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**SMALL FARM
FINANCING IN
GUYANA 1968 – 1970**

GLADSTONE LEWARS

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SMALL FARM FINANCING IN GUYANA 1968-1970

This book tests hypotheses dealing with the nature and significance of agricultural finance among 484 small farmers with special reference to the period 1968-1970. The aim of the study was to provide solid data on the problems of financing small-scale agriculture in Guyana.

This is one of the series of studies which have been undertaken under the programme of Regional Monetary Studies.

**INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH
UNIVERSITY OF THE WEST INDIES, JAMAICA**

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UNIVERSITY OF THE WEST INDIES, JAMAICA
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This is the sixth of a series of studies that have been undertaken under the programme of Regional Monetary Studies. This programme has been financed by the Central Banks of the Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago, the Eastern Caribbean Currency Authority and the Monetary Authority of Belize. The programme is being undertaken on a collaborative basis by the Institute of Social and Economic Research, University of the West Indies and the Department of Economics, University of Guyana and is designed to carry out a wide variety of investigations on monetary and financial matters in the region.

In the best academic tradition, our sponsors, while participating in decisions about the planning of the programme, have not attempted to influence the conduct of the research or the conclusions drawn, which are those of the authors alone.

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CHAPTER ONE

INTRODUCTION AND SCOPE OF STUDY

INTRODUCTION

The problems peculiar to small farmers in Guyana have not been studied in detail, despite the long history and importance of this group to the economy.

While it is recognized that major deficiencies exist in marketing, financing and other complementary inputs required to transform peasant economies into viable units, the literature on small farming in Guyana has been primarily concerned with the global problems of those farmers arising from their relationships with plantations. Accordingly, it can still be argued that little is known about the specific nature and problems of factors such as finance and marketing facing the small farmer.

The Government has established various agencies ¹ to deal with the major deficiencies which are recognised. The institutionalization of such agencies has in all cases, however, preceded the basic prerequisite for their success: a full understanding of the nature of the economic behaviour of small farmers, which can only be obtained from empirical research. Our study on Small Farm Finance in Guyana must therefore be seen in the context of a modest attempt to fill the gap which now exists in this extremely important area.

The project is largely an empirical one based on a survey carried out in 1971 among 484 small farmers (under 50 acres); ² the purpose has been to test a number of hypotheses on the nature and significance of agricultural finance among the sample population with special reference to the period 1968-1970. These hypotheses, ³ summarized below are based on the view that in spite of the importance of agriculture in Guyana, the financial facilities afforded to that sector are not commensurate with its importance.

Hypothesis 1: The volume of institutional credit extended to the agricultural sector is small.

Hypothesis 2: The greater their wealth, the higher and more stable their incomes, the higher the level of their education, the more likely it will be for farmers to obtain loans from the institutional credit market.

Hypothesis 3: The greater part of agricultural credit is by non-institutional lenders, notably professional moneylenders, traders and shopkeepers.

Hypothesis 4: Non-institutional lenders impose less stringent loan and security conditions.

Hypothesis 5: The price of non-institutional credit is too high.

Hypothesis 6: The non-institutional credit market though highly differentiated with respect to types of lenders is highly monopolistic.

Hypothesis 7: There is discrimination in favour of certain types of crops, specifically export crops, by institutional lending agencies.

Hypothesis 8: The volume of internal finance is low and consists essentially of farm savings.

Hypothesis 9: The volume of farm savings is primarily determined by the level of farm income.

Hypothesis 10: There is significant utilization of hire-purchase and other credit-sale facilities provided by retail firms or other rural agencies for the purchase of agricultural equipment and supplies.

In this respect, the data collected revolved broadly around the following areas:

1. External Finance obtained 1968-1970, in annual totals and disaggregated with respect to types of sources.
2. Internal Finance, 1968-1970 in annual totals and disaggregated with respect to sources, mainly savings and tax concessions.
3. Farm Incomes, Expenditures and Taxation.
4. Utilization of Credit Sale facilities.
5. Loan Rates of Interest, Repayment Periods, Collateral Required and Supplied.
6. Purposes of Borrowing.
7. Assets of Farm Units.

Information was also collected on several background aspects of farming behaviour, especially information on the level of farmers' education and training, size distributions, and distributions by farming activity. (See Appendix II for the Questionnaire).

The original sample of 1,062 farmers represented 3 per cent of the total

number of small farmers in Guyana in 1968, the year of the Agricultural Census. The small response from this sample has therefore limited the scope for generalizing our conclusions to the entire small farm population in Guyana. The striking similarities of most farmers interviewed in terms of their education, income and land size, would suggest, however, that those farmers were broadly representative of the total small farm population.

The information obtained seems for the most part reliable, although for a number of sample units less accurate data appear to have been given, particularly with respect to assets, where a physical check by enumerators on the information supplied was possible. It should be expected also that few farmers would be able to give detailed accounts of income derived, expenditures, and commodity credit obtained, over a three-year period. We must also note that additional information such as the terms of loans granted by certain informal lending agencies such as moneylenders, pawnbrokers and relatives was not obtained. This absence was the result of an oversight on the part of those who designed the survey. It was possible, however, to use secondary source material to provide us with some idea of the importance of these lending agencies.

OUTLINE OF STUDY

The remaining sections of this chapter will be concerned with a review of the literature on Agricultural Finance in Guyana, and a description of the main types of farming activity among the districts covered in the survey. In Chapter Two, the importance of agriculture to the economic development of Guyana is examined. Social and economic characteristics of the farming population and their relationships to the needs and demands for credit are also considered. Chapter Three considers the levels of capital expenditure undertaken by farmers and the role of savings as a means of financing expenditures. The next chapter analyses the importance of formal lending agencies as suppliers of credit to the farmers in the study. The terms of loans granted by these institutions are examined in detail. Chapter Five is similar to Chapter Four, but focuses instead on the importance of informal lending agencies as suppliers of credit. This chapter includes an examination of the importance of commodity loans. Finally, the conclusions arrived at in the study are summarized and their implications for the development of small farming are discussed.

REVIEW OF THE LITERATURE ON AGRICULTURAL FINANCE IN GUYANA

Information on agricultural finance in Guyana has been limited and scanty. Most of the information existing has been based on studies done primarily among sugar plantations and to some extent rice farmers, while no literature exists on credit to producers of other non-plantation commodities, especially livestock farming, shrimping and fishing and the types of crops normally produced by small farmers.

Although it is clear that a general level of ignorance prevails with respect to agricultural finance among small farmers, statements are made suggesting that these farmers are in dire need of credit, being heavily indebted and victims of rapacious moneylenders. Thus, for example, Liverpool [28 p. 3] noted, "It is disappointing but not surprising to learn that even today, small farmers in the rural areas of Guyana are still being exploited by moneylenders". Such statements have, however, been influenced by general empirical findings on other Less Developed Countries and by individual observations. In the absence of Caribbean empirical studies and the paucity of data on these issues an empirical study on these matters becomes important.

The studies on credit to rice farmers and sugar plantations have concentrated on examining the sources from which such credit is obtained.⁴ Information in this respect has, however, been confined to agencies where readily available data exist — commercial banks. Despite the limitations involved in such studies which consider only one credit agency, the conclusions arrived at are invaluable. It is pointed out, for example, that producers of other crops have been excluded from the lending operations of the commercial banks, and explanations for such loan patterns have been advanced. These include first, the absence of required securities by farmers to obtain loans from commercial banks. On this issue, the lack of proper legal titles to land, and little or no mechanical equipment have been suggested as some of the factors militating against the farmers' ability to borrow from banks. The second reason given is that the traditional short repayment period offered on loans by these agencies does not match the requirement of farmers for long and medium term credit. Thirdly, it is suggested that because sugar and rice are less risky since they have adequate and certain market arrangements, commercial banks have always preferred lending to these sectors.

These studies, however, seem inadequate for our purpose because no in-depth analysis of the terms of loans granted by the lending agency is made. Not only should the volume of loans extended to those sectors be examined but, equally important, the terms under which such loans were contracted. The importance of such information is that it sheds light on the stringency of loan conditions often reported to exist in the lending arrangements of commercial banks to farmers.

A second failing of these studies is that they have not considered alternative sources from which rice and sugar cane farmers may obtain credit. Their concentration on commercial banks narrows any inference or conclusion that we may wish to draw about the nature of agricultural finance. Perhaps a more fundamental shortcoming of these studies is that there is no consideration of factors determining the demand for credit. The importance of this is that a low volume of credit supplied by banks may perhaps be the result of low levels of demand rather than constraints on the supply side as is implied by these studies.

DESCRIPTION OF DISTRICTS

The farmers interviewed were categorized by administrative districts where

the farms were located. The advantage of this stratification as pointed out by Bourne [9 p. 4] in the Preliminary Report of the survey is that it has "the merit of capturing within a relatively small sample the uniformity and diversity of farm behaviour in Guyana . . . where there is impressionistic evidence of geographical concentration of certain agricultural activities". An alternative approach would have been to categorize farmers by the types of crops grown. However, because crop specialization was not predominant and farming activity was of a mixed variety, we did not consider this approach worthwhile.

The study originally intended to cover 10 districts but some respondents either refused to co-operate or some farms proved inaccessible. This low rate of response affected all districts but was heaviest in West Berbice and Demerara River. Consequently, it was decided to delete them from the analysis. A brief description of the districts covered is given below. Their geographical position is implicit in their names.

West Bank Demerara

Sixty-two farmers were interviewed in this district where a variety of farming activities are carried on. Ground provisions and rice were the most important crops grown although other farming activities such as vegetable growing and poultry rearing were not insignificant. Soils in this area are varied but mainly infertile, being composed of white sand and peat. Soils parallel to the Demerara River consist of clay which, unless drained, is infertile. The factor of infertile soils seems to contribute significantly to the situation where 80 per cent of the farmers had annual farm incomes of less than \$500⁵ for the years covered by the survey.

West Coast Demerara

This district is situated along the coast to the west of Georgetown. The soils in the region are composed primarily of clay and are considered good if drained. Fifty-nine farmers were interviewed of which 40 stated that the main crop grown was rice. Ground provisions were next in importance. Other farming activities were insignificant. Forty per cent of the farmers had farm incomes of less than \$500 for the years covered by the survey.

Essequibo Coast

Farming activity in this district is concentrated on the production of rice and ground provisions, the former being predominant. Other crops are not insignificant, however, as 30 per cent of the farmers cultivate three or more crops. Soils in this district are similar to those in West Bank Demerara, worsening in quality as the area extends inland from the coast. Fifty-three per cent of the 85 farmers interviewed had farm incomes of less than \$500.

Essequibo Islands

These islands are located at the mouth of the Essequibo River. The cultiva-

tion of rice and ground provisions is the main farming activity although vegetable growing and poultry rearing are important. The brown and sandy soils of this region are infertile, but, if properly fertilized they can become productive. Twenty-five farmers were interviewed in this district and 50 per cent of them reported annual farm incomes of less than \$500.

East Bank Demerara

Thirty farmers were interviewed in this district. Semi-subsistence farming seems predominant as over 80 per cent of the farmers indicated that more than four crops were planted. Concentration on rice cultivation is, however, prevalent. Clay soils exist in this district, but as was noted earlier, can become fertile if drained. Seventy per cent of the farmers reported an average farm income of less than \$500.

North West District

This area consists mainly of loamy soils, white sand and patches of stony soils. Twenty-one farmers were interviewed, the majority of whom concentrated on the cultivation of ground provisions and citrus. Thirty-eight per cent of those farmers indicated that their farm incomes were below \$500.

East Coast Demerara

Mixed farming activity is practised in this district as 31 per cent of the farmers concentrated on rice farming, 27 per cent on vegetables and 12 per cent on the rearing of dairy cattle. It is interesting to note that this is the only district where dairy farming plays an important role in the livelihood of the small farmers in the survey. This may be due to the close proximity to Georgetown where a market for milk and milk products exists. Soils in the region are good if drained, 30 per cent of the 134 farmers interviewed reported incomes of less than \$500.

East Berbice

The main farming activity in this district is rice. Vegetables and ground provisions are also important. Seventy-eight farmers were interviewed and over 75 per cent reported that their farm incomes were below \$500. Like most districts along the coast, the soil is good if adequate drainage is provided.

FOOTNOTES

¹We may include here the Guyana Marketing Corporation, the Guyana Credit Corporation, the Guyana National Co-operative Bank and the Guyana Rice Development Board.

²The original sample was 1,062, but the majority of sample units were either inaccessible or refused to co-operate for a variety of reasons. A brief description of the survey design is contained in Appendix II.

³For a more detailed description of these hypotheses, see C. Bourne [9].

⁴For a discussion of these see C.Y. Thomas [48], C. Bourne [10] and A.L. Jolly [24].

⁵We have used \$500, the national per capita income of 1968 as an index to indicate general levels of poverty.

CHAPTER TWO

AGRICULTURE AND SMALL FARMS IN GUYANA

AGRICULTURE AND ECONOMIC DEVELOPMENT

One of the most striking characteristics of Third World countries today is the predominance of the agricultural sector in those economies in terms of its contribution to Gross Domestic Product and employment. It is within this framework, therefore, that one has to recognise the important contribution that agriculture must make in the economic development of the less developed countries. This has already been well documented in the literature [Johnson and Mellor 22; Beckford 3] hence our treatment of the subject will be brief.

Perhaps the fundamental role that agriculture has to play in economic development is in the expansion of local food supplies. This becomes important because as economic development proceeds there is a substantial increase in the demand for agricultural products. A failure to expand food supplies might impede economic development, as it results in either an increase in imports and loss of foreign reserves or increases in food prices. Not only should the quantity of food supplies increase but the nutritive value of food must also be improved. This requires a shift from the production of starchy foods such as tubers to more protein-enriched types such as meats.

A somewhat related field of importance is the role of agriculture as an earner of foreign exchange both directly in the form of exports and indirectly in the reduction of food imports. The earnings of foreign exchange can allow for purchase of much needed capital goods not produced within the economies to enhance further economic growth.

Another important role that agriculture must play in economic development is the linkage effects that it can create within an economy. Consequently, there

is great scope for agriculture to serve as a catalyst in generating increased incomes and employment by forward and backward linkages. Thus, for example, the expansion of a particular agricultural commodity will increase the demand for certain complementary inputs such as fertilizers, pesticides, and machinery, hence provide increases in employment and income. Likewise, forward linkages can be created because as Beckford [3 p. 190] noted, "All primary production requires some kind of product elaboration before reaching the consumer", with similar increases in income and employment as in the case of backward linkages.

Finally, agriculture is expected to make a net contribution to capital investment for infrastructure and the expansion of secondary industries indirectly by way of taxes or directly by transfer of capital to other sectors.

THE PLACE OF AGRICULTURE IN GUYANA'S ECONOMIC DEVELOPMENT (1960-1970)

A cursory review of the agricultural sector's performance in the Guyanese economy would indicate the lack of dynamism within the sector which does not enable it to contribute in any significant and meaningful way to the economic development of the country. This arises from historical circumstances rooted in slavery and the present control of available resources by foreign-dominated companies. Both of these aspects have been covered most adequately in the literature and would therefore require no elaboration. Our concern instead will be to analyse the performance of the agricultural sector in terms of the criteria listed above.

The failure of the agricultural sector to expand food supplies to match existing demand is reflected in the high quantity of food imports. Between 1960-1970 food imports increased at an annual growth rate of 5 per cent, while the expansion of domestic food production grew at the rate of only 1 per cent. This imbalance has been a direct consequence of the economy's specialization in two crops, sugar and rice, primarily for exports. Of a total contribution by the agricultural sector of 17.1 per cent to the GDP in 1966-1970, these crops together provided 72 per cent of that figure.

Minimal linkages have been created by the agricultural sector. This has been so for both the plantation (sugar) and non-plantation crops (rice, ground provisions and vegetables), but for different reasons. In the case of non-plantation crops, including rice, the poverty of small farmers and the stagnation of those sectors has resulted in little use of complementary inputs which could provide a basis for expansion and development of backward linkages. Similarly, by virtue of small farmers having to process, store and market most of their produce, the potentials in creating forward linkages have not been realised.

The relatively high technological operations in the sugar industry provide the opportunity for the development of forward linkages in terms of shipping, packaging and distribution and backward linkages in terms of machinery and fertilizer. The nature and the ownership of the sugar industry by foreign multi-

national corporations have meant, however, that whatever linkages are created are utilized primarily by those firms.¹

Although rice and sugar provide valuable foreign exchange (30 per cent of the total export earnings in 1970), their contributions are insufficient in terms of the economic costs the people of Guyana are asked to bear (see below). In addition, their performances over the past decade in terms of aggregate output and contribution to government revenue have been extremely disappointing [Plan 43].

The predominance of these two crops is attributable not only to historical development as one is sometimes led to believe but also to the policy priority given to them by the government. Thus, the F.A.O. report to the government in 1963 [18 p. 5] stated in reference to rice, "Although in 1960-1961, British Guiana exported \$15m of rice, it spent \$8m on the purchase of farm equipment . . . and it also imported foodstuff for a much larger amount, at least \$21m, therefore priority given to rice which brings in such low returns for the last 50 years seems excessive and economically dangerous to the country's future".

Agricultural policy was directed mainly at developing the rice industry. As David [17 p. 89] pointed out, of \$63.7m spent on agriculture by the government between 1961-1964 only \$7.8m went to agriculture proper and \$49.1m to drainage and irrigation, primarily for the benefit of rice farmers. In reviewing the Guyanese economy over the period 1960-1970, the authors of the Second Development Plan conclude likewise. Thus, the Plan [43 p. 20] states, "Investment in infra-structure by the government has been aimed largely at increasing rice production".

While such expenditures can be justified in terms of the topography of the country, what is of vital importance here is the fact that such expenditures have not proved beneficial in terms of output and total earnings of the rice sector. Between 1960-1970, a capital-output ratio of 5:1 was attained for the whole agricultural sector [43 p. 18]. If we take cognizance of the fact that the majority of capital expenditures went to the rice industry and that total output within that sector has been disappointing, then the conclusion is arrived at that the capital-output ratio for the rice industry was substantially higher than the national capital-output ratio. Table 2:1 illustrates the minimal secular growth of rice earnings between 1960-1970.

