



Financing of Agricultural Investment in Trinidad &
Tobago by F.R. Bissessar

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FINANCING OF AGRICULTURAL INVESTMENT IN

TRINIDAD AND TOBAGO

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VALSAYN- TRINIDAD

1.0 Introduction

1.1 The financing of Agriculture in Trinidad and Tobago is considered a high priority area by the Government of Trinidad and Tobago.

Unfortunately, a great deal of talk without the necessary concerted action has resulted in the growth of the sector to be uneven and erratic.

1.2 Before the establishment of the Agricultural Development Bank, the Treasury and the Commercial Banks were the main sources of funds for the sector.

The Agricultural sector has been clearly divided into two (2) broad divisions, the export and the domestic. The export sector consists of the large estates which are engaged in producing products for the export market and for processing. This group includes the estates which have been acquired by the Government within recent times eg. Caroni (1975) Ltd and Non Pareil.

The domestic sector consists on the other hand of the small peasant farmers and landless workers who produce food mainly for local consumption and some products for export and for processing.

1.3 This paper will deal mainly with the performance of the main agencies involved in financing the agricultural sector, and will devote some time to the weakness in the system and the scope in the future.

2.0 Agencies involved in financing Agricultural Investment in Trinidad and Tobago.

2.1 The main agencies involved in financing Agricultural Investment in Trinidad and Tobago today are:-

- (a) Commercial Banks
- (b) Treasury
- (c) Agricultural Development Bank
- (d) Development Finance Company
- (e) International Lending Agencies
- (f) Credit Unions
- (g) Money Lenders and Shop keepers
- (h) Friends and Relatives.

2.1.2 Special Features in Agricultural Investment.

Peculiar features in Agricultural Investment include inter-alia.

- (a) Long investment periods
- (b) Agriculture involves biological systems
- (c) Agriculture is often climatic and weather dependant.
- (d) Many commodities are perishable
- (e) The world wide strongly held view that food should be available at low cost.

Many agricultural ventures require long gestation periods before they begin to show profit. This is in part associated with the fact that biological systems are involved where certain periods of time must elapse for certain natural processes to occur. For instance, planting to significant fruit production in some fruit crops often require several years. Most dairy cows will typically produce only one calf each year and a heifer calf's development is not immediate.

Climate and weather patterns are totally outside the investor's control and tremendous variation can occur from year to year in an unpredictable fashion.

Perishability is a constant problem in agriculture, arising largely from the fact that living organisms are involved at one stage or another.

Living organisms are vulnerable; mortality becomes a consideration.

A high level of organisation and management is therefore required to ensure losses are minimised. Spoilage also has implications for integration in the utilisation of primary agricultural products. Thus the availability of some primary products gives rise to the creation of the means to convert them into more convenient forms. Alternatively, there must be efficient means of delivering the product very promptly to the consumer. To further complicate these peculiar features the world is committed to a "cheap food" policy. Few people directly link food with agriculture. The result is that there appears to be for political reasons no doubt a universal clamour for food at low costs. The result of all this is that farmers who have little political clout in Trinidad and Tobago are expected to bear this cost.

3.2.0. cont'd:- In 1975 for which figures were available the following is a breakdown of the Lending for Agriculture.

Table 1
Lendings to Agriculture
Trinidad and Tobago (Barclays)

Sub sector	1975 %
Sugar cane farms	1.56
Poultry	16.17
Livestock	6.52
Fishing	12.91
Tree crops	20.85
Agr.Society and Co-op	2.27
Other	39.72

Source: Financing Agriculture in Trinidad and Tobago.
November 3rd, 1977.

Distribution of Lendings (Barclays)

Range	Nc.of Loans	% byNo.	% by Size
\$ 0 - 5000.	108	49.3	2.8
5001 -10,000	31	14.2	3.0
10001 -30,000	45	20.5	11.1
30,000	35	16.0	82.8

Source: Financing Agriculture in Trinidad and Tobago.
November 3rd, 1977.

3.3.0 The Commercial Banks have continued this trend. They are interested in the larger loans and in the areas where the risks are reduced. The small loans are costly to disburse and to supervise. Generally the small farmers have problems with suitable land titles and in many cases lack a reasonable track record. In table 1, 82% of the Lendings were given in 35 loans all exceeding \$ 30,000.00 each. This contrasts with only 2.8% of funds lent being given to 108 borrowers in facilities each up to 5000. The Commercial banks have been reducing their total lending to Agriculture as shown in Table 2 on the next page.

3.0 COMMERCIAL BANKS :-

3.1.0 Trinidad and Tobago depended entirely on Agriculture for its existence until the second quarter of this century, when oil was discovered . As the oil industry developed the agricultural sector received less attention and thus lagged behind.

