, U. of Chicago
A Rotating Credit Association in the Dominican Republic (R)
D. G. Norvell and J. S. Henry; Texas A & M U.
The Influence of "Ke" Societies upon Ri-Dong Agricultural Cooperative Association (R)
K. C. Ryu; Choong-Puk National College and USAID
Credit Systems for Small-Scale Farmers: Case Histories from Mexico (R)
S. Williams and J. A. Miller; Coordinacion Rural, Mexico
Savings and Investment Among the Riobasbeños del Rio Chilimpe (R)
P. H. Gladhard; Cornell University

Vol XVI Additional Papers

Supervised Credit: Its Impact on Profits, Production, Factor Use, Technical Change, and Efficiency of Resource Allocation in Corn Production in Colombian Agriculture

M. D. Whitaker; Utah State U. and AID/W

The ACAR Program in Minas Gerais, Brazil (R)

J. P. Ribeiro, and C. R. Wharton, Jr.

Institutional Success - ACAR (R)

J. Tendler; U. of California, Berkeley

Agricultural Credit in Latin America: Persistent Problems and Potential Promises

Roger E. Soles; Inter-American Foundation

Are Small Farmer Credit Programs Getting at the Cause of Small Farmer Problems?

L. Harlan Davis; USAID/El Salvador

A Three Story Agricultural Banking System

Alfonso Rochac; Inter-American Development Bank/El Salvador

Agricultural Credit Policy in Developing Countries (R)

J. S. Oweis; AID/PFC/PDA

The Interest Rate Policy for Agriculture in Developing Countries: The Prescription Versus the Experience

C. T. Nisbet; Evergreen State College

Agricultural Supervised Credit, The Farmers Home Administration Way

J. Hartman et al; USDA/FHA

Design Criteria Suggested by the Mexican Experience (R)

S. Williams and J.A. Miller; Coordinacion Rural, Mexico, D.F.

Vol XVII Country Surveys

Vol XVIII Evaluation Paper 6

History of A.I.D. Programs in Agricultural Credit, 1950-1972

E. B. Rice; AID/PFC/PDA

Vol XIX Analytical Papers (see next page)

Vol XX Summary Papers

Summary of the Spring Review of Small Farmer Credit

E. B. Rice; AID/PFC/PDA

Comments on the Analytical Papers

Anthony Bottomley; University of Bradford

Carl M. Gotsch; Harvard University

John W. Miller; Cornell University

Lessons from the Workshops

Gordon Donald; Development Digest

A related paper is:

Agricultural Credit and Rural Savings. A Selected List of References for AID Technicians

AID Bibliography Series: Agriculture no. 7, December 1972

Vol XIX Analytical Papers

A Typology of Small Farmer Credit Programs

Antonio Gayoso; AID/AFB/DS

Regional Similarities and Differences in Small Farmer Credit

Marvin P. Miracle; University of Wisconsin

Role of Credit in the Economic Development of Small Farm Agriculture

Chester B. Baker; University of Illinois

Conditions for Success of Public Credit Programs for Small Farmers

Millard F. Long; Harvard Development Advisory Service

Technology, Profit, and Agricultural Credit

Ronald L. Timmermeier; Colorado State University

The Trouble with Goals of Small Farmer Credit Programs

Judith Tendler; Berkeley, California

The Credit Connection: Cultural and Social Factors Affecting

Small Farmer Participation in Credit Programs

Cynthia Gillette and Norman Uphoff; Cornell University

The Distribution of Agricultural Credit and Benefits: Political

Economy and Small Farmers in Less Development Countries

Harry W. Blair; Bucknell University and Cornell University

Institutions and Institutional Issues Associated with Small

Farmer Credit in Development Countries

John H. Brake; Michigan State University

Notes on Developing Small Farmer Credit Institutions in Third

World Countries

Marvin P. Miracle; University of Wisconsin

Analysis of Organizational Aspects of Small Farmer Credit Programs

Jerome French; AID/TA/DA

Group Credit for Small Farmers

Thomas F. Carroll; Inter-American Development Bank

Co-ops Can Help if Governments are Willing

Edgar L. Owens and Charles Antholt; AID/ASIA/TECH

Cooperatives and Development Through Small Farmer Credit

Jack Dublin; AID/PWA/PVC

The Case for Voluntary Savings Mobilization: Why Rural Capital

Markets Flounder

Dale W. Adams; Ohio State University

Interest Rate Policies and Small Farmer Credit Programs in LDCs

Claudio Gonzalez-Vega; Stanford University and University of

Costa Rica

Higher Interest Rates Reconsidered

Millard F. Long; Harvard Development Advisory Service

Rationalizations and Operating Procedures for Small Farmer Credit

Programs

Richard S. Eckaus; Massachusetts Institute of Technology

Subsidized Small Farmer Credit - The Graduation Problem

Phillip E. Church; AID/ROCAP/Guatemala

The Need for Flexibility in Small Farmer Credit Programs

J. J. Singh; Ohio State University

APPENDIX C

Excerpts from the Analytical Paper
"The Credit Connection: Cultural and
Social Factors Affecting Small Farmer
Participation in Credit Programs,"
Cynthia Gillette and Norman Upoff,
Rural Development Committee,
Cornell University.

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 Schultsian 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 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 coefficients, 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 un-supportive.

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.



Research and
Training Network

workshop report

Small Farmer Credit

RONALD TINNERMEIER AND CHRIS DOWSWELL*

Introduction

The transformation process from subsistence to market-oriented agriculture in less-developed countries (LDCs) is a complex and often costly process. In terms of numbers, the small farmer dominates the rural scenario in all of the underdeveloped world [30]. He is usually outside, or at best only marginally involved in, the commercial sector and has little capital to invest in output increasing activities. Population pressures usually keep the small farmer on the verge of starvation inhibiting his penchant for innovation. Furthermore, because of his experience the small farmer seldom has an outlook or set of expectations for a vastly improved life style.

A number of development programs for improving the lot of the small farmer have been initiated around the world in recent years. Too little information about these experiences has found its way into the development literature. The Research and Training Network (RTN) of the Agricultural Development Council (A/D/C) has attempted to change this situation through sponsoring seminars and workshops aimed at

improving communication among people involved in development work.¹

The workshop on "Agricultural Credit for Small Farmers in LDCs" is an outgrowth of a previous A/D/C seminar on "Small Farmer Development Strategies" (SFD) conducted at the Ohio State University in 1971.² That seminar directed its attention to the small farmer class and its purpose was to look at some of the SFD programs which have been initiated around the world in recent years. Various small farmer development strategies and case studies were presented and discussed. One of the strategies of interest was the role of credit in the development process. The credit workshop, thus, was an attempt to consider in greater detail one of the strategies discussed in the earlier seminar.

Workshop Objectives

The objectives of the credit workshop were twofold: one, to consider and compare experiences of extending agricultural credit to small farmers; and, two, to identify research and policy issues of major interest. It was

* Associate Professor and Graduate Research Assistant, respectively, Department of Economics, Colorado State University, Fort Collins, Colorado. The workshop was held April 6-7, 1972, in Arlington, Virginia. Twenty participants from diverse backgrounds and job settings attended the workshop. Appreciation is extended to all the participants who provided helpful comments during the preparation of this paper.

¹The Research and Training Network is supported through a contract with the U.S. Agency for International Development.

²A summary of that seminar is also available [3]. A number of people attending the credit workshop had also attended the Ohio State seminar.

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assumed at the outset that agricultural credit would be extended to small farmers.³

The format of the workshop called for each participant to prepare a short memorandum identifying several crucial issues related to the operation of a credit program. These memoranda were distributed prior to the meeting.⁴ Following the opening remarks of each participant, a number of "consensus issues" were identified and put on the agenda for discussion. These were:

1. Program objectives—the relationship to national planning, data collection, and program evaluation.
2. Institutions—the question of centralization vs. decentralization, special or regular organization, informal sources of credit, and cooperatives.
3. Technology and credit—the need for package programs. Should credit and technical assistance be tied together?
4. Full vs. partial credit—should rural industries, short, intermediate, or long-term loans be financed?
5. Interest rate policies—should the interest rates on credit be subsidized? What administrative costs can be expected? Is the mobilization of savings feasible in low-income farming areas?

Due to a time constraint, the agenda was limited to the above issues. The remainder of this workshop report will concern itself with summarizing and synthesizing the results of the discussion at the meeting, as well as the content of the individual memos.⁵

Credit Issues Discussed

Program Objectives

There was a general consensus that a credit program should have as its prime objective the augmentation of small farm output and income.⁶ It was felt that income transfers to the rural poor through a credit program represented a serious misallocation of scarce capital and, further, did nothing but perpetuate poverty in rural areas. Credit should be extended on the basis of the potential for sustaining and increasing economic well-being. Consequently, the primary objective of a

credit program should be to help the farmer increase the value of output more than the increases in the input costs, leaving him with a net gain.

Credit programs appear to have great difficulty operating with very small farms. The smallest farmers lack tangible assets or a clear title to land to use as collateral for loans [21]. Their repayment capacity is also limited, especially where the traditional crops of corn or small grains are produced or when direct consumption absorbs a large part of production. For these reasons, a minimum farm size often is recognized by credit programs.⁷

It was felt that a small farmer credit program should extend credit to those farmers who could productively benefit from such loans (further research is required to identify those who can productively use credit), but who could not independently secure capital at reasonable interest rates in the traditional financial system. Larger borrowers who could secure capital through the traditional banking system should not be allowed to participate in small farmer credit programs. Thus, both an upper and a lower limit must be defined in order to identify the program's constituency. Further conditions such as the amenability of the borrower to use selected modern technology in his production practices could also be included as a selection criterion.

Credit institutions with their limited capital have to be selective when choosing borrowers. In almost all cases, lenders make credit decisions with inadequate information about the prospective borrower. Larger loans have received preference due to lower average lending costs and since they are easier to analyze than many smaller loans. This bias can channel funds to farmers where the risk is less, but so is the marginal productivity of capital [37]. This is the case generally of large versus small landholdings.⁸ Traditional banking biases favor borrowers with tangible assets and with clear land titles irrespective of whether the borrower has high productivity uses for the capital [25, 20].

Credit program objectives also must fit within larger more comprehensive development schemes. The sub-optimal objectives embodied in a credit program must be consistent with national policy goals. If, for ex-

³The organizers of the workshop recognized the importance of analyzing the function of credit for small farmers, but the limited time did not allow for a complete discussion of such a broad and complex question. Nevertheless, much of the discussion did touch on the role of credit for small farmers.

⁴Appendix A includes a list of the memos. The individual outline should be consulted if a copy is desired. A list of the participants and their addresses is shown in Appendix B.

⁵In this paper, reference also will be made to other publications which focus on the issue in question. However, no direct references will be made to the informal workshop memos.

⁶A number of papers support this contention [34, 29, 45]; however, the opinion is not unanimous [15]. Little time was spent on defining the term "small farmer"; however, the use of the term was similar to that found in the earlier seminar [5].

⁷The minimum farm size will obviously vary from program to program depending upon crops grown, weather, soils, etc., and the technical and administrative ability of the lending agency. For example, the Comilla Project, noted for its work with small farmers, has been unsuccessful in reaching the farmers with less than one acre of land [43]. The minimum size will likely fall between one to three acres depending upon the orientation and capability of the lending institutions, as well as type of production, market access, and input and output price relationships.

⁸The relationship of productivity (other than labor) and farm size in LDCs is still uncertain; however, there appears to be an inverse relationship as reviewed by Dooley [27]. Also see Long [29].

ample, agricultural diversification is deemed important to economic development, some preference should be extended to those farmers capable and willing to shift into new and different crops or into livestock production. If there is ineffective demand for increases of certain traditionally produced commodities, credit should not be extended to encourage further overproduction in these areas. In short, the participants saw a value in attempting to formulate an integrated approach to development. Comprehensive planning is extremely difficult, often unrealistic and usually over-ambitious, yet development of national planning can lead to better public investment and policy decisions.

Within the credit program, a clear statement of objectives is needed to ensure that personnel at all levels can understand program objectives and in order to evaluate the institutional effectiveness of the program. Indeed, the lack of clear objectives is often cited as a cause for program difficulties [26, 33, 45]. The source of legitimacy for the program cannot come from within the institution itself [38]. Rather, it must be founded on larger issues such as increased production, crop diversification, or a higher farm income. These objectives must be clearly understood and adhered to by all parties involved in the credit program.

Institutions

Following the delineation of objectives: what sort of institutional structures are desirable given a defined set of objectives? How does formal (institutional) credit compete with or relate to the informal credit system? Several types of organizational structures were discussed. Government participation in formal credit programs was accepted as a foregone conclusion, since private financial institutions have not been disposed to extend credit to small farmers on their own initiative.⁹ Traditional financial institutions in general are oriented toward the minimization of risk and the maximization of the lenders' profits. In a development context, these criteria usually do not result in funds flowing to the small farmer [16, 36]. Administrative costs are high and interest rates are low. Perhaps the rural environment and culture are too foreign and strange to the commercial banker for him to expand services on his own. In Brazil, the Philippines, and in other countries, private banks do lend to small farmers, but this is often the result of public laws [3]. Further participation by private institutions might ensue if there were government interest-equalization funds which

⁹ This does not rule out the need for policies to encourage the private sector to loan to small farmers. Innovative pilot projects are needed where entirely new institutional arrangements are established; possibilities include governmental cooperation with local input suppliers, local stores, and even extending credit through moneylenders. Changes in interest rate policies might also result in greater private institutional lending.

could subsidize the total "cost" of credit by paying part of the interest, or if interest rates were raised.

A development institution functions as a catalyst for some sort of planned change in the existing social order. Attempts to realize social change require an insightful understanding of the environment in which the individual and also the credit institution operates.

Carl Gotsch [25], for example, argues that small farmer development problems cannot be studied in isolation. He suggests that the characteristics of new technology, local institutions, and rural social structures must be taken into account. Distinct types of development situations occur and change programs will need to adapt to meet the local situation. What are the attitudes of the small farmer with respect to credit, new technology, government personnel? What are his felt needs and how do these coincide with the policy maker's conception of farmer needs? What are the "national" requirements if social welfare is to improve? This sort of information is essential if a credit program is to be designed in such a way as to be effective. If productivity increases are to be a crucial credit objective, program formulators must utilize a number of strategies to arrive at an effective institutional system.¹⁰ The cost of acquiring the necessary information to design adequate institutions is by no means insignificant.

The task is made even more difficult by the poor image public officials often have in rural areas. Public agencies seldom have the confidence of the small farmer. Such agencies lack "insider's information" about the farmer and thus need to collaborate with those individuals who do have such information. Informal sources of credit, such as moneylenders, shopkeepers, and middlemen, have much better information about their communities than does the national government. These sources should be utilized, where feasible, for both their information and also as potential actors within a credit program's disbursing structure.¹¹ The complex nature of extending credit to a sector inexperienced in the world of loans, interest and repayment deadlines requires that special institutional arrangements be considered. Some possibilities include a system for discounting local merchants' paper while at

¹⁰ Measuring institutional effectiveness is discussed in Loeb [27, 28], Alers-Moncalvo [6], and [24].

