SMALL FARMER CREDIT:
THE EXPERIENCE OF A JAMAICA BANANA PRODUCERS ASSOCIATION LIMITED PROGRAMME

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ABSTRACT

The JBPA private sector loan programme to Small Banana Farmers, jointly financed with the Jamaica Agricultural Development Foundation (JADF) provided practical lessons about the planning and operation of agricultural credit programmes. Success was linked to an independent extension service and rigid farmer selection criteria with extensive credit checks. Problems with land tenure needed creative solutions. All farmers were required to attend orientation meetings prior to signing loan documents. Loan disbursements were inputs rather than cash, with delivery at farmgate. Repayment was through point of sale deduction order, and sales were closely monitored to detect delinquents. Major problems were encountered with Hurricane Gilbert, and with farmer laxity when disbursements and transport of inputs ceased.

BACKGROUND

The Jamaica Banana Producers' Association Limited (JBPA) as a Jamaican owned multi-national private company involved in the large-scale production of banana in Jamaica and in the sale of banana in England, saw the need to directly assist small banana farmers through farm loans and extension services. This need arose because production of bananas had fallen drastically after Hurricane Allen in 1980, from 65,000 tonnes in 1979 to 12,500 tonnes by 1985, and was only rising slowly to 34,500 tonnes by 1987 due mainly to three large plantations established by investments from the JBPA, the Government of Jamaica and international funding agencies. This production is small when it is considered that Jamaica has duty-free status on the English market, and 150,000 tonnes are needed for the best economy of scale in shipping.

A Pilot loan scheme was set up with the Jamaica Agricultural Development Foundation, a private sector agricultural bank. Financing was on a joint basis 2/3 JADF: 1/3 JBPA for the project loan funds and operating expenses. JADF funds were in the form of a loan at 12% interest to JBPA, and farmers in turn obtained loans at the same interest. Total funds were J$906,000. Loans were disbursed only as materials and equipment, and only in small amounts as required by the stage of farm development. The programme was successful, and a much larger scale programme is being initiated along a similar pattern.

PROGRAMME ADMINISTRATION

Overall control of the loan programme and approval of application was done by a Steering Committee with 2 representatives each from JBPA and JADF. No outside organisation or government agency was involved. It is probably better to have a non-Government Small Farmer Loan Scheme to reduce the possibility of:

(1) political interference in farmer selection and the general day-to-day running of the project;
(2) farmers perceiving the loan funds as Government grants, or worse, as payment for party loyalty;
(3) downgrading or dismantling of the project with a change in the party in power, particularly if the project was too closely linked to the out-going Government.

The daily running of the programme was done by JBPA, with an Extension Officer employed to work with the farmers and provided with a pick-up truck. This independent extension service was critical to the success of the project as the farmers got the individual training and follow-up that they needed, whilst inputs bulk purchased with loan funds were delivered to their farms without additional cost and on a timely basis. The constant attention probably gave the farmers a greater sense of responsibility to repay their loans. Perhaps it could have been useful to set up a central crop care team with assistance from project funds to carry out timely pest and disease control on each client's farm and bill the farmer's account. This team would have to be financially viable, and could service non-project farmers as well as to achieve this, to the benefit of the entire farming community. The team would continue to operate even after the loan scheme ended.

LOAN TERMS

The loans to farmers were at 12% interest. This rate was chosen mainly to be competitive with 11% loan funds available from the People's Cooperative Banks (PCB) financed through the Government's Agricultural Credit Bank (ACB). It has been observed by the authors, however, that many farmers are prepared to access significantly higher interest rate loans if the source approves the loans faster, gives this disbursements on a timely basis, and provide services for them. Perhaps an interest rate of 1-2% higher could have been applied, which could have helped to offset the cost of the extension service.

Loan security was a crop lien. Legal advice, however stated that this form of security is practically unenforceable in case of delinquency. It can still be an effective deterrent to delinquency if the farmers believe that it is enforceable, but other steps must be put in place to reduce the possibility of delinquency. The main one is point-of-sale repayment deduction by the purchaser who turns the deductions over *quickly* to the lending agency. Farmers often do not remember or find the time to bring in payments on their own. For the JBPA programme, the deductions were based on J$0.15/1b of export fruit by the only purchaser of export bananas, the Banana Export Company (BECO).

It is useful to note that this gives a flexible repayment schedule, based on the level of production. This has the advantage of not pushing the farmer into delinquency when he experiences low yields. However, it is generally less tidy from a loan administration view point. The loan repayment period cannot be accurately determined and may in fact stretch out far too long if there are one or two lean years and considerable interest accrues in this time. The deduction method also has the disadvantage of allowing the dishonest borrower to avoid repayment by selling his produce in someone else's name. We do not believe this has occurred in our programme.

LOAN AMOUNT

Loans were fixed at J$4000/acre. This was based on calculations of the bring-to bearing material costs per acre for banana. In practice many farmers got less than this as they were already in production and only needed working capital. It was decided that for the larger loan scheme a more accurate estimate of each farmer's loan size needed to be made, based on the state of the farm. A simple field evaluation checklist and a computer programme that can be operated by the Extension Officers has subsequently been developed by JBPA for this purpose.