The Agricultural sector was largely owned by absentee land lords in the early days. These owners were only interested in producing crops for export to the metropolitan countries so that they could make handsome profits. These absentee land lords owned the best agricultural lands and they formed the ruling class. The agricultural sector was dominated by large estates with proper land titles. These estate owners had no difficulty in obtaining credit from the commercial banks for they had the necessary collateral and since the marketing of their crops was well organised the estate owners had no difficulty in obtaining loans for their agricultural operations. In many cases the land lords track records at home and the dealings with the parent company of the local banks provided ready access to loans in Trinidad and Tobago. Further more the commercial banks were in need of viable ventures to invest in, and the agricultural sector received its due share. As the petroleum and manufacturing sector developed the agricultural sector being the most risky had to compete and therefore became subject to higher rates of interest.

3.2.0 The Commercial banks have shied away from investing directly in the production of the crop, but are more interested in distribution of inputs, marketing of the products and in processing.

Table 2

Commercial Banks—Outstanding Loans and Advances - 1978/1987 - \$ T.T.

Sector	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Agriculture	112.5	60.2	133.4	110.0	73.8	80.3	83.9	90.2	78.7	83
Total	2353.2	2760.0	3423.1	4231.2	5437.3	6202.8	6776.9	6617.9	6857.3	7412
%	0.99	0.22	0.39	0.26	0.13	0.13	0.12	0.14	0.11	0.1

Source: C.S.O Publication. The National Income of Trinidad and Tobago-1966- 87.

3.4 The small farmers have been using the services offered by the Agricultural Development Bank since its establishment. During the oil boom period, the Commercial Banks moved away from agriculture and concentrated on the more profitable areas such as land development for housing, house construction and manufacturing. Table 2 clearly indicates the movement away.

4.0.0 TREASURY

4.1.0 Before the establishment of the Agricultural Development Bank and the Caribbean Development Bank, domestic agriculture depended largely on the Treasury for financing. The Agricultural Credit Bank was financed by the Treasury from yearly allocations. As the name implies the accent, was on credit and not development. Small farmers engaged in producing food for local consumption, found difficulty in obtaining funds from the Agricultural Credit Bank because of the lack of proper collateral and proper marketing facilities. The Central Marketing Agency was the buyer of last resort and therefore no contracts were granted to farmers. The Central Marketing Agency provided guaranteed prices for products that were produced for the local market. These prices were not related to the true cost of production neither were they related to prevailing market conditions. The agency offered one price for each product. The result was that the agency obtained the lowest grade of product which it could not sell and had to dump large quantities; thereby making large losses annually.

4.1.0 cont'd:- In 1988 the Central Marketing Agency was converted into an Agency providing Marketing information on a regular basis to farmers and consumers.

Table 3
Central Marketing agency losses over the period -\$ T.T.

	1982	1983	1984	1985	1986	1987
Annual Losses						

4.2.0 The Treasury also provided subsidies to farmers on inputs used in the production of crops grown locally for consumption and for export. The Subsidies were paid to farmers on the quantity of inputs used eg. fertilisers, weedicide, herbicide, land preparation, contour drains, vehicles, agricultural equipment etc.

These subsidies bore no relationship to the production of the particular crop. These subsidies were costly to administer and were badly administered. The extension officers spent a great deal of time in doing regulatory work rather than advisory.

4.3.0 Another method used for financing agricultural investment indirectly was guaranteed prices. Guaranteed prices were provided for the export crops as well as the crops produced for local consumption. They ranged from cocoa, coffee, citrus, cabbage, pigeon peas etc.

Since 1987, due to the decline in the economy, most of the input subsidies and guaranteed prices were removed.

Table 4

Subsidies provided to farmers during the period
1975 - 1986 in \$ T.T. million

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
subsidies	3.7	3.9	1.5	4.0	6.3	7.3	16.6	28.6	62.5	26.1	28.7

4.4.0 In spite of the subsidies and guaranteed prices that were paid production of most of the crops declined as can be seen in Table 5.

Table 5
Showing total production in the years 1978 -1987

Crops	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Sugar in Tonnes 000	147	142	112	92	79	76	66	81	92	85
Cocoa in 000 kg.	3398	2628	2380	3145	2246	1732	1560	1307	1426	1501
Coffee in 000 kg.	2500	2497	2239	2433	1794	1388	852	2142	1334	1842
Citrus in 000 kg.	2213	2999	2616	1792	661	623	1267	2450	1581	1674
No. of pigs sold										
Live weight in kg. (State lands)	8972	9879	8310	6092	7207	6364	7803	6203	4900	3030

4.5.0 During the oil boom period the Government acquired a number of agricultural estates in order to keep production going and to save jobs. The Government acquired a number of abandoned agricultural estates in Tobago. In Trinidad the Government concentrated mainly on the sugar estates. It acquired all the sugar estates from the land lords and consolidated them into one sugar company known as Caroni (1975) Ltd.

