ROLE OF CREDIT IN AGRICULTURAL DEVELOPMENT

by

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It is indeed a pleasure to participate in this seminar. As a former University student, I feel greatly honoured by the opportunity to speak on such distinguished academic grounds. Thank you for the invitation.

Before I get started on my topic, The Role of Credit in Agricultural Development, I would like to warn you that I am not a trained economist, but an Animal Husbandryman (or educated cowboy! If you want to put it that way). I have, however, been associated with agricultural credit work for the past six years. First in my country, Panama, where I benefitted from a backlog of experience and information built up during 15 years of successful lending by my employers, The Chase Manhattan Bank and, since 1964, in Trinidad and Tobago.

I will try today to bring into this seminar some of my views on the role of credit as related to the farming business.

Modern farming is a fast changing field. Every year, new machinery makes the old obsolete; new discoveries, new seeds; new livestock varieties; new chemicals, new techniques; and so forth. Farmers who don't adjust their production methods to new developments run the risk of being left behind or disappearing. The farming business becomes more and more competitive.

In the less developed areas of the world, Agriculture must develop quickly to provide food for an ever-increasing population and to provide the raw materials for a developing industry.

Success in modern farming depends on a proper combination of Money, Management, and Marketing. Money more often than not comes through credit. The basic role of credit in Agriculture is to provide capital to acquire any kind of productive assets, land and/or machinery.

Credit provides the means for many farmers to adjust their operations to keep up with the constant changes and, by doing so, to improve their operations. It provides the means for many farmers to expand their operations to meet increasing demands for agricultural products. It provides the means for the development of new agricultural enterprises.

There are many problems in modern-day farming; problems which could not be solved through the use of credit alone. But credit is today an integral part of modern farming. It can be safely said, that much of today's progress in farming can be traced to good credit.

In order for credit to fulfil effectively its role in Agriculture it should serve two main purposes:

First, that of the individual, by providing the necessary capital to meet the ever-increasing demand for efficiency in farming. The Agricultural Commission of the American Bankers Association describes as the function of credit "to assist in placing the tools and materials of production in the hands of those who can make effective and profitable use of them". In other words, agricultural credit should assist in increasing the efficiency of production of existing individual farm businesses so as to help them cope with the growing competition in the farm business. Today's farming is no longer a traditional "way of living" but a business. It is the financing of this change from a traditional "way of living" to a business that agricultural credit finds its place in helping the individual farmers.

The second function of agricultural credit is that of helping the community. Agricultural credit helps the community by increasing the prosperity of the rural areas and by stimulating the production of more agricultural products. This social function of credit is of particular interest in the less developed areas of the world since it is well-known that these areas experience the greatest need for increased agricultural production. Though the financing of the expansion of existing farm business, and the development of new farm enterprises is how credit finds its place in helping communities and nations.

The two aspects of credit, individual and social should work hand in hand in order for credit to play its role in Agriculture for the benefit of everyone.

Before I continue, I would like to point out that there are other sources of farm capital, besides credit, which have played, and will continue to play an important role in Agricultural development. Savings for instance, continues to be the backbone of the farm financial structure. However, it is widely accepted that progress through savings alone is a rather slow process. Credit allows for further and faster development.

As isthe case with many good agricultural tools, credit has its good and bad points. The farmer who uses fertiliser knows that poor results are obtained either by using too little fertiliser, or using too much. In the same way, credit in Agriculture should be used up to the right amount. There is nothing wrong with credit, but there may be something wrong with the way it is applied. Properly used, credit is an invaluable tool.

Modern farming is business and it should be handled in a businesslike manner if it is to be successful. Likewise, agricultural credit should be handled in a businesslike manner. This implies the necessity for a thorough knowledge of the farming business by the persons administrating the agricultural credit program. It is only with a complete knowledge of the farm business that credit can be applied successfully to Agriculture so that it will serve its two main purposes, that of helping the individuals and the community. Governments recognise this need when they set up specialised agricultural lending institutions. Commercial banks and other private lending institutions also recognise this need by staffing themselves with agricultural technicians to supervise their agricultural credit programmes.

