Thinking beyond credit

Credit is often seen as an indispensable vehicle for the poor to get out of poverty, or as the tool that allows farmers to get access to new technologies, to increase productivity and their incomes. But many existing credit programmes often undermine farmers' independence, tie them into dependency relationships, and oblige them to take all the risk. There are better ways to help farmers build their own resource base and independence.

Text and photos: Jan Douwe van der Ploeg

The need for credit plays a key role in many sad realities. Take for example Peru, where many smallholder households are never far from hunger despite having fields laying idle which could well be worked, providing food and additional income to the family. What is lacking is the money to provide seeds and fertiliser, hire a donkey or tractor to prepare the land and pay for the irrigation water. *No hay medios*, as they say in Peru. "We don't have the means." Credit really does seem to be part of the way out of such a situation, even though the combination of credit, highly volatile markets and a risky climate has ruined many farmers before. Many farmers have had to sell their resources to pay back previous loans and have outstanding debts that they cannot repay. For them credit is unobtainable as the banks consider them to be delinquents.

Here we have one of the rural development dramas in a nutshell: credit got people into trouble, yet it is what they need to get out of trouble and they cannot obtain it anymore.

Autonomy and freedom

Farming always requires a multi-facetted resource base. Alongside land, water, animals, seed, fertiliser, labour, knowledge, buildings, instruments and networks, farmers need working capital. Often, this working capital comes from the savings created during previous cycles of production. In fact, farming is not only about using these resources in order to produce. It is as much about the reproduction and development of this resource base. During the process of production, the resources are reproduced. Heifers are bred to be at least as productive as the cows they are replacing. The fertility of the soil needs to be maintained – and preferably improved. When harvesting potatoes, the seeds for next year need to be selected and put aside. All these resources carry the promise for good and hopefully better harvests in the future. This process of reproduction not only applies to the material resources, but also to social resources, the labour force within the family (and/or the wider community), to networks and knowledge. It also applies to working capital.

The resource base available to farmers is the result of previous cycles. It has been created through the sturdy work and the dedication of the farming family. As the outcome of their own labour it represents autonomy (or independence, as farmers themselves often say). It avoids the need to enter into dependency relations with others. The means needed to produce are at hand. Slicher van Bath, the great agrarian historian, referred to this as "farmer's freedom". He argued that this was a double freedom. First, it is freedom from dependency and associated exploitation. There is no need to rent land from a big landowner and no need to get a loan from a local lender requiring high interest payment. But there is also freedom to farm in a way that corresponds with the interests and prospects of the farming family. Others cannot prescribe how the farmer should operate. Farmers themselves design the way they want to farm and to develop their farms. "Freedom from" and "freedom to" are indispensable ingredients of a prosperous farming sector.

The history of farming can be seen as a struggle for autonomy, a struggle that occurs within single farms, but also takes place at the level of farming communities and farmers' movements. Many co-operatives have grown out of such movements, including credit and savings co-operatives set up to address the credit issue.

Dependency and survival

The historically created and autonomous resource base is being threatened in many parts of the world. The squeeze on agriculture (increasing costs together with stagnating or even decreasing output prices), the urban bias in state policies and technological models that imply many external inputs, have all contributed to eroding the self-governed resource base. Where

"Credit often closely ties farming practices to the agro-industrial logic and the needs of the agro-industry"

once autonomy was central, there is now a wide and dense network of dependency relations on the input-side of the farm. These add to the dependency relations on the output-side of the farming. Very often, the former are considerably tightening the latter. Dependency on the capital market is a typical example. Credit obtained from banks often links farms closely to agro-industrial groups. Agricultural co-operatives and individual smallholders in Peru, for instance, received loans from the Banco Agrario in the form of "permissions for withdrawal" which they could only use at the large agro-commercial companies to access prescribed seeds and agro-chemicals. There was no possibility to use the credit in an alternative way for, say, cattle or fruit trees. These loans came with strings that specified which crops had to be grown, in what way and, especially, to whom they had to be sold. Thus, the credit mechanism closely tied farmers to the logic and needs of agro-industry. Through such tied credit the "freedom to" is nearly completely lost.