¹¹ The private moneylenders are often characterized as "exploiters," "monopolists," "extortionists," and the like, but they still are a most important source of rural credit. Attempts to drive out or at least to compete with noninstitutional sources of credit, principally by lowering interest rates, has not been particularly successful [8, 46]. This suggests that credit officials tend to think exclusively in terms of rates of interest, often overlooking other essential credit traits for the farmer such as simple procedures, adequacy, and timeliness. Obviously, governmental guidelines and safeguards are needed if the informal sources are going to be supported.

the same time providing technical advice to the local merchant on how best to use the new inputs. Another might be to establish local, government-private one-man banks to generate savings as well as to provide credit.

Supervised credit institutions have been established in a number of LDCs and are designed to offer more comprehensive services to their borrowers. The loan agent acts as a liaison between the subsistence farmer and the modern commercial world. However, there have been a number of problems with supervised credit programs to date [4, 26, 33, 45]. These programs have often failed to have their intended impact on rural areas; funds are inadequate to reach all those who could potentially use credit; capital is further reduced by defaults and delinquency; and program effectiveness is lessened due to the large number of accounts an agent often has to oversee. Lending procedures are so cumbersome that often the agent is too tied up in paper work to get out to see his clients. Frequently a "fixed" amount of money is loaned per hectare of crop regardless of the borrower's request, and even this money can arrive late. A broad definition of borrower size has tended to lead to a concentration of capital in the larger production units.

Extending credit through cooperatives is another feasible institutional strategy. Coops can play a valuable role in economic development. However, it is not an easy task to build a viable cooperative movement within a society [41]. Regional or national cooperative organizations necessary for obtaining economies of size are often difficult to organize effectively. Atomization thus becomes a serious economic problem. Cooperatives must offer valuable services which are so recognized by the small farmers; the coop's success depends upon that support and recognition. But the same sorts of productivity gains in crop yields are required if farmers are to profit from credit. A coop can reduce the administrative burden of a national credit institution. In fact, cooperatives are frequently used for this purpose leaving them the task of disbursing, supervising, and collecting the loan money from their members. Coops are susceptible to poor management and disorganization, resulting in financial woes which frequently plague and weaken the cooperative as well as the credit movements. Further, internal capital formation which could partially alleviate fund shortages is often difficult to achieve. Ties with government extension agencies are too often distant and undependable and technical assistance is usually too costly to be paid for by the coop itself. Nevertheless, there are some notable successes with extending credit through cooperatives. The Comilla Coop system in Bangladesh, the coop movement in Puerto Rico and the farmers associations in Taiwan all show that group credit organizations can be valuable for economic development.

Concern was expressed by several participants with the slowness of institutional credit policies to adjust to a changing economic environment. If the problems confronting a small farmer initially require some sort of supervised and perhaps subsidized credit to bring him into the commercial sector, how can the institution be designed to transfer the small farmer to the regular agricultural credit markets when he becomes capable of paying the full cost of credit? This can be a serious problem which can lead to a never-ending paternalism injurious to economic development.

It was generally felt that credit must be one of a number of strategies and must act in concert with other supporting development efforts. An agricultural credit program cannot operate in isolation, ignoring the existing price policies, import-export policies, marketing programs and other development policies. Indeed, credit will be wasted, or its contribution limited, if it is not integrated into an overall development effort [7, 40]. Cooperation among institutions, rather than competition, is what is needed [27, 38].

Credit and Technology

Credit is valuable only when it is used as a means to achieve some other "end," such as a productivity gain or an increase in output. The only just way for the farmer to repay his loan is through an increase in his income. Technology is the means to achieve such an "end." However, more capital inputs are usually needed for small farmers to adopt new technology.¹²

Small farmers are often isolated from production inputs like fertilizers, herbicides, and insecticides. Even in areas where there is a formal government extension program, new inputs frequently are unavailable in sufficient quantities or at the right time. When the inputs are available, the productive use of such inputs often requires education. The more complex the technology or the lower the profit margin, the more imperative technical assistance becomes. Credit not adequately tied to technical assistance under these conditions is often more of a curse than a blessing.

It was pointed out, however, that certain technologies have nondivisibilities, which means that landholding size can affect the sort of technology which can be utilized. Size also affects the types of crops or farm activities that should be pursued which can justify agricultural credit. Product shifts will be necessary as a program attempts to reach smaller farm sizes. For some areas, staple crops on small landholdings may never be profitable enough to support a family no matter what productivity gains are realized. This means off-farm employment, or diversification into

¹² The distributive effect of technology is developed by Goshch [23]. Institutional change related to technology is also discussed by Coward and Schutjer [18].

higher yielding cash crops or livestock may be necessary on very small landholdings [15]. Research and experimentation is needed to identify better small farm production methods and to develop higher yielding varieties for those specialized activities, if small farmers are to benefit. Marketing studies are needed to identify activities with a high demand.¹¹

Farmers have usually proven to be responsive to new practices when they become convinced of their value [51]. But often when new inputs are put into practice, added risk occurs [41, 42, 47]. How much of the risk should be borne by the farmer and how much needs to be assumed by the government to encourage the adoption of new practices? In some cases, subsidies either in credit, inputs, or through commodity price supports might well be necessary in the introductory years.

Another obstacle to the adoption of new technology by small farmers is related to the cultural insensitivity of many of the extension agents entrusted with disseminating technical information. For example, personal trust is very important and vital if the small farmer is to really listen to the technical advice of the extension agent.

Questions were raised concerning the appropriateness of combining credit assistance with technical aid under the same directorate. Those opposed saw credit to be essentially a banking function which should be operated independently. Furthermore, agricultural extension agents often get so bogged down in loan applications and other paper work that they have little time to devote to technical or agronomic problems [15]. Those in favor of combining the two services cited the decrease in administrative costs and the improved coordination from such an arrangement [55, 44]. Coordination between separate agencies is often difficult to achieve and, as a consequence, the farmer may receive neither the proper loan attention nor an adequate amount of technical assistance when the services are directed by separate agencies. Where credit is viewed as a development strategy a stronger argument for consolidating the direction of technical assistance and credit under one authority was made. Such an institution could not expect one man to do the work of two and the personnel would have to be proportionately increased. Certainly, an extension agent should not spend the majority of his time doing paper work. Indeed, he should be relieved of as much administrative work as possible to free him to visit his bor-

rowers and help solve their technical production and marketing problems.

Full Credit versus Production Credit

The issue of credit coverage was discussed briefly at the workshop. Should the farmer receive short-term credit to purchase production inputs or would he be more productive were he to receive more comprehensive financing? Can the small farmer manage a relatively large amount of credit? The discussion focused around additional capital mainly to finance rural industries and for consumption use during the growing season.¹² While some credit for both purposes was deemed potentially valuable, much of this issue rests on how much credit is available to lend to this sector and, further, it rests on the public policies regarding the scope of the credit program [45].

No doubt credit for land, plant and equipment purchases can definitely be well used. However, with respect to equipment, great care should be taken not to induce changes in the small farmer sector which cannot be adjusted to rapidly enough to make the loan profitable. Mechanization is often prematurely introduced and this can lead to rather disastrous consequences.

Credit for land purchases is often justified but results in a low rate of capital turnover. Agricultural credit programs often are asked to help finance land reforms, including land purchases as well as other costs, but few programs have the capital to finance such a venture. At the present time, most credit programs do not have the financial resources to extend full credit coverage to land reform recipients or even to their own borrowers without seriously limiting the number of farmers serviced.

Interest Rates¹³

Interest rate policies were a major issue of discussion at the workshop.¹⁴ Unrealistic policies which convert credit into a welfare program were considered to be a hindrance to rural development. A general increase in agricultural credit with the notion that some credit will "trickle down to the small holders" has not proven to be an effective strategy where interest rates are subsidized. Indeed, heavily subsidized interest rates

¹¹ Numerous credit programs have experienced marketing difficulties since producers have been convinced to supply output-increasing technology [14]. Failure to recognize the effects of a larger supply on the local market will jeopardize any well-executed credit program which focuses only on expanding production.

¹² Many credit programs do not provide payment for family labor, or at the most, they provide up to a maximum amount per person for new borrowers only [17, 23]; others include family labor as part of production costs financed by loans [43]. No participant in the workshop advocated the latter procedure.

¹³ An extensive discussion of the nature of interest rates in LDCs is presented by Bastien [9, 10, 11, 12]. Also see Nisbet [32].

¹⁴ A recent article by Adams [1] has generated considerable discussion concerning conventional interest rates and the effect of such a policy on credit availability and allocation [14, 2, 54].

were seen as a cause for the malfunctioning of the credit markets. Several participants saw financial systems in LDCs as special enclaves which favor a privileged class of borrowers. Unrealistic credit prices forced banking institutions to favor large loan applicants. While often not the objective of a government credit program, loans sometimes went to larger borrowers engaged in exporting commodities.

High administrative costs and a desire to minimize risk makes it difficult for a financial institution to justify any loan policy which would favor small farmers. As a consequence, credit has flowed to the more wealthy farmer and thus has not been the key to income redistribution. If anything, heavily subsidized interest rates often lead to a further skewing of income distribution.²⁷ Interest rates way below opportunity costs lead to large farmers borrowing funds to invest in near-zero utility enterprises. Where credit has been expanded in an absolute sense, as in Brazil, it was the privileged class again which received the majority of the new capital [3].

Government-pegged interest rates substantially below the actual cost of such credit results in little infusion of private capital into agriculture. It also either depletes the resources of the public institution or forces it to operate understaffed. Often both situations occur. Interest rates which will not cover administrative costs, bad debts, and enable an institution to increase its loanable funds, weaken the entire structure of a credit program and block the achievement of program objectives. Often such an interest rate policy leads to black market pricing or to loan decisions made on noneconomic criteria.

Low interest rates also constrict rural development by discouraging the mobilization of rural savings. Studies on Korea and Taiwan show that there is a large reservoir of rural capital which can be mobilized through an appropriate interest rate policy [1]. Other countries also have been able to generate considerable rural savings [19, 43]. This demonstrates that farmers are interest-sensitive, and through the appropriate sorts of savings institutions can generate capital on their own. In the long run it is the rural sector which will have to finance much of its own development. There was a strong feeling among the participants that the rural savings potential has not been objectively considered

and that much more attention should be paid to methods of mobilizing rural savings. New strategies must be used—making interest rates more realistic should be a first step.

Other Issues

Although mentioned only briefly in the workshop, a number of other problems come to mind when analyzing agricultural credit programs. Some of these problems will be identified and discussed briefly.

The role of credit for the small farmer is a complex question and requires considerably more information than that presently available. Some say credit is not important to the small farmer and argue that on farm savings, informal credit, and commercial credit are already adequate or will be rapidly available upon demand. Profitable new technology, not credit, is what is needed by small farmers. Indeed, it has been found that some Indian farmers largely financed the purchase of the new high-yielding wheat varieties with their own resources [41]. However, the same study indicates that smaller farmers were less responsive due to the need for greater liquidity. This finding would support those who argue that a concerted effort is required to provide additional institutional credit to get small farmers to purchase the inputs associated with the new technologies. Both groups may be right depending upon the location and circumstances. The upcoming USAID Spring Review of Small Farmer Credit should contribute important additional information concerning the proper role of credit.

High loan delinquency rates can be found at one time or another in almost all LDC small farmer credit programs. In many countries delinquency rates of 20-30 percent are not uncommon.²⁸ Obviously a program with that amount of overdues will experience a rapid erosion of its available capital, requiring either a cutback in services or an injection of additional outside capital; neither alternative is always politically palatable.

There are many reasons for low repayment, but two particularly stand out. The first reason may be unwillingness on the part of the borrower to repay his loan even though he has sufficient income to do so. Legal or other sanctions are then required to force payment. Although little evidence exists, this is probably not the most important reason for low repayment. The second, and usually most critical reason, is inability to pay due

²⁷ Subsidies to agriculture may be necessary for various reasons, but assuming that producer credit is the most effective way to do it was strongly challenged. Selected borrowers become a privileged class and credit leads to social displacement within the rural areas. This alters the social relationships and increases the level of social conflict. Public policy consequently assumes an equity consideration which must be taken into account.

It may be much more effective to subsidize the low farms in the output industry than to subsidize borrowers. Theoretically this would give most farmers a chance to benefit from the subsidy.

²⁸ Published delinquency rates often are misleading due to the different methods used to calculate the rate. A common procedure is to compare the due and unpaid amounts with loans outstanding (which includes due loans and those due in the future) which underestimates the true rate for programs which are expanding or which have many long term loans. In addition, refinancing of past loans is common and may mask present repayment problems.

to nonprofitability of the inputs financed or because of unproductive use of the credit. Both reflect on the ineffectiveness of the lending agency in providing profitable technology, extending that knowledge, and supervising its purchase through the use of credit. The end result is often little or no production increase to cover loan repayments, thereby resulting in delinquency.²⁸ Further research on the causes of delinquency would help not only to reduce the amount in arrears but would also provide additional insight into the relationship of credit and technology, an important determinant in defining the role of credit.

There are always *neglected groups* or groups of rural people unaffected by the credit programs. Even when great efforts are made to reach very small farmers they often are still left behind [43]. The landless laborers are always excluded from agricultural credit programs even though they make up a large proportion of the rural populace in many countries. Should credit policies include provisions for financing local rural services associated with agricultural production? Considering the large numbers of landless laborers, wouldn't a number of entrepreneurs exist within that group who, with a small capital input, could provide important services to agriculture? Perhaps we should focus on rural development rather than on agricultural development: the needed inputs, transportation, and marketing services should be financed at the same time as production activities. Productivity increases will likely require first priority, but the need for local infrastructure and associated services to complement and support that change should not be overlooked.

Finally, the problem of *high administrative costs* is consistently mentioned in papers on small farmer agricultural credit. The Peruvian agency in charge of administering the supervised credit accounts, as well as collecting loan repayments, considers a 6¼ percent commission just barely adequate [45]. Studies are required to identify the reasons for these high costs. It was generally agreed in the workshop that many of the loaning and collection procedures used for medium size and large farmers are inappropriate for small farmer loans. As a case in point, emphasis on land as a loan collateral is widespread but probably ineffective since few governments will encourage land foreclosures on small farmers. Acquiring such collateral increases the legal, administrative, and borrower costs while theoretically having little effect on repayment. Few proj-

²⁸ Utilizing delinquency as the only indicator for program evaluation would subject one to the criticism of having a banker's bias and rightly so. A program could have zero delinquency and still be completely ineffective or have high delinquency with very beneficial development results. Farmer participation, knowledge and use of new inputs, formation of farmer organizations, more commercial production, and improved institutional effectiveness may accompany a credit program regardless of how repayment progresses. Nevertheless, delinquency is a prime indicator of program problems and should be analyzed carefully.

ects have introduced innovative changes in loan forms, loan processing and other administrative procedures, to cut costs. It could have high payoff potential.