4.5.0 cont'd:- The wages prevailing in the agricultural sector lagged behind the other sectors. When the Government acquired the agricultural estates it was forced to bring the wages in line with the other sectors. Working conditions were improved and wages increased. These bore no relationship with the ability of the enterprise to pay. The demands of the workers were met from the Treasury on an annual basis.

Caroni (1975) Ltd incurred deficits over the years 1978-1987 which were met by Government from the Treasury.

Table 6 shows the annual losses that were made by Caroni (1975) Ltd.

Table 6

Showing losses made by Caroni (1975) Ltd over the period 1978- 1987.

Year	Losses incurred in \$ T.T.mn.
1978	98.8
1979	109.3
1980	186.2
1981	290.7
1982	352.1
1983	359.6
1984	284.0
1985	258.0
1986	223.0
1987	221.0

The Government met the annual losses by way of loans and equity. It also provided the company with guaranteed overdraft facilities with the Commercial banks to meet its working capital requirements. It also provided a Government guarantee for the company to float a debenture which the banks and the Insurance Companies were able to hold in their portfolios.

Caroni (1975) Ltd also obtains advances on its sugar crop to provide funds to meet its working capital requirements.

Caroni (1975) Ltd makes losses annually on its sugar operations because the price of the finished product is controlled on the local market and by international agreement on the export market. These prices bear ^{no} relationship to the local cost of production.

The position is the same in the other agricultural enterprises which the Government owns.

Caroni (1975) Ltd has obtained a loan from the Caribbean Development Bank to finance its Rice expansion programme. The Government had to provide a guarantee for the loan.

Caroni (1975) Ltd is negotiating with other international lending agencies eg. Inter American Development Bank, The European Investment Bank, The Canadian Investment Development Agency (CDA) and the U.S. Commodity Programme for loans for financing its diversification project. In all such cases the Government has to provide its approval.

6.0.0 AGRICULTURAL DEVELOPMENT BANK:

6.1.0 The Agricultural Development Bank was set up in 1968 to replace the Agricultural Credit Bank, the accent being on development rather than credit. The Bank was set up to provide facilities to encourage and foster the development of agriculture and Commercial Fishing and industries connected there with.

6.1.1 The Bank is empowered to make loans for short, medium and long term. Short term loans do not exceed eighteen (18) months. Medium term exceeded eighteen (18) months but do not exceed ten (10) years and Long term loans exceed ten (10) years but do not exceed thirty (30) years.

6.1.2 During the period 1968 to 1987 the following were the limits to the loans which were approved.

Authority	Limit
Regional Managers	\$ 5000 and under
General Manager	\$ 5000 to 30,000
Board of Directors	Over \$ 30,000

6.1.3 In 1988 the limits were increased.

Authority	Limit
Regional Manager	\$ 50,000 and under
General Manager	\$ 50,000 to \$ 250,000
Board of Directors	Over \$ 250,000

6.1.4 The Banks customers are Individuals including companies and Agricultural Credit Societies. There are six regional branches and one head office.

- 6.1.5 The Bank is empowered to obtain capital from (a) Equity
(b) Loans from Government and other international lending agencies.
(c) Deposits and
(d) Bond issues.

- 6.1.6 To date the Bank has obtained its capital from (a) The Treasury
(b) Loans from the Caribbean Development Bank and other international
lending agencies.
(c) Equity from private share holders and the Government

One of the conditions of obtaining a loan during the period 1968-1987 was that the borrower had to own 5% of the value of the loan in shares. This requirement was removed in 1988 because the Bank was not in a position to declare any dividends during its lifetime and the indications were that it would not be in a position to do so in the near future, because of the rising cost of disbursing the many small loans.

- 6.1.7 During the period 1968 to 1988 the following interest rates were charged:

(i) For Individual Borrowers:

Three percent to borrowers with fifty (50) acres of land or less and/or farm assets of over \$ 100,000 and for all crops and livestock excluding sugar cane and broilers; and for purchase of small machinery, hand tractors and equipment, purchase of livestock, cattle, broiler/breeder, pigs, poultry (excluding broilers), sheep, goats, bees, crop husbandry practices, purchase of fertilisers, weedicides and pesticides, medication, veterinary services, livestock feeds, provision of water, electricity, irrigation systems for inshore fishing, and areas of production emphasized for special development by Government Policy.

6.1.8 (a) Six and Half Percent -6½% - Loans for broiler enterprises, sugar cane, land purchase, farm vehicles, farm buildings, tractors and trailers, agro industrial, infrastructural development, large fishing trawlers, refrigeration and storage equipment on land, purchase of A.D.B. shares, Payment of appraisal and legal fees, borrowers with over fifty acres and/or farm assets of over \$ 100,000 were not eligible to receive any part of their loans at 3%.

(b) For Agricultural Credit Societies - One percent (1%) For relending to members of the Agricultural Credit Societies at 3%.

Four and a half per cent - Directly to the Agricultural Credit Societies for construction of, and acquisition of buildings, land acquisition, purchase of tractors or transport vehicles, agricultural supplies for sale at the agricultural credit societies agricultural shops.

