AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

INSTITUTIONAL SUPPORT FOR NEW STRATEGIES: THE CARIBBEAN FOOD CORPORATION

H.A.D. Chesney
(Managing Director (Acting), Caribbean Food Corporation, Trinidad)

Introduction

I welcome this opportunity, on behalf of the Caribbean Food Corporation (CFC), to address this meeting. A meeting which proposes to identify the *changing perspectives in agriculture in the Caribbean*. Within this general framework, the meeting has set itself *inter alia* the task of examining whether the existing national and regional institutions that have been established and, perhaps, implicitly the institutional, legal, infrastructural and environmental framework within which they operate are adequate to meet these changing perspectives. It is within this context that I would wish to discuss CFC with special reference to its objectives, its structure - financial and otherwise, its method(s) of operation and its achievements to date.

Origin and Formation

The idea of the Caribbean Food Corporation was first officially mooted in 1974, in a cable from the then Prime Minister of Trinidad and Tobago to Heads of Governments of the other MDCs. This cable lamented the increasing import food bill of the Region and stressed the need for *urgent positive* action to reverse the trend. A Working Party was established to examine this concept and proposal. This Working Party formulated the framework of a Regional Food Plan and the establishment of CFC as its main implementing agent. These proposals were accepted by Heads of Governments in November, 1975. The Agreement Establishing the Corporation with headquarters in Trinidad and Tobago was accepted and signed by all Member States in November 1976 on the understanding that it would be ratified in each State by the necessary national enacting legislation. To date, there are still two countries yet to ratify.

For reasons which have never been clear nor understandable, neither full time professional nor managerial staff was appointed until the second half of 1979 and a managing director in mid-1980. The ensuing months were spent by management and directors primarily developing the administrative and financial rules and policy guidelines within which the Corporation would operate. By mid-1981 the Corporation felt that it was ready to be operational.

Objectives

The general objectives of the Corporation, clearly spelt out in the Agreement Establishing the Corporation, are the production, processing, packing, storage, transportation, distribution and marketing of food. More specific objectives are listed as:

(a) identifying, planning and implementing all stages of agricultural production schemes and any schemes relating thereto and, in pursuing the foregoing, to cooperate with national agencies;

(b) mobilising funds, technical and managerial skills from within and without the Region to promote, finance and implement agricultural production schemes; and

(c) organising and facilitating the bulk purchase of agricultural inputs, as well as the marketing and other services associated with agricultural production schemes.

The Act further establishes the environmental characteristics within which these objectives should be achieved as the use of sound commercial practices; aid in the development of human resources, especially the small farmers of the Region; promotion of advanced technology; development of an efficient and viable import scheme; achievement of self-sufficiency in food; raise the nutritional levels of the people; and complement national efforts.

Structure

The Corporation is managed by a Board of Governors, composed of the Ministers of Agriculture; a Board of Directors, comprising seven national representatives; and staff. A deliberate decision has been taken that the staff of CFC will be slim-lined, and when fully constructed in 1984 is not expected to exceed 13 professional and managerial persons with the necessary support staff.

Capital Resources

The authorised share capital of the Corporation is TT$100 million with initial paid up capital of TT$10 million. The first part of the initial paid up capital was TT$4.5 million and was fully subscribed by the end of 1977. The remainder, TT$5.5 million was called in in 1981 and is now almost completely paid up. The paid up capital resources available to the Corporation is therefore relatively small, taking into consideration its need to meet operating expenses and invest in projects. It was decided that the paid up capital of the Corporation should be eroded only in the most stressing of circumstances and should generally only be invested in gilt edged securities. As a result, the Board of Governors in 1981 agreed to have an additional callable capital of TT$50 million; as a mechanism to enable the Corporation to guarantee loans for project investment. At the start of CFC it was envisaged that a substantial part of these project investment funds would be obtained from Member Governments. This has not materialised. This question of availability of finance and the financing structure of the Corporation would be addressed again as they affect the achievements of its goals and objectives.

Investment Strategy

In 1981, the Corporation's first three year Investment Strategy, with both country and sub-sectoral approaches, was approved by its Board of Governors. The Strategy identified priority areas of investment by the Corporation as marketing, agro-business, fisheries, production projects related to productivity improvements by the introduction of new technology and management systems, and production related to agro-business enterprises. Within those priority areas, activities and/or projects will be developed so as to generate intra-regional trade flows of inputs and outputs; reflect the complementary resources - developed or latent - of member territories and/or the possibility for transfer of new technology developed; initiate urgently the implementation of essentially vital regional support services, e.g. a marketing facility, an agricultural trade information service, and a management provision service.