Unlike rice, sugar is owned and controlled by large multinational corporations. The implications of this and their relationships to economic underdevelopment have been examined in detail elsewhere.² The salient factors are: (a) profits are repatriated; (b) the linkage benefits created are creamed off by those firms; (c) the low skill content involved in plantation work is not conducive to the diffusion of necessary technical skills among the population. It is important to consider as well indirect subsidies given to sugar by the government, such as the government bargaining for associated status in the European

TABLE 2.1 EXPORT AND DOMESTIC SALES OF RICE (IN G\$m)

Year	Export Sales	Domestic Sales	Total Sales
1961	18.2	4.4	21.6
1962	22.4	4.6	27.0
1963	21.4	4.9	26.3
1964	23.4	4.3	27.3
1965	24.1	2.7	26.8
1966	22.9	2.9	25.8
1967	23.9	2.7	26.6
1968	27.8	2.6	30.4
1969	18.8	2.8	21.0
1970	19.2	3.2	22.4

Source: Annual Statistical Abstracts of Guyana 1971.

Common Market primarily in the interest of sugar. Another indirect subsidy given was the 270-mile highway built along the coast primarily to facilitate the further development of the sugar industry. The expenditure on this highway could have been used to further communications links with the interior to develop unexploited resources such as forests and hydro-electricity.

One direct consequence of the over-importance attached to the two predominant export crops is the marginal achievements in 'other' food crops. The low volume of credit extended to those sectors by government lending agencies and in the marketing arrangements of those crops bear witness to their neglect. As Phillips [38 p. 13] noted, "In the field of marketing, if we omit such agencies as the Guyanese Marketing Corporation, marketing is nobody's business and therefore both the farmer and the consumer suffer and with them the agricultural development of the country". From Table 2.2, which describes the output of some of the major agricultural crops between 1960-1970, the relative stagnation of the agricultural sector becomes obvious. Production in several crops has declined over the period.

We must note, however, that the under-emphasis placed on other crops by the government is not the sole or primary reason for the failure of production in those crops. More important, perhaps, are structural problems inherent in the agricultural sector. Some of these problems are examined below.

SOME SOCIAL AND ECONOMIC CHARACTERISTICS OF THE FARMERS IN THE STUDY

This section seeks to examine some social and economic characteristics of the farming population obtained from the study. Apart from providing insights into the failure of the agricultural sector, such information will also provide important perspectives for the main body of the study. Although these features are inextricably tied and related to foreign penetration this aspect has already

TABLE 2.2 PRODUCTION OF SOME IMPORTANT AGRICULTURAL CROPS (1961-1971)

Crop	Unit	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Sugar	Tons	324,745	326,023	317,137	258,378	309,445	288,869	343,922	316,848	364,465	311,149
Rice	"	124,023	129,924	102,884	155,926	164,902	159,408	126,915	136,690	110,857	142,286
Coconut	'000 Nuts	52,938	49,376	45,910	53,026	35,561	43,986	36,257	55,206	60,805	50,000
Citrus	'000 Lbs.	20,800	24,986	17,909	25,323	27,000	18,603	20,000	20,759	21,840	18,300
Coffee	"	1,000	1,001	1,452	2,489	2,549	2,473	2,843	2,870	1,506	1,400
Cocoa	"	331	375	382	393	400	360	65	65	66	58
Ground Provisions	"	131,700	130,983	71,272	83,120	73,500	49,980	41,000	43,725	52,941	56,632
Plantains	"	62,000	65,734	38,909	45,645	51,900	62,280	52,413	47,320	48,861	51,304
Bananas	"	n.a.	n.a.	10,794	10,947	9,788	11,245	11,670	11,275	12,685	12,685
Corn	"	1,190	1,890	1,938	2,721	3,060	2,387	2,766	2,990	3,897	4,100
Cabbages	"	n.a.	120	419	321	385	484	464	585	699	650
Black-Eye Peas	"	n.a.	n.a.	135	246	198	178	165	175	271	340
Pineapples	"	n.a.	n.a.	3,411	4,105	3,220	3,636	3,844	2,803	2,981	2,800
Tomatoes	"	n.a.	n.a.	408	1,211	1,523	1,800	3,102	3,048	3,143	3,500

n.a. - not available

Source: Annual Statistical Abstracts of Guyana 1971.

been thoroughly researched, by Beckford [3] and others, and will not be discussed in the present study.

Size of Holdings and Land Tenure

The uneven and unequal distribution of farm acreage in Guyana, reflects a most fundamental characteristic of the agricultural sector and presents one of the most formidable problems facing that sector. The Draft Report of the Second Development Plan [43] has emphasized the fact that the uneconomic size of holdings and poor quality of the land have limited the capacity of small farmers to expand production significantly.

The government's policy in this area has been to increase the size of farms, not by structural land reform, but by bringing new areas of the coastal belt under cultivation. Such expansion, however, has not significantly increased acreage per farm. Thus Phillips [38 p. 3] writing in 1968 noted, "... so far as average size of holdings is concerned, the situation has not improved significantly since the previous 1953 census" where 55 per cent of the farms were less than five acres.

The uneconomic size of farms in Guyana was clearly brought out in the survey as is obvious from Table 2.3 which illustrates the frequency distribution of farm size by districts. For the entire sample 63 per cent of the farmers operated farms of less than five acres. This picture is broadly representative of individual districts. Corresponding estimates range from 47 per cent in Essequibo Coast to 92 per cent in West Bank Demerara.

TABLE 2.3 SIZE DISTRIBUTION OF FARMS BY DISTRICTS

Size of Holdings	West Coast Demerara	West Bank Demerara	North West District	East Bank Demerara	Essequibo Coast	Essequibo Islands	East Coast Demerara	East Berbice
0 - .99	18.4	38.7	4.8	33.3	11.5	0.0	42.3	18.4
1 - 4.99	35.5	53.2	57.1	33.3	35.4	68.0	31.7	35.5
5 - 9.99	17.1	0.0	19.0	27.8	26.0	20.0	10.6	17.1
10 - 19.99	23.7	4.8	14.3	5.6	24.0	12.0	8.9	23.7
10 - 49.99	5.3	3.2	4.8	0.0	3.1	0.0	6.5	5.3

Co-operatives and rented land were unimportant, comprising only 2 per cent of the total number of farms. Twelve per cent of the farms were family owned and 86 per cent owned by the farmers. The significance of this land tenure pattern and its relation to credit is complex. On the one hand, the landlord-tenant type of tenure is not conducive to the expansion of agricultural credit for productive use because of the insecure hold the tenants have on the land. On the other hand, while the ownership of land by the farmer or his family provides a more favourable climate for productive use of agricultural credit, other economic and social factors influence the farmer's decision to obtain credit. These factors will be examined in detail in the section following.

Incomes of Farmers

One characteristic feature of peasant farmers is that they are semi-subsistent in their operations. Accordingly, any information on incomes must be viewed with scepticism as it does not reflect entirely the value of total output produced.

Sixty-two per cent of the farmers in the study had annual farm incomes of less than \$500 – a level below the national per capita income of \$520 in 1970. Such low levels of income must be partially explained by the small land base of the peasant. An increasing number of farmers, however, sought and found employment elsewhere. Total income accruing to farmers, therefore, was much higher than farm incomes; only 50 per cent of the farmers obtained total incomes of less than \$500. This is illustrated in Table 2.4.

For the districts taken aggregatively, 37 per cent of the farmers in 1970 obtained income from work off the farm. This represented a seven per cent increase over 1968.

TABLE 2.4 PERCENTAGE OF FARMERS WHO OBTAINED INCOME
FROM WORK OFF THE FARM

Districts	1968	1969	1970
West Bank Demerara	21.0	21.0	22.6
West Coast Demerara	44.6	50.0	50.0
Essequibo Coast	31.2	32.3	35.4
Essequibo Islands	44.0	48.0	56.0
East Bank Demerara	77.8	77.8	77.8
North West District	28.6	28.6	28.6
East Coast Demerara	27.6	29.6	27.6
East Berbice	<u>43.4</u>	<u>43.4</u>	<u>43.4</u>
All Districts	<u>34.7</u>	<u>36.1</u>	<u>37.0</u>

The incidence of off-farm work was not uniform over the country, being relatively greater in East Bank Demerara, East Berbice, West Coast Demerara and Essequibo Islands, where crop specialization in rice was frequent. The seasonal nature of that crop would therefore necessitate work off the farm to supplement farm incomes. In addition, estimates of net returns to rice farmers by the Ministry of Agriculture suggest that incomes to those farmers are low. A survey conducted among 40 rice farmers in East Coast Demerara, East Berbice and West Coast Demerara by the Ministry of Agriculture, established that average net return per acre was only \$9.29 [Singh 46]. When this finding is taken in conjunction with the small size of farm holdings, the necessity to seek work off the farm is appreciated.

Levels of Education

Education becomes an important variable in the development process because of its influence on the ability and willingness of farmers to discover and apply technological changes conducive to increases in output. As Mellor puts it [31, p. 345], "All elements in the development complex are based on improvements in the labour force which are in turn, the product of education".

The study revealed a high rate of illiteracy among farmers not only in terms of formal education, but also in terms of training in farm management and practices. Table 2.5 illustrates the former.

TABLE 2.5 PERCENTAGE FREQUENCY OF LEVELS OF EDUCATION AMONG FARMERS FOR ALL DISTRICTS

Levels of Education	Percentage
0	12.1
1-2 Grade Primary School	12.1
3-4 " " "	31.1
5-6 " " "	40.8
Secondary	3.9

One quarter of the farmers – those receiving no education and those who attained only a second grade education – could be classified as illiterate. Thirty-one per cent reached a level of either the third or fourth grade and could be classified as semi-literates. Forty-four per cent could be classified as being literate, attaining levels of education above the fourth grade.³ Less than two per cent of the farmers received training in farm practices and management.

It should be noted here that it is quite possible that a number of farmers who attained the level of third grade and higher could over time become func-

tionally illiterate, if no further contact with literary work is made. Also, the possibility exists of farmers reaching the sixth grade without being able to read or write. We were not able to ascertain the extent to which the above two factors existed. What seems likely, however, in the light of what was noted above, is a low level of receptivity to social and economic change.

Empirical work on the subject tends to support this view. In a study done in India, Chaudri [16 p. 84] found that "the better educated population do on the average use larger amounts of chemical fertilizers and the association between education and agricultural productivity is unlikely to be a statistical illusion". Belshaw [14 p. 36] arrives at a similar conclusion for the case of Japan: "It is not a coincidence that Japan is foremost among countries in Asia both in formal education and literacy in rural areas and in farm techniques".

The relationship between education and the receptivity to change would have implications for how the farmer conceptualizes the use of credit. Thus, one hypothesis worth testing is the extent to which education influences the use of credit by small farmers. This is different in content and in form from the hypothesis postulated in the first chapter, namely, that formal lending agencies are more prone to lend to farmers with a high educational background.

Assets of Farmers

The value of assets held by farmers is a prime indicator of their general level of wealth. It becomes important in our analysis not only because it usually has a bearing on whether credit is made to a farmer by a formal lending agency, but because it may also influence the farmer's decision to utilize credit. The relationship between assets and the demand for credit is not clear-cut. On the one hand a low value of total assets might serve as an impetus to expand production and wealth via the use of credit. On the other hand, it is precisely the low levels of income/wealth that produce a state of fatalism among farmers and discourage the use of credit.

The data obtained on the value of assets must be interpreted with caution. For example, some farmers gave minute details of machinery including value of machetes, hoes and forks, while others did not include them; listing only equipment of substantial value (over \$50). Additional information in the form of the enumerators' independent estimates of assets proved useful in this respect by providing an alternative valuation of assets. In cases where the two were not consistent, we utilized the information given by the enumerator. Secondly, extreme caution should be exercised in examining and comparing the value of land in different districts as the price per acre varied between and within districts.

Table 2.6 describes the absolute and percentage breakdown of assets. The figures given in absolute values do not by themselves provide us with useful information for comparative purposes, as the number of farmers interviewed in the different districts was not equal. In the light of this, Table 2.7 was constructed to indicate the average value of assets held by each farmer. The informa-

TABLE 2.6 ABSOLUTE AND PERCENTAGE VALUE OF VARIOUS ASSETS HELD BY FARMERS BY DISTRICTS

Assets	Land		Machinery		Livestock		Govt. Securities		Buildings		Other Assets		Total	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
West Bank Demerara	259,100	61.7	18,050	4.3	17,310	4.1	566	.1	119,045	28.3	6,067	1.5	420,138	100
West Coast Demerara	261,550	55.9	46,900	10.0	14,935	3.2	—	—	136,012	29.1	8,133	1.8	467,530	100
Essequibo Coast	170,300	91.2	4,100	2.2	8,064	4.3	—	—	4,089	2.3	—	—	186,553	100
Essequibo Islands	82,050	64.5	8,410	6.6	7,968	6.3	5,925	4.7	22,593	17.8	54	.1	126,946	100
East Bank Demerara	51,300	52.2	9,200	9.3	7,867	8.0	—	—	25,733	26.2	4,200	4.3	98,300	100
North West District	5,560	70.0	—	—	92	1.1	—	—	2,295	28.9	—	—	7,947	100
East Coast Demerara	139,820	40.7	33,650	9.8	30,102	8.7	—	—	115,880	33.7	24,283	7.1	343,735	100
East Berbice	214,860	63.4	25,850	7.6	27,438	8.1	225	.1	70,255	20.8	533	.1	339,161	100

TABLE 2.7 AVERAGE VALUE OF ASSETS HELD BY FARMERS BY DISTRICTS

<u>Assets</u> <u>Districts</u>	Land	Machinery	Livestock	Government Securities	Buildings	Other Assets
West Bank Demerara	4,178	291	279	9	1,920	98
West Coast Demerara	5,337	957	305	—	2,776	166
Essequibo Coast	2,003	48	95	—	48	—
Essequibo Islands	3,282	336	266	237	904	2
East Bank Demerara	1,710	307	262	—	858	140
North West District	263	—	4	—	109	—
East Coast Demerara	1,925	431	386	—	901	—
East Berbice	1,603	63	59	44	865	181

tion given in both tables relate to the average for the three year period 1968-1970, rather than for separate years. This was done for ease of calculation and analysis. No loss in the overall picture resulted from this, as increases in those assets over the period would be taken into account when we examine the levels of capital expenditure between 1968-1970 in Chapter Three.

From the information given in Tables 2.6 and 2.7, we cannot state categorically whether assets were high or low, as this is a relative concept and no information on the general wealth of the people of Guyana is available. Based on their relatively low incomes, and poverty in general and by observation of their conditions of life and social facilities available and used we would, however, hazard the guess that this was low.

The most interesting factor in Table 2.6 is the relatively high percentage value of total assets held in land. This varied from 63 per cent in East Bank Demerara to 91 per cent in Essequibo Coast. In terms of the average value of land (Table 2.7), farmers in West Coast Demerara and East Coast Demerara had values ranging over \$4,000. The average value of land in North West District was only \$263 as the price of land per acre was \$50 (the lowest in the entire study), primarily because the majority of land in that region is uncleared.

Expressed as a percentage of total assets, buildings were next in importance ranging from 2 per cent in Essequibo Coast to 29 per cent in West Coast Demerara. Machines as a percentage of total assets was small though not insignificant. This small percentage must be related to the inability of most farmers to purchase such assets given their low income and the size of farms. It was observed, however, that 20 farmers indicated ownership of tractors. Of these, one also owned a Combine Harvester. These farmers concentrated on rice cultivation. Although the small size of farms would suggest diseconomies of scale in terms of under-utilization, it is well known that renting of tractors is common. This provides additional income to those owners.

Government Securities and other Securities, primarily financial assets, were insignificant. The resources of the farmers were just enough to cover necessities and physical assets required for generating income on the farm and did not leave any surplus for investment.

EFFECT OF SOCIAL AND ECONOMIC CHARACTERISTICS OF PEASANTS ON THE DEMAND FOR CREDIT

It is important in this section to make the distinction between the need for credit and the demand for credit because of the continuing confusion of both these terms in the literature. The need for credit is an objective analysis which describes the credit requirements for the development of agriculture. The demand for credit, on the other hand, is the relation of such requirements to price. To illustrate this distinction by an example: the need for a particular commodity may be high but if the price is considered too high then the demand may be low.

The Need for Agricultural Credit

The agricultural sector, more than any other sector is peculiar in the sense that it suffers extensively from the vagaries of weather, pests and seasonal activity. Farmers in this sector are frequently illiterate, and working with technologically backward farm machinery and equipment only manage to eke out the barest essentials of life.

These factors condition the need for credit in the agricultural sector which may be classified according to the period for which credit is needed, or the purpose for which it is required. Credit on medium or long term periods is required for the purchase of land or for capital expenditures on farm buildings and machinery. Working capital may be required for purposes of purchasing seed and other raw materials or the payment of labour. Finally, credit might be required for purposes of relief and rehabilitation, as, not infrequently, crops are destroyed.

An examination of the social and economic characteristics of the small farmers in the study would emphasize the importance of agricultural transformation within that sector. One important ingredient necessary for such transformation is the provision of agricultural credit, as the small incomes of the farmers are incapable of generating surpluses for expenditure on farm machinery, fertilizers and other complementary inputs required for their economic advancement. The need for credit in the development of the agricultural sector is therefore extensive and varied. As Mellor [31 p. 314] puts it, "Credit provides the basis for increased production efficiency".⁴

The Demand for Agricultural Credit

The demand for agricultural credit occurs when the need for credit becomes effective and the farmer is willing to pay a price (interest) for such credit. Historical experience has shown that the demand for credit becomes important during the transitional stages of a subsistence economy to a monetary economy.⁵ In a subsistence economy, farmers do not see the necessity for agricultural credit, because of their negative attitudes to change and the static nature of production. The need for credit develops and becomes effective when the subsistence economy begins to be eroded through increased money transactions, the development of feudalism and the consequent rise of rapacious landlords, who demand not rent in kind, but its equivalent in money – money rent. Faced with increasing exploitation and consequences of eviction from the land if such rent is not paid, a demand for credit develops and is magnified, extending not only to credit demand for rent but for agricultural equipment, seeds, etc. as the market economy grows and structural changes take place.⁶

The growth in the demand for credit will be conditioned by some of the social and economic characteristics noted above for the small farmers in Guyana, but which are typical of most small farmers in general. In this respect, we can note that a small land base and low levels of income mean a 'hand to mouth'

existence for the majority of small farmers. Such miserable economic conditions condemn the farmer to a life of abject poverty engendering a state of fatalism with no hope for the future. The demand for credit under such circumstances will be small in spite of a growing market economy. As Belshaw [4 p. 35] pointed out, "Small incomes increase the risks in curtailing consumption already so low as to be at a subsistence level or incurring debt from which it is extremely difficult to recover".