Major Conclusions

It was generally agreed in the workshop that small farmer credit requires special attention and that existing credit policies followed for medium size and large farmers are not at all appropriate. New ways must be found to meet the needs of the small farmer. The inputs associated with new technology must be readily available and in quantities amenable to the small farmers' purchasing power and needs. Knowledge as to how the inputs are to be used should also be available and at the level of the farmers' understanding. It was felt that existing credit and other development programs have a strong bias against the smaller farmer: new technology reaches the larger farmers first because of higher educational levels and because of wider social contacts; extension agents and institutional sources of credit gravitate to the medium size and larger farmers because of similar cultural backgrounds and training; private suppliers of inputs work with the larger farmers because of profit motives and more similar backgrounds; market systems are usually oriented to serving the commercial producer, again reducing ready access by the smaller farmer; even cooperatives often are controlled by the larger farmers restricting the services to the smaller members; and, finally, the research which produces new technologies is usually oriented towards solving problems faced by the larger farmers, i.e., irrigation techniques, the design of tractors and implements, crops for irrigated agriculture and for mechanized harvesting, and so on. Indeed, one would be surprised if small farmers were not unresponsive to new technology under such conditions.

The group also concluded that credit policies, at whatever level and for whatever group, must be part of a larger more comprehensive development effort. Credit programs in isolation will be continually faced with lack of funds and a waning of general support. There was also general agreement that credit programs must be designed and analyzed within the existing social, economic and political surroundings.

There was a strong consensus in the workshop that small farmer agricultural credit should be used to augment farm output and income. The credit should increase productivity sufficiently to cover not only the cost of the loan but also to improve the economic well-being of the borrower.

Workshop participants were unable to specify an ideal institutional arrangement, since its form will be dictated by the social, economic and political environment of the area. Relatively successful supervised credit programs and credit cooperatives exist, but it was recognized that this is by no means the general rule. Both

institutional forms face serious problems and coops are especially susceptible to poor management. Nevertheless, there was general agreement that cooperatives hold considerable promise for getting credit and non-farm inputs to the small farmers.

A major conclusion of the workshop was that small farmers do face a "technological barrier" and that it is the lack of access to profitable investments, and the lack of credit to purchase these new inputs, which cause many of the farmer difficulties. However, workshop participants were divided on the advisability of combining the extension of new technology with credit.

There was general agreement that concessional interest rate policies have brought about largely negative consequences. It was generally concluded that interest rates should reflect the opportunity cost of capital and that rates in the neighborhood of 15-20 percent are often realistic. Raising interest rates will not only eliminate the negative consequences but will also focus attention on other inadequate agricultural policies.

The workshop participants felt strongly that the rural savings potential in LDCs has not been objectively considered and that much more attention should be paid to methods of mobilizing rural savings. Present interest rate policies rule out any effective capital mobilization. The more realistic interest rate policies of Japan, Taiwan and Korea have demonstrated that rural savings can be an important source of credit.

Finally, there was general consensus that a systematic, continuing internal evaluation mechanism is essential for any lending institution to be effective. Such a system allows an agency to learn from itself through a periodic review and it ensures that the program objectives are precisely spelled out and understood at all levels. It allows for change and it provides for such change to arise from the communication between administrators and field technicians. Change can come about due to changing circumstances in agriculture or it can result from lessons learned along the way. But it is the willingness and ability of the organization to make such changes which is most important.

Appendix A

Authors and Titles of Workshop Memos

1. Dale W. Adams, et al., "Is Inexpensive Credit a Bargain for Small Farmers? The Recent Brazilian Experience," 15 pp.
2. Klaus W. Bethke, "Small Farmer Credit Programs in Latin America: Some Experiences and Policy Problems," 21 pp.
3. Dana G. Dalrymple, "Use of Loans in a Supervised Credit Program" (Colombia), 5 pp.
4. Graham Donaldson, "Notes on Credit for Small Farmer Development," 5 pp.
5. Johnson A. Ekpere, "Agricultural Credit and Small Holder Production in Africa," 12 pp.
6. William Loebe, "Sources of Conflict in Agricultural Credit for Small Farmers," 15 pp.
7. Kenneth McDermott, "Note on the Overuse and Misuse of Agricultural Credit," 2 pp. (Dr. McDermott was unable to attend the workshop.)
8. Marvin P. Miracle, "Some Problems with Efforts to Provide Agricultural Credit to Small African Farmers," 37 pp. (Includes a bibliography.)
9. Charles T. Nisbet, "Some Thoughts on Extending Agricultural Credit to Small Farmers in Developing Countries," 7 pp.
10. Jervis S. Owen, "Agricultural Credit Policy in Developing Countries," 35 pp.
11. Edgar Owens, "Small Farmer Savings and Credit," 9 pp.
12. Alan K. Reichert and Norman Risk, "Distributional Problems of an Expanding Agricultural Supply—The Case of Southern Brazil," 16 pp.
13. Ann Seidman, "The Provision of Credit for Small Farmers in Africa," 14 pp.
14. Robert Stevens and Anwarul Hoque, "The Effectiveness and Financial Stability of the Comilla Agricultural Cooperative Credit System for Small Farmers," 24 pp.
15. Ronald Timmermeier, "Some Thoughts on Extending Credit to Small Farmers," 9 pp.
16. Claudio Gonzalez-Vega, "Notes on Small Farmer Credit in LDCs," 16 pp.

Appendix B

Workshop Participants and Their Addresses

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Spring, 1973

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A TIDE IN THE AFFAIRS OF MEN

By Anthony Bottomley*

"There is a tide in the affairs of men, which, taken at the flood, leads on to fortune," or so Brutus argued before Philipp², albeit inappropriately where his own fate was concerned. Nevertheless, his advice is good enough with respect to the role of rural credit in the battle against poverty. Credit must join the flood. It is unlikely to be its cause. Money follows opportunity, it does not create it (see M.F.Long, p.19, C. Gillette and N.Uphoff, p.69, C. Gonzalez-Vega, p.18¹).

It seems likely that rural interest rates will only fall with an increase in the productive demand for loanable funds. This increase will be generated by technological change (A. Gayoso, pp. 41, 47 and 49), new crops and/or markets. These it is which create the flood of the foregoing analogy. Rural rates cannot decline before the waves such changes represent have formed and crested. This is because of the nature of the rural rate's component parts. These are: (a) the pure interest rate, (b) the administrative premium, (c) the risk premium (Long, p.3, 5, 12; Gonzalez-Vega, pp.¹8, 9, 13; R.S.Eckaus, p.12) and (d) monopoly profit. We may deal with each in turn.

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The Draft Analytical Papers: Spring Review of Farm Credit (Washington: USAID, February 1973) are referred to by the individual author's names throughout this paper whenever they appear to support the particular views expressed.

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(a) The pure rate of interest will equal the moneylender's opportunity cost for his capital; his liquidity preference or the return on investing in, say, government bonds, whichever is the greater. Long (p.26) puts such foregone earnings at around 10 per cent.

This rate is first given for village moneylenders at 10 per cent, or \$10 for each \$100 unit loaned in Table I, column 2. The corresponding pure rate for urban banks is set at 5 percent in column 2 of Table II. An urban bank is assumed to lend its money for the whole year, whereas a village moneylender may only employ his capital between sowing and harvest, say for six months (Long, p.12). If thereafter the moneylender's funds lie idle, the rural rate must be twice the alternative going urban rate, otherwise the village moneylender will not recover the opportunity cost of his funds. Alternatively, the cost to the store-keeper-cum-moneylender of borrowing in the town to finance his trade may mean that he pays administration and risk premia to the urban wholesaler before his money arrives pure in the village. This is why we have assumed a moneylender pure rate of twice that for an urban bank at 10 and 5 per cent respectively.

But it should not be forgotten that we may only be dealing with a minority of rural finance in this analysis. The majority probably comes from individual farmer savings and transfers between relatives, Long estimates the latter at two-thirds of total loans (p.18) while Gillette and Uphoff put the former as often between 15 and 20 per cent (p.15). See also E.L.Owens and C.Antholt, pp. 6, 14, Dale W. Adams, pp. 6-7, and 15). This doesn't leave a great deal for the moneylender, official or otherwise.

(b) The administration premium on a loan is the charge made by the lender to cover the cost of recording and recovering each unit loaned. It is broken into its two component parts in columns 3 of Tables I and II. Column 3a records the variable book-keeping and recovery costs for each \$100 unit loaned. This premium is set at 5 percent, or \$5 per unit for the moneylender, and at \$2 for the urban bank whose operations are presumed to be better organised. Long (pp. 25-26) claims that actual administrative costs average around 20 per cent on official loans (see also P.E.Church, p.1, E.B.Rice AID/PPC/FDA, Feb. 1973 p.12). But fixed costs no doubt contribute to this percentage. Column 3b assumes

that the lender must allocate a certain proportion of the value of his plant and equipment, as well as his own or his employee's time, to entering the particular village market depicted in Tables I and II and Figure 1. This is his fixed cost. It stands relatively high at \$90 for an urban bank which may have to provide mobile credit units or whatever. The village moneylender, on the other hand, who likely engages in trading and shopkeeping as well, need only allocate \$60 worth of his premises and time to his lending operations in any given year. (Eckaus, p.13)

Once these fixed costs have been determined for both urban banks and village moneylender's, the average fixed cost per unit loaned will fall as lending volume rises. Column 3b shows how this occurs as \$60 and \$90 respectively in Tables I and II are divided by the number of units loaned in their respective columns 1. (Dale Adams, p.16, speaks of "significant economies of scale", but Eckaus, p.13, asserts that there may also be diseconomies of scale.) The sum of pure rates plus average variable and fixed costs on each \$100 loaned is given under the heading: lender's average unavoidable costs in the columns 4.

(c) The premium for risk will be some function of the relationship between the total income of all the borrowers within the village at each volume of units loaned and the unavoidable costs of both borrowers and the lender at that volume. The greater is borrower income relative to unavoidable costs, the less will be the risk that borrowers will be unable to repay. Long believes that default claims an average of 30 per cent of rural loans (p.26. See also R. Timmermeier, pp. 2, 7, and Eckaus, p.27.)

The lender's risk will also be functionally related to the ambience in which the lender works. This relationship will vary in accordance with the extent to which the lender is familiar with the character and repayment capabilities of his borrowers.

These issues, as they affect the risk premium on each unit loaned, may be represented in the following way.

TABLE I
 VILLAGE MONEY LENDER'S ANNUAL COST STRUCTURE IN \$ PER \$100 UNITS LOANED

1 Units Loaned	PRE AND POST INITIATION				PRE-INITIATION								POST-INITIATION					
	2 Average Pure Rate	3 Average Administration Premium		4 Lender's Average Avoidable Costs (2)+(3)	5 Total Avoidable Costs = \$100 • ((1)A(4))	6 Borrower YFP = Lender's Average Revenue	7 Borrower Total Revenue \$(6)	8 Average Yield (2) x 22.5 (7)	9 Average Cost (4)•(8)	10 Total Cost (9)A(1)	11 Marginal Cost Δ(10) Δ(1)	12 Lender Total Revenue (6)A(1)	13 Lender's Marginal Revenue Δ(12) Δ(1)	14 Monopoly Profit (12)-(13)	15 Borrower YFP = Lender's Average Revenue	16 Borrower Total Revenue \$(15)	17 Average Risk Premium = (1) (15) x 22.5	18 Average Cost (10)•(17)
		(a) Variable	(b) Fixed															
1	10	5	60	75	175	100	100	39	114	114	114	100	100	-14	550	550	22	97
2	10	5	30	45	190	90	190	23	68	136	22	180	80	44	260	300	4	43
3	10	5	20	35	205	80	270	17	52	156	20	240	60	26	120	470	3	36
4	10	5	15	30	220	70	340	15	45	180	24	280	40	100	60	520	3	30
5	10	5	12	27	235	65	400	13	40	200	20	300	20	100	300	520	3	30
6	10	5	10	25	250	50	450	13	38	228	19	300	0	72	160	540	3	28
7	10	5	9	24	265	40	490	13	37	259	31	200	-20	21	60	570	3	27
8	10	5	8	23	280	30	520	13	36	288	29	240	-40	-48	40	610	3	25
9	10	5	7	22	295	20	540	13	35	315	27	180	-60	-135	20	660	4	24
10	10	5	6	21	310	10	560	13	34	340	25	100	-80	-240	10	660	4	23

TABLE II
 URBAN BANK'S ANNUAL COST STRUCTURE IN \$ PER \$100 UNITS LOANED

1 Units Loaned	PRE-INNOVATION					POST INNOVATION					
	2 Average Pure Rate	3 Average Administration Premium		4 Lender's Average Unavoidable Costs (2)+(3)	5 Total Unavoidable Costs =\$100 + (1)x(5)	6 Average Risk Premium $\frac{5}{7} \times 67.5$ (7) in Table II	7 Average Cost (4)+(6)	8 Borrower WMP = Lender Average Revenue	9 Borrower Total Revenue $\Sigma(8)$	10 Average Risk Premium $\frac{(5)}{(9)} \times 67.5$	11 Average Cost (4)+(10)
		(a) Variable	(b) Fixed								
1	5	2	90	97	197	133	230	530	530	25	122
2	5	2	45	92	204	73	125	2160	3090	5	57
3	5	2	30	37	211	53	90	1270	4370	3	40
4	5	2	23	30	215	43	73	640	5010	3	33
5	5	2	18	23	225	38	63	320	5330	3	28
6	5	2	15	22	232	35	57	160	5490	3	25
7	5	2	13	20	240	33	53	80	5570	3	23
8	5	2	11	18	244	32	50	40	5610	3	21
9	5	2	10	17	253	32	49	20	5650	3	20
10	5	2	9	16	260	32	48	10	5660	3	19

Let us suppose that all borrowers within the village, taken together, have a value of the marginal product (VMP) on each unit loaned as is first represented in column 6 of Table I. Borrower total revenue will then be the sum of the VMPs in column 6 at each level of lending. This summation is given in column 7. It represents borrower gross income prior to innovation.

Now borrowers will default in accordance with, first, their inability to repay and, second, their unwillingness to repay. Their inability to repay will depend upon their total revenue as compared with unavoidable costs in terms of family subsistence charges, rents, vital seed retention and the like. We may combine these borrower unavoidable costs with the lender's unavoidable costs as represented by his pure and administrative interest charges on the units which he loans. The borrower must first recover his subsistence needs etc., and then he must repay at least the lender's unavoidable costs. Amortization of the loan need not figure here as far as risk is concerned as long as the annual unavoidable lending costs are covered.