The Strategy further identified its opportunity niches as:

(1) demonstration activities, which are intended to be replicated in a number of Member States, such as feedlot production and commercial mechanised grain production;

(2) production of basic products and critical production inputs that would remain in high demand even at times of economic difficulties, such as grain and beef, and breeding stock, fertilizer, seed and hatching eggs;

(3) production and trade to meet the marketing opportunities which exist for processed food products, where appropriate raw material inputs or suitable replacements can be competitive produced in Member States, e.g. sorrel, mangoes, citrus and tomatoes;

(4) activities to synergise production from a number of countries especially the LDCs into marketable volumes;

(5) utilisation of new, less energy-intensive food processing activities in strategic locations to open up production opportunities for the farming community;

(6) rehabilitation and/or expansion of extra-regional export crops, as cocoa, citrus, spices, arrowroot, and root crops, fruits and vegetables;

(7) support of national fisheries activities in furtherance of artisanal fisheries operations in selected locations;

(8) development of a rationalisation of fishing activities on the basis of wider access to national territorial fishing zones and markets of the group of CARICOM States as a long term objective; and

(9) reduction of the high percentage of regionally produced food commodities that does not reach the consumer due to post-harvest losses or wastages.

The Strategy further stated that the Corporation would function as a Holding Company having subsidiaries. These subsidiaries would generally be joint ventures with both the private and public sectors. However, in keeping with the mandate of the Board of Governors to emphasize the promotion of commercial as opposed to developmental projects, the Corporation has decided to seek out private sector partners in as many of its joint ventures as possible. The Strategy also proposed that CFC provide *Seed* venture capital for projects, which would in turn attract additional equity and enable loan capital to be obtained.

Investment Programmes

The Investment Programmes (1981/83 and 1982/84) have been developed based on the guidelines of the Strategy outlined above. These programmes enable the Corporation to invest in the following types of projects:

(i) *Pilot* where promising technologies or systems may be tested for their possible development as commercial activities, e.g. the grain/livestock project in Belize, testing of refrigerated mini-containers;

(ii) *Developmental* which would include production, marketing, or service activities that could attract funding from external donor sources based on the objectives of the Regional Food Plan and the policy criteria of the donor sources. These projects must themselves have two basic criteria, i.e. they must be self-financing and be vital to the downstream development of regional agriculture and preferably of a commercial nature. These projects include the development of a Regional Marketing Service, a Regional Agricultural Trade and Information Service, Production of Hatching Eggs;

(iii) *Commercial* which meet the normal investment guidelines of the private sector except that the payback period may be longer than normally considered adequate by the private sector.

The 1982/84 Investment Programme, based on the identification of potential projects, envisages CFC disbursement of approximately TT$89 million with $10, $40 and $39 million dollars being spent in 1982, 1983 and 1984, respectively. This distribution, along with that by project type, is shown in the table below. The latter showing a definite shift over time to commercial type projects following the policy adumbrated earlier:

Project Type	Amount to be disbursed							
	1982 (TT$'000)	%	1983 (TT$'000)	%	1984 (TT$'000)	%	Total (TT$'000)	%
Pilot	920	9	730	2	-	-	1,650	2
Developmental								
- Regional support/service	1,890	19	8,230	20	4,650	20	14,770	16
- Production	3,280	33	14,720	37	13,010	33	31,010	34
Commercial	3,770	39	16,640	41	21,480	55	41,890	48
TOTAL	9,860		40,320		39,140		89,320	

The results to date of approaches made to funding agencies, shown in the following table, indicate that only 59 percent of the monies required for investment by CFC are assured. In other words, there is a funding gap of about TT$37 million. Examining the table further shows that the percentage assured for commercial, regional support, development production and pilot projects are 25, 73, 98, and 100, respectively.