The above has been the general pattern of the development in the demand for agricultural credit by farmers in most countries. Guyana, as indeed the rest of the West Indies, has been an exception because feudalism and landlordism of the kind that existed in classical feudal societies have never existed there. The reason for this must be sought in the history of these territories. Immediately after emancipation ex-slaves left the terrible conditions of plantations to establish their free holdings outside the direct control of the plantations. As Farley [20 p. 87] argued, "In British Guiana, land space has always exceeded the existing labour supply. Given such circumstances, labour usually seeks to establish itself on a peasant proprietor basis". In doing so, ex-slaves attempted to break the stranglehold that former slave-owners had over them and struggled to form a viable peasantry. "The narrow size of geographically accessible market, limited capital and general harrassment from the Government, however, prevented the emergence of a viable commercial sector among the African peasantry" [Bourne 13 p. 517], forcing them back on to the estates as wage labourers. Ex-slaves still kept small plots of land, however, for semi-subsistence farming. These objective constraints which prevented and stultified the attempts of peasants to thrive commercially, subjectively fostered in the minds of the peasants an aversion to risk and a general unwillingness to innovate.

Concrete conclusions about the effects of the economic and social characteristics of the farmers in the study and the demand for credit provide the subject of Chapters Four and Five. Suffice it to note, however, that based on the historical analysis given above, the demand for agricultural credit, if present, must be a relatively new phenomenon, its development being partially dependent on the disintegration of traditional peasant societies. It is interesting to note that as late as 1969, a Government enquiry into the causes of the deterioration of rice production since 1960 reported that "Rice farmers were highly inept in methodology and knowledge and . . . even in those instances where farmers were exposed to demonstrations and technical advice they did not improve their practices".⁷ Such behaviour substantiates what we have argued above and may have implications in determining the demand for credit.

FOOTNOTES

¹For a detailed treatment of the organization and operation of the MNC see Beckford [3] and Girvan [22].

²See in particular C.Y. Thomas [48].

³These categories of functional literacy were obtained from a discussion with Dr. Dennis Craig, Department of Education, University of the West Indies, Mona.

⁴Supporting evidence can be found in B. Singh [46].

⁵For a discussion of this in India, see D.N. Ragnekar [40].

⁶See John Blake [6] p. 48.

⁷Quoted in H. Madramootoo [29].

CHAPTER THREE

CAPITAL EXPENDITURE AND SAVINGS

This chapter is concerned with capital expenditure and the importance of internal financing for expenditures undertaken by the farmers. The survey did not obtain information on other types of expenditures such as family expenditure. This lack of information on such expenditures has meant a limitation in our understanding of agricultural finance among small farmers as the nature of their operations would suggest, if anything, a high priority attached to family expenditure. It would therefore have been useful to obtain information on these expenditures.

CAPITAL EXPENDITURE

The data obtained on capital expenditure of farmers between 1968-1970 have significance from two points of view. First, capital expenditure may often be an occasion for borrowing and, secondly, it may result in an increase in the capital assets of the cultivator and may improve his productive capacity.

The information on capital expenditure was disaggregated into land, machinery, livestock, farm buildings, repairs to farm buildings and drainage and irrigation. Farmers were also questioned on the factors that influenced their decision to engage in capital expenditure. This would have provided invaluable information but many of the interviewers misinterpreted this question and listed the more important items where money was spent.

The overall picture obtained from the survey was that there was a low level of capital expenditure. Thirty per cent of the farmers between 1968-1970 did not spend on any of the items listed. This feature was, however, not surprising given the low levels of income. It was apparent also that the levels of capital

TABLE 3.1 PERCENTAGE OF FARMERS ENGAGED IN CAPITAL EXPENDITURE FOR ALL DISTRICTS (1968-1970)

Item	% Farmers
Land	8.5
Machinery	2.5
Livestock	18.2
Farm Buildings	9.3
Repairs to Farm Buildings	3.5
Drainage and Irrigation	29.3

TABLE 3.2 PERCENTAGE AND ABSOLUTE VALUE OF EXPENDITURE ON SELECTED ITEMS FOR ALL DISTRICTS (1968-1970)

Item	% of Expenditure	\$ Value of Expenditure
Land	25.3	45,180
Machinery	21.2	37,950
Livestock	18.0	32,100
Farm Buildings	9.1	17,630
Repairs to Farm Buildings	4.1	7,300
Drainage and Irrigation	22.3	39,870
Total Capital Expenditure		180,030

expenditure undertaken were such that would enable the farmer to prevent declines in standards of living rather than add to capital stock. Tables 3.1 and 3.2 illustrate the percentage of farmers engaged in capital expenditure and the percentage value of expenditure on the various items. These tables give an aggregated picture of all districts.

By far the most cherished asset of the farmer is the land. This is borne out by the fact that land comprises the majority of the total value of assets. Its importance stems from the fact that it gives him both security and independence. Closely associated with this is that the size of his farm income depends invariably on the quantity and quality of land he possesses.

The data revealed that the number of farmers who purchased land during the period 1968-1970 was small as only 8.5 per cent of the farmers did so. An examination of the information by districts showed, however, that in six districts the percentage of farmers purchasing land was below the average of all districts. It was only in West Bank Demerara and Essequibo Coast that this form of expenditure was significant. Although only few farmers bought land, the total

value purchased was high in comparison to other items. This explains why expenditure on land was 25 per cent of the total value of capital expenditure.

A number of reasons can be advanced to explain why few farmers engaged in this type of capital expenditure, in spite of the fact that the evidence indicates that most farmers operated on miniscule holdings. First, it could be the case that given the poor quality of soils, any increase in land acreage would require additional expenditure on drainage and irrigation, etc., which the farmer would not be able to undertake. Second, and more important, is the fact that the low levels of income prevent any expansion of the size of the farm. We must add here too, that we do not feel that the years under review were too short a time period to discuss whether farmers were willing to engage in the purchase of land. More specifically, it could be argued that farmers did not purchase land over the three-year period because either land was purchased in recent years before 1968 or farmers had the intention of saving or borrowing to buy land in later years. These possibilities were ruled out because the majority of the farmers had farm experiences of over 30 years and their land acreage was still small. In addition, as noted throughout the study, the low levels of income and savings would indicate the near impossibility of engaging in such expenditure.

From the information received, only 2.5 per cent of the farmers for all districts purchased farm machinery. This percentage was typical of the individual districts although in North West District no farmer reported expenditure on this item. The average value spent per spending farmer was, however, high (an average of \$2,000). The small number of farmers purchasing farm machinery may be the product of a variety of factors. First, it may be the case that there is a lack of available finance for such expenditure. The possibility of this is borne out by the low value of credit extended to farmers by both formal and informal lending agencies, and by the low level of savings. Secondly, the small size of farms would not require expenditures on farm machinery other than simple tools such as hoes, forks and machetes. This is related to the question of economies of scale which is considered in more detail in Chapter Five.

Twenty-five per cent of the farmers in the survey reported that livestock and poultry rearing yielded the most income. Expenditure on these items was therefore high. Eighteen per cent of the farmers indicated such expenditure.

Unlike the expenditure on land and machinery which occurred only once in the three years for each farmer engaged in purchasing those items, expenditure on livestock occurred regularly and evenly throughout the three year period. This, as expected, was due to the short life span of such assets and would suggest that rather than representing addition to assets, such expenditure represented the maintenance of such assets by replacement.

Physical circumstances and geographical locations would dictate or determine expenditure on drainage and irrigation. By far the largest number of farmers, 29 per cent, directed their capital expenditure along this line. In terms of value, this item comprised 22 per cent of total capital expenditure. That a

great number of farmers should spend on drainage and irrigation was hardly surprising given the fact that the majority of the districts were situated either along the coast or beside rivers.

The actual volume of cash spent on drainage and irrigation and the number of farmers engaged in this varied, however, among districts. In West Bank Demerara, East Coast Demerara, and Essequibo Coast, the percentage of farmers who were reported to have spent capital on this was 54.2, 32.4 and 69.4 respectively, whilst in other districts the percentage was between 9 and 20. An examination of the value of such expenditure revealed that this was low in West Coast Demerara, East Berbice and East Coast Demerara, where an average of only \$40 was expended for the years 1968-1970. This was in comparison with an average of \$450 for the other districts. The explanation for this must be seen in the uneven expenditure on irrigation and drainage by the government, as the areas corresponding to low value of expenditure on drainage and irrigation were the areas which received the majority of government funds.

Expenditure on farm buildings would to a large extent depend essentially on the expansion of farm output. It is not unreasonable in this context to assume that the greater the output, the greater the need for the expansion of farm buildings *ceteris paribus*. The data obtained on expenditure for farm buildings revealed that this item received 9.1 per cent of the total value of capital expenditure. This was undertaken by 45 farmers and represented an average of \$700 per farmer who spent on this item for the three year period. For the total number of farmers in all districts, this was, however, only \$36. The percentage of farmers engaged in this form of capital expenditure varied among the districts, being highest in West Bank Demerara and lowest in Essequibo Islands where no farmer was reported to have spent any sum on this item for the three year period.

This low level of expenditure in farm buildings tends to suggest, therefore, that output of the various products did not increase significantly for the three year period. This is borne out in Table 2.4, and is further supported by the fact that incomes over the period were stagnant.

Capital expenditure on repairs to farm buildings was the least important for all districts when taken aggregatively and for the individual districts with the exception of North West District. Only 17 farmers were reported to have spent on this item for the three year period. The value of their expenditure was \$7,300, representing 4 per cent of total capital expenditure.

SAVINGS AND INTERNAL FINANCE

Little attention has been paid in the literature of economic development to the mobilisation of savings in the rural areas to facilitate financing of economic development. Lewis [27], Ranis and Fei [41] among others, have all emphasized the use of savings from the capitalist sector for this purpose while the function of the rural agricultural sector is that of supplying surplus labour.

This view is held primarily because poverty among small farmers prevents much saving from taking place.

To the small farmer, however, personal savings and own resources are likely to become the most important source for financing all forms of expenditure because they may either be unwilling to become engaged in borrowing, or lending agencies might refuse them credit for a variety of factors. The reasons for this as Mellor [31 p. 313] quite correctly pointed out is that (a) in low-income agriculture, the static technological base does not provide the repayment basis for expanding borrowings; (b) in low-income agriculture, the static technological base does not provide the basis for expanding financial needs.

Farmers in the survey were questioned on their total savings and tax allowances for the three years 1968-1970. Savings was defined as Total Income less Total Expenditure, including repayment of debt. A number of difficulties in interpreting and utilizing this information became apparent. First, reported savings were given in monetary terms. This we assumed related only to actual cash holdings either in hand or some savings institutions and not to the value of non-monetary assets, which, as is often pointed out in the literature on savings among small farmers is an extremely important form of savings [Yamey 52]. We were not able to ascertain the volume of savings in non-monetary forms and to this extent, if present among farmers, the level of savings reported might be understated. The second problem was that it was impossible to determine the uses of such savings as no direct information was obtained on this. Initially it was intended to link saving to different types of capital expenditures by means of correlation and other statistical analysis. However, the data were not sufficiently complete for this purpose. It was possible, however, to estimate the extent to which expenditure was financed from owned resources by deduction, given information on the value of loans. Notwithstanding such difficulties, the data on savings did prove beneficial as they indicated the degree to which surplus funds exist to be channelled into rural agriculture for development.

From the information available, it was evident that the level of monetary savings was very low, and represented only 7 per cent of total income for all districts taken aggregatively. This is perhaps better explained and seen more clearly in Table 3.3 and 3.4, which describe the percentage frequency of the value of savings in class intervals for 1968-1970, and the percentage of farmers reporting savings for the same time period but broken down into districts.

The most striking feature in Table 3.3 is that for the three years, as many as 80 per cent of the farmers were not able to save. Also noticeable in that table is the steady decline in the percentage of farmers who were able to save as the class intervals increased. An examination of the information by individual districts does, however, show variations. In West Bank Demerara, West Coast Demerara and East Bank Demerara, over 40 per cent of the farmers were able to save. For the other districts less than 10 per cent of the farmers could afford such luxury. In fact, in North West District, no farmer reported any saving whatsoever.

TABLE 3.3 PERCENTAGE FREQUENCY OF VALUE OF ANNUAL SAVINGS
1968-1970

<u>Levels of Savings (\$)</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
0	82.4	81.4	79.6
1 - 100	6.8	4.9	5.4
101 - 200	3.5	4.9	5.2
201 - 400	2.5	3.5	2.9
401 - 600	1.6	1.6	2.9
600 - 1000	1.0	1.5	.8
1000+	2.1	2.1	3.0

TABLE 3.4 PERCENTAGE OF FARMERS REPORTING SAVINGS FOR
1968-1970 BY DISTRICTS

<u>Districts</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
West Bank Demerara	30.6	37.0	42.0
West Coast Demerara	57.1	57.6	59.0
Essequibo Coast	12.3	3.5	5.0
Essequibo Islands	36.3	36.0	40.0
East Bank Demerara	3.2	6.6	10.0
North West District	0.0	0.0	0.0
East Coast Demerara	10.8	10.5	10.0
East Berbice	9.0	7.0	9.0

The value of savings for the various districts was also uneven among farmers, but the general pattern was that these farmers who did so, managed to save between \$100-\$400. The notable exception to this was East Bank Demerara where as many as 13 farmers were reported to have saved over \$1,000 each year. The primary determinant of such savings was income. This was clearly the case in East Bank Demerara where the farmers who saved over \$1,000 had incomes in excess of \$5,000 per annum. All of these farmers obtained additional income from work off the farm and this factor may point to the conclusion that the level of savings depends partially on the ability to obtain income from work off the farm.

A number of explanations may be put forward to explain the low level of savings. One possible explanation is the low incomes reported by farmers. In an attempt to determine statistically the relationship between income and saving, we estimated the co-efficients of correlation determination for individual districts. We used here the average income and saving for the three year period. The absence of savings by many of the respondents in all but two districts, West Bank Demerara and Essequibo Islands, however, did not make such an analysis statistically meaningful. For the two districts where the analysis was completed,

co-efficients of correlation of .56 and .64 and co-efficients of determination of .32 and .41 were obtained for the two districts respectively.

These low co-efficients may be the result of farmers first securing for themselves a 'threshold income' – that level of total income which is necessary to maintain their own standard of living before any saving is contemplated [Bourne 12].

This would include the setting aside of money for planting material, payment of debts and for their own physical survival. Given a generally low income level, it is quite likely that the difference between the threshold income and total income is zero or negligible. It is this which would explain the low co-efficients obtained. This explanation seems quite plausible, as in the prevailing conditions of poverty and hand to mouth existence there cannot be any real surplus funds in rural areas. Indeed, as Bourne argues [12 p.29] at low levels of income, people are too close to subsistence living standards to provide for the distant future. "Their primary concern might be with the maintenance of self into next month, next week or even tomorrow. In these kinds of situations people may not save.

The savings question is inseparable from the decision about time preference of future income versus present income that the farmer has to make [Mellor 32]. A time preference weighted towards the future will require low current consumption levels and high rates of investment. The reverse situation applies when a time preference in favour of the present rather than the future exists. It was obvious from the responses given that a time preference in favour of the present rather than the the future was operative in the minds of the farmers. Only 15 per cent of those saving listed the planned expansion of the farm as a determinant of savings. That this time preference existed was due to the fact that farmers were not willing to undertake the high rates of investment required for large incomes in the future given infertile land, backward technology and a climate of fatalism. Thus, as Adekunle [1 p. 229] points out, "Given existence that is near the subsistence level and the devotion of almost all output to the maintenance of an exceedingly low state of living, it is clear that more concern will be devoted to current rather than future welfare. *No other time preference may be rational.*" [My emphasis].

Sociological and psychological factors are also pertinent in explaining low rates of saving because as Firth [21 p. 23] puts it, "Peasant saving is not a purely individual affair guided by the general set of ideas and values current about capital accumulation in the particular society". Thus, it is argued that a particular culture of small farmers might establish a set of traditional philanthropies and dependencies which serves to drain whatever potential savings that might exist [Lambert 25].

The study did not obtain information on the social expenditure of the farmers. Smith [47 p. 320] however, has observed for the Indians that "Marriage is one of the most important events in the life of an Indian and requires a considerable expenditure on the part of the parents of the bride". This high level of expenditure was also witnessed in the spending habits of Guyanese Negroes "as there are opportunities for spending at the many dances and weddings which take place particularly towards the end of the year when work is available". [Smith 47 p. 316]. These social expenditures, although economically unproductive, may also explain the low level of savings.

As mentioned earlier, no direct information on the use of savings was obtained, neither were data on total farm expenditure collected. Nevertheless, an estimate of the extent to which internal finance was important for expenditure was made. This has to be taken in conjunction with loans received from credit agencies. Thus, the hypothesis is postulated that the less the use of credit agencies the more important is the use of internal finance. The question of loans is the subject of Chapters Four and Five. Suffice it to note here, however, that less than 30 per cent of the farmers in the survey obtained credit from formal and informal lending agencies. At the very least, therefore, we can argue that 70 per cent of the farmers used own resources for financing all expenditures. We were not able to determine the proportion of total expenditure secured by loans so that it is impossible to state the percentage of expenditure covered by loans and the percentage by internal finance for farmers who obtained loans.

It is possible, however, to indicate or assess the contribution of own finance to capital expenditure. Only 10 per cent of the farmers who borrowed stated that loans were used for capital expenditure. It is evident, therefore, that a high percentage of own resources was used in the direction of capital expenditure. This finding is of particular importance in so far as it shows that in districts with low levels of general economic activity considerable own resources can be drawn upon for specialized capital expenditure.

One hundred and sixty-four farmers in 1969 and 1970 obtained consumption credit with an average value of \$170. A considerable portion of internal resources must therefore have been used to finance such expenditure. The implication of this is discussed in greater detail in Chapter Five, but it must be noted here that although such expenditure is necessary for the sustenance of the farmer it sets a limit to the growth of capital formation. It would thus appear that in a number of districts there was limited scope for utilization of resources in directions which lead to capital formation.

SUMMARY

Two important features came out of the study with respect to capital expenditure and saving. The first notable conclusion we can make is that the levels of capital expenditure were minimal and occurred frequently only for drainage and irrigation purposes and for the purchase of livestock. As we have stressed throughout, such expenditures were guided by the necessity to maintain

the same standard of living to which farmers were accustomed, rather than representing net additions to capital expenditures. The second noteworthy conclusion we can make is that the level of saving was quite low due mainly to a combination of economic factors – low incomes and a time preference weighted towards present rather than future consumption; and social factors – a set of social expenditures inherent in their cultural life. Nevertheless, savings were important for some farmers as it represented the only source of internal finance. The following two chapters will be concerned with the other side of agricultural finance, notably loans from both institutional and non-institutional lending agencies.