6.1.9 The following are the activities which the Bank can finance:-

- Crops - Cereals, sugar cane, honey pulses and nuts, roots and starches, tree crops etc.
- Livestock- Beef and Dairy cattle, sheep and goats, broilers, eggs etc.
- Fishing - Inshore and offshore, fishing , trawlers
- Forestry - Saw milling, logging, timber -plantation.
- Agro Industries - Food Processing, cold storage.

Land acquisition:

Marketing -

Farm Building -

Farm Machinery-

Farm Vehicles -

Infra structure Development -

Refinance of ADB loans and non ADB Loans.

6.1.9 cont'd: During the oil boom period i.e. 1975 to 1982 the Treasury provided substantial sums to the Bank for on lending to the farmers at low rates of interest. Many farmers borrowed from the Agricultural Bank at the lower rates of interest and channelled the funds into the manufacturing and construction sector. Land values increased rapidly during this period with the result that farmers were able to use the inflated values of their lands to obtain loans which were never used in Agriculture. Many farmers used the loans from the ADB to purchase land which was not really productive but only provided change of ownership. Table 5 shows the steady decline of production inspite of the large sums loaned by the bank as shown in Table 7.

Table 7-
Agricultural Development Bank
Total Loans made 1975 - 1986 - \$ T.T 000

Year	Total Value
1975	8,794
1976	22,159
1977	40,410
1978	60,464
1979	84,880
1980	87,721
1981	75,429
1982	96,239
1983	25,171
1984	34,122
1985	11,681
1986	25,480
	\$ 538,426

A total of \$ 538.4 million dollars was disbursed during the period 1975 to 1986. During this period there was a general decline in agricultural production inspite of the large disbursements of loans from the Agricultural Development Bank and the large amounts paid in subsidies and guaranteed

6.1.9 cont'd: prices. Land acquisition has occupied a prominent place among the activities of the bank. In 1987 seven (7%) percent of the total loan disbursed was used for land acquisition. Table 8 shows the various activities financed in 1987 with the percentage going to each.

Table 8. Loans approved by purpose in 1987 - \$ 000

Purpose	Amount	%
Boat	1,403	5.9
Boat accessories	161	0.7
Boat engine	587	2.6
Trawler	155	0.6
Farm machinery equipment	1,202	5.0
Farm vehicle	843	3.5
Farm building	3,757	15.8
Farm House	356	1.5
Green House	150	0.6
Land acquisition	1,677	7.2
Tractor	314	1.3
Liquidate Non ADB loan	1,046	4.6
Refinance ADB loan	3,189	13.9
Insurance	37	0.2
Shares	3	--
Infrastructure	469	1.9
Pasture	72	0.3
Draught animal	10	0.1
Purchase of stock	649	2.7
Establishment cost	3,018	12.7
Establishment/Maintenance	1,619	6.8
Maintenance	320	1.4
Rehabilitation	337	1.4
Rehabilitation/Maintenance	273	1.1
Harvesting	5	--
Operating Cost	2,030	8.6
Contingency allowance	21	0.1
Re lend to members	164	0.7
	<u>23,867</u>	<u>100.</u>

The bulk of the loans from the Bank in 1987 went to Boat 5.9%.
Farm machinery equipment 5%, Farm building 15.8%, Land acquisition-
7.2%, Liquidation of non ADB loans 4.6%, Refinance ADB loan 13.9%,
Establishment cost 3.8% and operating cost 3%.

- 6.1.10 In 1988 the Agricultural Development Bank varied its interest rate structure. The new interest rates were fixed in line with the going commercial bank interest rate. The new rates range from 10% to 12%. The limits that can be approved by the management have also been increased. (See 6.1.3)
- 6.1.11 The interest rate was revised upwards to prevent money that was approved for agricultural development should not be channelled into the other productive sectors. Credit policies towards the sector have tended to emphasise the use of concessionary interest rates on loans tied to land preparation and the purchase of capital and current inputs. Apart from the problems of administering large numbers of small loans (and the possible diversion of funds to other purposes) experience has shown that the level of interest rates is not the main constraint to the delivery of credit- especially to small farmers. More important is the timely delivery of funds with a minimum of bureaucratic procedures. This is the reason why the limits have been increased for the various levels of authority. Interest rate levels are of more importance to larger users of credit than they are to smaller users. A policy of subsidised interest rates can therefore lead to inefficiency in the use of credit by favouring larger users (who may not be the most efficient-users) and by possibly diverting such funds to non priority areas. Thus fund allocated to the agricultural sector can, through concessionary rates of interest have adverse effects on the viability of credit programmes and institutions leading to an inability to cover

6.1.11 cont'd: administrative costs and a dependency relationship with Central Government or external providers of aid.*

In the rural sector, there are several traditional means by which credit is delivered - with little reference to official interest rates. This suggests that borrowers also place some premium on the greater accessibility and the lack of interference involved in such transactions. Insufficient attention has been paid to the appraisal of traditional rural financial markets and to the design of programmes in support of their development.