Experience has shown that when determining capital and production costs for estimating loan requirements and setting loan scheme targets, a contingency of at least 20% is realistic. This is particularly so in a high inflation economy, if the loans are for new development (moreso than expansion), and if disbursements will not be completed until many months or years after the calculation is being made.

FARMER SELECTION

There was little publicity given to the programme to get applications. Instead, the All Island Banana Growers' Association recommended farmers, or they heard from other farmers. The JBPA Extension Officer also identified existing banana farmers and invited them to apply. In this way, the quality of applicants was high for the pilot project. High profile publicity is often expensive and time consuming to arrange, often tends to get too many unsuitable applicants thereby increasing the time needed to weed them out, and may even lead other organisations or politicians to attempt to either take over the programme or to mount community opposition to it.

Criteria for farmer selection included:-

(a) farm conditions - soil and climate, road access

(b) the applicants ability to manage the project - age and state of health, education, other activities both on and off the farm, other family members that would be involved

(c) Credit worthiness - extensive credit checks were done with all financial institutions that the farmer could have had access to.

These credit checks considerably lengthened the time required for assessment of the application, but was critical for eliminating poor credit risk farmers particularly as the loan security was so tenuous. It also had the advantage of giving, the applicants the impression that it was a loan programme that was serious about the type of person selected and about repayment.

In selecting farmers, those lacking legal land tenure documents were not excluded if they had a right to be on the land. A standard 10 year lease document was drawn up for those project farmers requiring one and arrangements were made to get a Justice of the Peace for the signing. It could be used in the case of family land with the title not in the farmer's name, and for land that the owner informally rented or allowed the farmer to use for an unspecified period and (could take back at any time). In the case of land owned but without any legal document, a statutory Declaration was made. This exercise was very beneficial to the farmer as he got secure land tenure for the first time and was at last able to access credit.

FARMING ORIENTATION

After a batch of farmers was approved by the project Steering Committee, they were required to attend a signing meeting. The meeting included JADF and JBPA project personnel, who explained the loan scheme and the seriousness of repayments, and there was also a training video to start the technology transfer process. Then the loan documents were explained and signed with a Justice of the Peace. We considered this meeting critical to the project's success, not only to give the farmers a greater commitment to the project but also to begin co-operation as a group on a long term basis.

HURRICANE RECOVERY

When Hurricane Gilbert devastated Jamaica on September 12, 1988 the project was ten months old. The complete destruction of the project bananas necessitated a quick disbursement of cash for the labour to clean up the fields. An increase in the loan amounts was approved to get the farmers back to bearing, and their loan repayments were rescheduled. The farmers were able to recover quickly and are now doing well. The quick response gave the farmers even more commitment to the project.

The experience brings out the need for disaster preparedness in an agricultural loan scheme. Crop insurance is very useful but generally too expensive. For example, in this pilot project it would have cost J$300/acre out of a maximum loan of J$4000/acre. The premium rate is 17%, with an excess of 20%. Claims can only be made if more than a 20% blowdown occurs. There is no provision for drought or flood. If the project sets aside funds for its own insurance scheme, there is almost no protection for several years until the interest accumulates significantly. Perhaps the best contingency, where possible, is to access funds after the disaster from the original source of funds and/or from other relief funds in the case of national disaster. Lending the farmer more money after a serious problem has affected his original loan, causes him to carry a double debt for the same development with increased risk of failure and default.

POST DISBURSEMENT

Soon after the loan disbursement period ended, the project farmers started to cut back on their use of inputs. This quickly resulted in decreased exportable production and revenue. This also reduced the amount being deducted for their loan repayment.

The main cause was that farmers now had to pay cash and go for the inputs from local farm stores, rather than getting it delivered to the farm by the project extension officer without any cash outlay. Also, without the constant encouragement (nagging?) of the extension officer the farmers got very lax about doing things properly and on a timely basis. The implementation of the central crop care team would be useful in alleviating the problem as well as the availability of credit from the inputs suppliers. Another major cause is that the cost of inputs is rising much faster than the price of export bananas. The input costs are aggravated by the cessation of bulk buying and transporting as the farmers have not been working together as had been hoped.

CONCLUSIONS

We recommend the following:

(1) private sector management of small farmer loan projects
(2) an independent extension service, with staff driving pick-up trucks to be able to assist farmers with delivery of inputs
(3) formation of a central crop care team which would be financially viable
(4) interest rates high enough to significantly offset the cost of services to the farmers
(5) repayment by point-of-sale deduction
(6) loan size determined on the present state of the farm, and should include a 20% contingency
(7) disbursements of loans as kind, not cash, where possible, and bulk purchasing of materials and equipment to reduce input costs to farmers
(8) objective and tight farmer selection, with extensive credit checks
(9) standardised lease documents or statutory declarations to establish land tenure where necessary
(10) mandatory attendance at group programme orientation and signing meetings
(11) Problems of post-disaster management, and of farmer laxity after the extension service is scaled down, need to be solved.

Note: *The opinions expressed in this paper are those of the authors, and do not necessarily reflect the opinions of JBPA or JADF.*