There are considerable differences between farms, regions and countries in the balance between autonomy and dependency. In some countries farmers and their institutions have far more autonomy over their resources. In many other countries, poor market conditions and adverse rural and agrarian policies have impoverished farmers and eroded their resource base. Despite this, some farms have been able to maintain – or to reconstruct – a strong resource base, often by minimising the use of external inputs and avoiding high financial burdens. The relevance of this strategy of "farming economically" becomes more evident in times of crisis, as these relatively autonomous farms are better placed to survive the difficult times.

Alternative mechanisms But what is to be done when, for whatever reason, farm households get into trouble? Let us first scrutinise the different mechanisms that might be employed. At the level of the single farm there is a wide array of potential solutions. Informal credit (often between different farmers, where one of them contributes land and labour and the other the required capital), saving groups (such as *tontines* in several African

"Autonomous" farms are far better placed to cope with difficult times

countries) and social networks (for mutual help) are the first category. Co-operation and an equal distribution of risks are important features of these strategies. This is in stark contrast with the unequal risk distribution entailed in formal credit. Secondly, there are mechanisms like multiple job holding (very important in Chinese agriculture), and temporary transnational migration (very important in considerable parts of Latin America and Eastern Europe, but also, not that long ago, in countries like Portugal). These mechanisms allow farmers to earn an income that they subsequently invest in their agricultural activities. In this way farmers construct their own working capital. Thirdly, there are new mechanisms based upon creating new economic activities within the farm (such as on-farm processing, direct marketing, agro-tourism, energy production, etc.) that can generate a considerable cash-flow and reduce the need for credit. The problem, though, is that considerable working capital is often needed to start up such new activities. But sometimes a step-by-step development is possible.

At the regional level, social movements may help considerably. The agro-ecological movement in Latin America for example, helps farmers to change to farm practices that require far less external inputs, and this may help to reduce dependency on capital markets. The same movements may also help to change rural and agrarian policies. The delivery of microcredit is another example – it is especially relevant for rural women and the very poor.

National policies that favour agriculture can also considerably help to strengthen the autonomous resource base of farms. Often these policies are far more effective. Brazil's recent experiences are exemplary. The programmes for public procurement (that includes the distribution of school meals) are now increasingly linked to local small-scale farmers. At least 30 percent of the food purchased for these schemes has to be acquired locally from small-scale producers. This provides an enormous stimulus for farmers. Access to this newly created "market" means that they can considerably improve their livelihoods and build savings that subsequently help to improve their farming. The supply of school meals, rather than relying on supermarkets and/or large corporate farms, has been linked into an attractive and highly effective programme to strengthen the resource base of small-scale farmers.

All over the world, farmers are showing that there are alternative mechanisms to a tied credit

The agenda

An autonomous base of self-controlled resources is essential for agricultural growth and the emancipation of the peasantry. However, the creation (or recovery) of such an autonomous resource base is hardly possible through existing formal credit mechanisms. Of course, credit can be helpful, but only under some conditions. First, it needs to be part of a wider programme that aims at strengthening the resource base of farms. Second, it needs to be untied so as to allow farmers to use it in the way they deem appropriate. Thirdly, the implied risk needs to be equally shared. Reviews of successful experiments may well reveal additional criteria. Just as farmers design ways of farming that carry the promise of progress, new credit mechanisms that can help them are crucial.

Jan Douwe van der Ploeg is professor of rural sociology at Wageningen University, the Netherlands. His latest book, "New peasantries: Struggles for autonomy and sustainability in an era of empire and globalization" (Earthscan, London, 2009), has been translated into Spanish, Portuguese, Italian and Chinese. Jan Douwe van der Ploeg can be contacted at jandouwe.vanderploeg@wur.nl. He also has his own website: www.jandouwevanderploeg.com.