

## Credit to small farmers needs fine-tuning (The Nation, Bangkok, 18 May 90)

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**If the urban population is benefiting most from Thailand's economic growth, the large-scale farmers are not doing badly either. It is the small-scale farmers who are in danger of being left behind. Two projects in Surin are trying to ease the problem by creating financial services designed to meet small-farmers' needs.**

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Surin farmers who borrow money from local merchants or moneylenders expect to pay interest at five percent, though with luck and good connections it can be as low as three percent. If they are desperate and the moneylender knows it the cost can be 10 percent. Per month.

Only those who have no choice are prepared to pay these sorts of rates. They are usually the poor families who have to meet the costs of an emergency and who have not been able to qualify for loans from institutions whose terms are more reasonable. For these families, taking a loan on terms dictated by the money lender can easily lead into a financial trap from which the only escape is to sell assets like buffaloes and, eventually, their land.

On the other hand farmers who can get loans from banks or cooperatives pay only about 1 percent per month, a rate low enough to justify borrowing for production purposes. Done wisely, borrowing even small amounts to buy inputs for production can improve a farmer's income substantially. Field studies show that the effect is greatest among the small-scale farmers who have no alternative source of funds. At present only about half of Thailand's farmers are able to get these sorts of loans.

We'll call this the problem of restricted access to fairly priced rural credit. In order to keep things simple, "credit" here means short-term or seasonal credit. The question of access to long term loans for investment purposes is somewhat separate, and somewhere in the future for the kinds of farmers who are as yet outside of the formal credit network.

Recognising the problem in a general way is easy enough. Measuring the real extent of the problem is much more difficult. Nobody really knows how many Thai rural families have debts which

they cannot manage and which are driving them further into a state of poverty. Moreover, there is no reliable estimate of the amount of credit which would be needed to enable rural families not only to rid themselves of unmanageable debts but also to make productive investments which will eventually improve their living standards.

One thing which we can say for sure is that the problem of restricted access to fairly priced rural credit affects small-scale farmers more than it affects large-scale farmers. This point can be documented reasonably well and may seem obvious, but understanding why is important.

One reason is that in general larger-scale farmers tend to be more articulate and more in touch with any authorities involved in rural development, and they tend to be regarded rightly or wrongly as less risky than small-scale farmers.

Secondly and perhaps more importantly, giving relatively large loans to relatively large-scale farmers is less costly to the lending agency than it would be to lend the same amount to a number of smaller-scale farmers, because within certain limits the costs of administering each separate loan are about the same regardless of the size of the loan.

Consequently any organisation which is pressed to lend more and more while at the same time maintaining or reducing its costs of operation will inevitably find it difficult to reduce the average size of the loans which it makes. In general small loans and small farmers who are first-time borrowers require more supervision rather than less, which implies higher not lower costs.

Here we have the irony that although it seems



unfair to charge higher interest from the farmers who can least afford it, being able to do so would enable a bank to extend a higher proportion of its loan portfolio in the small amounts that small-scale farmers need.

We can also be sure that simply making fairly priced credit more widely available, albeit to small-scale farmers, is not enough by itself to have a serious effect on poverty. Credit cannot be expected to improve income levels unless it is linked in some way with services which either promote improved technology for the farmers' existing activities, or introduce new, remunerative activities.

Compared to many countries Thailand has made some solid progress towards setting up financial institutions and technical services which can meet small-scale farmers' real needs. What remains to be done is to fine-tune them to bring financial and technical services together, and to re-orient both towards farmers who are as yet outside their networks.

Two projects in Surin illustrate the extent of progress, the gaps which remain and how very different development institutions can learn from each other's strengths.

### **The BAAC/EEC Small Farmers Project**

The BAAC has benefited from a large grant from the EEC to improve production and income in the Northeast and encourage farmers to plant crops other than cassava. The overall programme incorporates a Small Farmers Project whose objective is to extend credit services to smaller-scale farmers than those normally considered eligible, and to raise those

farmers' creditworthiness by linking the credit directly with a strong programme of technical support. In other words, participants would get better than usual guidance on using their farm production loans so as to increase their effect on production levels.

The project is designed for farmers who either have a household farm income of not more than 10,000 Baht per year, or whose farms are no larger than the provincial means. The project operates in all of the 260 Northeastern districts designated as "backward" under the government's sixth national development plan.

Each district office of the Department of Agricultural Extension is responsible for preparing a general farm plan for farmers taking part in the project. In Surin the district plans are mainly oriented towards the production of *khao dok mali*, the fragrant variety of rice which already dominates local farming systems and which commands prices among the highest in both the export and domestic paddy markets.

The farm plan is really a production calendar which shows what to do, what materials to use and what disease and pest problems to watch out for during each month of the production period.