The risk that borrowers will be unable to repay therefore depends upon the relationship between total borrower revenue in column 7 of Table I and the lender's total unavoidable costs, plus an assumed \$100 annual borrower subsistence and rental charge as given in column 5. This relationship we here express by dividing total unavoidable costs by total borrower revenue (column 5 ÷ column 7). Of course, the inability to repay quotient which we thus derive may, indeed almost certainly will, be a more complex function of these two variables than that depicted here. It will, for example, depend partly upon the degree of variance around the borrower total revenue from one year to the next. This variance, in terms of the absolute amounts by which some borrowers may fall below the norm given in column 7, may well increase as total borrower revenues grow. In this event, the denominator, borrower total revenue in column 7, by which we divide our column 5, would have to be raised, or more accurately lowered, to some power of less than one as the volume of lending and of revenue grows. Alternatively, if the borrowing is for, say, tubewell irrigation, then variance in total revenue from one year to another may be much reduced as farmer dependence on the vagaries of rain is thus removed. The denominator of column 7 in Table I would then

need to be raised to a power of more than one in order to obtain a reasonable fit to any observed lender risk component in the rural interest rate (Timmermeier, p.12).

The real point is, then, that the inability to repay quotient is not likely to be quite so simple as the total unavoidable costs divided by total revenue. Nevertheless, if total revenues do grow more rapidly than total unavoidable costs as the volume of lending grows, then this can be expected to exercise a downward pressure on the premium for risk and that is all we try to show.

Again for simplicity of exposition, we here put the unwillingness to repay factor at a constant figure of 22.5 for the village moneylender and at 67.5 for the urban bank (see Table I, column 8 and Table II, column 6). This means no more than that the village moneylender has a knowledge of his borrower's character and repayment record, as well as an ability to coerce defaulters in his day-to-day contact with them in the village, which an urban bank cannot hope to match. (Gillette and Uphoff, pp. 60 - 61, Gonzalez-Vega, p. 15, Eckaus, p.13). Banks may also be handicapped by a lack of political determination to enforce repayment. (Gonzalez-Vega, p.17, Eckaus, pp.27, 28). These differences are thus exemplified by multiplying the urban bank's inability quotient by an unwillingness factor which is three times that of the village moneylender ($22.5 \times 3 = 67.5$). In both cases, however, an absolute willingness to repay would still have to be multiplied by some positive number which we here incorporate in the unwillingness factor. This is because our multipliers of 22.5 and 67.5 perform the dual function of converting our inability quotient into a risk premium in annual interest terms as well as that of magnifying the resulting figure in order to incorporate unwillingness as well as inability to repay into this premium.

But no matter what precise functional formula fits the data best in any given case, the end result will be to make the risk premium rise as inability to repay quotients increase (Eckaus, p.29) and as they are augmented by an unwillingness to repay factor, which last will almost always be greater for urban banks than for village moneylenders. The precise function formula given here is just one among those which might have been chosen to illustrate the way in which the premium for risk

within the rural interest rate can vary as borrower revenue and/or lender costs increase. But it should also be noted that the larger, more profitable farm may often be the greater defaulter where official credit is concerned because of its owners political power (J. Tandler p.4, J. French p.9, Gonzalez-Vega, p.17, Eckaus, p.9).

(d) Monopoly profit, or usury as it is called where rates of interest are concerned, can be estimated, once the village moneylender's marginal costs have been derived, in the usual way. Total cost in column 10 of Table I will equal the average cost per unit loaned in terms of the average pure, administration and risk premia, as we have derived them from columns 2, 3 and 8 (see column 9), multiplied by the number of units loaned in column 1. The incremental changes in these total costs in column 10 will then equal the marginal cost of lending each additional \$100 unit. $\frac{\Delta \text{ column 10}}{\Delta \text{ column 1}}$ (column 11). The village moneylender will therefore maximize his net revenue by lending up to the point at which his marginal revenue falls to equal his marginal costs (see, for example, Eckaus, pp. 16-17).

Marginal revenue will be derived from borrower WMR, which represent the demand or average revenue curve for the lender's funds (see Table I column 6). These average revenues to the lender on each unit loaned must first be multiplied by the number of units involved in column 1 so as to derive total revenues at each level of lending in column 12 of Table I. The marginal revenues per unit loaned in column 13 will then be the increments in column 12. The point at which the marginal revenue falls to equal the marginal cost at \$20 in columns 13 and 11 respectively shows the volume of lending in column 1, five units, at which the creditor will maximize his monopoly profit in column 14. At five units loaned this will total \$100, or \$20 per unit for usury. Borrowers will pay \$60 for each \$100 unit hired for a year in accordance with their WMR in column 6. But column 9 of Table I shows that the lender can lend at an average cost of \$40.

An unwholesome equilibrium will thus exist at an interest rate of 60 per cent (\$60 per \$100 loaned) with a monopolistically limited investment of five capital units (\$500) only. The urban or official bank cannot intervene without loss (Rice, p.12) since its average cost curve in Figure 1, derived from column 7 of Table II, lies above the average revenue curve from

column 6 of Table I throughout its whole length. At least this will be so as long as the status quo in production techniques or in other factor endowments persists. Such, then, is the situation in which USAID finance faces when it tries to enter the small farmer credit market in developing countries. Its problem is to support the creation of conditions in which a low-interest rate equilibrium becomes possible.

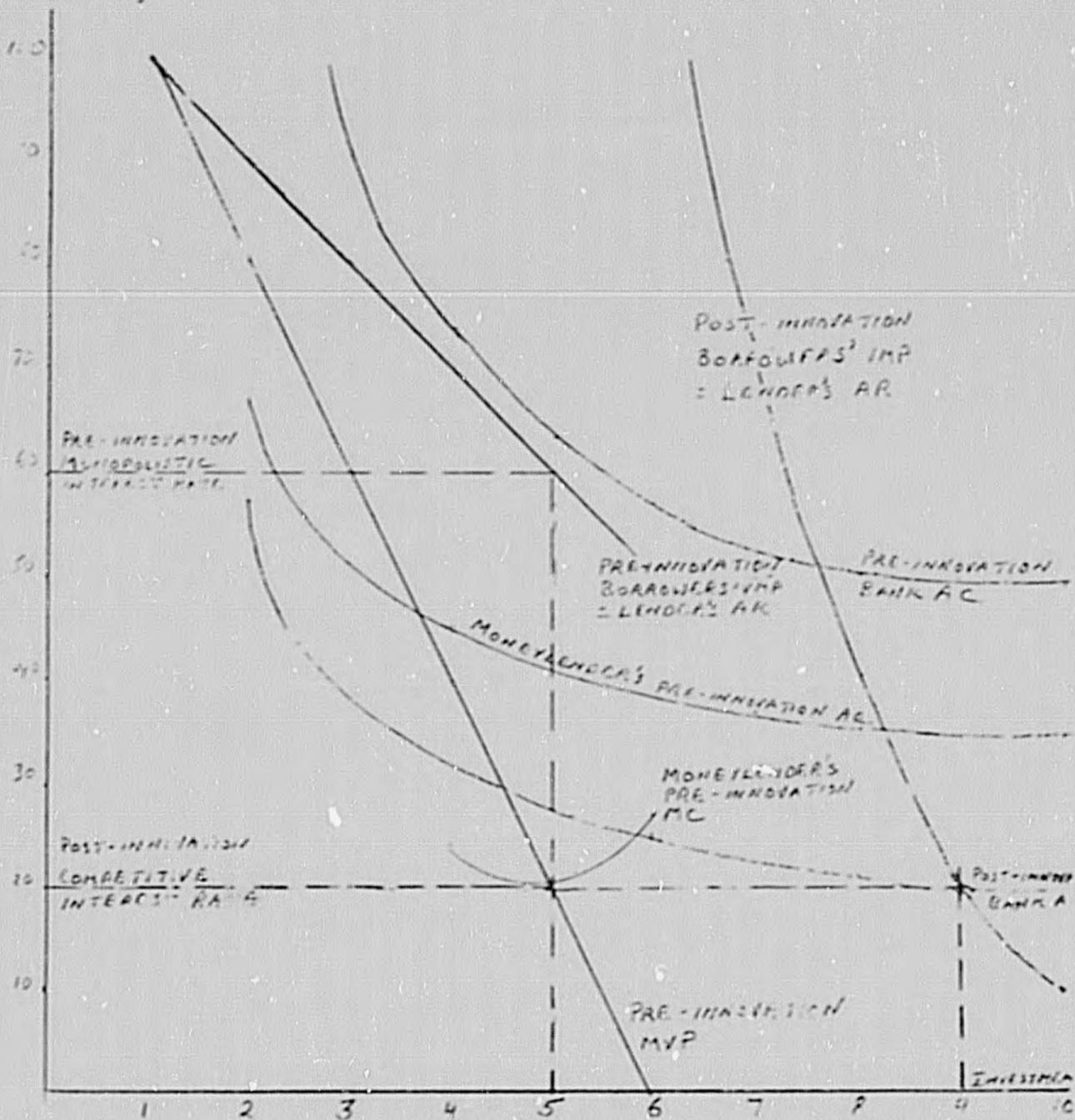
Let us, therefore, now suppose that a new seed or crop is introduced into the area in question. The value of the production increases more than ten-fold (compare borrower total revenues in columns 7 and 16 of Table I). This is the flood of our introductory paragraphs. Risk premia fall dramatically in consequence as inability to repay is all but eliminated; so dramatically in fact that the small advantages which the urban bank enjoys over the village moneylender in terms of pure interest rates and lower variable administration costs in Tables I and II now outweigh the disadvantage of the farmers' reticence from his clients. The post-innovation average-cost-of-lending-curve for the urban bank now lies below that of the village moneylender from the fourth unit on (see column 11 of Table II and column 18 of Table I).

Urban banks may enter the village money market at last and, if they compete with one-another, the rural rate of interest will decline to where their average revenue falls to equal their average cost in Figure 1 at 20 per cent and 9 units loaned (i.e. \$20 in column 11 and 8 of Table II). But it should be remembered that the ease and convenience of borrowing from the money lender, together with any control which the latter may retain over farmers' market or any borrower fear that urban credit lines may not persist, may allow the moneylender to obtain a somewhat higher interest rate than the urban bank (Gillette and Uphoff, p.68, French, p.17).

Nevertheless, thus and only thus, may interest rates be much reduced (Gonzalez-Vega p.12, 14); in this case to one-third of their former level (from 60 per cent to 20 per cent - see Table I column 6, row 5 and Table II column 8, row 9). Blanket attempts by a government to finance the status quo at a lower rate of interest will not succeed. In the absence of co-operative association which is everywhere difficult to create (see Carroll, Owens and Antholt and Jack Dublin, passim) remote government or private banks will only cover their costs if and when they lend in support of marked

INTEREST RATE (%)

INTEREST RATE DETERMINATION



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production improvements. In other words, it will take an increase in the demand for productive loanable funds to effect a lower rate of interest.

This, then, is why we argue that USAID should only finance credit programs which are likely to support substantial increases in output. Officials should seek such opportunities out (Rice AID/PPC/FDA, February 1973, pp. 7 and 11). They should not attempt to create them as part of a credit scheme itself. This is too much of a burden to add to the already sufficiently difficult task of operating a rural bank. If the potential increases in output are not large enough to bring about the foregoing low-interest-rate equilibrium for an outside lending agent,

official lending will have to be undertaken at a loss. It cannot then be used to put the farmer in touch with low-interest commercial sources of finance; diminishing U.S. aid funds will be locked into the area in which they start, unable to move on in support of change elsewhere, unable to spur on another wave of innovation. Official credit aid should therefore be confined to situations in which the farmer is expected to "graduate" from the high-interest, low-borrowing-level village money market, to the low-interest, high-level-of-borrowing commercial urban market (Baker, p.10, Long, p.27, Church, pp. 3, 11, 14, Gayoso, pp. 38 and 43). Only by graduating peasants in this way can that scarcest of all resources, administrative talent in the official credit field (Brake, p.7, T.F.Carroll, p.13, Church, p.4, Rice, AID/PPC/FDS, p.18), be economized so that it may live to fight another day in another village or with other clients. Once officially-financed borrowers have established successful repayment records out of their innovation-inspired increases in income, they may be passed on to urban banks along with their happy record, as well as, perhaps, a residual official guarantee on any early loans which the commercial lending agent makes (Baker, p.13, Church, p.17).

Conclusions. It would be interesting to know if the Country Reports support or deny this thesis. They may, of course, do both, depending upon the circumstances. We really need to know what modifications should be made to the model before it can provide a basis for formulating policy advice.

In order to find this out, variations in pure, administration, risk and monopoly premia within the rate of interest might be extracted from the Country Reports. Ideally they should be regressed against variations in borrower income or, where this data is not available, against such indications of a country's per capita rural product as may be gathered from F.A.O. statistics and the like. Alternatively, episodic examples should be adduced from the Country Reports and elsewhere as to how the components of the rural interest rate vary with different borrower incomes. This kind of analysis should give some indication, but only some (see Brake, p.5, French, pp. 2, 3 and Gonzalez-Vega p.17), of what interest rates are commercially feasible at different borrower income levels (Long, p.24, Rice, Appendix A, p.5 and AID/PFC/FDA, p.21). It will show where "reasonable" unsubsidized rates are potentially a possibility and where they are not. Where they are not, the problem is first and foremost one of instituting change, the creation of a drama in which extension services, irrigation, the underwriting of risk and the like will be the major actors (Tinsmeier, p.3, 5, 16, French, p.5, Rice, p.5), with credit relegated to the epilogue (C.B.Baker, pp.6,9, Rice, p.22 and Rice, AID/PFC/FDC, Feb. 1973, pp. 9,10).

Some Observations on the Small
Farmer Credit Problem

by

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Lessons from Developed Countries

As the authors of several of the analytical papers in AID's 1973 Spring Review of Small Farmer Credit have pointed out, many of the conclusions that appear in the country documents are neither unexpected nor new. Over the years, most developed countries have also experimented with credit programs aimed at improving the capital market faced by small farmers. These programs--in the U.S. one thinks immediately of the Farm Security Administration--were faced with the same problems that run through the description of virtually every country study. First, it is hard to lend money without keeping an eye on the recipient's asset position. Since, by definition, "small" farmers are those whose situation in this respect is unfavourable, there is constant pressure to invest only in the upper part of any designated target group.^{1/} The inevitable result over time is that the program leaves the majority of "small" farmers untouched.

A second universal finding is that the cost of small farmer credit programs is extremely high per dollar loaned. These costs have two related origins. First, the administrative costs--the paperwork--are as high for a \$100 loan as for a \$1000 loan. Indeed, they may be higher if any kind of vigorous check on creditworthiness is run. Second, as several authors have also pointed out, most programs have shown that providing money without ongoing management advice and supervision is a precarious approach. For in addition to a poverty of resources, small farmers tend to lack experience in decision making and to have a limited view of the opportunities open to them.

