

Rural Credit as a Key to Development: A Report on a Mexican Experiment

by Robert Swann, September 1976

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The disparity between rich and poor is generally acknowledged to result from a maldistribution of basic resources, such as land and capital. But while this is fairly obvious, two other causes are often overlooked: a lack of credit, or affordable credit; and a reliance on high-cost technology to the exclusion of appropriately scaled technology.

Nearly 60 percent of the world's population consists of small farmers or other rural people who have little, if any, access to affordable credit. Interest rates of 40–50 percent are common in India and South America, for instance. Meanwhile, most of the financial gains from our high-technology farm production methods accrue to the benefit of big farmers, who also benefit from tremendous government subsidies.

In many places, land reform and other resource distribution have taken place without significantly altering the gap between rich and poor. Why? Well, part of the reason is because credit and appropriate technology have not been available. This has largely been the situation in India's nonviolent Gramdam movement for land reform and rural development. Individual peasants and co-op villages alike may not benefit much from receiving land if they go lacking the means with which to soundly develop it.

Although the equitable distribution of resources is a critical need, it is also true that carefully designed alternative social and economic institutions providing small farmers with credit and appropriate technology can be even more decisive. The International Independence Institute (III) was established: to experiment with the application of such potent concepts as decentralized, small-scale credit and technology. One of III's first projects was helping to establish a limited fund that provided credit to small farmers in underdeveloped countries. We had few sources of funds, but we did have specific ideas about what could be done. Our role was as catalysts, joining other nonprofit, voluntary agencies in conducting experimental projects.

The institute directed its first effort at India, where Dr. Ralph Borsodi (an III founder and one of decentralism's pioneer thinkers) had convinced Jayaprakash Narayan that private loan funds could help fulfill some of the resource needs of the developing Gramdam villages that the national government could not meet. The program, however, didn't get beyond the collection of a few thousand dollars of investment funds, because of political problems with the Indian government.

A Door Opens in Mexico

A new opportunity presented itself in 1969, when a program began in Michoacan, Mexico, under the sponsorship of a small U.S. organization called Farm Centers International (FCI). The project, conducted among the Tarascan Indians of Michoacan state, was designed almost exactly along the lines of the program originally planned for India. Beginning with a \$3600 revolving-loan credit fund that served ninety farmers in the first year, the fund expanded to reach almost two thousand farmers by its fourth year.

The fund's physical operations were based in a small store or warehouse in each village; eventually,

seven villages were involved in the program. Each store or warehouse was run by a carefully chosen local villager, usually a farmer or someone who had lived in the village all his life. This manager was trained by the program's leaders to run the store, keep minimal books, and demonstrate the use of such farm technology as fertilizers, improved animal feed and feeding methods, and small tools. The FCI administrator and store manager set up a small demonstration plot in each village.

Farmers were organized into groups of at least ten to fifteen people who received credit through the stores or warehouses for the purchase of fertilizer, seed, chickens, pigs, etc. The store manager made all decisions regarding credit, with the assistance of the resident administrator. No cash loans were available, only credit, which was only offered to a group of farmers who signed notes holding each one responsible for all in the group. The procedure, which is similar to cosigning in credit unions, helped to create a sense of cooperation and mutual support.

In Michoacan state, this program set up an organization to provide the investment capital with which to stock the village stores. FCI itself provided the funds for salaries and operating costs, funds it obtained from personal contributions, church groups (the United Church Board for World Ministries), and the Freedom from Hunger Foundation. At the beginning, the loan funds of \$3,600 were far less than the operating grants (around \$20,000 a year). By the end of the third year the loan program had expanded to about \$70,000 and involved nearly 2,000 farmers, but the administrative costs remained fairly stable.

Things were moving in the direction of the stores becoming entirely self-supporting, and indeed, the whole program seemed destined to eventually support itself. A couple stores were able to provide their managers' salaries and overhead costs as the third year ended, and the program had a record of 100 percent returns on loans up to that time. That was in 1971.

From then on the program encountered crippling problems. For one, its great success had attracted wide attention and support, including an irresistible offer from the Mexican Development Foundation to almost triple the second-year's credit total of \$20,000. The offer was accepted, and with its funds many loans were made without adequate consideration or supervision. In addition, the Mexican government had a chance that same year in 1971 to purchase a large supply of hogs on a depressed U.S. hog market, which precipitously forced down the price of pork in Mexico. Unfortunately much of the Michoacan program's funds from 1971 had been used to buy feeder pigs, and the feed with which to fatten them. The drop in the price of pork was disastrous for the small farmers who had borrowed \$50 to \$100 from the program to invest in hogs and hog feed.

Eventually two-third to three-fourths of the outstanding loans were collected by a new organization called FANSMA, started in 1971 to secure a better market for the region's farmers. Using Mexican investment funds to develop marketing programs, it took over FCI's entire operation, assets, and liabilities, and continued to operate for two years. Meanwhile another U.S. based company was established to help FANSMA market products in the U.S. This company is International Food Associates (IFA), which presently markets Mexican goods, mainly to California. It markets rice hull ash, previously a Mexican waste product, to the cleaning industry, and soon expects to begin importing Piloncillos, a Mexican candy made from pure sugar cane by *campesinos* on their farms. As it expands, IFA hopes to market other products, such as sesame seeds and beans, to thereby generate the capital needed to reestablish the credit program among the Tarascan Indian farmers in Michoacan state.

The Uniqueness of the Michoacan Program

While there are several revolving local fund programs, including credit unions for farmers, which have proven quite successful, we feel that the Tarascan Indian experiment has been unique in several ways:

1. Credit was granted to small farmers or cooperatives only on the basis of production needs (fertilizer, seed, etc.).
2. Trained supervision was provided for all loans.
3. A carefully selected committee, which advised the store manager in charge of sales, granted the credit.
4. The store manager ultimately was paid out of returns from the store's sales, and the store was often run as a cooperative.
5. A sponsoring organization, which trained store managers and other personnel, provided the initial administrative overhead costs until each store became self-sufficient.
6. Farmers applied for credit in groups of ten or more, each individual guaranteeing the loans of the others.
7. Funds were provided through an international investment pool, which loaned the money to purchase inventories on a nonprofit basis.

All of these methods may not work equally well in all parts of the world, but we are convinced that in many places, they can and should be tried. Of crucial importance, perhaps, is the training, experience and character of those who are directly involved in the fieldwork. A great deal of commitment is also needed, much of which is already in place; the people involved in social movements and voluntary agencies worldwide are capable of such commitment. Their reward is in knowing that their work is helping to build permanent, replicable institutions for change that do not depend on charity.

I will conclude with a quote. On the island of Flores in Indonesia, Bishop Von Bekkum, who helped us to establish a similar credit program there, said:

Last December there was another case of peasant solidarity. After three weeks of negotiating, the hope of the peasants and the participating officials in the division of land has been fulfilled; every member of the 1,500 farmer cooperative received his allocated hectares. This was the first time; it will strengthen the peasants in their attempts to protect themselves and to increase the economy. A well organized production credit system could help to strengthen this spirit of solidarity . . .

When I read about the hundreds of proposals, articles and books to help the so-called Third World, it seems to me they talk too far away from the sources of development: man and his mental and physical power; man and his ability to

make useful means of his environment, with implied and necessary accompanying subsidy. Most of them start with large amounts of this subsidy as a condition of beginning. We hope that this small amount of \$400 for the first loans will be of decisive importance.

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