* Demas.W. (1987) Agricultural Diversification in the Caribbean Community: Some issues.

6.1.12 The Agricultural Development Bank has been the major source of funds for the agricultural sector in the last fifteen (15) years. It has played a significant role in the development of domestic agriculture.

The total loans outstanding at the 31.12.88 was 206 million dollars. This sum is net of bad debts. Repayments of loans outstanding have not been in line with the disbursements.

The following is a comparison of loans repaid over the last five (5) years with loans disbursed.

Table 9 showing loans disbursed by the Agricultural Development Bank and the amount repaid over the period 1984-1988 in \$m.

Table 9

Year	Loans disbursed	Total amount repaid
1984	34.122	25.3
1985	11.681	27.1
1986	25.480	30.0
1987	23.880	25.7
1988	21.450	23.0

6.1.13 In summary the Government lends its own funds together with those obtained from other sources (eg. an international agency) to the Agricultural Development Bank which in turn relends the funds either directly to farmers or indirectly through co-operatives. The farmers use the funds to purchase productive inputs- fertiliser, seeds, pesticides, livestock, and machinery which are combined with family labour to produce more output. The additional output is sold and the proceeds are normally sufficient to repay the loan, yet leave the farmer better off. Depending on the pricing and interest rate policy adopted for the sector, the payments received from the farmers by the Agricultural Bank are adequate to cover administrative costs, to pay the interest on the Government loan and also to regenerate lending capacity.

6.1.14 The main criteria for the programme are:-

- (a) Their success in increasing production and farmers' incomes.
- (b) Their success in generating sufficient interest and repayments to meet institutional costs.

6.1.14 cont'd: (c) Their success in actually channelling credit to large numbers in that group.

The impact on production has not been quantified. The availability of institutional credit has undoubtedly helped to increase output. Regarding financial viability, the record is poor. The interest charged in the past has not covered the cost and many programmes have high over dues. Without subsidisation the Agricultural Development Bank would have collapsed. As for distribution, a substantial part of the institutional loans have gone to the medium and large farmers. Credit is an important tool in furthering development. But unless the recipient groups have profitable opportunities to invest in the sector; unless the programmes are well designed and administered, and unless great effort is made to hold down the rate of delinquency credit programmes will fail.

7.0.0 The Development Finance Company (D.F.C.)

7.1.0 The Development Finance Company was set up in 1970 by the Government of Trinidad and Tobago to finance mainly industrial projects.

However, it is not debarred from financing projects connected with agriculture either by itself or in consortium with the commercial banks of the Agricultural Development Bank.

It is concerned mainly with industrial projects and not with the production of agricultural crops and livestock. During the period 1970-1985 it provided a total of \$ 79,080,000 for food and food processing or 14% of its total loan portfolio and \$ 4,201,000 for fishing or 1%.

The Development Finance Company cannot be considered a major source of funding for the agricultural sector.

8.0.0 The International Lending Agencies

8.1.0 The International Lending Agencies viz. The World Bank, The Inter American Development Bank, The Caribbean Development Bank, The European Investment Bank and the International Finance Corporation are all interested in funding large Agricultural Projects. Before a project can be financed the Government must indicate that it has no objection to the Project. These agencies have not played a major role in financing Agricultural Investment in Trinidad. Most of their loans are for Government or Government sponsored projects. The Caribbean Development Bank has provided Capital to the Agricultural Development Bank for on lending to farmers and to Government sponsored projects.

The Caribbean Development Bank would only fund projects of a certain minimum size. Smaller projects are passed on to the Agricultural Development Bank.

9.0.0 Credit Union

9.1.0 The Credit Unions have provided funds mainly for short and medium term periods for its members. The loans are for working capital or for the purchase of capital equipment and machinery. The quantum is not large, but it constitutes a major source for credit for the members who do not have the necessary collateral to obtain funds from the other lending agencies. Furthermore, these loans are provided at reasonable rates of interest i.e. one percent (1%) per month on reducing balances. The loans are readily available and the cost of obtaining same are small. The main advantages are (a) the timeliness, (b) the cost and (c) lack of bureaucratic procedure. The available statistics do not indicate the amounts loaned annually for agriculture neither the total amount outstanding.

10.0.0 Agricultural Credit Societies

10.1.0 The Agricultural Credit Societies obtain their funds for lending from the Agricultural Development Bank at concessionary rates for on lending to their members. The loan is made to the Society and the members administer same. The loan is held jointly by all the members. These loans are usually for short and medium terms. The members consist of small farmers who do not possess good titles to their holdings and as a result do not qualify for loans in their own right. In Trinidad and Tobago and especially in Tobago many small farmers do not have proper titles to their holdings either in the form of registered deed or leases. The loan is supervised by the members. The members belong to a particular area and as a result know the individuals and can vouch for the amounts being borrowed. During the period 1969 to 1980 a total of \$ 26,365,300 was made to members of the Agricultural Credit Societies out of a total loan portfolio of \$ 313,610,000 of the Agricultural Development Bank (9%). Unfortunately no effort has been made to quantify the contribution that these societies have made to the total agricultural production.