CHAPTER FOUR

INSTITUTIONALIZED LENDING AGENCIES AS A SOURCE OF FARM CREDIT

OVERVIEW

It is often argued and supported by empirical evidence that the formal institutionalized credit market, notably private commercial banks and some government reform agencies play a very insignificant role in financing small scale agriculture in underdeveloped economies [2, 36].

The reasons cited are varied. Firstly, the preferred loan repayment schedule of the formal lending agencies and of the farmers is not harmonized. In this respect, there is the usual presumption that loan finance is sought primarily for projects of relatively long gestation periods, whereas formal lending agencies have a traditional preference for short and medium term loans. The fact that farmers do need credit for short term purposes invalidates such a claim, so that the important issue is the normally presumed reluctance of banks to extend even short term credit to farmers.

This leads to the second reason given, namely, agriculture involves risk in terms of loss of capital and a failure of the loan recipient to meet loan repayment obligations on time due to the vagaries of weather, insects and price instability. Bourne [9 p. 15] in an examination of this line of argument and its applicability to Guyana, argues that in that country “agriculture is fortunate not to suffer from climatic excesses and in any event climate and weather with proper selection of crops and geographical area of cultivation, and with proper drainage and irrigation works could be reduced to manageable elements in the calculus of risk”. Although this might be so, we feel that what is equally important is not only whether risks can be reduced, but also whether it is more

profitable for banks to invest in agriculture than in industry. To clarify this point, we need to put commercial banks in their proper perspective and recognize that their dual interests are profits for shareholders together with the minimum levels of risk. So that even if agriculture had little risk but relatively lower yielding loan opportunities than industry, loans would be channelled into the latter sector where there are many low risk-high yielding opportunities available.

Related to the above is the argument that because of poverty and the high incidence of tenant farming, peasant farmers are rarely able to offer acceptable securities to formal lending agencies. Even when they possess landed assets which could be used as security, farmers are often unwilling to offer what may perhaps be their only asset "as the importance which the farmer attaches to economic security and the perpetuation of the family may make him reluctant to pledge it except under duress" [Belshaw 4 p. 31].

Information was sought from farmers on the amount and terms of loans contracted with commercial banks, and the Guyana Credit Corporation, both representing formal institutionalized lending agencies. Consequently, this chapter will be divided into two sections, the first dealing with commercial banks and the second with the Guyana Credit Corporation.

COMMERCIAL BANKS

Supply of Bank Credit

The data collected lend support to the view that small farmers receive little credit from commercial banks. Though the general literature suggests that the major constraint exists on the supply side, the fact that few farmers applied for loans indicates that, in Guyana, the low level of bank financing may be explained primarily by loan demand factors.

There were only four districts where farmers applied for loans and the percentage of farmers applying was small varying from 3 per cent in East Coast Demerara before 1968 to 16.5 per cent in East Berbice for the period 1968-1970. For the entire sample, the percentage of farmers applying for loans were 4.2 per cent before 1968, and 6 per cent between 1968-1970.

The information given by farmers on the major types of crops cultivated indicates that concentration of loans by the commercial banks was in the export crop, namely rice. All farmers receiving credit from this source were primarily rice farmers. Additional information obtained from the Annual Report of the Bank of Guyana provides us with useful information on the sectoral distribution of bank loans to the agricultural sector. This is given in Table 4.1.

This table indicates the primary importance attached to paddy farming which over the four year period obtained between 45-80 per cent of the total loans supplied to the agricultural sector by the commercial banks. We should note too, that although sugar cane received on average only \$180,000 for the four year period, this figure does not represent the total value supplied to the

TABLE 4.1 SECTORAL DISTRIBUTION OF LOANS TO AGRICULTURE BY COMMERCIAL BANKS, END OF YEAR 1967-1970

	(G\$ '000)							
	1967		1968		1969		1970	
	\$	%	\$	%	\$	%	\$	%
Sugar Cane	50	1.3	32	.8	77	1.5	559	8.7
Paddy	3,072	78.7	1,873	47.8	2,734	53.2	2,908	45.5
Livestock	166	4.3	265	6.8	356	6.9	670	10.5
Forestry	145	3.7	247	6.3	410	8.0	128	2.0
Shrimp and Fisheries	294	7.5	1,393	35.5	1,386	27.0	1,737	27.2
Other Agriculture	174	4.5	108	2.8	175	3.4	390	6.1
Total	3,901	100.0	3,918	100.0	5,138	100.0	6,392	100.0

Source: Bank of Guyana Annual Report 1971.

sugar cane industry as a substantial amount was supplied to the manufacturing branch of that industry. Thus, between 1967-1970 an average of \$27m was supplied to that aspect of the industry each year. This is also true of the rice industry as the figure given for loans to paddy farming does not include that which is supplied to the rice milling sector.

Of particular importance is the fact that 'other agricultural products' received less than 5 per cent of the total loans to the agricultural sector for the four years under review. The products in this category are those cultivated primarily by small farmers and include ground provisions, vegetables, citrus and coconuts.

The over-emphasis given to export crops by the commercial banks is the result of the secure external markets of the two export crops – rice and sugar. As Thomas [49 p. 69] noted with reference to bank credit granted to rice farmers "It appears to be the case that the banks have been engaged in financing rice production over the period in which it became primarily an export oriented crop".

The significance of this lending pattern to export crops has meant a limitation to policies designed to reduce export dependence and encourage agricultural diversification. This, as we pointed out in Chapter Two, is a major way in which agriculture can contribute to the economic development of Guyana. Thus Bourne [11 p. 115] in emphasizing the implications of the commercial banks sectoral distribution of loans to the agricultural sector, noted "It is clear . . . that the economy has not within the last five years (1966-1971) been proceeding noticeably along the lines stated above" namely, a reduction in the dependence on sugar and rice.

We must note, however, that the study revealed that applications for loans came primarily from rice farmers. This suggests a conclusion that rice farmers, primarily because they are more commercialized, have a demand for credit for productive reasons more than other farmers concentrating on ground provisions and other crops which are almost exclusively marketed locally. Also worthy of note in this respect is the fact that "The system of Government guaranteed advances has been extended to this industry and has thereby lessened some of the risk involved in lending to the industry". [Thomas 49]. Rice farmers, therefore, must have felt more secure than other farmers in approaching banks for loans.

Table 4.2 which depicts the success rate of loan applications shows that a high proportion of farmers who applied for loans were successful which is surprising in view of the common assertion that banks are not willing to lend to small farmers. In three districts all applications were successful between 1968-1970, although in Essequibo Coast only three out of eight farmers who applied were successful. For the sample as a whole, 80 per cent of farmers applying for loans received them. This success rate was a marked improvement over the time period before 1968 (not shown) where in three out of five districts all loan applications were refused and only one district had a success rate of 100

TABLE 4.2 SUCCESS OF LOAN APPLICATIONS TO COMMERCIAL BANKS
1968-1970 BY DISTRICTS

Districts	Number of Farmers Applying for Loans		Number of Successful Loan Applicants	
	0 Time	1-5 Times	0 Time	1-5 Times
West Coast Demerara	46	3	—	3
Essequibo Coast	77	8	5	3
East Coast Demerara	131	3	—	3
East Berbice	64	13	—	13
Total for all Districts	318	27	5	22

per cent. For the entire sample 65 per cent of farmers who applied for loans were granted them.

One hypothesis formulated was that “the greater their wealth and the higher the levels of their education, the more likely it will be for farmers to obtain loans from the institutional credit market”. The data obtained demonstrated that this was not so. The level of income and standards of education of those whose applications for loans were rejected were in some cases higher than those who obtained loans. It was obvious, however, that it was mainly farmers with relatively high standards of education — 5th grade and above who approached commercial banks for loans. This was also the case for the farmers who applied for loans from the Guyana Credit Corporation. This fact demonstrates, therefore, the validity of our argument in the section on education in Chapter Two, where we emphasized that education greatly affects how farmers conceptualize the use of credit from formal lending agencies. It is also possible that the understanding of written loan contracts could serve as a deterrent to illiterate farmers. Table 4.3 gives a breakdown of the educational standards of successful/unsuccessful loan applicants.

The economic and social similarities of farmers who received loans and those whose applications were refused make it difficult for us to isolate factors which may serve to indicate the criteria used by commercial banks in granting loans to farmers. One plausible explanation which did not come out in the study is the possibility that banks might have been willing to lend to those whose loan applications were refused, but that potential borrowers were not willing to accept credit offered due to unfavourable lending terms. It is possible that farmers would list “refusal of loan applications” under these circumstances. This possibility is also more likely, given the fact that other lending agencies demanded lower interest rates, and less stringent security conditions.

TABLE 4.3 EDUCATIONAL LEVEL OF SUCCESSFUL AND UNSUCCESSFUL LOAN APPLICANTS TO COMMERCIAL BANKS

Districts		Educational Level of Applicants		
		1-2nd Gd.	3-4th Gd.	5-6th Gd.
West Coast Demerara:	Successful	1	1	1
	Unsuccessful	—	—	—
Essequibo Coast	Successful	—	1	2
	Unsuccessful	1	1	3
East Coast Demerara:	Successful	—	1	2
	Unsuccessful	—	—	—
East Berbice:	Successful	—	3	10
	Unsuccessful	—	—	—

The high rates of successful loan applications do not seem to support the view that the low volume of loans is due entirely to the banks' unwillingness to lend to small farmers. Several explanations can be adduced. First, many of the farmers are semi-subsistent, i.e. the degree of commercialization is low, hence, the demand for credit is low. In fact, in one district over 40 per cent of the farmers indicated that there was no need for credit. This aversion to debt is typical of most subsistence farmers because of their ignorance of the virtues of credit in terms of its facilitatory role in expanding production and income and because of their general conservative nature.

Secondly, those farmers who see the need for borrowing or who are forced to borrow, have available to them from sources other than banks much better credit terms by way of interest repayment period and securities offered. Thus, for instance, as will be seen below, a high percentage of farmers obtained loans from produce dealers with little or no security and interest payments required to secure such loans.

The third explanatory factor is that although the evidence suggests at first sight that the demand for bank finance is low, what in fact might be the case is that the demand for loans is low because farmers may feel that it is pointless applying for loans because their applications will be refused.

Terms of Loans Granted

Our intention here is to analyse the terms under which loans were given to farmers under the following headings:

- (a) size of loans, (b) interest rate charged on loans; (c) repayment periods; (d) securities offered.

TABLE 4.4 NUMBER AND PERCENTAGE OF COMMERCIAL BANK LOANS
BY SIZE CATEGORIES AND DISTRICTS, 1968-1970

	Size of Loans (\$)			
	1-200	201-600	601-1000	1000+
West Coast Demerara	7	1	—	1
Essequibo Coast	2	2	—	—
East Coast Demerara	5	—	—	1
East Berbice	12	9	2	2
Total for all Districts	26	12	2	4

Size of Loans

Table 4.4 shows the number and percentage of commercial bank loans by size, categories and districts. Loans were grouped into four size categories which were intended to correspond with four broad types of loan use. These are —

- (i) \$1 — \$200 to correspond with planting and reaping expenses;
- (ii) \$201 — \$600 to correspond with irrigation, fencing and minor clearing;
- (iii) \$601 — \$1,000 to correspond with the purchasing of equipment and major land clearing;
- (iv) over \$1,000 to represent the purchase of land and heavy equipment.

The 22 farmers who obtained loans received an average of two loans for the three year period 1968-1970. No such information pertaining to the period before 1968 was collected. As would be expected, the loans were mainly for short term purposes, and consequently were of a low value. They were used to cover such operations as land preparation, labour and marketing. For the districts taken aggregatively, 60 per cent of the loans given by commercial banks were in the category \$1-\$200 and 25 per cent in the category \$201-\$600. Large size loans were only 10 per cent of the total loans given although this percentage figure was higher than that for the size category \$601-\$1,000.

Interest Rates Charged

Thomas in his book *Monetary and Financial Arrangements in a Dependent Monetary Economy*, [49 p. 70] noted that the minimum interest charged on loans and advances in Guyana varied directly in proportion to changes of the Bank Rate in England. Our concern is not with why this occurs but to recognize that interest rate on loans and advances would fluctuate above this value depending on the bank's conception of credit-worthiness of the borrower; and secondly, on the administrative cost of loans.

Regarding credit-worthiness criteria, we have already noted some of the reasons why a bank might not consider giving loans to prospective borrowers,

namely, the risk attached to loans and the type of security normally offered. What is often neglected, however, is the degree of social and economic contact between loan recipients and bank executives.¹ More specifically, the fact that small farmers and bank executives are of different social and economic backgrounds, may prejudice the latter against granting loans to peasants.

This prejudice could also influence the interest that would be charged on loans, as the nature of the training of bank executives might not allow them to objectively analyse a loan application from a small farmer. Their training includes advanced managerial and specialized training such as corporate credit and does not, in most cases, include the analysis of loan applications where balance sheets and other accounting documents are absent. In such cases, it is necessary that "the lender have a good knowledge of the type of person he is dealing with, his market and his business environment" [Miller 33 p. 12]. The absence of this knowledge therefore forces the lender to consider loans to small farmers as risky with the consequence of high rates of interest on such loans.

High administrative costs are also important in influencing interest rates. In Guyana, we would expect that the cost of processing loans is high because loans are too few and small and are scattered over the coastline and river area, hence the cost and time spent in supervising these loans must be higher than loans in urban areas where the commercial banks operate.

The modal value of interest charged on the 44 loans was 8 per cent. An examination of the prime lending rate charged by banks during these years shows that this was 7.5 per cent. In the light of what we have noted above, the fact that the most frequent value charged was only 8 per cent indicates that loans given to farmers were not considered risky, neither was the administrative cost exceptionally high. This must, however, be related to the scheme of Government guarantees which has lessened some of the risk in lending to the industry.

Repayment Period

Because most of the loans were small, and given the fact that banks normally lend for short term purposes, it is not surprising to note that 75 per cent of the total number of loans and an equal amount in value were due for repayment in less than one year. The remainder of loans were of intermediate size and were repayable between one and five years. Responses to questions which sought to determine the extent to which loans were repaid, showed that all loans due to be paid by 1970 were met within the contractual agreement and only in one case did a farmer negotiate for an extension of a loan. This fact disproves the often cited view that farmers do not repay loans promptly, if at all.

Securities

It was argued above that the types of securities offered by small farmers are not usually those acceptable to banks. For the banker, the security must have saleability and a high value relative to the size of the loan. Accordingly, land,²

crop liens and mortgages are common securities requested, though for reasons outlined above, small farmers either do not have or are not willing to offer them as securities.

The data collected, however, do not seem to support this entirely in terms of the number of loans secured by various securities offered, as only 27 per cent of the loans granted to farmers were secured by the three types of collateral noted. This is demonstrated in Table 4.5.

Apart from the category 'other securities', land was the most frequently used collateral accounting for 20.4 per cent of the cases in which securities were provided. What the data show also is an apparent willingness on the part of the banks to modify their collateral requirements to fit the needs of the small farmers. Over 30 per cent of the loans did not require the issue of any security and 45 per cent fell in the category 'other securities'. For the latter, many farmers (40 per cent) indicated that the only security given was that of a guarantor.

The general practice adopted from the bank's point of view, therefore, seems to be that either no security or merely a guarantor is required for loans below \$200 whereas in the case of loans over \$500 it is necessary to offer a saleable security with a high market value. Such a practice would indicate that if expansion of production requires an investment of a sum that exceeds \$500, then even if the project is viable, a loan may still not be granted because banks' demand for and farmers' supply of, collateral do not coincide with each other. This factor, therefore, lends support to the view that commercial banks are unlikely to be of major importance in financing long term capital expenditure for small farmers.

Credit Satisfaction

Having completed the analysis of the terms under which loans were granted, our attention will now be focused on the responses of farmers to the terms of loans contracted.³ From Table 4.6 we see that the majority of farmers who obtained loans were satisfied with the terms of these loans. For the entire sample, 78 per cent found loans satisfactory and only 5 per cent considered loans to be unsatisfactory. Fourteen per cent were not entirely satisfied and 3 per cent made no comments. For those unsatisfied, the reason given was that securities required by bankers were too valuable to the owners.

This relatively high rate of satisfaction seems unusual as theoretical reasoning substantiated by empirical work indicates the difficulty of obtaining loans, as well as the severe terms under which such loans are contracted, particularly with respect to the securities required, and the short repayment periods. That farmers were satisfied with the repayment periods suggest that the loan preferences of both banks and farmers coincided. This was so, as most farmers noted that they borrowed primarily for working expenses. The fact that 70 per cent of loans did not require the provision of securities ruled out stringent

TABLE 4.5 NUMBER AND VALUE OF LOANS (\$G) SECURED BY VARIOUS SECURITIES OFFERED TO COMMERCIAL BANKS BY DISTRICTS (1968-1970)

Security	Land		Mortgage		Personal		Other Securities		No Securities	
	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans
West Coast Demerara	9	6,400	-	-	-	-	-	-	-	-
Essequibo Coast	-	-	-	-	1	500	-	-	3	700
East Coast Demerara	-	-	1	2,000	-	-	-	-	5	725
East Berbice	-	-	-	-	1	120	20	8,065	4	1,060
Total for all Districts	9	6,400	1	2,000	2	620	20	8,065	12	2,485

TABLE 4.6 OPINION OF FARMERS IN ALL DISTRICTS ON THE ADEQUACY OF LOANS OBTAINED FROM COMMERCIAL BANKS

Districts	Number of Farmers Who:				Made no Comments
	Obtained Loans	Found Loans:			
		Satisfactory	Unsatisfactory	Not Entirely Satisfactory	
West Coast Demerara	3	3	—	—	—
Essequibo Coast	3	2	1	—	—
East Coast Demerara	4	3	—	1	—
East Berbice	27	21	2	4	1
Total for all Districts	37	29	2	5	1

collateral requirements as a cause for dissatisfaction. We cannot stress too much, however, the important contribution that the government has made in increasing the willingness of banks to lend to rice farmers. As Thomas noted [49 p. 69], "It is our opinion that the bank's general co-operation with the Government's development programme reflects the influence of one important element in commercial bank control i.e. 'moral suasion'".

Such high rates of satisfaction can, however, be illusory, if we take into consideration the number of farmers who were refused loans and treat such farmers as persons who were unsatisfied with the loan policy of commercial banks. If this were done then over 40 per cent of the farmers would be unsatisfied.

