FINANCING AGRARIAN REFORM IN THE COMMONWEALTH CARIBBEAN

Frank Alleyne
(University of the West Indies, Cave Hill, Barbados)

There are few generalisations which one may safely make about the literature on agrarian reform. Specifically these have to do with the existence of widely divergent views on the scope and method of agrarian reform, and the high degree of concensus that land redistribution might be a necessary but not sufficient condition for agricultural development.[1] This paper is developed through four stages. It begins with an identification and analysis of the major structural and institutional problems inhibiting agricultural development within the region. From this discussion guidelines of an agrarian reform programme emerge. The various dimensions of the scheme will generate demands for varying types and quantities of finance, and the feasibility of employing current practices to service these demands is examined. The final part of the paper proposes an institutional structure designed to meet the requirements for agricultural development within the region.

A very limited but valuable stock of empirical and theoretical work has already been produced on the major constraints influencing the technical and economic efficiency of resource use within the farm sector in the several economies within the region. This body of research provides a useful point of departure in the analysis of the major constraints impeding agricultural development within the Caribbean.[2] The models developed by Beckford demonstrated two major aspects of West Indian agriculture. Possibly the most important in the context of continuing underdevelopment of Caribbean agriculture is the existence of the Plantation system of resource organisation. This system it is argued, perpetuates a fundamental dichotomy within the farm sector, between large and small holdings with respect to the quality, quantity and the terms on which they secure access to resources. Beckford argues that the plantation system combines of certain structural and institutional factors which over time operate to induce incremental factors into production for the export market, thereby diminishing factor supplies available for use in producing foodstuffs for domestic consumption and raw materials for the domestic manufacturing sector.

Factors Affecting Land Use Efficiency

This paper proposes a radical agrarian reform programme.[3] This section of the paper focusses attention on some of the major factors affecting the efficiency with which land is used in the Caribbean region.

Tenure

The most pervasive factor influencing the efficiency of land use seems to be systems of tenure. Specifically, the existing tenure systems to a great extent determine the planning environment within which the farmer operates, and ultimately determines whether the operator can select a crop-mix which is

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1 P.M. Raup. "Land Reform and Agricultural Development." *Readings in Agricultural Development and Economic Growth.* Edited by Southworth & Johnston.

2 G.L. Beckford. "An Appropriate Theoretical Framework for Agricultural Planning." *Social & Economic Studies.* Vol. XVIII, No.4, Sept. 1968.
G.L. Beckford. "The Economics of Resource Use and Development in Plantation Economies." *Social & Economic Studies.* Vol. XVIII, No.4, Dec. 1968.
G.L. Beckford. "Towards Rationalization of West Indian Agriculture." Paper presented at the 1968 Regional Conference on Devaluation. ISER. 1968.
G.L. Beckford. *Persistent Poverty.* OUP, 1972.
D.T. Edwards. *An Economic Study of Small Farming in Jamaica.*

3 Radical in the sense that it attempts to eliminate the sources of the underdevelopment.

consistent with maximisation of returns on the farm. Ideally the tenure system should operate to make available to competent farmers good arable land in optimum farm sizes under conditions which are conducive to long-term planning. Any system which fails to accomplish these two fundamental objectives must result in sub-optimal use of farm resources.[1]

A variety of tenure systems exist within the agricultural sector in the Caribbean, the predominant ones being owner-occupancy, lease, and rental types. Some of these arrangements possess built-in defects which discourage optimum resource use. In the case of the predominant owner-operator system, at least three sub-types exist within the region, the small farm of uneconomic size, farms which fall into the middle and large grouping which are owned and controlled by indigenous individuals or groups, and farms which are an integral part of the multi-national firm. Decision-making between the various sub-groupings is carried out within vastly different environments. The farm of uneconomic size is too small to provide the operator with a level of living which is high enough to enable him to become a specialised farmer, and invariably he is heavily indebted in his effort to own the farm. His debt position is likely to result in a deliberate capital rationing on the farm, which must retard the rate at which the technical efficiency of his resource use can develop.

The units of middle and large size operated and owned by indigenous individuals or groups function in a manner similar to the orthodox firm model when it is modified to accommodate the peculiarities of the agricultural industry. The major problem which this unit demonstrates is an underutilisation of resources, arising out of the failure to adopt a scientific approach in relating farm size to crop types, and crop zoning. The large holding subsidiaries of international firms present a peculiar problem, in the sense that the allocation of resources within this unit conforms to the requirements of the vertically integrated parent firm. This kind of organisation can result in a conflict between the use of resources to achieve national social goals and the objectives of the international firm. It also generates an inflexibility in the use of resources controlled by the subsidiary, since adjustments in the use of locally controlled resources can only take place within the context of changes in the entire structure of the parent firm.