Funds Required for Project Investment by Project Type

These statistics are, however, in themselves misleading. Firstly, although there is recognition both intra- and extra-regionally that venture capital is essential to facilitate the promotion of development enterprises, particularly those of an agricultural nature in the Region, there is a traditional reluctance by donor sources to provide soft funds for such investment. These sources have traditionally provided soft funds for on-lending activities and generally do not provide public sector organisations with funds to acquire shares in production enterprises. One donor source has stated clearly that the Convention within which it provides assistance to the Region precludes its funds from being used for equity investment. Further, it is felt that this erodes the concept of private sector ownership of productive activities. In

Project Type	Amounts for 1982-1984		
	Programme Requirements	Assured Value (TT$'000)	%
Pilot	1,650	1,650	100
Developmental			
- Regional support service	14,770	10,505	71
- Production	31,010	30,275	98
Commercial	41,890	10,415	25
TOTAL	89,320	52,845	59

addition, appropriate policies and mechanisms are yet to be evolved even by those sources showing a willingness to provide such finding to stimulate regional agricultural development.

There is also the view, not shared by CFC, that soft loan funding sould not be used to acquire equity investments in projects, in view of the history of poor prospects of dividend payment of such soft loans. Equity investments should come from grant funding and/or shareholders' contribution.

Secondly, experience suggests that although donor sources may have committed funds in block to CFC, they tend to have their own conceived rate and timing of the criteria for disbursement of these funds. These may not coincide with those of CFC.

Of the TT$52 million *assured,* TT$3.8 million is earmarked to come from CFC equity with the remainder (a substantial majority) from donor sources. The major donor source is the European Economic Commission having committed approximately TT$44 million for CFCs use.

This nature and form of investment funds available to the Corporation have significantly influenced its actual investments as compared to its investment decisions. The Corporation, between the period January 1981 to March 1982, after appraisal of a number of projects has made the decision to invest in 17 projects (4 pilot, 4 regional support/services; 6 production developmental, and 3 commercial). The value of these investments is estimated at TT$25.5 million. On the other hand, the actual investments made are valued at approximately TT$3.0 million.

Categorising these 17 projects on a sub-sectoral basis shows the following breakdown: 2, fisheries; 3, livestock; 3, marketing (including transportation); 5, crops; 1, processing; and 3, improved technology introduction.

In the implementation of this programme, I would like to highlight the Corporation's ability to attract the private sector which has agreed to participate in six approved projects. Also, in the last three to four months, private entrepreneurs have sought out CFC as a joint venture partner in at

least six enterprises, the majority of which are in the area of processing and manufacture. In this regard, the Corporation has developed links with important private sector organisations, such as the Industry Council for Development (ICD), the Caribbean Facility of International Finance Corporation (IFC) and Caribbean Association of Industry and Commerce (CAIC). The Corporation feels very gratified about this adventure that is apparently leading to a healthy relationship, if not marriage, between the public sector (CFC) and the private sector.

Also of signal importance has been the establishment of a regional agricultural marketing service, the Caribbean Agricultural Trading Company (CATCO), with CFC is the majority shareholder with 51 percent and the regional private sector as minority shareholders. This Company is the subject of a presentation later on in the meeting and you would certainly get more details on it. There is, however, one message that CFC, as the major shareholder, would like to leave, which is that CATCO is established for the benefit of the Region's farming population (especially the small farmers) through the bettering of market opportunities for their produce and the increased and more timely availability of inputs.

Conclusion

In concluding, I would wish to submit that the Corporation has a vital role in the implementation of the Regional Food Plan. Particularly in attracting the business skills and financial resources of the traditional private sector into agribusiness areas, outside of their well tried and trusted brokerage or commission agency activities in input trade. The Corporation, if allowed the opportunity to develop and gain the confidence of the peoples of the Region, can be of immense importance to regional agricultural development.

Even at this time, however, it is clear that there may be need for certain changes in the structure, method of operation and perhaps even the objectives of the Corporation. For the conditions, particularly economic, financial and investment, that presently exist are quite different from those existing at the time of its establishment. For example, but for one exception, the member territories appear unable to finance the investment possibilities of the Corporation. This places the Corporation in the position where in practice its policy directions may be inordinately influenced by the concepts and thought processes of extra-regional donor sources. The Corporation is aware of this need to review its operations relevant to the changing needs and conditions of the Region. Accordingly, it has already constructed the machinery to make such a review, with particular reference to the fuller participation of the regional private sector and its investment portfolio.

I trust that this presentation has given this meeting an opportunity to much better understand CFC, what it is; what it has achieved to date; to determine whether it is an appropriate agricultural implementing institution in light of the *changing perspectives in Caribbean agriculture* and to come up with ideas and recommendations that would enable it to perform even better in this changing economic and perhaps geopolitical environment.