11.0.0 Money Lenders, Shopkeepers, Friends and Relatives

11.1.0 The Money Lenders and Shopkeepers in the rural areas continue to provide credit to the small farmers on an instalment basis. The loan is provided during the off season and is repaid during the harvest period. In many cases the money lenders and shopkeeper look after the marketing of the crop and therefore are assured of repayment for they deduct the loan from the proceeds of the sale of the crop. Small farmers continue to use these sources inspite of the cost because of the timeliness and the absence of bureaucratic procedures.

In the country areas the out put of farmers is stable or expanding slowly and investment is low, not because farmers are too poor to save or interest rates too high to borrow, but because over time they have acquired the quantity of capital which is consistent with their technology and their holdings of land and labour. These farmers use the credit to regularly pay for their household requirements in the months before harvest. Most of these farmers borrow only when their crop has been poor or they are faced with an unusual expenditure, often for a family ceremony such as a birth, wedding or death.

11.2.0 Some of the borrowing is from other farmers, neighbours, friends and relatives who charge a nominal rate of interest but expect comparable financing should they find themselves in need of credit.

11.3.0 Exploitation of the small landless farmer is made possible by ignorance, by poor communication, by the absence of alternative lenders, by established trading patterns and by differences in economic and political power.

9.0.0 General Comments

9.1.0 Overall agricultural production in 1987 declined in most areas except milk production when compared with 1978.

The substantial injection of capital by the Agricultural Development Bank and the Ministry of Agriculture, Lands and Food Production during the boom period 1974-1982 laid the foundation for an increase in the agriculture sectors percentage contribution to the Gross Domestic Product over the period 1983 -87.

ECONOMIC GROWTH AND PERFORMANCE

Gross Domestic Product by Kind of Activity

Current and Constant Prices 1983-1987

9.2.0 The period 1983 -1987 was characterized by contraction in the Gross Domestic Product measured in both Current and Constant Prices.

9.3.0 Gross Domestic Product in nominal terms fell at an average annual rate of 3.0% declining from \$ 18,719.4 million in 1983 to \$ 16,571.5 million in 1987. There was a marginal increase of 0.6% in 1984, mainly due to an unsustainable expansion in the value added of the petroleum sector.

9.3.1 Real Gross Domestic Product decreased at an average annual rate of 5.6%, moving downwards from \$ 20,103.7 million in 1983 to \$ 16,185.8 million by the end of the period under review. While most sectors of the economy exhibited a pattern of declining value added, a few achieved positive growth, notably Domestic Agriculture and Electricity and water which grew at average annual rates of 3.3% and 4.6% respectively.

The pattern of negative growth displayed in this period was directly related to the fall in domestic crude oil production and to falling oil prices on the world market.

9.4.0 Sectoral Performance of the Economy, 1983- 1987

Agriculture

9.4.1 Over the period 1983 to 1987, the Agriculture Sector's percentage contribution to the total Gross Domestic Product (GDP) at current prices doubled, growing from 2.1% to 4.3%. The Gross Domestic Product in nominal terms increased from \$ 384.2 million in 1983 to \$ 719.9 million in 1987. The average annual percentage increase for the period was estimated to be 17.5%.

9.4.2 Within the agriculture sector, the Domestic Agriculture sub-sector was the most important contributor to Gross Domestic Product, accounting for an average annual contribution of 85.7% to the total value added of the sector. In 1983 and 1984 the Gross Domestic Product of the sugar sub-sector declined. However, growth was evident over the final three (3) years, 1985-1987, when value added increased significantly, surpassing export agriculture's contribution.

AVERAGE PERCENTAGE CONTRIBUTION OF EACH SUB-SECTOR
to THE AGRICULTURE SECTOR, FOR THE PERIOD 1983 -1987

	At current market prices	At constant market prices
Domestic Agriculture	85.7%	78.7%
Sugar	7.9%	15.5%
Export Agriculture	6.4%	5.8%

9.5.0 Export Agriculture

- 9.5.1 The Export Agriculture sub-sector, which comprises cocoa, coffee and citrus, witnessed an overall increase of 67.3% (in Gross Domestic Product) at current market prices, as value added moved from \$ 24.8 million in 1983 to \$ 41.5 million in 1987 at an average annual rate of 13.7%. Growth in real terms for the same period was 34.4%, and occurred at the rate of 7.7% per annum.
- 9.5.2 The year of most significant growth was 1984- 1985, when Gross Domestic Product increased by 52.8% in nominal terms, and by 41.1% in real terms. Mainly responsible for this was the record level of production in coffee beans, resulting from an increased labour supply and favourable weather conditions. Citrus production also improved significantly in 1985, due to the programme of rehabilitation in the industry and favourable weather conditions.