In addition to satisfaction from the farmers' point of view, satisfaction should also be examined in relation to the economy as a whole. In this respect, we may emphasize again that in spite of the fact that most farmers found loans satisfactory the sectoral distribution of loans has been far from satisfactory. Although we have stressed the view that the evidence from the study suggests that the supply of loans from the banks is low primarily because of a low demand, the important distinction between demand following and supply leading phenomena, which Patrick [37] makes, is pertinent.

Demand following phenomena is defined as the "phenomena in which the creation of modern financial institution and related financial services is in response to the demand for those services by investors and savers in the real economy" [Patrick 37 p. 174]. This approach implies that finance is essentially passive and permissive in the growth process. The evidence suggests that the banks in Guyana fall in this category.

As opposed to the demand following phenomena, the supply leading

phenomena is defined as the creation of financial services in advance of demand for them especially in the growth-inducing sectors. It is in the light of this that we must view the commercial bank loan portfolios as highly unsatisfactory, because their lending patterns have not been innovative and growth-inducing, as loans are not normally made to other crops produced for the domestic market which could reduce the dependence on the export crops.

As a final word, we should add that supply leading finance is not a sufficient condition for inaugurating self-sustaining economic development. Important complementary inputs such as managerial skills, fertilizers, and proper marketing arrangements are required. These will be discussed in more detail in our conclusion.

THE GUYANA CREDIT CORPORATION

The Guyana Credit Corporation (GCC), like the commercial banks, has been categorized as a formal lending agency for our purpose of discussion. Active in Guyana since the collapse of the 26 Co-operative Credit Banks in 1954, the GCC has as its major functions, the administration of the Government Food Production Loan Scheme, along with the advancement of loans to various sectors, but chiefly to civil servants for house building purposes.

At the end of 1969 (the latest available report from the GCC), agricultural loans comprised just under 13 per cent of the total value of loans granted and 26 per cent of the total number of loans supplied. We must note, however, that since the middle of the 1960s, for reasons to be discussed below, the percentage shares of agricultural loans have been declining and are much lower than the average for the entire period of the GCC's operation. As in the case of our analysis of the supply of commercial bank credit to farmers, our attention will be focused on the extent to which farmers in the survey utilized the lending facilities offered by the GCC and the terms under which these loans were contracted.

Supply of Credit

The data collected revealed that very few farmers applied for loans from the GCC. In no district could one say that loans from the GCC were important, as the percentage of farmers applying for loans varied from zero in West Bank Demerara and Essequibo Islands in both time periods (before and after 1968) to 12 per cent in Essequibo Coast before 1968 and 17 per cent in East Bank Demerara between 1968-1970. These low percentages for the individual districts were reflected in the percentage of farmers who applied for loans for the entire sample. Thus, only 23 farmers before 1968 and 27 between 1968-1970 applied for loans out of a total of 484 farmers.

One can use the same reasons advanced earlier in the section dealing with commercial banks to explain the small number of farmers applying for loans. What would be further needed, however, is an additional explanation in the light

TABLE 4.7 SUCCESS OF LOAN APPLICATIONS TO THE GUYANA CREDIT CORPORATION (1968-1970) BY DISTRICTS

Districts	No. of Farmers Applying for Loans		Number of Successful Loan Applicants	
	0 Time	1-5 Times	0 Time	1-5 Times
West Coast Demerara	40	9	—	9
Essequibo Coast	80	5	2	3
East Bank Demerara	27	3	2	1
East Coast Demerara	129	5	—	5
East Berbice	72	5	1	4
Total for all Districts	348	27	5	22

of the stated objectives of the GCC, namely, the administration of the Government Food Production Loan Scheme. From the data given, it would appear that high rates of loan refusals especially since 1967 acted as a deterrent to potential applicants. Table 4.7 illustrates the success of loan applications to the GCC 1968-1970.

This success rate of applications was not as high as that which occurred for the commercial banks. Seventy-seven per cent of the farmers who applied for loans after 1968 were successful, while before 1968 the rate was 96 per cent. The 1967-68 report of the Credit Corporation gives some insight into the reasons for the number of refusals of loan applications after the financial year 1967-86. Shortage of funds was advanced as one reason. The report [42 p. 6] stated that "additional funds were expected from the Government, but unfortunately were not forthcoming . . . hence, the Corporation had to depend on repayments to meet the commitment which proved inadequate and consequently had to resort to restricted lending". The second reason advanced was that frequent bad debt among rice farmers necessitated curtailing loans to that sector [42].

If these reasons are still valid they indicate that if the GCC is to play an important role in the development of agriculture in Guyana there is need to restructure that institution along the following lines:

(1) A change in its relationship with the government, as apparently it obtains a major portion of its funds from this source, if it is to function efficiently and maintain its responsibility of administering the Government Food Loan Scheme. The reports of 1966-67, 67-68, suggest that the advancement of government funds is done on an *ad hoc* basis or by promises. Remedial action in this respect would necessitate including in the government's budget specific sums of money to be allocated to the GCC so that planning can be undertaken.

(2) A restructuring of the way in which credit is granted. The high delinquency rates alleged to exist among farmers could be due to

(i) failure of crops resulting from a variety of reasons e.g. bad weather, plant diseases, unstable and low prices;

(ii) unscientific farming and improper use of farm credit.

(iii) dishonest farmers.

Whilst very little can be done in terms of (iii), the first two can be overcome by proper agricultural planning and supervised credit. This has proved to be very successful in several countries. The implications of this type of reform will be considered in more detail in Chapter Six.

We must, however, note that external factors seem to have been largely responsible for the increasing number of bad debts among rice farmers reported by the GCC. For example, unfavourable climatic conditions seem to have created havoc in that industry between 1968-1970. Thus, the 1969 Economic Survey of Guyana noted that "Unfortunately, weather conditions continue to nullify a great deal of the effort made by both the Government and rice farmers".

An examination of prices paid to rice farmers suggests that the unstable and low prices prevailing after 1964 were also responsible for the increasing number of bad debts. Whereas in 1964 the price per ton of the rice was \$242, the de-emphasis on agriculture by the Government after 1964 contributed to a steady decline in prices. In 1970 the price of rice per ton was \$208. This has to be taken in conjunction with the increases in the price of seeds, fertilizers and other inputs over the period, and demonstrates the extreme burdens and difficulties that rice farmers were facing in trying to honour loan contracts.

Terms of Loans Granted

Our analysis of this will be similar in form to that done for the commercial banks under the four broad headings: (a) size of loans (b) interest rates charged on loans; (c) repayment periods; (d) securities offered.

Size of Loans

Twenty-six loans were granted by the GCC to farmers for the period 1968-1970. Of these, 65 per cent were of a low value falling in the category \$1-\$200. Next in importance was the category \$1,000 and over, which accounted for 19 per cent of the loans granted. It is interesting to note that two of the loans in this category were over \$5,000. Intermediate size credit (\$201-\$1,000) comprised 16 per cent of the total number of loans.

The data, if anything, again reveal the small volume of loans supplied to small farmers by formal lending agencies, although long and medium term loans from the GCC were not unimportant. It would be interesting to find out whether the small value of loans was the result of demand or supply factors, i.e. whether farmers demanded low valued loans, or whether it was the GCC which was only willing to supply low valued loans.

In this respect, a few farmers who received loans of under \$600 indicated that they were dissatisfied with the small size of loans. As the annual reports for 1967, 1968 and 1969 pointed out, however, because the funds promised by the government had not been disbursed, restrictive lending practices had to be enforced. Those farmers who indicated dissatisfaction with the small size of loans might therefore have been victims of factors outside the GCC's control. Furthermore, based on the fact that small farmers are generally sceptical about heavy indebtedness, it is also likely that the small size of the loans resulted from the demand side. As Phillips [38 p. 4] points out: "As a source of long term credit, the Credit Corporation was the only agency to which farmers could turn, even if the procedure for dispensing loans was tedious and 'cumbersome'", a fact which would indicate the willingness of the GCC to lend for long term purposes *ceteris paribus*.

Interest Rates

Eighty-five per cent of the loans granted carried an interest rate of 5-10 per cent with a mean value of 7 per cent. Unlike the commercial banks, the criterion of creditworthiness based on class and status seems less operative, and it appears that once a loan has been successfully negotiated, a standard rate of 7 per cent is charged per annum. As the 1968 Report noted [42], even though money is dearer and most lending organizations ask 8-10 per cent in interest, the Corporation maintains its 7 per cent. This suggests that the GCC is a cheaper source of borrowing for most farmers. A few loans, four altogether, had to pay an interest of less than 5 per cent.

Repayment Period

Like the commercial banks, the majority of loans — 69 per cent — were for short term purposes which had repayment schedules of less than one year. The value of such loans comprised only 13 per cent of the total value of loans granted by the GCC. This was not surprising given the policy of the GCC that repayments should generally bear some relationship to the use of loans. The small size of the loans used primarily for working expenses would suggest, therefore, that loans would be repaid immediately after harvesting. Four out of the 26 loans were medium term credit comprising 50 per cent of the total value of loans made by the GCC. Only one loan was due to be repaid over five years and three loans had indefinite loan repayment periods. Details are provided in Table 4.8.

It is often stated in the literature that the type of credit needed for the development of the small farmer is medium and long term loans, which are not generally supplied by institutional lending agencies. This certainly seems to have been one of the premises which influenced the establishment of the Guyana Credit Corporation as an agent for the provision of long and medium term credit to small farmers. However, the data obtained on the lending operations of the GCC point to the conclusion that short repayment periods observed are the

TABLE 4.8 SELECTED REPAYMENT PERIODS FOR THE NUMBER AND VALUE OF LOANS GRANTED BY THE GUYANA CREDIT CORPORATION 1968-1970 BY DISTRICTS

Repayment Period	Indefinite		Less than 1 year to 1 year		Over 1 year to 5 years		5 years and over	
	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans
Districts								
West Coast Demerara	2	3,060	7	989	—	—	—	—
Essequibo Coast	—	—	—	—	2	1,937	1	2,000
East Bank Demerara	1	300	—	—	—	—	—	—
East Coast Demerara	—	—	7	900	2	12,775	—	—
East Berbice	—	—	4	1,130	—	—	—	—
Total for all Districts	4	3,360	18	3,019	4	14,712	1	2,000

results of the purposes for which loans are demanded rather than the case of this agency being willing to lend only for short term periods.

The opposite view held by students of agricultural finance and in particular those involved in the establishment of the GCC results from a failure to recognize that peasants do not normally demand credit, much less credit which would leave them heavily indebted for long periods, because of their backwardness in technology and in general, their conservative outlook in life which is not concerned with maximising profit.

Collateral Requirements

The securities required for loans obtained from the GCC were for the most part not onerous. Fifty-five per cent of the total number of loans granted did not require the surrendering of any securities. This was due essentially to the small value of such loans since taken aggregatively these loans comprised only 11 per cent of the total value of loans granted. The average size of those loans was less than \$200. For loans of \$200 and more, a variety of securities were utilised. In terms of the number of loans granted, collateral was distributed as follows: land was 27 per cent of the total, financial assets 8 per cent and mortgages 4 per cent. In value terms, land was 22 per cent, mortgages 34 per cent and financial assets 25 per cent.

Credit Satisfaction

The majority of farmers – 65 per cent – who obtained loans from the GCC were satisfied with the terms and conditions of the loans. Twenty-eight per cent were either dissatisfied or not entirely satisfied, while 8 per cent made no comments. We suspect that those farmers who made no comment were not entirely satisfied with loans received but, fearing that interviewers might transmit such information to the GCC, refused to comment.

A breakdown of credit satisfaction responses by individual districts revealed, however, that it was only in Essequibo Coast that dissatisfaction was predominant. Five out of nine farmers receiving credit from the GCC were not satisfied and this was partially responsible for the relatively high percentage of dissatisfied farmers in the total set. This highlights the bias that can occur in drawing inferences for the entire sample as a whole where data from one district heavily influence the aggregate picture.

Three main reasons were cited for dissatisfaction. First, some farmers noted that loan applications took too long to be processed. The implication of this is obvious. A loan obtained too late cannot be used for the purpose for which it was sought, given the fact that production is seasonal. It is quite likely, therefore, that loans granted primarily for production purposes may be used in some other form not conducive to the expansion of production.

The second reason given for dissatisfaction was that the contracts were too complicated for farmers to understand. This stems from the low educational

TABLE 4.9 NUMBER AND VALUE OF LOANS (\$G) SECURED BY VARIOUS SECURITIES OFFERED TO THE GUYANA
CREDIT CORPORATION (1968-1970)

Security	Land		Crop Liens		Mortgage		Personal		Other		Nil	
	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans
West Coast Demerara	5	3,659	--	--	--	--	--	--	--	--	4	390
Essequibo Coast	1	1,000	1	2,000	--	--	--	--	--	--	1	937
East Bank Demerara	1	300	--	--	--	--	--	--	--	--	--	--
East Coast Demerara	--	--	--	--	1	7,775	1	5,000	--	--	7	900
East Berbice	--	--	--	--	--	--	1	775	1	75	2	280
Total for all Districts	7	4,959	1	2,000	1	7,775	2	5,775	1	75	14	2,507

TABLE 4.10 OPINION OF FARMERS IN ALL DISTRICTS ON THE ADEQUACY OF LOANS OBTAINED FROM THE G.C.C.

Districts	Obtained Loans	Number of Farmers Who			Made No Comments
		Satisfactory	Unsatisfactory	Not Entirely Satisfactory	
West Coast Demerara	1 12	10	1	1	—
Essequibo Coast	9	4	5	—	—
East Bank Demerara	2	2	—	—	—
North West District	1	—	—	1	—
East Coast Demerara	8	4	—	1	3
East Berbice	7	5	—	2	—
Total for all Districts	39	25	6	5	3

background of many farmers. The three farmers who noted this as a source of dissatisfaction all had educational standards of less than fourth grade.

The third reason given was that the loans received were only a fraction of that which the farmers had applied for. The reason for this has already been discussed. Table 4.10 illustrates the responses of farmers on the adequacy of loans received.

SUMMARY

In summarizing this chapter we may highlight again the low volume of credit supplied to farmers by both formal lending agencies. We have indicated, however, that this low level of finance seems to be primarily the result of loan demand factors as few farmers utilized the lending facilities of these agencies. It was obvious also that the commercial banks were more liberal in extending credit to farmers than the Guyana Credit Corporation. This was demonstrated not only in terms of the total supply of credit granted to farmers but equally important in the terms of such credit. This perhaps accounts for the smaller proportion of farmers who were dissatisfied with loans from commercial banks than with the Guyana Credit Corporation. The importance of non-institutional lending agencies as suppliers of credit to small farmers is examined in the chapter following.

FOOTNOTES

¹For a discussion of this see Bourne (11).

²It is possible, however, that given the absence of legal land titles, commercial banks might be reluctant to use land as a security. I am grateful to Dr. Compton Bourne for drawing my attention to this information which he obtained during interviews with loan officers of commercial banks of Guyana.

³This includes the period before 1968 and the period 1968-70.

CHAPTER FIVE

NON-INSTITUTIONALIZED LENDING AGENCIES AS A SOURCE OF FARM CREDIT AND COMMODITY LOANS

INTRODUCTION

In this chapter, we propose to examine the importance of non-institutional lending agencies as a source of farm credit and commodity loans. We define non-institutional lending agencies as those agencies that do not have an organisational structure geared specifically for the mobilisation of funds towards subsequent lending. Individuals and institutions included in such lending agencies are rice millers, pawnbrokers, shopkeepers, friendly societies, friends and relatives. An examination of this list would indicate that non-institutional lending agencies are very informal in structure with contact between borrower and lender very personalized. This is in contrast to commercial banks and credit corporations.

The chapter will be divided into two sections. The first section will examine the importance of direct money loans, the second, those loans which are granted in the form of commodities. This dichotomy, we feel, is essential for the implications it has for understanding not only the nature of small farm financing, but also the nature of the peasant economy in Guyana. On the one hand, a high percentage of direct money loans to farmers from non-institutional lending agencies would support our conclusion that formal lending agencies do not play a crucial role in small farm financing. On the other hand, a high level of commodity loans would indicate that farmers are still existing in backward conditions and that loans are used primarily for day to day consumption purposes, rather than for productive farm expansion.

DIRECT MONEY LOANS

Because of the volume of credit supplied by institutional lending agencies, it is generally argued and indeed supported by a wealth of empirical studies that informal lending agencies are the major suppliers of credit for the needs of the small farmer.

Apart from the belief that farmers do not normally obtain credit from formal lending agencies (see Chapter Four), the more important reasons advanced to support this claim are:

(1) There are no intricate and complicated rules governing the granting of loans as in the case with loans from commercial banks. Often no securities are required and in most cases only an oral agreement to repay a loan is made.

(2) The informal lending agencies themselves are willing to lend because —

(a) they have a good knowledge of the community, and are able to assess fully the borrower's character and collateral offered, and therefore can distinguish a good risk from a bad one; (b) they can provide constant 'on the spot' supervision of loans.

The empirical work done on credit to small farmers have all emphasized the view that interest rates are exceptionally high. Two schools of thought exist with respect to the determination of interest rates. On the one hand, the Bottomley-Long school [8 and 26] argues that rates are high primarily because capital is scarce and farm loans are costly to administer, because uncertainties of agriculture result in considerable loss through default and because the demand for credit is seasonal. Consequently, the cost of lending to cultivators in underdeveloped areas will almost certainly be high and monopoly profits may often account for no more than a negligible proportion of the rates which they will have to pay if indeed they exist at all [See Bottomley 8].

The validity of this view must, however, be questioned in the light of the fact that interest rates charged by lending agencies differ widely and often rates charged by money-lenders are much higher than that charged by other lending agencies. This is an indication that rates charged are above costs of administration and risks and may include monopoly profits.

The second school of thought, adhered to by Chandavarkar [15] and U. Tun Wai [50] offers a more plausible explanation. They argue that as a result of an imperfect market structure the price of non-institutional credit is too high. This proposition embodies two distinct statements: first, that the absolute level of interest rates is high; and secondly, that the level is much higher than justified by conditions on both sides of the loan market such as credit risk and administrative costs. Thus, Tun Wai [50 p. 109] stresses that "Interest rates are high due to a disproportionately large demand for loanable funds coupled with a general inelastic and limited supply of funds".

The above two schools are based on the assumption that professional money-

lenders comprise the majority of non-institutionalized lending agencies. As we have discussed earlier, this seems to be true only of countries with a feudal past or with semi-feudal conditions still existing. In the case of Guyana, we have argued that this past is absent; neither is it valid to assume an existing semi-feudal condition. As Beckford has pointed [5 p. 79] out with reference to plantation economies in which Guyana is included, "Plantation society has properties which distinguish it clearly from, say, peasant society and feudal society". The absence of moneylending activity is supported by the data given in Table 5.1. It is therefore possible that given the existence of other lending agencies whose livelihood is not dependent on the exploitation of peasants, modest interest rates can be charged.