Looking at the farm plans reveals nothing new. They are compilations of existing DAE policies. The recommended seed for this area of Surin is coded "105" and is already freely available through the Department's seed exchange programme. The fertilizer formulas are long established features of the DAE's technical recommendations for most of the Northeast: 16:16:8 basal and a urea top dressing. A discussion with a group of 30 project farmers in

Ban Khok Phet, Muang district, quickly reveals that almost all of them were already using chemical fertilizers before the project started. So what is special about this project?

Drawing up recommendations and getting farmers to follow them properly are two entirely different things. Farmers may use the recommended seed variety, but not appreciate the need to trade it in for fresh stock every two or three years with the result that their seed quickly loses its vigour.

They may use chemical fertilizer but



at a quarter or half the recommended level of application, and apply it at the wrong time. Single nutrient fertilizers like urea are still poorly understood and used very infrequently in the Northeast although they can be very cost effective. Once farmers start using chemical fertilizers they often forget the importance of organic fertilizers which they can make themselves and which help maintain the structure of their soil.

Most commonly, farmers adopt recommended “production packages” in part instead of in full, using combinations like chemical fertilizers with traditional seeds which don’t give the best returns for their production costs. And here is one of the main points of the project: even when small-scale farmers are convinced of the technical issues they rarely have the funds to do what is recommended.

So if the project hasn’t taught anything new, it has hammered away at a familiar message more persistently than usual, and perhaps more thoughtfully. Drought is a perennial worry in these non-irrigated areas, and it has been important to talk not only about standard recommendations but also about adapting them when the rains are late and weak.

“If there is no rain by August, broadcast the seed instead of trying to transplant from a nursery. 12 kilograms per rai instead of 6, and don’t fertilize until it rains” says the Muang district extension officer. “That way you should still get 350 kgs of paddy per rai.” Useful advice, if unexciting.

Finding the truth of the matter from the farmers’ point of view is never easy and our thirty informants tell varying tales about what the project has brought them. They are sure that they have been visited more often than usual by both the DAE and the BAAC, some have borrowed for the first time, they have used more fertilizer and their yields have increased by more than enough to offset the cost of the extra inputs. All this seems believable, after as much probing as you can manage with a group like this. And what about 1988 when they had a drought? Yes, even then, but not so much.

Measuring the extent of these changes is another matter. The figures which the farmers give imply an overall average value:cost ratio of almost 10:1, which is almost certainly too high. Half that rate



would already equal what the planners of the project hoped for.

If there is a quibble here it is not on technical grounds. There is a lot of credible evidence from other provinces as well as Surin that the BAAC and the DAE have indeed worked together on this project more closely than they usually do. Achieving that much took over a year, and probably even then was possible only because of regular joint training sessions, and joint monitoring visits from Bangkok kept each organisation honest.

But farm plans have surely been drawn up and reproduced, special meetings have been held for participating villages and systematic field surveys show the farmers’ technical performance and yields have both improved. The effectiveness of BAAC credit in improving productivity is probably markedly greater here than under the normal lending programme. If the farmers exaggerate the benefits at least they do not betray indifference to the project.

But does the project address the problem of how to extend the network of institutional credit to smaller scale farmers than those served up to now, or the problem of how to serve smaller scale farmers without increasing the bank’s operating costs?

Of this the evidence is much less positive. Though our group seems to meet the “small-farmer” criterion most were already clients of the bank before the project started. A few were recruited for the project, but there are more farmers in the village who are not yet BAAC clients.

The bank tries to maintain a ratio of 500 clients per field officer, and to visit each client at least twice each year. In this case the field officers have visited once per month or more, a schedule manifestly

necessary to uphold technical standards but not the way to reduce operating costs. And all of this work has been in support of loans deliberately kept smaller than the overall BAAC average of about 14,000 baht. First-time borrowers cannot normally borrow more than 5,000 baht. If the bank logged the time its officers spent on this project it would certainly find the cost was well above the bank-wide average of 4.8 percent of the value of loans disbursed.

The BAAC will have to look elsewhere for clues about lending economically to the really small-scale farmers in each community.

### **The Rural Friends Association Village Banking Project**

*Ajan* Sukhon Jongyoo is a native of Surin who founded the Rural Friends Association (*samakhom mit chonabot*) as a non-governmental development organisation in 1985. In 1988 he was entrusted by the American NGO Catholic Relief Services (CRS) with the responsibility for implementing the initial stages of a Village Banking project.

The project rests heavily on nurturing trust, cooperation and creative energy within village communities, as a means for the poor to escape from the cycle of poverty in which they are trapped. Although the main concepts underpinning the project were imported by the CRS, mainly on the basis of its work in Latin America, *ajan* Sukhon is comfortable with them. After the gold striped epaulettes which measure rank and respect in the local administration it is refreshing to meet a compassionate man of vision who shares his office with a chicken.

So far there are eight village banks, the oldest was started 15 months ago. There should be 30 banks by September. Mrs Phayom is leader of the newest bank in Ban Hua Raet, and is today presiding over their first monthly "savings day". The 71 members are sitting around chatting, and taking turns to hand their savings to the treasurer and have their pass books updated.