9.6.0 Domestic Agriculture

- 9.6.1 Growth in nominal terms in this sub-sector for the period 1983 to 1987 was 30.5% , at a rate of 6.9% per annum. Value added increased from \$ 371.3 million in 1983 to \$ 484.7 million in 1987. The corresponding growth in Gross Domestic Product at constant prices was 13.8%, at an average annual rate of 3.3%. Gross Domestic Product at constant prices was \$ 435.0 million in 1983, and \$ 495.1 million in 1987.

- 9.6.2 During the period under review, three (3) sub-sectors within Domestic Agriculture showed a considerable amount of dynamism. These were:

- (a) Rootcrops, Vegetables and Pulses.
- (b) Poultry and Eggs
- (c) Pork Fattening.

The respective percentage contributions at current prices over the period averaged 48.8% for Bananas and Rootcrops, and 20.0% for Poultry and Eggs. It should be noted that the performance of the meat sub-sector (which includes beef, pork and other meat) was heavily influenced by the performance of the pork sub-sector during the period.

9.7.0 Sugar

9.7.1 The sugar sub-sector declined in the first two (2) years under review. However, growth in nominal terms was evident over the final three (3) years of the period, taking place at the rate of 30.3% per annum. Overall growth for the three-year period 1985 to 1987 was 121.4%. The corresponding growth in real Gross Domestic Product for the three-year period was 17.4%, with an average annual rate of 5.5%.

9.7.2 Within the Sugar Companies Sub-sector, sugar refining accounted for most of the movement observed in the sugar industry. Since 1980, sugar refining has been showing a deficit. This deficit was so large in 1983 and 1984, that Gross Domestic Product at current market prices was negative. However, at factor cost, because of the subsidies given, a positive contribution was reflected.

10.0.0 Deficiencies in the existing system of financing agricultural investment.

10.1.0 The present system of financing agricultural investment in Trinidad and Tobago suffers from the following deficiencies.

- (a) The financial inflows are not sufficient to meet the demands of the agricultural sector which is the most risky. In fact there is a movement of funds from this sector to the other more profitable sectors viz construction and manufacturing.

- (b) Only a small percentage of the small farmers receive institutional credit. The remainder either do not borrow or are dependant for loans from money lenders or friends and relatives. The interest rates charged by the non institutional lenders eg. money lenders are usually higher than the institutional rate. There is no competition amongst the money lenders.

- (c) The funds provided by the institutions are not timely because of the bureaucratic delays.
- (d) Good collateral is demanded by the institutional lenders. Many small farmers do not have proper land titles and as a result are unable to borrow directly from the institutions eg. commercial banks and the Agricultural Development Bank. In many cases the lack of good track records amongst small farmers is a major stumbling block.
- (e) Farmers both large and small lack training in project preparation, implementation and evaluation. The services of consultants have to be obtained. These are costly, and in the long run add to the cost of financing.
- (f) The technology used by the small farmers is either stagnant or non-existent and this has an adverse effect on borrowing and development.
- (g) The absence of an adequate marketing infrastructure makes the investment in domestic agriculture unprofitable. Cheap food policy for the urban sector reduces the profitability of marketing additional output.
- (h) Lack of the necessary applied research in agriculture leads to the shortage of certain major inputs such as seeds and fertilisers.
- (i) Lack of adequate complementary services such as extension, availability of inputs and proper processing facilities, all add to the problem of financing agricultural development.
- (j) Failure of farmers to repay their debts on time or even to repay them at all is a serious problem in Trinidad and Tobago for the institutions owned and operated by Government. The main reasons for the over dues are:-
 - (1) failure of the farmer to use borrowed funds for productive purposes.
 - (2) adverse outcome from the investment eg. bad harvests, natural disasters, drop in farm prices.
 - (3) some loans have been made on the basis of unrealistically favourable assumptions about the probable results. At other times the terms of the loans were ill suited for the purpose for which they were issued eg. short term loan for medium term activities.
 - (4) some farmers are unwilling to repay public sector loans because they have the impression that such credit is a gift made to ensure their loyalty and future support. This situation is compounded when there is failure by the institutions to impose sanctions on the debts when they become over due.
- (k) The credit is not supervised sufficiently with the result that funds borrowed for agricultural development find their way for other purposes.
- (l) Lack of agro processing facilities and export markets for food crops prevent additional quantities being sold by the small farmers.

11.0.0 Scope for financing agricultural Investment in Trinidad and Tobago.

11.1.0 The agricultural sector in Trinidad and Tobago has benefited from the boom period in the oil industry during the period 1975 -1982. However, the development has not been well organised because of the lack of an integrated policy for development of the sector.

There is scope for rapid development if the economy is to move away from its main dependance on oil.