In an attempt to test the empirical validity of these views in Guyana, this study sought information pertaining to the volume of credit obtained from a number of non-institutional lending agencies. Information was also sought on the terms under which these loans were contracted (1968-1970), which, unfortunately due to an oversight, questioned only the terms of loans granted by shopkeepers and produce dealers. This has meant a limitation in our analysis as the agencies not covered together accounted for just under 50 per cent of the number of loans. To minimize this defect, the viewpoint of the farmers on the adequacy of the loans was used to gauge the stringency of the loans contracted. This approach is based on the premise that if the terms of the loans are too onerous, a high proportion of farmers would either find loans unsatisfactory or not entirely satisfactory.

Number of Loans Contracted

Table 5.1 shows the total number of loans granted by various informal lending agencies by districts. From that table, the importance of informal lending agencies is clearly established, where a total of 188 loans were granted to small farmers in all districts for the period 1968-1970. While this figure represents a higher total than that from formal lending agencies, when it is related to the total number of farmers in the survey we can appreciate the fact that the level of agricultural finance via credit for small farmers is low in Guyana. The major suppliers of credit – the informal sources – supplied, on average, only two loans for every five farmers. This has to be seen in the context of our analysis given in Chapter Two where we emphasized that because of a low educational background and the general poverty of peasants, among other factors, the demand for credit will be low.

By far the most important source in terms of number of loans supplied was the category 'produce dealers', which accounted for 48 per cent of the total number of loans supplied by all informal lending agencies. In this category, a high percentage of the farmers indicated that the Guyana Rice Marketing Board supplied loans. The data suggest that produce dealers more than any other lending agency are willing to lend to farmers at perhaps the lowest available cost,

TABLE 5.1 TOTAL NUMBER OF LOANS GRANTED BY VARIOUS INFORMAL LENDING AGENCIES BY DISTRICTS
(1968-1970)

Districts	Money Lending	Pawn Brokers	Relatives	Co-op Societies	Other Lending Agencies	Dealers	Shop-Keepers	Total for all Lending Agencies
West Bank Demerara	4	1	3	—	4	6	1	19
West Coast Demerara	3	1	8	3	1	4	—	20
Essequibo Coast	1	—	1	9	7	26	—	44
Essequibo Islands	3	—	3	1	3	40	—	50
East Coast Demerara	1	6	6	3	1	7	—	24
East Berbice	3	7	8	—	—	7	6	31
Total for all Districts	15	15	29	16	16	90	7	188

as it may be to their advantage to provide small farmers with financial assistance for the cultivation of a crop in which they are interested.

Next in importance were relatives, accounting for 15 per cent and money-lenders, pawnbrokers, co-operative societies and other lending agencies (primarily rice millers) each accounting for approximately 8-9 per cent of the loans supplied. Loans from shopkeepers were relatively low, comprising only 3 per cent of total loans from informal lending agencies.

An examination of the data by districts does, however, show variation. Perhaps the most noteworthy feature is the absence of East Bank Demerara and North West District from the table, an indication that informal lending agencies were not important as suppliers of credit. As noted earlier, farmers in those districts did not use the facilities of institutionalized credit. The main explanation proffered by these farmers for the non-utilization of credit was that they 'do not believe in credit'. This statement has to be seen partially in the light of the educational background of the farmer, as functional literacy was lowest in these districts.

It is quite possible too, that the relatively high incomes of farmers in East Bank Demerara because of frequent off-farm work has meant that farmers were able through higher incomes to provide the required finance for their business. For North-West District, although off-farm work was not high among farmers, 25 per cent of farmers had a total income of over \$1,000 per annum.

Value of Loans

In terms of value of loans supplied for the entire sample, produce dealers supplied the highest percentage value of loans — 44 per cent, moneylenders were next with a percentage value of 25 per cent, followed by other lending agencies with 17 per cent. The rest were relatively unimportant.

The average size of loans was \$350 and this suggests that taken aggregatively, informal lending agencies supplied most of the medium-size credit needed by small farmers. The categorical breakdown of the informal lending agencies showed, however, that only in three categories did the average size of loans exceed \$200. Produce dealers supplied on average \$325 per loan, moneylenders \$1,000 and other lending agencies \$710. This would indicate that produce dealers normally lend for intermediate size expenditures, a fact that supports our earlier inference that produce dealers, for their own advantage, lend for crop cultivation. On the other hand, moneylenders and other lending agencies such as rice millers, supply credit for long term capital expenditure. The evidence therefore suggests that the latter agencies become important for performing functions which institutionalized lending agencies are not willing to undertake for reasons discussed above, and which other informal lending agencies, because of limited funds, cannot do.

TERMS OF LOANS GRANTED

As stated above, information on the terms of lending was obtained only for the category produce dealers and shopkeepers, hence no conclusive inference could be drawn pertaining to the hypothesis that costs of obtaining loans from informal lending agencies are high. We examine below the data collected under the sub-titles:- (a) interest costs; (b) repayment periods; (c) securities offered; (d) adequacy of loans.

Interest Costs

The most striking observation here is that 97 per cent of the number of loans and an equal percentage in value did not pay any interest on loans. This can be explained again by referring to the relationship that exists between produce dealers and farmers, where assistance to a farmer has usually taken the form of short-term advances against the delivery of crops, the amount of loans being deducted from the value of the crop. In other words, money is advanced to farmers at the time of cultivation free of interest but on condition that a proportion of the produce should be sold to the dealer immediately after harvest. Such conditions ensure that produce dealers are certain of a steady supply which at times may be sold to them at prices lower than the current market prices. Consequently, although nominal interest rates are non-existent, in real terms the cost that the farmer has to bear because of lower prices may be higher than if an explicit interest rate were charged.

Though this line of argument might be applicable to ground provisions and other produce, it is not the case for rice because the Guyana Marketing Rice Board has a legal monopoly on the marketing of all rice. To the extent that black-marketing in rice is practised (as is sometimes rumoured), then it is possible that illegal traders may grant interest-free loans to rice farmers with the assurance that the crops will be sold to them at a price lower than the current one. It is frequently suggested that a good example of hidden real cost that would affect the rice farmer is where the rice miller makes loans to farmers, perhaps interest free, but owns the land on which the farmer operates, owns the machines that reap the farmer's crops, owns the shop from which the farmer credits goods, and pays the farmer who must sell to him less money for his paddy than the farmer can get elsewhere.

Repayment Period

The majority of loans in terms of number and value, carried with them an indefinite loan period – 86 per cent of the number of loans and 91 per cent of the value of loans. The rest of loans had to be repaid within a year. Based on what has been noted above, however, we are of the opinion that these indefinite loan repayment periods were short term loans due to be repaid after harvesting. They could appear as indefinite because of the absence of any written contract with only a tacit agreement or understanding that loans would be repaid after harvesting. Table 5.2 describes the repayment schedule of loans contracted.

TABLE 5.2 SELECTED REPAYMENT PERIOD FOR TOTAL NUMBER AND VALUE OF LOANS GRANTED BY SHOPKEEPERS AND PRODUCE DEALERS (1968-1970) BY DISTRICTS

Repayment Period	Indefinite		Less than one year	
	No. of Loans	\$ Value of Loans	No. of Loans	\$ Value of Loans
Districts				
West Bank Demerara	7	11,850	—	—
West Coast Demerara	—	—	4	944
Essequibo Coast	26	6,693	—	—
Essequibo Islands	38	2,898	2	780
East Coast Demerara	13	2,150	—	—
East Berbice	—	—	7	485
Total for all Districts	84	23,591	13	2,209

Securities Offered

A large majority of the loans were received without the issuing of any securities, which indicates much less stringent conditions than is the case with formal lending agencies. This is a characteristic feature of loans offered by informal agencies since the idea of providing collateral is foreign to peasants. As Nisbet [34 p. 165] explained: "Rural people trade frequently on their name which encourages a reputation for honesty, reliability and seriousness toward financial obligations".

For the entire sample, 80 per cent of the total number of loans and 87 per cent of the total value of loans received, were without securities. Only in two districts, Essequibo Coast and Essequibo Islands, were securities necessary to obtain loans. In the latter district, land and 'other securities', notably jewellery, had to be offered; and these comprised 45 per cent of the total number of loans and an equal percentage in value of total loans. In Essequibo Coast, crop liens had to be offered for 18 per cent of the number of loans and 25 per cent of the total value of loans. It appears to be the case, therefore, that in order to ensure the safety of loans granted to certain farmers who might not be able to pay interest and who may be considered risky borrowers, produce dealers and shopkeepers request that securities be offered before such loans are granted.

It is interesting to note also, that only two loans secured for the entire sample had to offer crop liens as security. Based upon what we have noted before about the relationship between farmers and produce dealers, the absence of crop liens as securities may seem unusual and low. If, however, we also take into consideration the disguised cost of selling produce at prices lower than the current market price, then this might not be unusual. In other words, to demand crop liens as security would increase the real costs that have to be paid by farmers to produce dealers.

Adequacy of Loans Given by All Informal Lending Agencies

Table 5.4 shows the opinions of farmers who obtained loans from informal lending agencies. Of the 104 farmers who received loans from these agencies, 66 were satisfied, 11 dissatisfied, 14 not entirely satisfied and 13 made no comment.

Unlike farmers who obtained loans from commercial banks and the Guyana Credit Corporation, a higher percentage of farmers found loans to be unsatisfactory or not entirely satisfactory. The reason for this must be seen in the lending terms imposed by the various agencies. On the basis of the information collected on the terms of loans granted by produce dealers and shopkeepers, unless farmers were sensitive to the 'hidden' real costs involved in loans granted by those agencies, there would be no objective reason for the majority of them to be dissatisfied with loans received. That farmers were insensitive was obvious from the small number (10) who were not entirely satisfied with credit received from those agencies. We should note, however, that of those 10, five had to offer land as securities to obtain loans. An examination of Table 5.3 shows that the average value of loans secured by offering land as a security was only \$100. This disproportionate security requirement could conceivably provide a basis for dissatisfaction. Another five who had to offer land as securities to these agencies made no comment. We could also include these as being dissatisfied, since they probably refused to comment because of a basic mistrust of interviewers and a fear of word getting back to their lending source.

Although no evidence on the terms of loans granted by relatives was available similar studies throughout the world show that loans from that category were interest-free, for obvious reasons. There was no evidence to show that Guyana is an exception. With regards to the co-operative societies, on the basis of the nature and functions of such organisation, we also eliminated them as agencies which would lend unfavourably to member farmers.

Following from this, we feel that dissatisfaction must have resulted primarily from lending conditions specified by moneylenders, pawnbrokers and perhaps private rice millers. Bits of evidence seem to support this. For example, on a number of questionnaires completed, interest rates charged by moneylenders and pawnbrokers were given, even though there were no questions that asked for such information. Where such information was recorded it was observed that interest rates charged were very high. For example, in East Berbice, the three loans received from moneylenders all had interest rates of 20 per cent. In West Bank Demerara, of the two farmers who received loans from moneylenders, one stated that he was not satisfied and the other that he was not entirely satisfied. In another case, an interest rate of 16 per cent on a loan of \$3,000 was charged by a moneylender. Similar exorbitant interest rates were also experienced by those farmers who reported the interest rates charged on loans received from pawnbrokers. Indeed, Thomas [49 p. 154] writing about the lending patterns of pawnbrokers in the 1960s reported that "Existing pawn-

TABLE 5.3 NUMBER AND VALUE OF LOANS SECURED BY VARIOUS SECURITIES OFFERED TO SHOPKEEPERS AND PRODUCE DEALERS

Security Districts	Land		Crop Liens		Other Securities		No Securities	
	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans	No. of Loans	Val. of Loans
West Bank Demerara	—	—	—	—	—	—	7	11,850
West Coast Demerara	—	—	—	—	—	—	4	944
Essequibo	—	—	2	1,700	—	—	24	4,993
Essequibo Islands	11	1,162	—	—	7	596	22	1,920
East Coast Demerara	—	—	—	—	—	—	13	2,150
East Berbice	—	—	—	—	—	—	7	485
Total for all Districts	11	1,162	2	1,700	7	596	77	22,342

TABLE 5.4 OPINION OF FARMERS IN ALL DISTRICTS ON THE ADEQUACY OF LOANS OBTAINED FROM INFORMAL LENDING AGENCIES

Districts	Obtained Loans	Number of Farmers Who Found Loans			Made No Comments
		Satisfactory	Unsatisfactory	Not Entirely Unsatisfactory	
West Bank Demerara	12	6	4	2	—
West Coast Demerara	10	8	—	—	2
Essequibo Coast	31	25	5	1	—
Essequibo Islands	19	10	1	4	4
East Coast Demerara	22	13	—	2	7
East Berbice	10	4	1	5	—
Total for all Districts	104	66	11	14	13

NON-INSTITUTIONALIZED LENDING AGENCIES

broking arrangements appear to be full of abuse and malpractices”.

In these examples, we see that interest rates charged were extraordinarily high. The explanation of high interest rates is to be found in the structure of the market for large loans. As noted earlier, moneylenders were of major importance for the supply of large loans which for reasons already discussed were not forthcoming from formal lending agencies. On the other hand, due to shortage of funds, other lending agencies such as shopkeepers and relatives could not lend large sums. Moneylenders obviously had at their disposal large sums of money to lend. Consequently, they seemed to have been monopolistic suppliers of long term credit and were thus able to charge exorbitant interest rates. It is the absence of proper long term credit facilities which has created circumstances which drive farmers to the moneylending agencies.

THE SUPPLY OF COMMODITY LOANS

In most of the literature on agricultural credit to small farmers, empirical and theoretical work has tended to concentrate on analysing and describing money loans granted to farmers by informal and formal lending agencies, while few references are made to the supply of credit by way of commodities (food, clothing, machinery, etc.).

This lack of reference to an important source of farm credit can be attributed to the fact that students of agricultural finance narrowly conceptualize credit only in terms of money loans. Recognizing the importance of loans in cash for the development of agriculture, their empirical investigations have been geared to examining the extent to which farmers have available to them money credit, and the utilization of such loans, with the frequent consequence of overlooking or ignoring the importance of credit in kind to farmers. The only recognition given comes indirectly; for example, it is recognized that money loans given by informal or formal lending agencies quite often are used for consumption purposes, but little mention is made of direct commodity loans.

Loans in commodities are important to small farmers for three reasons: first, the economy in which they live is more consumption-oriented than production-oriented. This follows from the fact that they are semi-subsistence farmers and explains why consumption loans such as food and clothing are more important than loans for production. This has been the case in India where the All India Rural Credit Survey [2 p. 9] noted that “the importance of grain loans was chiefly associated with regions in which the economy is characterized by non-commercialized small scale farming”.

Secondly, due to the fact that farmers do not produce all products consumed on the farm, coupled with the time span that has to elapse between planting and harvesting, they are faced with the problem of financing domestic consumption and are therefore forced to obtain direct consumption loans to tide them over the period between planting and harvesting.

The above two reasons relate particularly to consumption loans. Credit by way of machinery and agricultural supplies from rural dealers and commercial firms, although not very important for small farmers, is a means used for obtaining such commodities. Its importance lies in the fact that because funds for machinery and other intermediate capital expenditures are not easily obtainable from formal and informal lending agencies, such supplies can be obtained directly on hire purchase. The commercial firms themselves are generally willing to lend "since the machinery and equipment have to be insured throughout the payback period and this provides adequate collateral for the lending firms" [Phillips 39 p. 5].

In an attempt to obtain some idea of the significance of commodity credit in Guyana our study questioned farmers on –

(1) The extent to which consumption goods were obtained from shopkeepers and the value of those commodities for the years 1969 and 1970; (2) The extent to which credit on machinery and farm supplies were obtained from shopkeepers and produce dealers; (3) The use of hire-purchase for farm machinery and household equipment.

Consumption Loans from Shopkeepers

A large number of farmers in most districts reported the use of consumption loans. This number greatly exceeded the number of farmers who obtained money loans from both informal and formal lending agencies combined. The total number of loans granted by both types of agencies for the period 1968-1970 was 258, whereas for consumption loans granted by shopkeepers the total was 327 for the period 1969-1970. This figure as noted in the footnote of Table 5.5 may be an underestimation of the true number of loans granted, as a number of the relevant pages with information on consumption loans were missing. For the entire sample, the percentage of farmers receiving consumption loans was the same for 1969 and 1970. The value of loans received for 1969 and 1970 averaged \$170 per farmer – a value equivalent to the average amount supplied by formal lending agencies and most of the informal lending agencies.

The relatively high percentage of farmers obtaining consumption goods on credit from shopkeepers highlights the importance of direct consumption loans in semi-subsistence economies and the valuable assistance given by shopkeepers. On the supply side, the shopkeepers are themselves willing to provide this assistance "as it ensures the ready disposal of goods in periods when farmers' funds are low and enables him to charge a premium on some commodities which could be obtained at a lower cost in the nearby town" [McMorris 30 p. 31]. The price differential is an implicit cost which farmers have to bear for such services.

TABLE 5.5 ABSOLUTE NUMBER AND PERCENTAGE OF FARMERS RECEIVING CONSUMPTION LOANS FROM SHOPKEEPERS 1969-1970 AND THE AVERAGE VALUE OF THESE LOANS FOR ALL DISTRICTS

Districts	No. of farmers receiving consumption loans		% of total farmers receiving consumption loans		Average value of consumption loans per borrowing farmer	
	1969	1970	1969	1970	1969	1970
West Bank Demerara*	2	2	3	3	170	250
West Coast Demerara**	35	34	72	69	103	150
Essequibo Coast	61	62	64	65	237	241
Essequibo Islands	10	10	40	40	197	192
East Bank Demerara	1	1	5	5	40	40
North West District	14	14	67	67	70	73
East Coast Demerara	30	30	58	58	143	145
East Berbice	11	10	14	13	97	114
Total for all Districts	164	163	40	40	162	177

Note: * Twenty-five farmers responded with positive answers to the question pertaining to the receipt of consumption loans although not for 1969 and 1970, also 10 pages relevant to obtaining data on consumption loans were missing.

** Five pages relevant to the above information were missing. Percentage figures were based on total responding farmers, i.e. 49, and not on all farmers in that district.