I would not like to pass on to another point without emphasising the need for credit supervision in agricultural lending. I cannot think of a successful agricultural credit program without the supervision of trained agriculturists. The reasons are obvious. A great portion of this supervision should be dedicated to actual technical assistance to the farms.

An example of a successful credit programme is our own success in lending for cattle production in my country, Panama. We have been doing this, as mentioned before, for the past 15 years. During this time my country changed from cattle importing to a cattle exporting country. We would not like to take all the credits for accomplishing this change by ourselves, but we know that we made an important contribution. We did this through the use of credit together with technical supervision and aid. There are many ways in which agricultural credit can be classified. However, all fall into two main categories: commercial and institutional credit.

By commercial credit I mean the type of credit supplied by private institutions. Bank credit and merchant or dealer credit are the most common types of commercial credit. Merchant or dealer credit, however, is only a secondary service to their main business of selling agricultural machinery, tools, tractors, feed, fertilisers, etc. Supplying credit, on the other hand, is one of the main functions of commercial banks. I cannot pass this opportunity without mentioning the important contribution of commercial banks in agricultural development. Their greatest contribution is making available to the farmers capital originating from other sources which normally would now be available otherwise to farmers. Commercial banks also assist indirectly in agricultural development through the finance of related industries and businesses. Modern farming requires the strong support of other economic sectors. It requires support of manufacturers and distributors of fertilisers, chemicals, insecticides, and a great variety of products. Most of the developments in these fields come through credit provided by commercial banks.

Making funds available for the improvement of farm operators or the expansion of existing farm businesses is the usual practice of commercial banks. These types of credit are generally known as "short to intermediate term".

By institutional credit, I mean the type of credit provided by public institutions such as your Agricultural Credit Bank. This type of credit is associated with the development of new farm enterprises and is generally classified as "long term credit".

Both commercial and institutional credit should work hand in hand for an effective contribution to agricultural developments. They should supplement each other rather than try to substitute for each other. Commercial banks are not equipped, nor have they the kind of funds needed for the development of new farm enterprises. Commercial banks cannot make a farmer out of anybody. They can, however, help those who already are in the farm business to improve their operation or to expand them. Through this action commercial banks help the development of Agriculture. Public lending institutions, on the other hand, are normally equipped and have the funds required for the development of new agricultural enterprises. There comes a time, however, when these new farm enterprises attain a certain level of development which warrant their being absorbed by the commercial bank system. These new farmers, graduate, if you will allow my using this term, from institutional credit to commercial lending. By absorbing these new farmers, the commercial bank system defreezes funds for the public institutions to be used in developing additional new farm business, so that a new cycle is started. The function of the commercial banks is to push further development in those farms which have "graduated" from institutional credit.

While on the subject of commercial and institutional credit, I would like to stress that in both cases there is no substitute for technical aid and supervision. The need for technical aid is obviously much greater in the case of institutional credit.

It is in the field of capital investment that most of the work lies in Trinidad and Tobago. This is nothing peculiar to your country, as you will find similar situations in all Latin America. There is a need for greater capital investment in Agriculture in our countries. The problems lie in the fact that there is also a need for capital investment in other economic sectors of our countries. We need more industries, more schools, roads, etc. so that Agriculture has to compete with these other sectors for funds to use for capital investment. I am happy to know, however, that in your country there is a growing interest in the private and Government sectors to correct this situation. At this very moment, we are being visited by a team of experts from the World Bank as a result of your Government's request for assistance in making funds available for capital investment in Agriculture.

It has been my intention to bring to you some of my thoughts on the Role of Agriculture as my contribution to discussions in this seminar. In summary, The Role of Credit in Agricultural Development is to provide means to meet the constant changes in Agriculture, and to stimulate greater production of food to feed the growing world population. I would like to remind you of the social functions of credit in helping the betterment of communities and nations, and the need to tie up credit with technical aid for its most efficient use. I would not like to close without congratulating the University of the West Indies and especially Dr. Alexander, for its initiative in organising this seminar.