The rentier and leasing arrangements are generally characterised by lack of security of tenure and absence of adequate provisions to provide compensation to the operator for improvements which he has undertaken. Such defects necessitate planning within a short-period horizon, resulting in substantial sacrifices in the efficiency of resource use, income and welfare to the farm family. The system of family lands can operate to retard the process of decision-making with respect to how the farm is to be developed, and whether sources of finance external to the farm can be tapped.

Capital

The capital input in the farm sector clearly illustrates the dualism which exists between large and small holders. Availability of capital seems to be a more important consideration for the small holder than the cost of capital. Because of certain creditworthiness criteria which are applied by banking institutions, small holders experience great difficulty in raising any kind of capital from the established institutions.[2] The upshot of this is the stark undercapitalisation of the vast majority of small farms, which operated to obstruct farmers' efforts to improve their level of living through increases in productivity brought about by the use of improved fertilisers, seeds, livestocks and machine services.

Moreover the banking institutions' bias towards investment in export crops, is one of the main factors responsible for a strong research bias towards solving problems in the cultivation of export crops. This

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1 For a lucid exposition on the implications of tenure systems for farming efficiency see: Earl O. Heady. *Economics of Agricultural Production and Resource Use.* Part IV, Ch. XX.

2 D.T. Edwards. *Op. cit.*

imbalance in research has helped to institutionalise the dualistic nature of the farm sector. As Beckford points out, the substantial differentials in risk and uncertainty which exist between production for the export and domestic market tends to attract incremental resources into production of export crops.[1] Other major factors which help to generate the large risk differentials between export and domestic production are the existence of a protected market for certain export staples; and the relatively low level of organisation of the domestic market for locally produced foodstuffs. This familiar bias in resource use runs counter to the achievement of agricultural development.

The export staples of the region are for the most part relatively low income elasticity commodities, while the region imports a wide range of foodstuffs with much higher income elasticities. It is obvious that over time greater benefits could accrue to the farm sector if incremental resources were shifted away from the production of existing export staples and were utilized to produce some of the imported foodstuffs, and it is to this end that programmes of land reform should be instituted. In a nutshell, any properly conceived programme of agrarian reform should address itself to the elimination of the fundamental structural and institutional defects which presently hamstring the development of the agricultural sector.

Proposed Lines of Reform

An agrarian reform scheme may attempt to achieve several goals, through the establishment of conditions which enable the most competent farmers to gain access to good arable lands of the optimum size given his particular line of production. Such a reform scheme should facilitate flexibility in land use as opportunities change, encourage the practice of progressive farming techniques, and ultimately improve the levels of living of persons employed on the farms.

It would seem that the conditions which are most likely to realise the objectives set out above could be found in the case where a progress-oriented state became the sole landlord.[2] Public sector ownership of land would only be a small part of the whole reform process. Substantial research will have to be carried out into the problems affecting existing cropping and livestock patterns and of substituting profitably for the imports of high income elasticity goods. Adequate capital and credit must be made available to operators at relatively low cost, along with efficient extension services to carry the knowledge about new and improved techniques, seed, fertilisers and processing to the operators. Experience in a wide range of countries confirm that this is best achieved through the tying of credit to extension education. Marketing intelligence services will have to be established, and adequate arrangements made to facilitate the coordination of production and marketing in order to minimise gluts and shortages. The construction of access roads and other infrastructural facilities should be an essential feature of the scheme. Public ownership of all lands would facilitate three further changes which may become necessary. They are the amalgamation of plots of uneconomic size, thereby checking fragmentation; reduction in the size of farms where the acreage exceeds the optimum for the particular type of crop which the operator is cultivating; and finally, engineering works to secure solutions to problems of erosion. Such a scheme envisages a rationalisation of land use, since this is fundamental to the improvement in efficiency with which land is used.

Types of Finance Required

The suggested scheme will generate demands for substantial amounts of long, medium and short term capital. It is important that such capital be supplied in the right quantities, and that every effort be taken to ensure that the use of credit by operators eventually results in a real increase in the value of their assets. The major existing sources of agricultural credit are the Agricultural Credit Banks withinthe public sector,

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1 G.L. Beckford. "Toward Rationalization of West Indian Agriculture." *Op.cit.*

2 A comprehensive land nationalisation policy would present difficult operational problems where land owned by nationals is concerned.

and Cooperative Societies, Growers' Associations and Commercial Banks in the Private sector.[1] Existing credit systems are biased towards financing large holdings. Because of certain institutional factors, like insecure tenure, unclear titles, small collateral and the family-farm nature of the business, the creditworthiness criteria employed by the commercial banks effectively discriminate against small scale operators. The main contribution of the commercial banks to agricultural credit is through the granting of short-term loans to large-scale operators. The bias in favour of financing large holdings is clearly illustrated by the Sugar Industry Agricultural Bank of Dominica which makes loans at 6 per cent solely to plantations for the cultivation and manufacture of sugar.