Agricultural Equipment and Supplies from Rural Shopkeepers and/or Produce Dealers

The hypothesis postulated that there is a significant utilization of agricultural equipment and supplies provided by shopkeepers and/or produce dealers was disproved. Only 4 per cent of the farmers in all districts obtained such credit. Only in two districts did farmers borrow for such purpose and here again, the percentage of borrowing farmers was small. In Essequibo Coast, 12 per cent of the farmers obtained such credit and in East Berbice this percentage was five.

A possible explanation for this may be that shopkeepers do not generally specialize in such credit activities. This would not, however, apply to agencies such as the Guyana Rice Corporation Board where it is a known policy to supply farmers with seeds, fertilizers and machines. Madramootoo [29] has noted that between 1969 to 1971, \$7m was expended on the rehabilitation of the rice industry. This took the form of providing subsidies on supplies and services and for agricultural equipment among other things. But as Madramootoo [29 p. 2] pointed out, "The subsistence level farmer continued happily in the traditional

way of his father and grandfather and made little or no use of the available facilities”.

It is possible, however, that the small percentage of farmers indicating the use of direct credit from the above sources could result from specifying the value of goods received from those agencies under the section dealing with money loans. That is, in answering questions relating to the value of money loans from shopkeepers and produce dealers, farmers perhaps included the value of credit-financed agricultural supplies. If this was the case, then it would mean an overestimation of the true picture of the number of farmers who obtained money loans from produce dealers and shopkeepers.

The total value of loans obtained was \$114 in 1969 and \$64 in 1970. Although the data given did not distinguish credit obtained for agricultural supplies from credit for equipment, we are of the opinion that they were for agricultural supplies rather than for equipment. This assertion must be seen in the context of our earlier reference that most of the farmers interviewed were operating on small acreages. Accordingly, machinery purchased must of necessity be small in value given farmers' low incomes which suggest an inability to purchase expensive machinery; the types of crops normally grown — vegetables and cash crops which do not necessitate the use of expensive machinery; the diseconomies of scale and excess capacity that would result if large expensive equipment were purchased.

Hire-Purchase

The use of hire-purchase among farmers was low. As can be seen from Table 5.6, 88 hire-purchase loans between 1968-1970 were made for all districts and the value of this was \$30,000. Less than five per cent of the total number of farmers using hire-purchase for the period did so for farm machinery and equipment, and these came from two districts where the average size of loans was \$1,500.

The farmers who used hire-purchase indicated that if loans could have been obtained from the commercial banks or the Credit Corporation, they would not have used hire-purchase as a source of obtaining credit. Apart from substantiating the view that formal lending agencies do not normally lend to small farmers, it also suggests that the terms of loans given by the hire-purchase agencies were not considered satisfactory. Dissatisfaction could have been with the fact that down-payments along with interest rates charged were too high, since as noted by Phillips [39 p. 5], “Downpayments range from about one-third of the selling price of the equipment to one-half, and interest rates are fixed ostensibly at about 10 per cent”. Moreover, in a different forum one rice farmer stated, “Hire-purchase should be a matter of some consideration as farmers are saddled with high interest charges and a very short period of payment” [Chen 14 p. 2]. It is interesting to note that several of the farmers who claimed that difficulties of obtaining credit from formal lending agencies forced them to use hire-purchase, did not approach either of these two institutions for loans. This indicates a perception of formal lending agencies by

TABLE 5.6 NUMBER OF FARMERS USING HIRE-PURCHASE AND THE VALUE OF SUCH HIRE-PURCHASE IN TERMS OF ITS USE BY DISTRICTS 1968-1970

	Farm Machinery and Equipment		Household Furniture Equipment	
	No. of Loans	Value of H.P.	No. of Loans	Value of H.P.
West Bank Demerara	—	—	38	9,930
West Coast Demerara	—	—	10	2,015
Essequibo Coast	3	5,500	3	210
East Bank Demerara	1	600	4	2,035
East Coast Demerara	—	—	22	7,861
East Berbice	—	—	7	2,008
Total for all Districts	4	6,100	84	24,059

small farmers as institutions which do not operate for their benefit.

On the topic of hire-purchase, we may note that information given in the Annual Report of the Bank of Guyana, reveals that hire-purchase to the agricultural sector is an important source of finance for agricultural machinery. The data for 1968 to 1971 show that hire-purchase for Industrial and Agricultural Equipment and Vehicles was on the average \$4.25m per quarter. This comprised one-third of the total value of hire-purchase supplied by the 20 firms reporting such lending activities. Such importance was not reflected in the study, indicating that hire-purchase is significant only among large-scale farms, possibly because of stringency in the terms under which hire-purchase is contracted.

Among the sample, hire-purchase was utilized essentially for household furniture and equipment. Ninety-five per cent of the farmers obtained hire-purchase for that purpose, with a value of 85 per cent of the total hire-purchase given. In terms of the money value of hire-purchase utilized for this purpose, an average of \$300 worth of commodities was obtained per borrowing farmer for the period 1968-1970. These figures point to the importance attached to credit for consumption rather than credit for the use of farm machinery, and again, have to be related to the nature of small farm organisation.

SUMMARY

This chapter highlighted the distinction to be made between direct money loans and commodity loans. The evidence gathered definitely points to the importance of commodity loans to the small farmer in pre-

ference to money loans. The volume and terms of loans granted by the informal lending agencies indicate, however, that these agencies were much more important as credit agents than formal lending agencies. Chapter Six summarizes the main findings of the study.

CHAPTER SIX

CONCLUSIONS

One of the most striking features revealed by the study was the insignificant use of money credit from both institutional and non-institutional lending agencies. It was obvious, therefore, that the major source of finance for the agricultural needs of the farmer came from current income. This pattern, as we have emphasized throughout the study, must be related to the low levels of income, education, and small holdings of land, as these features have influenced a situation where there was little need to borrow, and an inability to borrow even when the need was felt. It was noticed, however, that commodity loans were extremely important. The general poverty of the farmers suggests a conclusion that the type of credit demanded was determined by a decision to maintain their existence, and was not an estimate of their marginal efficiency of investment. It is this factor that explains why credit in commodity loans was more important than money credit for productive use.

The combination of a small number of farmers who demand money loans and the small value of such loans, seriously questions the stereotype contention that the inadequate supply of credit, especially for long term purposes, is the result of factors on the supply side. Reviewing the results of our analysis, we have come to realise that factors on the demand side are equally important for understanding agricultural finance and, in particular, the value and terms of money loans supplied. For greater clarity, the major findings with regards to the hypotheses formulated in Chapter One may be summarized as follows:

Hypothesis 1: The volume on institutional credit extended to the agricultural sector is small.

This hypothesis was accepted on the basis of the information on credit use supplied by the two main institutional lending agencies – The Commercial Banks and the Guyana Credit Corporation. Only 40 farmers from the entire sample were reported as having obtained credit from these agencies. Hypothesis 2 which follows was an attempt to explain this.

Hypothesis 2: The greater their wealth, the higher and more stable their incomes, the higher the level of their education, the more likely it will be for farmers to obtain loans from the institutional credit market.

This hypothesis was formulated on the basis that theoretical reasoning and empirical evidence suggest that the low volume of institutional credit is largely the result of agricultural production risks; the absence of adequate collateral; the disparity between the preferred maturity structure of borrowers on the one hand, and lenders on the other.

Elaborating on these three factors, and their relation to hypothesis 2, Bourne [9] emphasized that it would not be unreasonable to expect agricultural production risks caused by output and quality fluctuation to be minimized by improved techniques which are directly influenced by the level of the farmer's education and skill. Similarly, it is reasonable to expect the quality of collateral to vary directly with the level of farm wealth, as factors regarded as militating against the farmer's ability to borrow from lending institutions include the lack of proper legal titles to land and buildings. Finally, there is the presumption that loan finance is sought mainly for projects of long gestation period, while institutions like the commercial banks have a preference for short and medium term loans. In this respect, it is felt that borrowers' desired loan repayment schedules are likely to vary inversely with the level of their wealth and incomes.

It is obvious from the way in which hypothesis 2 was formulated that the main explanations for the low volume of institutional credit hinged on the view that constraints exist on the supply side. The information obtained suggests, however, that equally important are constraints pertaining to the nature of the demand for credit. Accordingly, the level of education, skills and income might not only affect or determine what the institutional lending agencies are willing to offer, but themselves will determine whether there will be a demand for credit from these institutions or not.

It seems reasonable to conclude from the evidence, that the latter feature was predominant as only 10 per cent of the entire sample sought loans from these agencies. We should, however, interpret this conclusion with caution, as it does not imply that constraints on the supply side were not present nor that the potential of such constraints to become effective should be ruled out. In particular, it was obvious from the response that the securities required and interest charged on loans above \$500 were such that many farmers would find it impossible to borrow for long-term expansion of their farms.

With specific reference to hypothesis 2, the data obtained on education and

income of those who applied for loans disproved the hypothesis. The information revealed that the levels of income, education, and farm experience of those whose applications for loans were rejected, were in many cases higher than those who obtained loans. This suggests therefore that other factors were important in the institutional lending agencies' decision to grant loans. In this respect, we examined the types of crops grown and the land size owned by the farmers who applied for loans as possible explanatory factors. The survey results, however, indicated that those factors were not important. Many farmers whose loan applications were refused, cultivated the same crops as those who obtained loans and, in several cases, owned more land. The apparent absence of any objective basis in granting credit to small farmers suggests that subjective factors such as the personality of loan officers, and the approach and attitude of the borrower to loan officers may be important in influencing whether credit is granted to a farmer or not.

As a corollary of the above two hypotheses, hypothesis 3 follows:

Hypothesis 3: The greater part of agricultural credit is by non-institutional lenders, notably professional moneylenders, traders and shopkeepers.

The information obtained with regards to this hypothesis clearly demonstrated its validity. For the entire sample, the non-institutional lending agencies supplied 75 per cent of the total number of loans and 68 per cent of the total value of loans issued to farmers for the period 1968-1970. The informal credit market was monopolized by produce dealers and relatives. Together they accounted for 63 per cent of the total number of loans and 50 per cent of the total value of loans granted by all informal lending agencies. Possible explanations for this are discussed in our assessment of hypothesis 4. However, what is worthy of note is the surprising absence of a domination of the non-institutional credit market by moneylenders. It is surprising, because the body of empirical evidence on credit in rural areas of the underdeveloped countries all emphasize this dominance. In Chapter Two, we offered an explanation. We suggested there, that the rise of moneylenders is closely associated with the presence of rapacious landlords associated with semi-feudal conditions. It is the absence of these features due to the peculiar history of Guyana that explains why moneylending activity was not predominant among the sample units. Hypothesis 4 offers an explanation for Hypothesis 3.

Hypothesis 4: Non-institutional lenders impose less stringent security conditions.

This hypothesis was accepted on the basis of the limited information we obtained, which covered only loans granted to farmers by produce dealers and shopkeepers. The data revealed that over 80 per cent of the total number of loans and the total value of loans received from these agencies did not require the surrendering of securities. It was apparent, however, that to ensure the safety of loans granted to certain farmers who might have been considered risky borrowers, those agencies requested securities before such loans were granted.

The absence of information on the credit activities of other informal lending agencies does not allow us to make reference to the security conditions of loans made to farmers by these agencies. Nevertheless, we suspect that because these agencies generally have a good knowledge of the community and are thus able to assess the borrower's character, securities might not be required before a loan is granted.

Hypothesis 5: The price of non-institutional credit is too high.

This hypothesis was formulated on the impressionistic evidence that not only is the absolute level of interest rates high, but also that the level is much higher than justified by conditions on both sides of the loan market such as credit risk and administrative cost.

The hypothesis was disproved. From the evidence given, interest rates, far from being exorbitant, were in most cases absent. It was apparent therefore that the high interest rate problem claimed to exist in the non-institutional credit market has been exaggerated. Thus, for example, 97 per cent of the number of loans granted by the two informal lending agencies which the survey covered (produce dealers and shopkeepers) did not carry interest rate payments. We also suspect that relatives and co-operative societies would charge minimal interest rates, if any, on the loans granted by them, because their existence does not depend on the commercial exploitation of farmers.

It is interesting to note, however, that although nominal interest rates were not charged by produce dealers, the conditions under which such loans were contracted suggest that a real cost was involved. The general practice deduced seems to be that produce dealers lend interest free to farmers under the condition that a part or all of the produce is sold to them, often at prices below the current market price. It is quite possible, therefore, for this real cost to exceed the cost of nominal interest rates if they were charged.

Interest charged on loans by moneylenders and pawnbrokers was definitely too high, extending above 20 per cent per annum in most cases. In this connection, it was clear that these agencies monopolized the long-term credit market, due to the inability or unwillingness of other lending agencies (including institutional ones) to grant such credit. They were thus able to charge exorbitant interest rates.

Hypothesis 6: The non-institutional credit market though highly differentiated with respect to types of lenders is highly monopolistic.

This hypothesis was partially accepted. It was obvious that the intermediate and large size categories of loans were dominated by few informal lending agencies. The information obtained indicated that the credit market for large size loans was dominated by moneylenders. This, as we have noted above, is primarily the result of the existing imperfect market conditions due to generally inelastic and limited supplies of funds from other informal lending agencies and from formal lending agencies. Produce dealers monopolized the intermediate--

sized credit market. Surprisingly, this monopoly power was not accompanied by the usual exploitative tendencies expected by monopolists, as the interest charged on loans was minimal. This feature may be explained by noting that although produce dealers as a group had a monopoly over the intermediate-sized credit market, competition could have been present among the individual members of that group resulting in a situation whereby minimal or no interest rates were charged on loans granted. However, as expressed above, given the tied nature of those loans, there were 'hidden' real costs which could serve as compensation for the interest free loans.

For small size loans, no monopolization existed. Several informal lending agencies operated in this market. The utilization of loans from these agencies depended partially on the relationship between them and the farmers, and also on the availability of funds for purposes of lending.

Hypothesis 7: There is discrimination in favour of certain types of crops, specifically export crops, by institutional lending agencies.

An examination of the sectoral distribution of loans by commercial banks and the Guyana Credit Corporation as was done in Chapter Four, clearly shows that export crops – rice and sugar – were the major recipients of loans granted to the agricultural sector. This lending pattern as suggested by Bourne among others, is a consequence of the secure market arrangements that these two crops have.

Although we are of the opinion that discrimination exists in favour of export crops, the information obtained reveals some interesting results which could contradict the hypothesis. It suggests that rather than a case of the institutional lending agencies *discriminating* against farmers who specialize in crops geared for the domestic market, rice farmers receive credit because they are the *only farmers* who apply for loans.

This feature does, however, lend support to our general thesis, namely that the more technologically backward and poverty-stricken farmers are, the less willing they are to seek credit. In this connection, it was noticed that in general, rice farmers were more wealthy and commercial-minded than those who specialized in crops geared for the domestic market.

A definitive assessment of this hypothesis would, we feel, require more research into the matter. Of particular interest in this respect would be a comparison of the terms of loans granted to those farmers noted by the banks in their reports; i.e. those who produce for the domestic market and those who produce for the export market.

Hypothesis 8: The volume of internal finance is low and consists essentially of farm savings.

The hypothesis not only specifies the level of own finance absolutely or in relation to total finance requirements but also singles out categorically its major component. Accordingly, our summary here will examine these two inter-

dependent but different factors separately.

From our discussions above, which indicated a low level of credit utilization from both informal and formal lending agencies, we can deduce that the majority of farmers utilized a large proportion of owned resources for the financing of their agricultural needs. The conclusion that the volume of internal finance was high in relative terms is therefore reached. Nevertheless, the low incomes of the farmers in the survey, suggest that in absolute terms, the level of own finance must have been extremely low. Consequently, as was obvious from their levels of capital expenditure which were undertaken to maintain their existing standards of living, a situation of persistent poverty is being perpetuated.

Because of the small volume of farm savings¹ it was apparent that the majority of internal financing was from current income. The general pattern seems to be that whatever income accrues is either used to repay debts or is ploughed back into the farm. Hypothesis 9 which follows explains why farm savings were low.

Hypothesis 9: The volume of farm savings is primarily determined by the level of farm incomes.

This hypothesis was accepted, thus the low level of farm incomes meant that saving was a near impossibility. In his formulation of this hypothesis, Bourne suggested that if the hypothesis was true then credit shortage can be viewed as the strategic bottleneck. As he put it, (Bourne 9 p. 3] “. . . increases in agricultural productivity (upon which levels of incomes rest) are conditional upon the modernization of agriculture by increased application of chemical fertilizers, mechanical cultivation and harvesting, all of which impose certain large financial commitments”. We have stressed throughout, however, that although credit shortage is a bottleneck, equally important is the fact that the small farmers have been so oppressed and downtrodden that a climate of fatalism now exists among them. What seems more important is a fundamental change of their socio-economic position, the significance of which will be explained below.

Hypothesis 10: There is significant utilization of hire-purchase and other credit-scale facilities provided by retail firms or other rural agencies for the purchase of agricultural equipment and supplies.

This hypothesis was formulated on the opinion that even if there were loan constraints on agricultural productivity, the possibility existed that farmers would utilize alternative credit facilities offered by firms such as hire-purchase.

The insignificant number of farmers who sought credit-sale facilities for agricultural equipment and supplies demonstrated the fallacy of this hypothesis. It must be conceded, however, that the relatively high down-payments and interest rates charged by those firms, served as potential obstacles to their utilization for some farmers.

What was highly significant and of much interest to us, however, was the frequency with which farmers obtained and utilized direct commodity loans (clothes and food) from shopkeepers. This behavioural pattern, we believe, confirms and cements the essential points we have tried to make throughout the study, namely: the small farmers in Guyana attach importance first and foremost to their physical survival by trying to maintain their already low standard of living, rather than the use of credit and/or lowering of present period consumption for the bright future of farm expansion which they can never envisage.

The research undertaken in this study does not lay claim to completely understanding or highlighting the nature and problems of small farm financing in Guyana. The opportunities for research in this field have therefore not been exhausted. A full understanding of the subject would necessitate further research into the lending operation and activities of all lending agencies. This could perhaps be best achieved by a similar survey and interviews with those lending agencies which were important in extending loans to the Guyanese small farmers.

PROPOSALS

Our study would not be complete without making brief references to the way ahead for the development and advancement of the small farmers in Guyana.

The evidence that we obtained demonstrated that there was a great need for credit, but that the major constraint in the use of credit came from an inadequate demand. This situation has been the result of the low incomes and backwardness of the peasants. It is obvious, therefore, that the small farmers have been caught in a circular low level equilibrium trap. Credit is required to increase their incomes and living standards but it is precisely these factors that have militated against the use of credit. Accordingly, the question of improved agricultural credit must be related to the social and economic development of the farmers. Any policy proposal that hopes to be successful must therefore seek to come to terms with measures designed to improve the overall development of the small farmer.