One of the rules is that everyone has to save every month, even if it is only 10 or 20 baht. This creates a discipline among the members, and reinforces the solidarity of the group by ensuring that they all gather together regularly. All borrowing and lending transactions are made during these meetings, in the open so that everyone knows what is going on.

The RFA initially identified Hua Raet as suitable for

a village bank, partly because the villagers had run a successful savings group once before. *Ajan* Sukhon and his locally recruited field assistants worked with the villagers to encourage them to draw up the bye laws of the bank and to practice regular saving. Once the membership and bye laws were established and they had saved regularly for five or six weeks the bank qualified to borrow 1,250 baht per member from the CRS, via the RFA.

The rules for using these external funds are fixed, and this is the one part of the banks' operations over which the members have little control. The loans are for a period of four months, and are intended to meet the operating costs of a productive economic activity, not household consumption expenses. The initial loan limit is 1,250 per person, but after the first cycle the CRS will provide additional funds equal to the amount each member has saved. The bank pays interest to the RFA at the rate of one percent per month.

The RFA will withdraw its funds after nine cycles, or 36 months, after which the banks will depend on their own savings. At the end of today's meeting the treasurer announces that the group has saved 3,710 baht, about 52 baht per member. At this rate, and taking account of the interest earned by lending out the money each month, the group should have accumulated about 2,700 baht per member by the time the RFA funds are withdrawn.

Unlike the external funds, the rules for lending out the group's own savings are entirely controlled by the membership. Mrs Phayom's group decided to lend on a four month basis, as for the external funds. Other banks lend for a month at a time in order to give more people a chance to borrow. Borrowers pay two percent per month. Mrs Phayom's group decided to charge the members two percent for the RFA funds too, one percent for the RFA and one percent to add to the village fund.

Today the committee is thinking about the composition of the group. There is one member from virtually every household in the village. But ten people from a neighbouring community have asked if they can join and Mrs Phayom is not sure what to do.

The ten are all women, so they at least qualify on that score. Helping communities by working with women was one of the main initial goals of the CRS, firstly because women tend to be left out of many

development projects, and secondly because in many ways they can be expected to make more productive use of loan funds. In practice the committees of each of the eight banks set up so far have restricted the membership exclusively to women.

The outsiders wanting to join Mrs Phayom's group were not able to form a bank in their own village because of opposition from wealthier families whose moneylending businesses were threatened. But the ladies of Hua Raet while sympathetic do not seem inclined to risk admitting to their circle people who are out of reach of the social pressures and sanctions on which the bank depends.

An issue which may be more problematic in the long run is the lack of arrangements for technical support in relation to the loans. Members who say they will borrow for pig raising or weaving must either depend on their own knowledge and experience or make their own arrangements to learn about technical aspects and the profitability of their chosen activity. Neither are there any marketing plans.

For now, consolidating their savings and lending activities and the composition of the membership are enough for the group to think about. Should they in the long run try to arrange technical support? And if so, for what kinds of enterprises?

*Ajan Sukhon* is thinking about adding value to simple products which the villagers are already familiar with: selling chickens as *kai yang*; pickling vegetables; adding sugar and cooking their taro to make desserts; making bamboo skewers to sell at three baht per hundred.

Other possibilities may be more ambitious and potentially more profitable: building a barn to store paddy until the price rises after the harvest season; negotiating as a group with buyers for their silk and cotton; growing best-quality fruit and vegetables on a contract basis.

Linking the bank with some kind of technical or marketing scheme might be necessary to give the members a continuing sense of purpose. It may have been the lack of such a purpose which led to the villagers' harmonious decision to stop their old savings group.

On the other hand transforming the group from a single-purpose bank to a multi-purpose financial, production and marketing organisation would be a difficult step which would depend not only on the

strength of the group as it stands but also on a good deal of outside guidance. And there would be some risk. The CRS, the RFA and Mrs Phayom and her opposite numbers in the other village banks will eventually have to decide whether it is a risk worth taking.

### **Could *Ajan Sukhon* and the BAAC Work Together and Find Happiness?**

These two projects have much to learn from each other. The RFA project stands out as having developed banks which clearly belong firmly to their members, the village women. The sense of unity at the groups' monthly meetings is unmistakable and impressive. By focussing on women the banks fill a gap created by the nature of the BAAC's regulations. Women have their own interests and activities which can flourish in the right institutional environment, for everyone's benefit.

The RFA groups have established a degree of solidarity which would have enormous value for the BAAC, but which the BAAC would find difficult to create by itself. By lending to groups like the village banks on a wholesale basis and relying on NGOs like the RFA the BAAC could be sure its funds were reaching truly small-scale farmers while at the same time it could cut its operating costs by transferring to the groups much of the responsibility for loan administration and collection. On the other hand the BAAC offers the opportunity for controlled contact with commercial production technology and marketing outlets which are beyond the present experience of the banks and the RFA.