^{1/} In the debates that occurred within the Farm Security Administration over the agency's role in attempting to cope with agricultural poverty in the 1930's, this became known as "skimming the cream". For an instructive discussion of this whole set of issues from a U.S. perspective, see Sidney Baldwin, Poverty and Politics, North Carolina University Press, Chapel Hill, 1968.

However, the similarity of certain aspects of the small farmer credit problem between developed and developing countries stops well short of providing a description of the situation confronting such programs in the ldc's. As Beteille has observed:

Inequalities of property, income and privilege and power may be cumulative or dispersed. The characteristic feature of agrarian societies is that they tend to be cumulative, creating thereby a powerful ideological basis for the recognition of social inequality as a part of the natural order. In a system of cumulative inequalities, privilege, property and power are combined in the same individuals and the socially underprivileged are also economically and politically deprived.^{1/}

The implication of this comment is that even if there is a willingness to absorb the costs of a small farmer program, creating local institutions that will, over a reasonable period of time, continue to be responsive to the weaker sections of the farming community may be exceedingly difficult.

An Approach to Analyzing the Potential for Successful Rural Credit Programs

Given that substantial sums have been and are being invested in rural credit, and given the now widely recognized difficulty of dealing effectively with the problem, how does one develop an ex ante analysis of these situations in which rural credit programs for small farmers can be successfully organized?^{2/} It seems to me that the questions one would want to ask can be grouped under three general headings: the technical characteristics of the area's agriculture, the basis of social organization at the village level, and the nature of the national political regime and its attendant bureaucracy. Spelling out in detail the relationship of these variables to each other and to a proposed credit program is well beyond the scope of these comments.^{3/} However, the following brief observations might be made.

The characteristics of technical agriculture: As Long has pointed out, the evidence strongly suggests that a necessary condition for a

^{1/} Andre Beteille, "The Social Framework of Agriculture", in Regional Development: Experiences and Prospects, (Lefebvre and Datta-Chaudri, eds.) Report No. 70.211 UNRISD, Geneva, 1970.

^{2/} This section draws on the analytical paper of Millard Long

^{3/} I have tried to describe some of the more important interactions and feedbacks in a paper entitled: "Economics, Institutions and Employment Generation in Rural Areas". Ford Foundation Seminar on Rural Development and Employment, Ibadan, April 9, 1973.

"successful" program is that there be a technology available that will substantially increase net returns. But that is not enough. To show the need for a credit program, it is also necessary that the technology require an increment of capital beyond that which is available through small deferments of consumption expenditures or easily obtainable through short-term loans from informal sources. By this reasoning, for example, one would not expect, in most cases, to find credit as a constraint to the introduction of the seed-fertilizer package.

Though there is some conflicting testimony, it is my reading of the evidence that the above expectation has, by and large, been fulfilled. Where the real difficulties have arisen, at least in Asia, is with respect to loans for the purchase of intermediate mechanical inputs that would require several years to repay. These items: pumps, motors, tubewells, threshers, etc. are often closely linked with the ability of small farmers to increase their productivity and yet they are "lumpy" enough to create serious difficulties in acquisition.

Local social and political institutions: Crucial to an analysis of small farmer credit programs is the definition of "small". Is it more or less synonymous with subsistence agriculture? Is it defined in reference to the characteristics of various types of technology? Or is it a matter of the size of a particular holding relative to some other reference point in the size distribution?

Insofar as "smallness" is a relative as well as an absolute measure of the target group, the problem of getting credit to small farmers is compounded significantly. As several analytical papers have pointed out, the direct distribution of subsidized credit by government agencies inevitably invites extra-market activities by the socially and politically powerful, activities that are aimed at securing the available funds for themselves. Because of the greater security they have to offer plus the influence they can bring to bear on local managers and employees of the organization, their efforts are more often than not successful.

Where credit is disbursed indirectly through organizations that are ostensibly made up of farmer representatives, the record is probably even worse. It is hard to escape the conclusion that where significant disparities of power--based on some combination of wealth and non-wealth sources of status--exist at the local level, credit programs that are expressly

aimed at the bottom part of the size spectrum are likely to be unsuccessful.

The national regime: The last set of questions one would want to investigate with respect to the potential for implementing a successful small farmer credit has to do with the political constituencies of the governing party. This is obviously a complex topic, one that cannot be dealt with briefly even in outline. However, it is clear that if there are local pressures working against the target group, only a strong commitment by the national regime to the protection of small farmer interests will insure that the credit program is not distorted as it is being implemented.^{1/} Indeed, without this kind of support and protection there are good arguments for not proceeding with a program at all. For the results in such cases may involve not only the failure to place resources in the hands of the intended recipients, but a worsening of their situation in the rural community. A frequently cited example involves the tractorization of agriculture where access to cheap credit by large land owners has hastened the displacement of part-time labor and tenants from the production process.

Implications for Programs and Policies

The empirical evidence and the observations made in response to it provide a rather pessimistic picture of the possibilities for creating successful small farmer credit programs. However, before such a conclusion is accepted across the board, it should be emphasized (1) that there are exceptions, and (2) that in many ways, the performance of programs thus far undertaken are not a terribly good test of what can and cannot be done. For example, in the country studies and in my own experience I have found time and time again that money is being spent willy-nilly without even the most basic questions being asked concerning the nature of social and political stratification at the local level. Undoubtedly, such considerations are difficult to include in project feasibility studies but they are no less important with respect to the small farmer problem than ascertaining the presence of an improved technology.

^{1/} Some readers may think that it is naive to suppose that such a conflict could even be initiated. However, the advent of mass suffrage has, in a number of less developed countries, pitted local and national interests against one another.

An honest effort to come to grips with power and status variables would produce two benefits. First, it would keep small farmer programs out of situations where the likelihood that they will be successful is small. These will be hard choices but idealism must be tempered with an objective appraisal of the situation if only in the interest of not making conditions worse than they already are. Second, sensitivity to the pressures that are likely to distort programs will inevitably lead to badly needed monitoring systems. It is evident from the reported country experiences that, for the most part, those in charge of broad-based region wide programs don't really know where and to what effect the funds are being loaned. This is not surprising since many of the programs have emerged as a result of bureaucrats responding hastily to political demands that something be done in the countryside.

Monitoring in this case is not to be confused with bookkeeping although a set of accounts that accurately reflect the nature of lending decisions would be helpful. A more important approach would be to design a system that would be sensitive to anticipated program distortions. Spot checking records, evaluating loan usage, inspecting without announcement, etc. are all techniques that could be employed. In far too many cases, large defaults and questionable procedures have come to light long after the possibility of rectifying them has passed. The result is a condemnation of the concept rather than its implementation.

The notion that inroads on the small farmer credit problem can be made by a more self-conscious analysis of the social system in which farmers are found will strike some as being naive. Since I am also of the view that a goodly dash of cynicism is an important ingredient in examining and evaluating institutional change, I have some sympathy with this position. On the other hand, the degree of insensitivity that one encounters in the organizations involved in administering rural credit programs makes it hard not to believe that some improvements can be made.

COMMENT ON THE PAPERS FOR THE AID SPRING REVIEW
OF SMALL FARMER CREDIT

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The three tier effort of country papers, analytical papers and an issues paper is a most comprehensive, analytic and useful effort. It leaves little untouched either in breadth of coverage or in delineation of issues and suggestion of priorities. Four issues seem to merit somewhat additional or differently weighted attention. They are, (1) increasing the efficiency of intersectoral, interregional and interpersonal financial markets; (2) means of reducing risk and uncertainty and its interaction with credit programs; (3) the importance of more intensive enterprise combinations for raising small farmer incomes and its relation to intermediate term credit; and, (4) the relation of relative prices and marketing programs to credit and technological change. I will comment briefly on each of these.

1. I would like to place the question of rural resource mobilization in a somewhat broader perspective than I believe comes through in the bulk of the papers. To do so, I would like to make three major points. First, the supply of rural credit from traditional sources tends to be highly inelastic. Second, within any particular region there may be sharp year-to-year changes in credit requirements as new technologies become available and move quickly into use with consequent sharp increase in credit requirements, followed by net repayment as the rate of adoption peaks and slows. Third, different regions may experience credit cycles at quite different points in time.

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From these three points, it can be seen that although in any one region introduction of innovation may be sharply impeded by inelastic supply of credit from traditional means, there may be other regions with substantial net savings. Thus, the need may be more for changing inter-regional flows rather than intersectoral flows. Credit systems should be built to facilitate such flows, otherwise the net flows to agriculture and away from other sectors may be large. In general, traditional forms of credit are not only inelastic within any one region but they tend not to be part of national grids which facilitate interregional transfers. This is an exceedingly important element of institutional credit which is often not emphasized. It is, perhaps, the most powerful reason for the substitution of integrated institutional forms of credit for traditional forms of credit. But, this function must be built into the institutional form. In this context I would point to the case of Taiwan where institutional forms of credit have been used to facilitate a net outflow of capital from the agricultural sector. On this point, see the documentation by T. H. Lee in, Intersectoral Capital Flows in the Economic Development of Taiwan, 1895-1960 (Cornell University Press, 1971). I spell out the theory for this position in a paper entitled, "Accelerated Growth in Agricultural Production and the Intersectoral Transfer of Resources," to be published in the October, 1973 issue of Economic Development and Cultural Change.

2. The analytic and country papers as well as the issues paper do give substantial weight to the problems of risk and uncertainty, particularly as faced by the small farmer. I draw your attention, in particular, to Michael Schluter's paper drawn from our study in Gujarat in which he

looks specifically at this question. It is my impression from Schluter's larger work that small farmers perceive borrowing from traditional money lenders as much more risky in the case of uncertain investment than borrowing from cooperatives and other governmental or quasi-governmental institutions. This is somewhat in contradiction to the point made in some analytic papers that the traditional moneylenders are more able to absorb it but may not be willing to, particularly in the case of small farmers. I note a common emphasis on insurance programs to help reduce risk and uncertainty for small farmers. I fear that this is a simplistic solution that is not viable in practice. I note that in practice insurance schemes are rarely instituted. I suspect this is because for many of the things for which insurance might be taken the small farmers themselves have a good deal of control over the outcome. Thus, in entering the dairy business, one of the major sources of risk and uncertainty is the possibility of the death of the dairy animal. I fear, however, that an insurance program against such a hazard would result in a substantial increase in the death rate as farmers reduced expenditure and labor to preserve animals for which there was insurance. Inducing irrigation investment, pest control programs and other aspects of production increase might also be marginally inhibited by insurance programs -- thereby increasing the cost to society of such programs. This brings me to a positive suggestion. The much maligned overdues and delinquencies may provide the optimal safety valve for shifting uncertainty. One of the most important criticisms of cooperatives and quasi-governmental agencies is that they tend to have a poor record of repayment. I think

that it would be very useful to study this question in much greater detail than appears in the papers which I have seen. To what extent are delinquencies and overdues the device by which cooperatives pick up some of the risk and uncertainty of innovation for small farmers? To what extent is there, in the final analysis, full repayment, including interest? To what extent could overdues and delinquencies be systematized in such a way as to shift some of the risk and uncertainty at least over time away from the small farmer to the credit agency? Could that be done in a more efficient way from the point of view of meeting small farmer risk and uncertainty than present systems? I suspect that a positive look at this question could be very fruitful and perhaps considerably more useful than examination of the insurance question. I should make it clear that I do not consider the existing situation on overdues as optimal, but only that the question merits attention from this positive point of view.

3. Increased cropping intensity probably offers more direct benefits in the long run to the small farmer than the current high yielding grain varieties and yet I find the attention of the papers much more towards high yielding varieties and the problems of credit for those than for increasing intensity. It should be recognized that the high yielding grain varieties may be a necessary condition for increasing cropping intensity. Those varieties do increase incomes not only of richer farmers but in other sectors of the economy as well through the various multiplier effects. These higher incomes then provide demand for the income elastic commodities such as vegetables and certain livestock commodities which provide a great scope for increasing intensity of labor utilization

and hence raising incomes of small farmers. On this see the paper by Uma J. Lele and myself entitled, "Growth Linkages of the New Foodgrain Technologies, Indian Journal of Agricultural Economics, January-March, 1973. There may, however, be substantial risk and uncertainty problems involved in the shift to these commodities which, in turn, may call for special credit arrangements. Particularly the livestock possibilities also require more intermediate term credit than they do short term credit. It is interesting to note, for example, that in the case of milk, the milk production itself finances the bulk of the feed requirements since the one is a rather direct function of the other. The bottleneck for the small farmer is obtaining the capital for purchasing additional milk animals. In general, institutional forms of credit are much less well suited to handle this kind of a loan than short term crop loans. Again, the capital requirements per acre for moving into intensive vegetable production may be so large that a farmer must think in terms of increasing his permanent working capital and may need at least assurance of a continuing line of credit and perhaps an increasing line of credit. Again this comes very close to being an intermediate type credit arrangement. In this context I emphasize the possibility of sharply divergent credit needs of the small farmer from the very small farmer. The latter is defined as one whose income comes very heavily from labor utilization as distinct from the land itself. It is these which most need intensification and, therefore, a very large credit input per acre.

4. I felt that the various papers gave excessive emphasis to direct control of product markets and prices. This is too complex a problem

to more than raise here, but I will comment briefly. It is true that in many low income countries agricultural prices fluctuate substantially from one year to another. There is a tendency under those circumstances to attribute sharp price declines in years when new technologies have been introduced to the increased production and the new technology. Very often, however, that relationship is not causal but simply randomly associative. There is a great deal to be gained by increasing the efficiency of operation of markets in low income countries. It seems clear from Lele's work on India which is apparently being reinforced by the work which she is now doing in East Africa that the most important source of market imperfections is lack of transport facilities and market information. There is a good deal to be said for a national policy which attempts to improve these two areas. To do so in association with programs of technological change seems quite desirable. However, precisely because markets do tend to be somewhat integrated in low income countries an effort to combine a price support program in one region with a credit and technological change program is likely to fail as more macro considerations bring about sharp declines in prices which the resources allocated to a small region are unable to stem. As a side point on this, I would again have distinct reservations about giving cooperatives monopoly purchase rights, in that the general experience seems to be that cooperatives do, particularly under such circumstances, operate at lower levels of efficiency than the private trade. Thus, giving them monopoly rights will decrease returns to farmers.

I would argue that there is substantial place for improved credit programs of a governmental and quasi-governmental type. I think that

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the advantages which can come from such programs may well be lost if inappropriate activities are combined with them. We do need careful diagnosis in these areas before such moves are made.