In order to develop the agricultural sector in the future the Government will have to pursue an integrated policy for development of the sector.

11.1.1 In the first place credit programmes for large farmers should be separated from those of small farmers. The basic principle behind lending to large farmers should be essentially commercial and allocation of resources to large farmers should be made only if the opportunities they face are more productive than those which can be found in other sectors of the economy. Large farmers programme should be expected to operate according to basic commercial principles, to charge realistic rates and achieve financial viability. Where private financial institutions are adequate they should be used to finance commercial agriculture.

The commercial banks should be encouraged to innovate and to move away from their traditional orientation of lending almost exclusively to trade and to large industry, through persuasion, preferential rediscount rates employed on a temporary basis to familiarize commercial banks with agricultural lending.

11.1.2 The aim of the credit package for the small farmer should aim at providing the credit at reasonable cost and to provide the credit to those small farmers with productive accessibility investment opportunities. The credit programme should provide the following:-

(a) The credit institution must be accessible to the small farmers. The branch offices should be developed in conjunction with co-operatives and field agents. The mobile unit should also be used in the remote country area.

(b) Packaging

Credit alone is of little consequence. In order to increase small holder productivity it must come with proven new technology and timely supply of inputs.

(c) Distribution in Kind

This has proved to be the most effective means of delivering productive credit to small farmers. Even for livestock it has proved to be worth while.

(d) Timing

Especially when credit is provided in kind it is vital that inputs be made available when they are needed. Since small holders can seldom provide adequate storage, too early delivery often results in losses and wastage of inputs such as seed and fertiliser. Too late delivery in terms of seasonal requirements is of course pointless.

(e) Selection

Small holder borrowers should be chosen on the basis of credit worthiness, just as for any other borrower, but the appropriate criterion for assessing credit worthiness must be different. Three things are important. They are (i) the reputation of the individual within his community.

(ii) the technical feasibility of the proposed investment or the context of his farm situation and

(iii) the expected cash flow that is generated by the investment.

(f) Individual Liability and Group Responsibility

While loan repayment should be assessed in relation to his expected repayment ability, there is a strong sense of community in the rural areas which can be used effectively to reinforce the honest performance of individuals. If transactions are made in public for all to see, (quite the opposite of conventional financial practice) - and the whole village or co-operative or credit society made aware of the possible implications of an individual default (either in damage to their reputation or some form of penalty) group responsibility can become an important influence in ensuring repayment.

(g) Control

It is unreasonable to expect people with no knowledge of financial practices to suddenly conform to institutional lending regulations. Payments and repayments need to be scheduled to meet the liquidity shortage and surplus as it arises.

(h) Flexibility

This is necessary to permit the rescheduling of loans in times of crop failure or other unexpected events. Often individuals' circumstances change and they require some adjustment on the part of the programme. There are many things that can go wrong in any programme and these increase as the complexity or required precision of the scheme increases. Flexibility in lending criteria is also essential since no two communities or farmers are alike.

(i) Continuity

The failure of many programmes to continue past a pilot stage of a single year is so often leaving slow repayments outstanding encourages mistrust and poor discipline. Continuity of services is essential for success of a programme.

(j) An open ended approach

Since programmes need to be tailored to meet local conditions, no fixed prescription can be set down. A step-wise process of trial and error is necessary beginning with a simple package and small numbers of borrowers, then consolidating and subsequently replicating the programme to reach the whole target group.

But an open ended approach is also needed because agricultural modernisation is a continuing process. Just as in Western agriculture we can expect each new round of technical innovation to require

* increased amounts of capital

(j) cont'd:- It is unlikely that a single injection of credit will ever create sufficient liquidity to make continuing modernization self sustaining. Thus financing programmes should be planned so as to provide for their continual adjustment and evolution.

(k) Provision of Complimentary Services

To make a credit programme a success the government must provide the complementary inputs that the market system or others do not provide, or provide but poorly. Usually various specialised agencies provide these ancillary services. The package approach is to be preferred in that it provides the farmer not only with credit but all of the ancillary services he requires, even though some of the benefits of specialisation are lost. The most common ancillary service provided and financed by credit agencies is farm supervision. The degree of supervision varies widely covering the range from the simple provision of basic crop information to the specification of inputs sometimes provided in kind to prevent the misuse of loans, to almost complete control of the farm operation by supervising officers. Improved supervision can encourage the effective use of credit.

Systems Approach

The systems approach necessitates proper attention to all aspects of the specific agricultural activities being financed. For instance, financing of a fishing boat will prove productive only if marketing outlets, transportation facilities, cold storage etc. are assured. Similarly where the farmer produces for the market he must be assured of facilities to enable smooth marketing of his crops. He should not be expected to do his own marketing in addition to growing. Thus, the banker ought to have an integrated approach to assist the borrower in all related aspects of his activities if the latter is to enjoy a rise in his standard of living any other approach is likely to end up in a bad debt.