

Where Credit Is Due

Russian farm credit officials study American finance model

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It seems like southern Illinois,” said ACDI/VOCA Vice President Fred Smith while surveying the rich black soil of Krasnodar, Russia, in 1994. But he was surprised to learn that local farmers only produced 50 bushels per hectare. Fertilizer, hybrid seed and the proper equipment for weed control were available, and the local markets were short on grain supply. “There was just no working capital in the system — no way for farmers to finance improvements,” Smith said.

Smith developed a plan for improving the availability of rural credit in Russia. It took a while to implement, but more than a decade later, the Mobilizing Agricultural Credit program, led by ACDI/VOCA, has been called “one of the most successful programs in the mission’s portfolio,” by Ray Lewman, deputy director of the Office of Economic Growth for USAID/Moscow. The Russians’ appetite for a reliable farm credit system has been whetted.



Russian farm and credit leaders attended briefings at the Capitol in Washington, D.C., as part of their fact-finding tour to learn more about farm and rural credit in America. Photos courtesy ACDI/VOCA

Credit needed in rural Russia

Only 5 percent of the market for rural credit in Russia is currently being served. The Russian Rural Credit Cooperation Development Foundation (RCCDF), together with ACDI/VOCA, managed the groundbreaking Russian-American Loan (RAL) Program that has helped to bring rural credit to Russia.

The idea was hatched by Smith, a North Carolinian, who was frustrated by the unfulfilled potential of rural Russia. It was initially funded with loan capital from USDA and technical assistance

funds from USAID, first through the Mobilizing Agricultural Credit project and now the Cooperative Development Program.

From a starting point of \$6 million in USDA capitalization, the RAL Program now has \$10 million of equity and has successfully loaned more than \$38 million to rural credit cooperatives. About 91,000 people belong to Russian rural credit co-ops, which provide the best — and often the only — access to financing.

“While credit cooperatives improve access to credit for farmers and rural

entrepreneurs and are thus an important economic development tool, they also facilitate grassroots improvements to local civil society,” says ACDI/VOCA’s country representative, Michael Harvey.

Credit cooperatives also have a national impact. Credit cooperative leaders have become political leaders in Russia. At least one female credit co-op leader has been elected to the State Duma, Russia’s parliament. In addition, staff of the RCCDF and Union of Rural Credit Cooperatives have served as expert advisers in both the Duma and the Federation Council.

Building a rural credit system

Given this history, ACDI/VOCA was the natural choice to organize a recent U.S. fact-finding mission for some Russian farm and credit leaders. Nine Russians, among them three republic ministers of agriculture, looked intently at the American model last November.

ACDI/VOCA President Carl Leonard welcomed the group to the organization’s headquarters in Washington, D.C., and Smith spoke of the company’s seminal work in Russia. The Russians got an overview of the U.S. farm credit system from John O’Day, former vice president of AgriBank, and a briefing on the federal government’s role in fostering cooperatives from USDA Rural Development economist James Baarda.

The first day ended with a reception, at which Asif Chaudhry, deputy administrator of USDA’s Foreign Agricultural Service, formally welcomed the group on behalf of the government. After dinner, participants took a nighttime tour of the Lincoln Memorial.

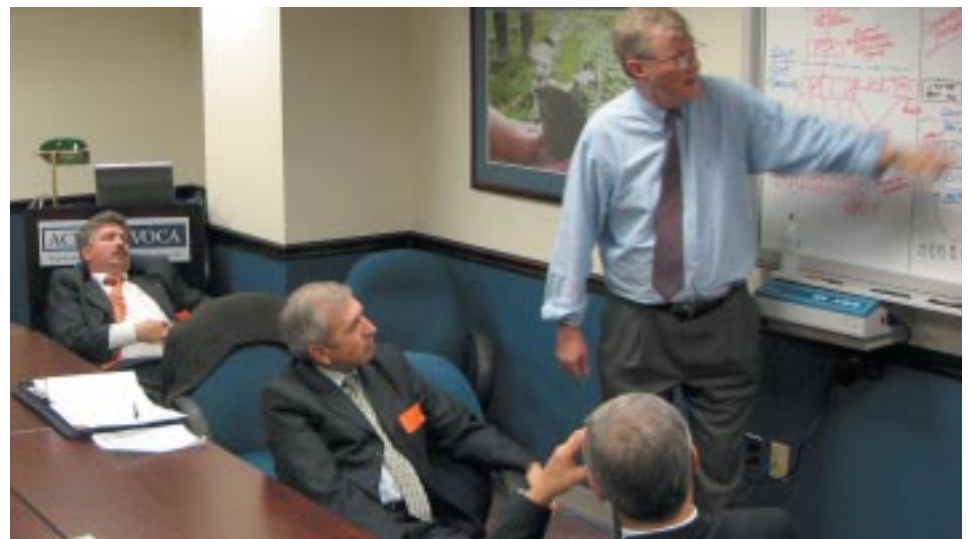
The next day the group was off to the heartland. O’Day had arranged meetings at AgriBank in St. Paul, Minn., the largest farm credit bank in the nation, with a loan portfolio of \$40 billion. The Russians were addressed (in Russian) by a bank employee who had

emigrated to the United States at age 16. C.T. Fredrickson, former bank president and former senior deputy governor of the Farm Credit Administration, had a rapt audience when he spoke about the dire U.S. farm credit crisis of the 1980s and the lessons it provided.