SPRING REVIEW OF SMALL FARMER CREDIT
LESSONS FROM THE WORKSHOPS

by
Gordon Donald
Editor, Development Digest
National Planning Association

Washington, D.C.
June, 1973

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The Spring Review on Small Farmer Credit:
Lessons from the Workshops
Gordon Donald

Six regional Workshops lasting three days each were held between March 8 and May 4, 1973 in San Jose (Mexico and Central America), Quito (South America), Manila (East Asia), Ankara (West and South Asia), Nairobi (East Africa) and Abidjan (West and North Africa). Between these Workshops, shorter meetings concerned with single countries were held in Vietnam, Bangladesh, Ghana and Nigeria. Except for the meetings in Dacca and Saigon, where the visiting Americans made no formal presentations [the Saigon meeting, which concentrated on one institution, is covered in another report], these Workshops were structured as follows: in a typical half-day session, formal presentations to a plenary group by American specialists, with varying degrees of participation by regional nationals, were followed by discussion periods which included both plenary discussions and discussions in smaller subgroups. The discussion periods covered—sometimes loosely—the topics of the preceding plenary presentations. The contents of these presentations encompassed: a core subject area of three main topics presented in three (sometimes in four) sessions, running through all Workshops with minor variations in emphasis; a session giving intensive consideration to case studies of experience from within the region (or country); and miscellaneous contributions appropriate to each occasion.

There was some evolution in the content of presentations as the Workshops proceeded, and many of the speakers handling the principal topics also changed. But there was sufficient similarity in the basic themes taken up in one Workshop after another that their contents are more conveniently and meaningfully summarized here under major topic headings covering the common elements in the presentations, with regional subheads covering discussions in particular Workshops, rather than in a chronological order that would involve considerable repetition. It appeared that most of the problems and issues encountered in efforts to provide credit to small farmers were quite similar in all of the regions concerned, even though actual policies and institutional forms differed from country to country.

The three major topic headings were: 1) the role of credit in small farmer development; 2) the institutions involved in supplying credit to small farmers; and 3) the principal policy alternatives available for such programs. There were, of course, wide overlaps among these subject areas, with the implications of institutional forms affecting policy choices or the role of credit, and vice versa. Nevertheless the following description of the main themes as presented under the three topic groupings and the subsequent discussions conveys the nature of much of the Workshop content. In conclusion, brief summaries of the case study sessions are included.

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The above topics were introduced most often by American university professors, and typically were discussed by officers of regional credit institutions as well as by officials of departments of agriculture, cooperatives and central banks, along with quite a few regional AID personnel. Some private commercial bankers participated, as did a few representatives of FAO, international banks, local universities, and miscellaneous private organizations. In general the Workshops were more consistent, and stronger, in handling basic policy and institutional issues and questions of purpose than they were in dealing with particular managerial problems, or with political questions. The latter questions occupied many of the discussants, of course, but were less amenable to general conclusions extending beyond national borders. The learning process arising from the formal and informal interactions during the Workshops is most evident in the area of general policies and purposes.

1. The Role of Credit. A principal theme in this area was the importance of technological improvement in agriculture (presented chiefly by Ronald Tinnermeier of Colorado State, later by Gordon Donald, National Planning Association). Without such improvements in productivity (disregarding mere extensions of the area of cultivation), the farmer will have no more income than before, and may acquire debts he is unable to repay; farmers already in debt to informal lenders will tend to repay those first and will often default on payments due to more distant formal credit institutions. But for productivity to increase, the technological improvements offered must be appropriate to the small farmers concerned, which these often are not—recommended "packages" of practices can be inappropriate for their particular fields or for their scale of operation—and must also be profitable enough in practice to exceed the additional costs incurred. Furthermore, they must be actually available to small farmers, i. e., inputs must be physically obtainable at the times needed, in ample volume, and information must really reach the small and scattered users—often these elements are lacking. But given these conditions, a credit program is justified; without them, it was argued, productive failures and defaults may be predicted. Whether a credit program is justifiable when one or more of these preconditions is dubious, or uncertain, was a debatable question underlying much of the discussion.

Another theme was the cultural context of small farmer credit (presented by James Converse, Harry Blair and Cynthia Gillette of Cornell; also by Charles Nisbet of Evergreen State College). Emphasis was given to divergences between the educated, urban, commercially oriented culture of the lenders, and that of rural, traditionalist, poor borrowers with a village orientation. A similar gap between extension agents and poor farmers was noted. The borrowers' desire for change on the lenders' terms was questioned; indeed the variability in villagers' desires for any sort of technical or income change was noted, and the limited capability of credit institutions for effecting change in some conditions without shifts in land tenure or political power was brought up. A related theme was the need to distinguish objectives of credit programs (Judith Tendler, Berkeley).

California), in particular the divergence of implications of a purely production goal from that of equity, i. e., relative welfare gains for small farmers; further, a variety of operative non-economic objectives in a credit program were described (e. g. by Sacay— The Philippines).

The types of farmer for which small farmer credit programs are useful was laid out (by Edward Rice, AID/Washington). On the one hand, large or medium farmers (type 1) and small commercial farmers (type 2) are eligible for commercial credits without special arrangements for their benefit. At the other extreme the landless agricultural workers, or those whose agricultural resources are too small for them to get by without non-agricultural income (type 5), were thought unsuitable clients for agricultural loans. In between, special credit programs may be appropriate for two groups: small farmers with the potential for commercial viability (type 3); and full-time poor farmers who might be able to improve their situation if credit were provided along with temporary, substantial subsidy (type 4). Credit programs have differing design requirements when intended for these different groups.

The role of small farmer credit programs was delineated in the context of the overall capital market, by analyzing economic constraints on rural development and by specifying conditions for success of such programs (Millard Long, Harvard D. A. S., and Dale Adams, Ohio State; some of this material was given by John Brake of Michigan State in the "institutions" sessions). In these terms, credit is a constraint on development when profitable new technology is available but is lagging in adoption because of limited access to capital sources, formal or informal. Formal credit sources— commercial or state banks— tend to serve larger farmers (and non-agriculturalists) and to avoid the more costly, risky loans to small farmers, responding to political as well as economic pressures. Informal sources— relatives and friends, local merchants and moneylenders— cannot handle longer term investments, and give loans more typically for consumption than production; borrowers often prefer the informal methods of credit delivery. The gap might be filled either by arrangements to move formal lending institutions into the small farmer field (described below), or by specialized agencies designed to supply production credits to small farmers— this is the more usual approach. In the latter case, the question of how to cover costs must be faced if the program is to succeed (see below). The question of how to expand capital resources for this purpose, and how to avoid driving out other actual or potential capital sources, must also be faced if large numbers of farmers are to be reached.

Discussions: San Jose. There was considerable response to the above statements on cultural gaps, non-economic motivations, etc. as indicating real problems. There was one eloquent defense of the farmer who maintains his position in village life by staying out of debt and curtailing his dependence on uncertain markets. But the dominant view was that production goals and technology are of key importance, with some giving marketing an equal importance. A number of people made

distinctions between the goals of helping viable farmers and raising the less viable; there was no clear consensus on priority, but a feeling that welfare aims should be kept separate from credit.

Quito. The objective of production gains, and the importance of profitable technology and improvements in marketing arrangements to raise small farmer incomes, were stressed. Much time was spent on showing how these were (or were not) achieved in particular countries; problems of technical assistance and loan supervision were brought in. More discussion than in San Jose concerned broader aims of rural development, of bringing villagers—especially Andean Indians—into modern life, and of means for increasing farmer capabilities to cope with a difficult environment. Several people pointed to increased employment as a national objective, one that may in some cases but should not in the long run conflict with production maximization.

Manila. Unlike Latin America, considerable interest in non-production lending was expressed, and justified by some—a consumption loan helps farmers produce, or is necessary when disaster strikes—but strongly condemned by others as a "soft" attitude, leading to defaults and inefficiency. Defaults seemed a pervasive concern, and were not generally thought to be a result of low productivity alone; studies were cited where the worst defaulters were rich or politically strong. While the importance of new technology was accepted, there was some questioning of its necessary link to credit provision—i. e. adoption of new methods can occur without a credit program, or credit may be justified without technical change. Political objectives of credit programs were discussed, though rather inconclusively. [Comment: Political elements have obvious relevance to the design of East Asian programs, but these differ sharply among countries of the region. Views from the Philippines and Bangladesh were actively articulated, and other Southeast Asian countries were well represented, but the significant experience of Taiwan was hardly discussed due to English language problems.]

Dacca. The government of Bangladesh is officially considering a policy of replicating throughout the country the method of extending farm credit through multi-purpose cooperatives, modeled on the Comilla experience. The intent is to increase production, notably through new rice technology in which they express confidence, and to raise the incomes and capabilities of their many poor farmers by concentrating on a single integrated form of organization. This kind of concentration seems to them necessary in their extreme circumstances. They were interested in discussing policy issues, and some institutional questions, but seemed quite settled in their views on the general purpose and design of their small farmer credit program (with a few exceptions).

Ankara. Discussion of the role of credit was more sketchy than in earlier Workshops. Interest was shown in helping the poorest farmers of type 4 and even type 5, in the political appeal of subsidized programs.

and in farmers' organizations that— if not taken over by large farmers— could articulate their interests; the approach taken was paternalistic in its assumptions, and the results inconclusive. The Indian argued for putting output ahead of small farmer welfare, given the extent of his nation's food shortage. Arrangements stemming from land reforms were cited for Iran and Nepal. [Comment: India was represented by one man, Pakistan, not at all.]

Nairobi. The only "role of credit" discussion with notes available started with defaults and went on to subsidies on inputs or crops, and crop insurance. Farmer attitudes that government-supplied credit need not be repaid were a widespread concern; millions of African farmers are subsistence cultivators with little cash income. Collection via crop purchasing monopolies was one effective solution where there are state marketing boards; collection via cooperatives (Uganda), and tighter loan supervision (Kenya) were said to improve repayments. Subsidy of goods vs. services was explored: some preferred a subsidy to services rather than goods, since the latter goes chiefly to large farmers; others pointed to the political impossibility of ending any type of subsidies once begun—a common situation. Crop insurance against weather hazards was of interest, but seemed too costly and open to abuse among small farmers to be a practical solution except for specialized export crops.

Accra. As in Nairobi, discussion of the role of credit turned to defaults and subsidies, and the problem of inducing farmers' "respect" for a government program as indicated by willingness to repay loans. "Education" of farmers was cited as necessary, though slow in its effects. Subsidies to cover losses in credit programs can be justified, however, if output actually rises— as can be shown for Ghana.

Ibadan. The overriding purpose of agricultural credit in Nigeria today is to raise more food, and to alleviate inflationary pressure on the poor. When asked why not focus on large farmers, it appeared there were too few to be significant— aside from state-owned plantations growing export rather than food crops. Default is a problem here, too; the West Nigeria Corporation has attacked it by supervised loans and repayment contracts with exclusive buyers of a cooperative's crops.

Abidjan. Discussion of the purposes of credit arose in reaction to the Ivory Coast program for making small loans without concern for productive or consumption uses (most is probably consumed). This appealed to some as a simple, manageable procedure; others were more concerned with measures to increase output and productivity— probably a majority. Representatives of five countries voted on the relative importance of nine possible constraints to credit program expansion: the winner was weakness of product markets, followed by lack of profitable technology, and of input supplies. Lack of funds and of trained personnel fell in the middle; absorptive capacity rated low in importance.

2. Institutions. Two main strands appeared in these presentations: intermediate organizations (cooperatives, or other) between lending institutions and small borrowers; and ways to bring private lending institutions into small farmer loans. Analysis of informal credit, especially moneylenders, was pertinent to the last strand.

The advantages of intermediate organizations (Thomas Carroll of IDB, Jack Dublin of AID, Joseph Beausoleil of the U. S. Cooperative League, Angel Castro of COLAC, Percy Avram of AID/Laos, Reuben Simmons of Ford Foundation/India) are 1) an enhanced ability to reach more small farmers at lower administrative costs by group loans, also group technical assistance; 2) better repayment potential; 3) possibilities for decentralized (better?) decisions, especially in technical choices; 4) equity, reaching non-eligibles for bank credit, and 5) social values, including popular participation, organization of farmers to defend their interests in other spheres. Farmer cooperatives, however, have had a spotty, not very satisfactory history in practice around the world; successes often stem from unusual personalities and are not always reproducible. Types of organization include: simple loan-receiving groupings; credit unions, which can generate savings but have done little for farm production; cooperatives that manage input supplies and/or marketing as well as loans—more useful in production, but harder to manage well; and production cooperatives—little discussed. A key issue, with strong partisans on both sides, was that of how much government intervention is desirable: legal recognition and standards are a minimum requirement; assistance in training managers and bookkeepers was usually thought desirable; but beyond that there was much controversy over the help governments can give vs. the dangers of political manipulation and distortion of cooperative purposes. At one extreme are the purely private credit unions of Central America; at another, the highly integrated farmers' organizations of Taiwan and Korea, with compulsory and nearly universal membership, state-appointed staffs, often tied into state monopolies for input supplies or crop sale.

In connection with the reluctance of formal institutions to lend to small farmers, it was noted that the omnipresent village moneylender is able to survive profitably supplying credit to such farmers. The strengths of his position (Charles Nisbet) are low costs, absence of red tape in procedures, close acquaintance with borrowers that allows him to judge them better and to bear down on them for repayment, and the ability to charge high interest rates with flexible terms to cover particular circumstances. Small borrowers most often prefer his quick responses to requests and his informal surroundings, despite high interest. But the moneylender is unconcerned with small farmer production or progress, he could not offer technical services even if he wanted to, and he profits more when farmers let their interest payments pile up. So some of the presentations explored ways in which production-oriented credit institutions could be redirected to lend to small farmers and might learn something from the moneylender (Thomas Stickley of American University Beirut, Dale Adams, Marvin Miracle of

Wisconsin/Nairobi, John Brake; Nisbet rejected this approach). Stickley proposed that banks employ resident village agents with authority to lend on informal terms, paid by commissions plus a small salary, with their commissions and lending capital increasing with performance criteria such as their repayment record and their farmer-clients' production. Other approaches include reduction of banks' collateral and loan approval requirements, the practical value of which was questioned, and the use of central bank preferential rediscounting as an encouragement to small loans. Also pertinent are the small rural banks of The Philippines, now emulated in Vietnam, which raise local capital and lend within a circumscribed area, receiving matching government capital and other encouragements; of interest also were experiences in inducing banks to make small farmer loans in Puebla, Mexico and in Costa Rica (see Case Studies below).

Frequently the people who are interested in pressing the cause of cooperatives, and those who wish to expand the role of private banks, tend to be different people with seemingly different ideologies. In key Workshop statements (though not in all presentations) the complementarity of cooperatives and banks was stressed: the banks need farmer organizations like cooperatives in order to group farmers into low cost loan recipients, so that bank lending to small farmers may become practical; at the same time, a cooperative that can gain access to bank credit is greatly strengthened in its ability to serve its members. Far from representing conflicting approaches to rural development, both parties need each other to function well. Both banks and farmer organizations will be needed if the credit-cum-self-improvement efforts are to expand and reach significant numbers of farmers.