In the case of Growers' Associations, credit is intimately tied up with the type of crop cultivated. Such institutions tend to provide finance for ongoing crops, but do not provide credit to finance experimentation with new crops. This particular type of credit plays a significant role in the Windward Islands. The Cooperative Societies' contribution to credit is small, mainly because of the relatively small volume of financial resources which they control. No serious attempts have been made by any of the institutions to supervise credit. In Dominica the Banana Growers' Association checks upon the acreage under cultivation. These data are correlated with the farmer's requirement for seed and fertilizer finance. Certain aspects of the existing credit arrangements need to be carefully studied, specifically the formulation of reasoned criteria for granting credit; the conditions under which finance should be made available; the role of the private and public sector in providing direct and indirect finance for agrarian reform; and relevant institutional arrangements for the provision and supervision of credit.

Grave defects exist within the arrangements for providing credit to the farm sector. Administratively, the institutions are not decentralised enough to acquire adequate knowledge of peculiar local conditions under which some farmers operate. [2] This kind of decentralization could be achieved by the existence of a strong central institution which lays down policy and coordinates the activities of its agencies. Another serious defect is the failure of the institutions to provide the peasant with other services which could enable him to utilise credit more efficiently. Such other services would include amongst other things, advice on keeping simple accounts, and the propagation of technical information. Where technical expertise has been made available to farmers through Government agencies it has not produced its greatest effect because of preoccupations with different though not necessarily conflicting aspects of efficiency on the part of the operator and the extension workers. Failure to make adequate provision for the 'other services' has often converted credit to farmers into grants, since they are unable to repay the loan, and due to political considerations the Government may think it is impolitic to adopt drastic measures to recover loans. Perhaps the most important lesson that can be learned from the failure of agricultural credit schemes in the West Indies is that it is unwise to treat credit to farmers in isolation from the overall perspective of a programme of agricultural development.

Implicit so far is the proposal that credit facilities and extension services should be linked together. This idea is not new. By linking the two, simultaneously introduces ideas about improved seeds, livestock, fertiliser, and techniques and make it possible for the farmer to capitalise on the new improved knowledge. This type of arrangement facilitates official supervision of credit in a manner which should benefit the farmer through higher incomes, and the wider society through the elimination of shortages and unnecessarily high prices. Outside of the public sector, the cooperative institution seems to be the most suitable institution for supervising credit to farmers. Farmers within a cooperative tend to accumulate detailed information about their neighbours' affairs, and this facilitates thorough scrutiny of loan applications. Another important feature of the cooperative is that it encourages the farmer to help himself through participation in its capitalisation.

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1 The Caribbean Development Bank is a potential major source for the countries of the Leewards and Windwards group.

2 Belshaw. "Agricultural Credit in Economically Underdeveloped Countries." F.A.O. publication.
Beckford & Campbell. *Prospects and Proposals for Agricultural Development.* St. Lucia, W.I.

Respective Roles of Private and Public Sectors

The contributions to agrarian finance by the public and private sectors should be complementary. Indeed the Monetary Authorities could create conditions which could lead to an increased flow of private sector credit to the agricultural sector. Private sector institutions which grant credit for agricultural purposes, given their present structure and motivations will continue to display a strong preference for providing working capital because of the self-liquidating nature of this type of loan, and to a lesser extent medium term credit unless substantial changes were made to the environment in which they operate. It is unlikely that the private sector can be relied upon to commit substantial amounts of long-term finance to the farm sector. In the final analysis this gap must be filled through the combined efforts of the public sector, and the farmers. The public sector's role will be a crucial factor in determining the success of agrarian credit schemes in the Caribbean. The overall responsibility for encouraging and establishing suitable credit agencies and credit instruments will devolve upon the public sector. In fact agricultural credit policy should be seen as an integral aspect of Government's policy on the financing of the process of economic transformation. In short, we need to avoid the setting up of *ad hoc* agencies, and attempt to develop a spectrum of institutions designed to service the real aspects of economic development.