While the turmoil and dislocation suffered by many farm families and farm credit professionals could not be ignored, Fredrickson said a legislative remedy proved highly successful — no doubt an interesting lesson for the

Small Plans,” much of which is applicable to Russia as it strives to build a stronger rural credit system. Egerstrom stressed that a co-op has two main objectives: to succeed as a business and to help its member-owners succeed in their own businesses.

- John Schmitz and Tom Larson, CFO and executive vice president, respectively, of CHS, the largest U.S. farmer co-op, also addressed the group. Schmitz said that he saw great



John O’Day, former vice president of AgriBank and now a consultant, explains the workings of the U.S. farm credit system during a briefing at ACDI/VOCA headquarters in Washington, D.C.

Russians. He added, however, that there were dangers in the government playing too prominent a role in such situations. “Those engaged in businesses in which government policy is a large factor in determining prices, profits and asset values should always remember that the market forces cannot be suppressed by the government indefinitely,” Fredrickson said.

Other tour highlights included:

- Lee Egerstrom, business reporter for the *St. Paul Pioneer Press*, presented the Russians with signed copies of two of his influential books on cooperatives, including *“Make No*

potential for Russian agriculture, but that Soviet style co-ops, while able to perform certain governmental functions, are poorly structured to succeed as businesses in the global marketplace.

- Bob Doane, a regional manager of CoBank, provided an overview of CoBank operations, while a representative of Farm Credit Leasing Co. explained how it works with CoBank customers and others to determine if it is advantageous to lease or buy equipment. Export financing is an important part of CoBank’s portfolio, and the bank has

\$2.3 billion in lines of credit, including \$158 million in Russia. Members of the Russian delegation expressed interest in working with CoBank in importing new and used farm equipment, fertilizer and Jersey cows.

- Upon their return to the Washington area, the Russians visited the headquarters of the Farm Credit Administration (FCA) in McLean, Va., where they learned about its role as an independent regulatory agency in governing the farm credit system, as well as the nuts and bolts of rulemaking and the examination process. Several FCA officials have a keen interest in global rural finance, including Roland Smith, secretary to the FCA board, who has facilitated the short-term service of FCA staff as ACDI/VOCA volunteers. Smith introduced one of them, Ron Boehr, who has served on six assignments in Russia over 11 years.
- Gene Swackhamer, former president

of the Farm Credit Bank of Baltimore, sketched a history in which farm credit authority migrated from the U.S. Treasury Department to USDA, and then from the FCA to the banks themselves and, more recently, to associations.

- The Russians traveled to the Maryland Eastern Shore to tour the 65-head St. Brigid's Dairy Farm in Kennedyville and some local grain and chicken farms.
- A briefing was held at the Farm Credit Council, the U.S. farm credit system's advocate in Washington. Terry Barr, economist for the National Council of Farmer Cooperatives, discussed the economics of world agricultural trade and the issues of the Doha round of trade talks.

Wind-up on Capitol Hill

The last working day of the tour was spent on Capitol Hill, meeting with officials of the 5.7-million-member

American Farm Bureau and staff of the Senate Agriculture Committee who explained the mechanics of the Farm Bill. The Russians were interested to hear that the House Agriculture Committee alone employs 48 full-time professional staff members. A tour of the Capitol was provided by Senator Norm Coleman of Minnesota.

During lunch at the Monocle Restaurant (considered a Hill institution) the group met with Senator Richard Lugar of Indiana, who at the time chaired the Senate Committee on Foreign Relations and who formerly chaired the Senate Agriculture Committee. Senator Lugar, who visits Russia at least once a year, listened intently as the visitors described objectives of the mission and of the progress being made in Russian agriculture.

As a result of the tour, strong relationships have been established with ministers from key areas of Russia's North Caucasus region and they have found new contacts within the cooperative credit system. ■

Exporting the U.S. cooperative model

ACDI/VOCA was founded by U.S. cooperatives to bring the advantages of the co-op model overseas. True to its roots, the development organization invokes a great cooperative system that has served this country's farmers and business owners for decades and that now extends to the productive soil of Russia.

Without the support and involvement of the U.S. farm credit and cooperative community, the current Russian system would not exist and the recent fact-finding tour could not have been made. Principles of cooperation soundly trump concerns about competition or lingering cold war issues.

For 43 years and in 145 countries, ACIDI/VOCA has empowered people in developing and transitional nations to succeed in the global economy. It delivers technical and management assistance in agribusiness systems, financial services, enterprise development and community development in order to promote broad-based economic growth and vibrant civil society. ACIDI/VOCA currently has approximately 90 projects in 40 countries and revenues of approximately \$85 million. ■



Russian officials visit St. Brigid's Dairy in Kennedyville, Md.