A lesser institutional theme concerned relations between lending institutions and those supplying technical assistance—normally Agriculture Ministries, though some banks hire agricultural experts for loan supervision. Problems of extension work per se, including the difficulties of getting agents to serve the smaller farmer, and of interagency coordination, were given some attention. (Miracle suggested that extension agents might be generally better paid and also rewarded in relation to their area's output record.) The question of a "graduation" process for farmers out of subsidized programs as their capabilities grow was brought up in San Jose, but decreasingly thereafter; it seemed to many that "graduating" the lending institution itself away from subsidies would make more sense than ejecting and penalizing its best clients.

Discussions: San Jose. The question of government relations with cooperatives received extensive discussion (in at least one group), with the anti-interventionists coming out stronger here than in other Workshops. Most took the line that some state participation is unavoidable but it should be held down; visitors from Asia and Africa, however, tended to defend the government's role. On the proper form and functions for cooperatives, sentiment was mixed and pragmatic: integrated multiple functions were thought desirable but such attempts have led to many failures, and whatever

functions can be best performed by particular groups should be emphasized. Some opined that the best way to build a cooperative was around a marketing nucleus like a storage warehouse, or a processing plant. Nobody spoke against cooperatives, but it was agreed that they take time to get going well; one person suggested that they might be less eligible for assistance by short run impact criteria than other activities. Certainly many failures are attributable to an over-rapid extension of organizations that had been successful on a small scale.

Quito. One discussion group focused on the liability of specialized small-farmer banks to reach many farmers due to limited funds. The proliferation of new institutions, often in response to new sources of external funds, is no answer; now we should be concerned with more effective use of limited funds. Group credit programs to extend the reach of banks was a solution urged in two groups. Problems of a "banker mentality," even in special small-farmer oriented institutions, and of representation of borrowers in these institutions at a policy making level, were raised in all groups: Velez (Colombia) said that campesino representatives in his bank's board were uncomfortable and ineffectual, and that a high level political decision to go aggressively into small farmer lending was essential; others spoke of "educating bureaucrats," reducing bank paper work. Relations between banks and agricultural extension agencies were brought up: one suggestion was that banks employ para-professional technicians; another was for the agriculture ministry to undertake its own lending program. The usual lack of coordination of lenders and technicians might be overcome by their integration into one agency, but it was doubted that a lending institution could cover costs of technical assistance in addition to lending costs.

Manila. Institutional presentations were extended to two sessions dealing separately with the private sector and cooperatives, with considerable local experience presented by regional nationals in both sessions. On the private sector: Wai (Malaysia) described his bank's experience using private local agents, mostly traders, when bank loans are issued via coupons for defined inputs at fixed prices; the agents chose borrowers and were responsible for repayment, so they had to collect from farmers; they profited from commissions on sale of inputs, but couldn't cheat on prices or quantities. The relationship seems to work out all right, and bank costs are lower; the number of agents is growing. Vietnamese and Philippine experiences with rural banks (see above) were described as generally successful: Philippine money lender rates are decreasing with the competition of banks, and new farm inputs are being financed; Vietnamese farmer responses to the new banks are good. The Indonesian state agricultural bank, in connection with a nation-wide drive to increase rice production, has aggressively moved branches, mobile units and local agents to rural areas, with successes in getting credit to small farmers and in raising output in most years but also default problems. The subsequent discussion aired some very hostile and some moderate feelings on moneylenders, with widely varying estimates of their interest rates—some from surveys; 80-90 percent a year seemed a reasonable average

figure. The Malaysian suggested that there was strong competition among the money-lenders in his country, while in Bangladesh they had a near-monopolist position that led to greater exploitation of farmers. On rural banks, skepticism was expressed as to whether they really reached the small farmers, or served mainly a village or county elite. Despite expressions of varying hostility to parts of the private sector, there was some consensus that private institutions could play a useful role in small farmer credit, though not on what the role should be.

On cooperatives: The presentations included one pointing to the value of the following three-level structure for the cooperative movement: small village units; local branches made up of 20-plus village units; and a national organization, with appropriate functions performed at each level. Korean and Taiwanese spokesmen stressed the long—though different—histories of farmers' organizations in their countries (see above), the complex organization of decentralized decision making within a strong central frame of regulation and standard setting, and (in Taiwan) some of the crop innovations that have been successfully undertaken. From Bangladesh, the virtues of a single focal point (the coop) for the farmers to deal with government agencies, the priority for productivity gains and financially self-sustaining local units, and the need for a continuous training effort were emphasized. The Philippines' past experience with cooperative marketing associations was described as rather poor, but with a better prospect ahead in conjunction with the new organizations of ex-tenants under the current land reform. In the subsequent brief discussion period, the main topic was whether organizations handling poor farmers' money should be combined with those dealing in inputs and marketing: the latter should be kept separate, in one view, until they can be efficiently and responsibly managed, while others argued for combined functions. There was no consensus, except that national experiences differed: Most sharply in contrast here were the Bangladesh experience, reinforcing belief in the integration of loan management with other functions, and the Philippine experience with financially ineffectual marketing associations which led the government to propose removing the borrowing function from these associations for their own good.

Dacca. Given that multipurpose two-tiered cooperatives may be the chosen instrument in rural development, it was apparent that they could not be organized nationwide for some years. So the question of what to do in the majority of unorganized areas arose. The intention is to move commercial banks into small farmer lending via incentives and portfolio requirements administered by the central bank. It was not clear that this shift could occur very fast, and the areas left to informal credit, especially moneylenders, would thus be considerable for some time—despite the distaste of most officials for this prospect.

Ankara. Here too there were separate sessions on the private sector, with emphasis on moneylenders and default problems, and on cooperatives;

but there were fewer regional presentations. In discussion on the private sector, there seemed to be agreement that moneylenders were a bad thing and that agricultural banks should try to displace them, partly so that money would go to productive inputs rather than consumption. Supervised credit seemed generally desirable, both to improve output and to cut defaults. But a number of people indicated that larger farmers have higher default rates, suggesting that elements other than productivity of loan uses and ability to pay may be more important.

On cooperatives: several speakers emphasized the diversity of coops, of the groups using them for their own different purposes. In 1945-65 newly independent regimes used them frequently as a school and base for political organization; but this yields diminishing returns, and they become vehicles for a quasi-dole. New, realistic and better defined purposes must be accepted to avoid repeating failures. Two recent success stories were cited: in Nepal, after a poor coop history, the Agricultural Bank took over and abolished most, then began a heavily supervised loan program with input controls for the remaining viable coops; delinquency went down to 5 percent in the last few years. In Iran, following land reform, coops organized for ex-tenants have reached about half the nation's farmers; emphasis is on prompt, informal lending and firm collection (nearly 100 percent); inputs and marketing services are still inadequate, however. In discussion, a pilot project for supervised cooperative credit in Afghanistan (PACCA) aroused some interest: stress is on thorough training prior to action, production goals are well fulfilled, and many more farmers wish to participate than can be accommodated. Less enthusiasm for coops was voiced from Jordan and Turkey. On the government's role in coops, it seemed that—once assertions about authoritarianism had subsided—most participants were assuming a highly paternalistic role for the state.

Nairobi. In discussion after one session's combined presentations on the private sector and coops, the general problem was phrased thus: in East Africa commercial banks will never reach most small farmers, with unit lending costs running 30 percent or more; state banks face the same costs, and can do it only when other operations support the activity. Grouping farmers is the best hope. But the only successful cooperatives in the area are those based on export crops and monopoly state marketing boards; food producers, the majority, get no such service. So we need new ways to organize them: in Malawi, best results are obtained from very small groups, with heavy government guidance (pre-coops) and limited functions; they have social cohesion and repay well. This approach was partly endorsed by a Kenyan, who suggested building pre-coops from rural thrift societies. Other persons (chiefly Americans) did not accept the negative verdict on commercial banks, and argued for adapting them to small farmers. An Indonesian experience was cited: a state bank lent to villages through village chiefs, who often turned out to be moneylenders; small farmers repaid loans 95 percent to the chiefs, while the chiefs repaid 65 percent and mixed bank money with

their other funds. But the bank persisted, appointed the chiefs "bank directors" but with less control over funds, and the experiment goes on. Other points raised concerned the importance of training (all agreed), and the question of how to keep the richer farmers from taking over coops for their own ends. Some interest was shown (as also in Bangladesh) in Taiwan's "associate members" of coops -- richer farmers who participate but without a vote.

Accra. Ghanaian coops have a mixed history, but a new development in the north, involving loans to coops of rice growers tied to inputs and new technology, is showing promising results. Coops are not considered a nationwide solution, however, and interest was also shown in the presentation's suggestions on banking methods for small farmers and on ways to stimulate farmer savings.

Ibadan. Discussion tended to be somewhat generalized. Some claimed that effective cooperative action has been demonstrated; another that the lazy rather than the good farmers join coops (in Midwest state). Cooperatives were thought to be of some value in developing small farmer saving habits, but generally loose control and tendencies to default on repaying loans were acknowledged.

Abidjan. Specialized service coops grew up in Tunisia following distribution of ex-French lands; this worked well enough until the 1968/9 effort to put all farmers into an integrated system of coops, which met strong resistance. Today the government gives some financial concessions to coops, but farmers have free choices in their affiliation and farmers' groups can buy f.o.m or sell to any source. This return to voluntarism corresponded to sentiments of several persons who favored a limited government role in coops, for various reasons, partly because of African farmers' alleged reactions to an organization thought to be an arm of the government (e. g. slow down work, defaulting, sloppiness). A suggestion was made that indigenous African savings-cum-social groups, quite common in rural and urban areas, might be developed into loan-managing organizations as well as credit unions. [Comment: The anti-interventionist views expressed at this Workshop should be seen against a rather more interventionist practice than in Central America, where similar views were heard.]

3. Policies. Chief emphasis in the policy sessions was given to such economic policies as interest rates, savings, subsidy decisions and implications, and debt collection. The interest rate on small farmer loans (Claudio Gonzalez of Costa Rica/Stanford, Dale Adams, Richard Roberts of FAO) is relatively low in almost all LDCs: country papers show 4-10 percent as usual, with a concentration in 6-8 percent. These programs, however, reach relatively few small farmers, and low interest is an important reason for this. Small loans are invariably costly in administrative time spent per amount loaned; small farmers as borrowers present a greater repayment risk; and typical interest rates don't even cover these costs.

The existence of some low-interest loans tends to drive out formal and informal lenders who might otherwise be willing to lend to small farmers if higher interest prevailed. The actual cost of obtaining funds to lend in specialized small-farmer programs may be rather low when a program is supported by government or foreign aid, but it is not zero; if opportunity costs of capital in poor countries were considered, the cost would appear much higher—10 to 18 percent or more. If a program is viable only with concessional funds, it cannot expand beyond the limits they set. If costs are 15-30 percent and income under 10 percent, either the lending institution has other income to use for covering this gap, or it depends on a flow of government subsidies (which will always be limited in size), or it uses up its capital and dies unless temporarily rescued from outside. In all these cases it cannot expand and reach out to more small farmers. In practice, lending institutions intended for small farmers turn more and more to the larger farmers whose loans are more profitable; and the excess demand for loans over their supply at low fixed interest rates produces strong pressures on bank loan officers to lend to politically influential persons, or to accept bribes. Thus low interest rates, conceived as a favor to the poor farmer, become a stifling and diversionary influence on the institutions that should serve him. This view was the dominant theme; in some Workshops, however, an effort was made (Judith Tendler) to explain the non-acceptance of this economic logic throughout almost all the developing world. Subsidized interest seems to be a painless and convenient political device for pursuing welfare ends (or at least establishing a welfare posture); opposition to an existing low rate is a dangerous political position to take up—and there is little positive political incentive.

A related consideration is the effect of interest rates on savings. Savings in rural areas, and especially the small farmers' saving potential, are now considered much greater than used to be thought, and their mobilization for rural development would clearly be useful. The controversy that ran inconclusively through the Workshops was whether higher interest rates could be a significant stimulus for small farmers to bring their savings into an institution (Dale Adams, Marvin Miracle) or not (Charles Nisbet and others). Other methods of stimulating savings deposits were described: devices like a high-win lottery, aggressive salesmanship and pretty girls, as used in Vietnamese rural banks; the fostering of mutual confidence in small credit unions; and the inclusion of compulsory savings requirements in agricultural loan programs. Another controversial issue was whether private rural savings could become a significant source of rural development funds, as several speakers contended, or whether reliance should instead be placed largely on public sources (Nisbet).

Some of the presentations on interest and savings were tied into an approach intended to shift overall capital market institutions, with emphasis on existing organizations of all sizes rather than on new or special-purpose ones, toward greater service to small farmers. This

could be done by combining higher rates of interest, rural savings inputs, and intermediary organizations (to receive loans) with government-supplied incentives like preferential re-discounts, tax measures, and rural infrastructure.

The general question of subsidization of small farmer lending was an important theme, along with the form that subsidies should take where they are desirable (Millard Long, Charles Nisbet, Chester Baker of Illinois U., Thomas Carroll). Presentations on this subject were less uniform than on others, but some of the prominent points made were: to help poor farmers start to develop new activities, some subsidy will have to go into the process at some point, in the beginning at least. [This would be true of type 4 farmers by their definition.] But once started, vested interests grow up in the area of the subsidy, and they exert pressure for its continuation beyond its original justification. As noted above, subsidies make a program dependent on a government's current willingness to contribute, hampering its expandability and independence, and ideally they should be tapered down or eliminated as soon as possible. But too little subsidy could jeopardize program purposes. The difficult question, a subject of assertions in all directions, was whether subsidized prices are essential, important, merely useful, or indeed necessary at all to induce new productive behavior patterns. The only consensus to be found here was that their usefulness was greater at first as a stimulus to initial farmer experimentation, and less when new processes had become familiar.

On types of subsidy: Most speakers condemned the interest rate as a subsidy vehicle. Almost all endorsed the need for a technical assistance function, and back-up research, financed from outside the costs of the lending functions (i. e. a subsidy insofar as lending results depend on it); but it was less clear whether supervision of loan uses ought to be done by personnel whose salaries were covered by loan income. Various training expenses and information services seemed suitable for subsidy; on marketing services (e. g. storage), and support prices for crops, there was less general approval by speakers; on subsidies for inputs, like fertilizer or tractors, approval was still less, but—as with low interest rates—the practice is very widespread and has its defenders. Nisbet evolved a clear position here: subsidies should go into services rather than goods, because subsidized goods tend to end up in the hands of large farmers while services are harder to divert; goods subsidies create much more serious market distortions, and are harder to remove or cut down later in a program.

Discussions: San Jose. Group sentiments, summarized from results of a vote on certain policies (not repeated at other Workshops), are representative of the subjects taken up in discussion groups. The voting favored: special lending institutions for small farmers; higher interest rates—here the vote was quite strong; subsidies were relatively acceptable; "graduation" policy aroused little support; provisions for savings, and technical supervision of loan uses, were endorsed.