An important aspect of agrarian reform is the development and propagation of knowledge about improved techniques, livestock, breeds, seed, fertilisers and other aspects of agricultural operations. It is unlikely that a private sector financial institution could be attracted to allocate substantial quantities of credit for financing such activities to develop knowledge, if only because of the high degree of uncertainty inherent in activities of this nature. The development of adequate infrastructural facilities will be dependent upon the provision of Government finance, mainly because the farmers themselves will not control large enough surpluses to finance certain types of infrastructure, and this type of investment is unattractive to private sector financial institutions. The success of the reform scheme will to a great extent depend upon the existence of adequate processing, marketing and transportation facilities. The development of reliable, up-to-date statistical information will also be a critical factor in formulating relevant policies. It is clear that if the agrarian reform scheme is to be adequately financed, the public sector commitment will be a sizeable one.

Sources and Institutional Arrangements

In the absence of radical policy changes with respect to the relations between public and private sectors financial institutions, the allocation of adequate amounts of finance to the agricultural sector hinges on a discussion of Governments' use of monetary and fiscal policy to redirect resources to the farm sector. The public sector can decide whether it desires to operate within the present framework where the banking and non-banking intermediaries are by-and-large private sector institutions, or they may alter the present arrangements and assume public ownership of the entire financial system. The 'compensation' question should not be intractable since a decision to nationalise the assets of a financial institution must be accompanied by a decision to assume responsibility for servicing the liabilities of the institution, if it is expected to continue its existence subsequent to the change in ownership. If the financial system in nationalised, the major advantage which can be derived is the coordination of real and financial planning. However, the assumption of control of the financial system by the public sector cannot provide a *panacea* for the problem of the supply of development finance. The problem of restructuring the system in order to mobilize a higher proportion of surplus funds for financing socially productive investments still remains to be solved.

Assuming the Government intends to accept the present financial arrangements as a *datum.* a number of policy options are possible. If it is recognised that existing credit systems are inadequate to finance the agrarian reform scheme, the public sector must take the initiative in closing the gaps within the system of agricultural credit. At the level of institutional development the public sector may create conditions which will induce the private sector to allocate increased flows of credit to the farm sector, or establish institutions which are partially or alternatively entirely capitalised through the use of public funds. It may also employ an approach which combines these three basic features.

The principal distinguishing feature which separates farm credit from other categories of credit is a decisive influence of exogenous factors upon the capacity of a recipient to repay his loan. This particular factor singles out agriculture as an industry requiring specialised credit agencies. Banking and non-banking intermediaries are unlikely to become significant sources of direct finance to the farm sector, mainly because their organisational structure is not geared to service all types of agricultural credit, and partly because the banks' income multiplier from agricultural credit is low, it is an unattractive investment proposition for the commercial banker. However, arrangements can be made whereby the banking and non-banking intermediaries provide substantial amounts of indirect finance to agriculture. This can be accomplished through contributions to the capitalisation of agricultural credit agencies, investment in their securities, and granting of loans to the institutions. In order to create conditions conducive to the provision of finance to the agricultural sector by banking and non-banking intermediaries through specialised agencies, the public sector could implement measures to ensure that the agencies are efficiently operated and oriented towards achieving the goals of agricultural development. In this respect Government's activity might confine itself to the provision of a proper legal framework within which the institutions can operate, and the guaranteeing of certain types of loans raised by the agencies. Irrespective of the forms public sector credit agencies may assume, it is important that clear guidelines be established relating to the terms on which credit is to be granted, and that the use of credit be properly supervised.

So far no positive proposals have been suggested to indicate how the farm sector can generate its own finance. One useful measure of the success of an agricultural credit scheme is the extent to which the use of credit results in an increase in the real assets of the farm sector. To the extent that real assets have increased partly as a result of the use of credit, the farm sector will be better able to generate a surplus, part of which the public sector may siphon off for further financing of agricultural development. A marketing board/corporation and the use of export taxes are specific examples of measures employed by Governments through time to transfer part of the agricultural surplus to the public sector. In the case of the Marketing Corporation the price at which the institution purchases should be less than the current market prices. The purchase price should cover all operating costs of the institution, and include a tax on farm income. There are at least two important implications which result from this model Marketing Board. Firstly, the incidence of risk and uncertainty will be reduced, since farmers can plan production on the basis of a guaranteed price and market. Secondly, the corporation can operate to reduce the incidence of gluts and shortages.

The case for agrarian reform in the Caribbean is indeed an urgent one when we consider that agriculture is still the main source of employment for most of the countries within the region. Since it is so vital as a generator of employment, we need to systematically think through the likely economic, sociological and political implications of any proposed changes. This is not an argument in support of non-action or conservatism, but a reminder than policy prescription must be preceded by thorough investigation of the relationship between the major variables which will be affected by change. It is clear that any successful scheme must be developed within a specific context. Changes within the farm sector will have repercussions affecting the entire economy. The particular package of reforms will set in motion their own dynamics which policy-makers must attempt to anticipate.