The unwillingness of the institutional and non-institutional lending agencies to act as supply leading credit agencies² and the ignorance of farmers on the virtues of agricultural credit have led us to the conclusion that a system of supervised credit aiming to habilitate technically, economically and socially, small and medium farm families to better their living conditions through the use of credit based upon farm and home management plans and the techniques imparted [See Ribeiro and Wharton Jnr. 44] is perhaps the best method of approaching the problem of providing an efficient credit scheme. It is obvious that such a scheme must be broadly conceived. It departs from the conventional credit policy which seeks to increase the volume of credit to farmers without emphasizing the necessity of educating farmers on the proper utilization of credit or attaching importance to their social development.

The organization of this scheme could function within the general framework of a co-operative credit/market society with branches in the various districts. Thus not only would the co-operative be concerned with credit but also with marketing of the commodities produced by the farmers. It could also serve as an agent for supplying the necessary inputs, such as fertilizer, seeds and equipment required for expansion of output.

This co-operative must be owned and controlled by member farmers. The experience of the co-operative credit society formed after the suspension of the 1953 Constitution provides us with ample proof of the necessity for such a co-operative as the one envisaged to be under the management of the member farmers and independent of Government control. Thus, Chan [12 p. 2] had stressed that the Credit Society formed in 1953 "was a child of political birth and subject to political interferences leading to its failure".

Further proof of the need for an independent co-operative society is seen in the lending activities of the Government-dominated Guyana National Co-operative Bank. In his proposals on the type of agricultural credit to be extended to farmers, Madramootoo [29 p. 5] indicated that "the GNCB with the very philosophy behind its establishment – service to the small man – renders it preeminently suited to fulfil this vital role". However, the indications are that the "operations of the indigenous bank in Guyana have not brought about any proportionately greater allocation of bank credit to sectors not favoured by the expatriate banks the available information on the GNCB's loan portfolio demonstrates quite clearly that its performance falls far short of the rhetoric" [Bourne 11 p. 115].

The political independence of the co-operative envisaged does not, however, suggest that co-operation with the Government and in particular the Ministry of Agriculture should be discarded. In this respect, the Government would be required to put the co-operative on a sound financial footing via grant assistance. Their extension services should be made available to provide the required education for the proper utilization of credit and general methods aimed at improving farming practices. Trained personnel would also be required to educate the farmer and his family on how to make improvements in the home and family life. By so doing it will not only affect the economic aspect of the farmer's life but also his social development.

The benefits of such a supervised credit programme have been demonstrated by a similar scheme in Minhas Gerais, Brazil. A study done on the impact of a supervised credit scheme there, showed that the technological changes resulting from the introduction via a combination of credit plus extension yielded a return more than six-fold [See Ribeiro and Wharton Jnr. 42].

A policy of supervised credit is, however, only one side of the picture. By itself, it cannot ensure the overall development of the small farmers. The salient points raised in the findings of several Third World economists on the need for structural land reform, the nationalization of all foreign controlled companies,

are all complementary, as any increase in the overall demand and efficient use of productive credit in Guyana will have to be a consequence of economic growth rather than its cause.

FOOTNOTES

¹We define savings as that part of income which is left after all expenses have been cleared.

²See our discussion of this in Chapter 4.

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APPENDIX I

A NOTE ON THE SURVEY METHODOLOGY

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As stated in the preface, the analyses reported in this study were based on the results from a survey of small farmers conducted between April to June 1971. This note seeks to describe the general objectives of the survey and the survey methods employed, as well as to comment on the reliability and general relevance of the data so generated.

The fundamental objective of the survey was to provide solid data on the basis of which descriptive and analytical light could be shed on financing patterns, costs of credit, and other problems of financing small-scale agriculture in Guyana.

Since the study could not proceed in a vacuum, the first stage in the survey design was an extensive review of the literature on agricultural finance in the Third World, with special attention being devoted to the Caribbean. It was soon readily apparent that the literature on the Caribbean with the exception of McMorris [30] was quite sparse and very general. Nonetheless, one could discern certain widely held views as to the nature, volume, and adequacy of agricultural credit. In addition, there is no shortage of explanations for whatever financial deficiencies are perceived.

The survey adopted those views and formulated them as a set of working hypotheses around which data would be sought. (Details are given in the text). The hypotheses were not intended to represent preconceived views of the actual financial situation as it pertains to small farmers in Guyana. On the contrary, it was hoped that the survey would generate data which would not only confirm or falsify the hypotheses as the case may be, but which would perhaps suggest more relevant and novel hypotheses.

From the blank questionnaire appended to this note, it can be seen that quantitative information was sought on the general education background, farming skills, and experience of farmers. Information was also requested on farm income and savings levels, attitudes towards savings, farm expenditures by type of expenditure, credit experience, utilisation of credit sale facilities, commodity loans, reasons for seeking credit, and credit terms. An attempt was made to obtain information on the farmers' assets and liabilities. To check upon and to improve the accuracy of responses on farm assets, the enumerators were required to make independent estimates based on the number, age, type and unit price of the physical asset.

A three per cent nationwide sample was drawn from farms of size 50 acres or less. The basic sampling frame was the list of enumerated farms from the 1968 Census of Agriculture conducted by the Ministry of Economic Development. The Census enumerated 37,281 farms not exceeding 50 acres in size, and between 400-500 farms of sizes greater than 50 acres. From an inspection of the 'greater than 50 acres' farms, it was discovered that very often not more than 19-30 acres were cultivated in any one crop year. Effectively, therefore, many apparently large farms were small farms, if measured by cultivated area. For this reason it was decided to sample those enumerated at 50 acres or less.

The choice of a sampling fraction was a difficult one. The large number of farms argued on the one hand for a large sampling fraction, but on the other hand implied considerable expense. The issue was resolved by noting the general uniformity of crop patterns and by noting fairly clear evidence of geographic concentration of certain agricultural activities. The solution was to adopt a 3 per cent sample from the farm population divided into 10 strata, namely –

- (1) East Bank Demerara
- (2) West Bank Demerara
- (3) East Coast Demerara
- (4) West Coast Demerara
- (5) West Berbice
- (6) East Berbice
- (7) Essequibo Islands
- (8) Essequibo Coast
- (9) North West District
- (10) Demerara River

This had the merit of capturing within a relatively small sample, the uniformity and diversity of farm behaviour in Guyana. The strata corresponded to administrative districts. Three administrative districts were omitted – two (Bartica and Mazaruni/Potaro) because the sample numbers involved (11 and 18) were too few to justify the high level of expenditure that would have arisen and the third (Rupununi) because it was not included in the Census (a result of the uprising in 1968).

The total sample size was 1,162 farm units. To ensure maximum possible response compatible with minimum survey costs, the technique of substitutable sample units was adopted, i.e. when, say the 33rd farmer was unavailable or non-cooperative, one sampled the 32nd or 34th farmer.

The actual field work was conducted by agricultural officers and field assistants of the Ministry of Agriculture. The decision to use Ministry of Agriculture personnel was motivated by three factors.

(1) They are more familiar with farm practices, equipment and the farmers, and are thus in a better position to judge and challenge the accuracy of information provided by farmers. Field investigators were requested to submit separate and or independent valuations on farm assets when the veracity of the farmer's response was seriously doubted.

(2) By virtue of their closer working association with the farming community, they were in a better position to gain the confidences of farmers.

(3) Since they worked and resided in the districts and could have tied in the survey with their normal duties, the total field costs were likely to have been much less than if university personnel had themselves attempted to handle that phase of the operation.

Two brief training sessions were held with field investigators (both enumerators and supervisors). At those sessions, the purpose and method of the study was carefully explained. Much time was spent discussing the details of the questionnaire, and in particular the meaning of certain economic terms and the coding format which was adopted to secure anonymity of respondents. In addition, written instructions and explanatory notes were distributed to each field assistant.

It transpired that some sample units proved inaccessible or refused to cooperate for a variety of reasons (political unease, and income tax evasion being the main ones). In the Northwest District which is heavily populated by Amerindians – a nomadic people – whole families and 'villages' shifted location to other areas. These difficulties were more acute in some strata than in others.

The net outcome has been a low response rate in a few strata. Specific response rates are as follows:-

		<u>Sample Size</u>	<u>Response Rate (%)</u>
1)	East Bank Demerara	28	100
2)	West Bank Demerara	62	100
3)	East Coast Demerara	210	100
4)	West Coast Demerara	72	100
5)	West Berbice	101	19
6)	East Berbice	443	10
7)	Essequibo Islands	67	66
8)	Essequibo Coast	120	78

9)	North West District	41	56
10)	Demerara River	18	100

The especially low response rates for the East Berbice and West Berbice strata prompted their deletion from the study. As a consequence, Lewars' analyses are based on returns for eight strata only. It should be noted that responses to particular questions were not uniformly good even in high response strata. As a consequence some particular bits of information have to be interpreted rather more cautiously than others.

Despite the very good response rate for the districts studied, the fact that the final study is based on only a subset of the sample, suggests that one cannot generalise about agricultural finance among small farmers *in Guyana* on the basis of the study's findings. Lewars rightly stresses the need for caution in this respect. However, other information suggests that generalisation may not be so dangerous after all. Subsequent field trips in areas of high non-response, for example East Berbice, have yielded information supportive of many of the study's findings.

APPENDIX II
REGIONAL MONETARY STUDIES PROGRAMME
UNIVERSITY OF GUYANA

SURVEY OF AGRICULTURAL FINANCE IN THE CARIBBEAN

STAGE I: GUYANA

SCHEDULE 1

CODE NO:

Where applicable, please indicate the appropriate answer by a tick () in the box provided.

A: DISTRICT, MANAGEMENT, AND TYPE OF FARM ACTIVITY

- 1) District in which farm is located
-
- 2) Who manages the farm?
- | | |
|---------------|---|
| Owners | - |
| Hired Manager | - |
- 3) Who owns the farm?
- | | |
|--------------|---|
| Yourself | - |
| Family | - |
| Company | - |
| Co-operative | - |
- 4) Which of the following types of activities do you engage in?
- | | |
|-----------------------|---|
| Paddy | - |
| Rice Milling | - |
| Citrus | - |
| Coconuts | - |
| Ground Provisions | - |
| Livestock – Beef | - |
| Dairy | - |
| Poultry | - |
| Greens and Vegetables | - |
- 5) If you are engaged in more than one type of activity, which yields the most revenue?
- | |
|--------------|
| First |
| Second |
| Third |
- 6) How long have you been a farmer?
-

- 7) How many years experience do you have in relation to your main crop or livestock?

- 8) Up to what class in primary school did you go?
- 9) How many years of secondary education have you had?
- 10) Have you ever had any training in farm practices and management?

Yes -

No -

B: FARM INCOME AND SAVINGS

- 1) For your farm, what roughly (to the nearest Guyana dollar) were the following for the years 1968-1970?

ITEMS	YEARS		
	1970	1969	1968
a) Income derived from sale of farm produce and livestock
b) Income derived from work off the farm
c) Savings
d) Tax payments
e) Tax allowances on farm equipment and building

- 2) Do any of the following considerations influence your decision to save?

FACTORS

- | | | |
|--|---|---|
| a) Your total income | | |
| b) Your tax payments | - | - |
| c) Tax concessions on farm equipment and buildings | - | - |
| d) The planned expansion of your farm business | - | - |
| e) Other (Specify) | - | - |
- 3) How would you rank them in order of importance?
 (Enumerators see Instructions)
- 4) How much did you spend in each of the years 1968-1970 on the following types of farm operations?

ITEMS	YEARS		
	1970	1968	1968
i) Purchase of Land
ii) Purchase of farm machinery
iii) Purchase of livestock and Poultry
iv) Erection of farm buildings (including fencing)

- v) Repairs to Farm Buildings
 - vi) Drainage and Irrigation
- 5) What do you regard as the three most important influences on your decision to spend money under those categories listed in question 4.
- First
 - Second
 - Third

C: LOAN FINANCE

- 1) How many times has your farm applied for a loan from a local commercial bank?
 - (a) Since your farm started operations?
 - (b) Since 1968?
- 2) How many times has your farm been granted a term loan by a local commercial bank?
 - (a) Since your farm started operations?
 - (b) Since 1968?
- 3) If your farm has obtained a term loan since 1968, what were the amounts borrowed for each of the years 1968-1970?

YEARS	AMOUNT
1970
1969
1968

- 4) For those commercial bank loans, what was –
 - i) The shortest time granted for repayment? (exclusive of extensions and renewals)?
 - ii) The shortest time granted for repayment?
 - iii) The highest interest rate charged on a loan?
 - iv) The lowest interest rate charged on a loan?
 - v) The number of times within the period 1968-1970 you have negotiated extensions of repayment periods?

- 5) Within the period 1968-1970, had your farm applied for an overdraft from a local commercial bank?

YES	–	NO	–
	–		–

- 6) If “Yes” did your farm obtain an overdraft?

YES	–	NO	–
	–		–

7) If "Yes", what were the ceilings placed on those overdrafts?

YEAR	CEILINGS
1970
1969
1968

8) How many times has your farm applied to the Guyana Credit Corporation for a loan

- (a) Since operations started?
- (b) Since 1968?

9) How many times was your application successful?

- (a) Since operations started?
- (b) Since 1968?

10) If your farm did obtain a loan since 1968, what were the amounts borrowed for each year?

YEAR	AMOUNTS
1970
1969
1968

11) For loans received from the Guyana Credit Corporation, what was

- i) The highest interest rate charged?
- ii) The lowest interest rate charged?
- iii) The longest time granted for repayment (exclusive of renewals or extensions)?
- iv) The number of times the farm has within the period of 1968-1970 re-negotiated extensions of repayment periods?

12) During the periods 1968-1970, has your farm obtained a loan from

SOURCE	RESPONSE	
	YES	NO
a) Money-lenders	—	—
b) Pawnbrokers	—	—
c) Shopkeepers	—	—
d) Guyana Marketing Corporation	—	—
e) Other dealers to whom your farm normally sells its produce	—	—
f) Relatives and Friends	—	—
g) Co-operative Societies	—	—
h) Any other Sources	—	—

13) What amounts were obtained from each of those sources listed in question 12?

SOURCE	AMOUNT		
	1970	1969	1968
a) Money-lender
b) Pawnbrokers
c) Shopkeepers
d) Guyana Marketing Corporation
e) Other dealers
f) Co-operative Societies
g) Relatives and Friends
h) Total from all Sources

14) For loans from the Guyana Marketing Corporation,

- i) How long has your farm ever been given to repay a loan in full (exclusive of extension)?
- ii) What was the highest interest rate charged?

15) For loans from dealers and from shopkeepers,

- (i) What was the highest interest rate charged?
- (ii) What was the lowest interest rate?
- (iii) What was the longest time you were given to repay the loan in full?

16) Does your farm borrow for –

	YES	NO
(a) Capital expenditures (i.e. purchase of land, building, machinery, equipment, livestock)?	–	–
(b) Working expenses (tilling, planting, fertilizing, reaping)	–	–
(c) Living expenses	–	–

17) From which four main sources does your farm borrow for capital expenditures?

Rank them in order of importance –

- i)
- ii)
- iii)
- iv)

18) Are you satisfied with the response to your requests for loan by

	YES	NO	NOT ENTIRELY
a) Local Commercial Bank	–	–	–
b) Guyana Credit Corporation	–	–	–
c) Other lenders	–	–	–

19) If your answer to Question 18 is not “Yes”, state your reasons:

.....
.....
.....
.....

20) For each of the years 1968-1970, what were the total (store) values of the following classes of items, if any, bought on Hire Purchase?

ITEMS	YEAR		
	1970	1969	1968
i) Farm machinery and equipment
ii) Household furniture and equipment

21) Suppose you could have secured a loan from the commercial banks or credit corporation for those purchases of farm machinery and equipment, would you have still considered using H.P.?

YES	—	NO	—
	—		—

22) If "Yes", how would your decision to use or not to use Hire Purchase be affected by —

a) Interest charges on loans

Very greatly	—
	—
Greatly	—
	—
Not at all	—
	—

b) The minimum deposit on Hire Purchase

Very greatly	—
	—
Greatly	—
	—
Not at all	—
	—

c) The difference between the Hire Purchase price and the cash price of the item —

Very greatly	—
	—
Greatly	—
	—
Not at all	—
	—

d) The availability of loans from Commercial banks or the Guyana Credit Corporation

Very Greatly	—
	—
Greatly	—
	—
Not at all	—

23) For each of the years 1968-1970, what were the following —

ITEMS	YEAR		
	1970	1969	1968
Total Assets (\$) of which
1) Land
2) Machinery and Equipment
3) Livestock
4) Government securities (e.g. (e.g. Savings Certificates)
5) Buildings
6) Others

24) For each of the years 1968-1970 what was the total amount of your indebtedness on the following?

ITEMS	YEAR		
	1970	1969	1968
Machinery and Equipment
Land
Farm Building

25) For loans you have secured from commercial banks and/or the Guyana Credit Corporation what kinds of assets have you offered as security against the loans?

- i)
- ii)
- iii)
- iv)

26) For loans you have secured from shopkeepers and dealers, have you been required to offer some security against the loan?

YES	—	NO	—
	—		—

27) If "Yes", what kinds of security have you offered?

- i)
- ii).....
- iii)

28) Have you ever received groceries and articles of clothing on credit from rural shopkeepers?

YES	-	NO	-
-	-	-	-

29) If your answer to Question 28 is "yes", have you ever been required to give any security?

YES	-	NO	-
-	-	-	-

30) If your answer to Question 29 is "yes", what kinds of security have you been required to give?

- i) Claim on crop or livestock? -
- ii) Land -
- iii) Others (Specify)..... -

31) If you have received groceries and articles of clothing on credit from rural shopkeepers, within the last 2 years, what were the highest values of your credit for each of those years?

YEAR	AMOUNT
1970
1969

32) Have you ever received on credit agricultural equipment and supplies from rural shopkeepers and/or produce dealers?

YES	-	NO	-
-	-	-	-

33) If your answer to Question 32 is "yes", have you ever been required to give any security?

YES	-	NO	-
-	-	-	-

34) If your answer to Question 33 is "yes", what kinds of security have you been required to give?

- i)
- ii)
- iii)
- iv)

- 35) If you have received on credit agricultural equipment and supplies from rural shopkeepers and/or produce dealers, what were the total values of your credit for each of the following years?

YEAR	AMOUNT
1970
1969
1968

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