Quito. In all discussion groups, subsidies to the small farmer met with general approval, partly to increase his adoption of new techniques and partly to offset the other elements in the economic system that worked against him. The interest rate, however, was not widely considered a good subsidy vehicle, though low interest had its defenders. Several people in different discussion groups opined that farmers would be willing to pay higher interest if they got better, more suitable service than is usual from banks. Concern with savings was voiced in all groups, and with supervision of credit uses—despite its higher costs. Credit unions were explored and endorsed in one group.

Manila. This Workshop had more critics of the anti-low interest presentation: one said, "The speaker says farmers are insensitive to interest as borrowers, but highly responsive to it as savers: both can't be true." Others merely gave interest low priority as an issue, essentially political in nature. One discussion group, however, opted for 12-20 percent loan rates, rather than the 5-9 percent commonly found. Greater interest was shown in savings, and in means of getting them into loan programs—e. g. by required savings deposits of 5 percent of a loan's value. Views were mixed on voluntary vs. compulsory savings. Institutions which tend to collect rural savings and use them in city loans (with higher returns) were condemned.

Dacca. The principles were accepted that loan charges should cover costs, and that close supervision over uses of credit is necessary to make the best use of limited funds. Difficulties in attaining these ends were acknowledged.

Ankara. On interest rates, there was a disposition in all groups to think of several different rates coexisting, some of which—e. g. short term—should be higher than others. On the question of Islamic strictures against charging interest, the answer seemed to be that while interest was indeed forbidden it was impossible in fact to get the use of money without paying it. That higher interest charges would be enough to bring much capital into small farmer lending was questioned, and hardly anyone expected a commercial bank to be interested. Subsidies to encourage new crops or methods were endorsed; the importance of planning and of cost/benefit studies in this connection was mentioned by several.

Nairobi. There was a lively debate on interest and savings. The Swaziland representative was strongest against raising interest rates and expecting savings—in his country; the first step, he felt, is to establish confidence and productivity mindedness in small farmers. Opinions from Kenya were quite diverse on savings potential, reactions to high interest, etc.; it appeared that different areas and growers of different crops were judged differently. Good savings potential was asserted for Uganda.

Accra. There seemed to be general, if not quite unanimous, agreement on the value of higher interest rates and of subsidies for services rather than goods.

Ibadan. Sentiment on interest and the locus of subsidies was more mixed than in Accra. Several worried about the negative impact of removing subsidies.

Abidjan. The general tone of the discussion was critical of some aspects of the high-interest and subsidy-for-services (not goods) themes, but on particular points rather than general philosophy; these points did not seem to coalesce into any alternative strategy, except with the spokesman for the Ivory Coast's cautious, paternalistic views. Some of the north Africans seemed to want a mixture of interest rates for different conditions, and to be more interested and optimistic (than the west Africans) regarding small farmer savings.

4. Case Studies - The following supplies highlights of the presentations and discussions of those regional case studies that were not included in the "topic sessions" summarized above.

Puebla, Mexico (by Heliodoro Diaz of the Puebla Project): After developing and thoroughly testing a technical recommendation for increasing productivity in corn, credit for purchasing the required inputs was extended to farmers of Puebla state by existing banks and one fertilizer company via contracts with small loan-receiving farmer groups. The recommendations started with the scientific resources of CIMMYT behind them, followed by local testing. The banks were at first very resistant to proposals for lending to small, near-subsistence farmers; only after one engineer-salesman of fertilizer agreed to undertake a lending-demonstration project, inviting the banks to observe it, did banks begin to make loans the next season. These loans have been increasing, however, as repayments by the small farmers proved somewhat better than the averages for the banks' other loans. The project has been quite successful for corn, which has an assured market, though not at a very favorable (controlled) price. It will be harder to maintain the same high standards of technical and financial efficiency if credit for crop diversification is attempted— as many farmers would like.

Costa Rican Banks (Claudio Gonzalez, Albert Brown): Since the late 1930s, state banks in Costa Rica have been actively lending to farmers, and such institutions account for 80 percent of total rural credit— with informal credit estimated at only 15-20 percent. Small farmers got some 10-15 percent of total agricultural bank credits in the 1950s and 1960s. The project discussed was a 1970 AID loan to the banking system intended to augment credit for small farmers (as part of AID's agricultural sector program) with emphasis on opportunities for the small man, and income equalization, more than on output and technology per se. Results include: rapid movement of loan funds to a relatively large proportion of Costa Rican farmers (52 percent were new clients), and a respectable repayment record. In 1970-72 comparisons: the small farmers' share in agricultural credit rose from 20 to 26.4 percent, their share in total bank credit, from 11 to 13.6 percent.

Critics of the program stated that 50 percent of farmers still get no credit, that not much has been demonstrably achieved for production or incomes, and that better leadership (like that shown in Puebla, for example), better coordination of institutions, more imagination and innovation were needed to really help the small farmer. The program was also cited as contributing to the inflation (currently 10-15 percent a year). In the discussion over the production record, it appeared that technical assistance was not reaching many of the farmers who had access to credit, and there was some question whether the technicians had much to tell the farmers that they did not already know. Evidently many farmers were responding to the combination of credit access plus high support prices on certain products, so that output of these was stimulated but without cost-reducing technological improvements (high cost products couldn't be exported, for example).

COLAC - Latin American federation of [national federations of] credit unions (presented by Ney Lopez of COLAC/Panama): Credit unions are spreading in Central America and some South American countries [those where currencies are relatively stable] because they are a simple, low cost, indigenous organization that can help poor farmers to avoid being taken advantage of, and give them hopes for the future. COLAC emphasizes savings: credit unions require 10 percent—sometimes 5 percent—of loans to members to be put into deposits; at the national level, federations are required to undertake 10 percent capitalization each year as a condition of belonging to COLAC, and can thus repay the outside funds they have borrowed as well as expand. In some cases COLAC unions have attracted local bank loans. Credit union costs are low because of much volunteer work, simple procedures, and very low delinquency rates; they can operate with local staff having little formal education. While some institutions give some of their resources to small farmers, credit unions serve them 100 percent. They are indigenous social groups where people trust one another, and they are flexible and can extend their services in various directions in accordance with members' wishes as their capabilities grow. Currently COLAC is trying to expand capabilities to supply its unions with technical and marketing services to help members' output and income. [Comment: it was implicit that this last was not a strong point of COLAC in the past. A COLAC strength lies in its independence of government funds, which may not be compatible with the addition of costs for expensive technical services, or even expert loan supervision, to the existing credit union costs.]

FECOAC, Ecuador - Ecuadorian Federation of Savings and Credit Cooperatives (presented by Manuel Benitez, Manager): Since 1965 the FECOAC has been building the capabilities of more and more cooperatives—now there are 51 rural ones covering 16,500 farm families (out of 250,000 small farm families nation-wide). Credits, obtained from the development and cooperatives banks, are lent under supervision designed to increase members' output. Three stages: (1) members learn to handle small loans, to trust one another; (2) larger seasonal loans, capital

accumulation, and more intensive technical supervision are attempted; (3) investments are undertaken based on individual farm plans approved by experts, who must be full-time on this job. Progress has been fairly steady, but clearly there are limits to the available funds (coops pay the banks 8 percent, charge members 12-18 percent) and the trained people for technical assistance; and there is a known weakness on the marketing side that holds these farmers' groups back in many areas. Nevertheless, coop members' production has increased faster than the national averages in crop after crop; and there is a distinct decrease in members' hostility and fear of the outside world. [Comment: in discussion, both COLAC and FECOAC problems tended to be subordinated to those of the Caja Agraria—below.]

Caja Agraria, Colombia - CA, or agricultural bank (presented by Jaime Velez of CA): CA is a state bank operating in agriculture, in competition with private banks, with no subsidy. Until 1971 loans required collateral guarantees, which cut out small farmers; then there was a conscious shift in policy to make some loans on signature only, and the small farmer program began which now accounts for 90 percent of CA borrowers and 50 percent of CA loans. Although there is a variety of permitted uses of production loans, there are required pre-loan inspections of all borrowers and farms, loan approval based on specified inputs, and post-loan sample surveys on credit uses. Overdue payments are currently 15 percent. The small farmer lending has to be subsidized by CA profits from its larger loans. The decision to do this is a basic political decision, which needs systematic propagandizing to maintain public and political support: all the conferences and resolutions and good ideas will be only nice words unless there is a determined effort to help small farmers in this way, despite all the attacks from both the political left and right.

Critics of the CA spoke of its indifference to cooperatives (reply: "We'll do business with any farmers' organization we find; that's the best way in Colombia where coops are weak."), and of its authoritarian approach; only an organization in the hands of small farmers can ensure their interests, it was asserted (reply: "In Colombia, high level pressure has done more to shift policy in the right direction."). Whether there was enough technical assistance in the CA operation was argued, with cost as the limiting factor.

[In Manila and Ankara, case studies were included in the "topic" sessions summarized above.]

Kenya, Several Programs - (1) Agricultural Finance Corporation (by F. G. Maina of AFC): The AFC loans go mainly for equipment, also for livestock and fencing, rather than seasonal inputs; funds are obtained from the government; lending rates are 8 percent (funds from other sources could not be used at this rate). Farmers must have at least 15 acres and make their living from agriculture—it is not a special program for small farmers, who get perhaps 10 percent of the loans. Uncertain

land tenure, inhibiting the use of land for loan collateral, is a major problem; another is high collection costs.

(2) Agricultural cooperatives (by T. M. Sagwe of the Cooperatives Department): Seasonal loans up to 18 months (depending on crop cycles) are extended to registered cooperative societies; 91 societies with 150,000 members are now grouped in 10 "unions" for loan-receiving, and the program is growing. Two years after their first loan, societies are required to start savings programs; deposits are now increasing at a successful rate. Extension workers from the Agriculture Ministry recommend the individual borrowers, and supervise loan uses, but this is not done well or thoroughly and is the weakest element. Farmers' crops must be sold through their societies, so repayment is virtually 100 percent with delays less than one percent. [Comment: It appeared that these coops are made up largely of farmers growing tea, coffee and pyrethrum which are wholly purchased by state marketing boards— in principle; in practice some of the products are sold outside. Cooperation of these boards significantly helps the coop program, and also— though the extent is less clear— the AFC program.]

(3) Settlement of ex-British holdings (by W. Aldero, Settlement Department): Two types of credit are extended to new owners of former European lands: land purchase loans, with 30-year maximum repayment; and development loans, repaid in 10 years. Tractors and implements for land clearance are one problem (funds for tractor loans are currently used up); water access loans encounter some problems, but are continuing. Some settlers have paid up their land purchase loans ahead of time and can use land as collateral for bank loans, but boundary disputes and litigation will continue to make difficulties until all lands are registered. Many settlers are doing quite well, others less so; but defaults are quite persistent, and troublesome to deal with. A major obstacle is the extension service: most farmers are illiterate, have difficulty understanding fertilizers, etc., so they don't get recommended for loans; extension agents tend to serve a few farmers who act responsively, and ignore the rest; there is a history of farmer hostility to agents from British days. The Settlement Department has hired a few agents to help the weaker farmers, but these are poor technically, and tend to make up production targets in their offices. More trained, active people are badly needed.

(4) Vihiga Project (by J. K. Gatheru, Agriculture Ministry): A small high-density area of poor farmers having on average two acres, who had difficulty fulfilling AFC or coop requirements, was chosen for an experimental credit project. Corn is the staple food crop; prices have been quite high except for the two months at harvest time. The farmers are illiterate, and take longer to adopt new practices than larger farmers; the project has a relatively high agent/farmer ratio, but the extension agents are not small-farmer oriented in adapting their technical recommendations or manner of advising. In its first year the project extended

limited, selective loans, and results were quite good; in its second year the borrowers were tripled, and initial repayment went down to 55 percent— even if some of the default is eventually recovered, this can't continue. Gatheru thinks more supervision of credit uses is the answer; the higher costs will have to be written off as initial "education."

In discussion of these programs, the common African problem of an absence of individual land tenure rights, whether due to tribal land ownership or other reasons for lack of ownership registration, was explored; it appeared that land just could not be used as loan collateral in many areas. Costs of small farmer lending were brought up: estimates of 20-30 percent of loan value were noted from experience. A representative of the pyrethrum board expressed interest in an expansion of farm loans, either through his board or with the board guaranteeing repayments; the offer of cooperation was gratefully acknowledged by several officials. Musuva (Agriculture) summarized: Kenya has sufficient infrastructure of various credit office branches and numbers of extension workers; it has some proven technologies. But the technologies don't reach small farmers, due to poor quality of extension; and defaults create financial problems in loan programs— Kenya can't afford to give grants. There is evidence of rural savings; but their best mobilizer is the postal savings bank which effectively collects rural funds for use in urban areas. Further discussion explored extension problems, to which there were no easy answers: would more vehicles for extension agents help? "They could drive for miles and still do nothing ---." Had the model farmer approach been tried? "We have had model farmers and demonstration plots all over the place."

"Prêts de Soudure," Ivory Coast (by M. Drouet and M. A. Daubray of the National Bank for Agricultural Development— BNDA): A program of the BNDA, begun in 1968, to provide "loans for meeting expenses" to selected small farmers, was the subject of one session. Farmers must be dependent on agriculture; loans are limited to 15 percent of an individual's farm marketings, or 15,000 CFA francs, and are repayable after 6-9 months with a 10 percent commission. Loan funds are allocated regionally by BNDA, then by regional and local committees, to groups of 6-30 farmers who assume joint responsibility for repaying the bank. Loan volume has grown five-fold in four years, and now reaches 660,000 borrowers— a significant number. Annual defaults were: 4 percent, 5.5 percent, and most recently 15 percent— this last partly a result of drought, and in any case the arrears were reduced to 8 percent a month after the due date. The government insures BNDA up to 25 percent of its loan value for defaults encountered. Loans are extended in the months before harvest, and are used largely to cover expenses for school fees, clothes, and pre-harvest food— there is no checking on the use of funds. The aim is to educate poor farmers in the use of their money, to keep them out of the hands of moneylenders between harvests. An adjunct savings program is now under study; BNDA likes the idea but is moving cautiously. Previous reluctance of farmers to repay government loans

has been largely overcome, and administrative aspects are well controlled; the program is considered successful, and further expansion is planned.

Some discussants clearly liked the simplicity and absence of paternalistic bureaucratic controls in this scheme, which treats farmers as capable of managing their own affairs and avoids an "artificial" distinction between consumption and production loans — difficult to enforce when attempted. Others were more dubious, and questioned whether savings or production habits were improved by such loans; there were no pertinent statistics or indicators of change to prove the point either way — except, perhaps, that the money lenders were complaining. BNDA has a number of other programs supplying production loans to cooperatives and other farm enterprises: when asked how repayment on these production loans compared with that on its "consumption" loans, BNDA indicated that, following the 1972/73 drought, repayment of its production loans averaged 65 percent on the due dates compared to 85 percent of the small consumption loans.