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FINANCE AND SUSTAINABLE DEVELOPMENT OF SMALL FARMS IN THE CARIBBEAN

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INTRODUCTION

This paper is designed to illustrate a practical approach to finance and sustainable development issues faced by small farmers. Most of the examples and experiences in this paper are related to Dominica, St. Vincent, St. Lucia and some of the other islands that the Caribbean Farmers' Development Company service.

DESCRIPTION OF SMALL FARMER DEVELOPMENT

There are three categories in which one can look at farmers.

1. *Commercial farmers* - Farmers who farm on many acres of land, have a large amount of money for working capital and employ many hands to assist them on their farms. We speak here of the more prosperous farmers.
2. *Semi-commercial farmers* - Farmers who come from the more successful subsistence farmers, referred to as emergent farmers.
3. *Subsistence farmers* - Farmers who grow mainly to eat. The Caribbean Farmers' Development Company has worked with all of the above, but it is the second and third group of farmers that we will concentrate upon.

Subsistence Farmers

Here we will look at one of our members in St. Vincent, the Organization for Rural Development (ORD), which started from a very humble beginning in 1978, and in addition to the high level of unemployment, inflation, inadequacy of the government extension services, poor infrastructural development and insecure markets, fifteen years later has become a successful farmer organization.

It was proposed that one way of alleviating the major identified problems was through a "*coordinated, scientific and systematic subsistence farming approach*" to development. This, it was anticipated, would increase productivity in the agricultural sector. In keeping with this perspective, ORD's stated objectives were aimed at self-sufficiency, improved living standards, import replacement, maximum use of local resources, the development of rural leadership potential, and the establishment of scientific sub-projects.

The majority of ORDs beneficiaries are subsistence farmers. Therefore it is easy to recognize that these people had a financial problem too. USAID gave grant money to ORD, which was able to provide credit to the farmers for the purchase of seeds, fertilizers and chemicals. USAID also gave technical support along with government facilitators who helped to mobilize the farmers. This set the stage for farmer development and ORD recruited field workers, resident in the community. Their main qualification was their dedication to improving the welfare of the rural poor, and their strong farming background. These untrained recruits (the majority having only a primary education) went on to become the Volunteer Field Corps (VFC) that operates even today. The original fieldworkers were put through an orientation program designed to make them fit the job of extension out-reach service.

They were taught basic skills in agriculture: fertilizer application, planting distances, and land preparation. Most of the teaching of basic agricultural skills was done at the Rillan Hill experimental plot. With confidence and enthusiasm the VFCs returned to their communities to enhance the well being of subsistence farmers.

During the stage several agricultural sub-projects were identified:

- the production of high lysine corn
- the revolving small stock program
- the production of soya bean
- the production of peanuts
- the production of wing bean.

There were varying degrees of success among these projects, but their implementation went a far way in achieving the major objectives outlined earlier. ORD established itself as an organization that can deliver the goods. In fact, over the course of this phase, productivity increased, nutritional status improved (one person remarked that her children looked better since she started producing peanuts) and farmers developed a small surplus for sale on the local market.

With consistent surpluses produced and technology improved farmers were becoming more commercially minded. No longer can the bulk of ORD beneficiaries be classified as mere "*subsistence*" producers.

The Semi-Commercial Farmers

The farmers in this phase are characterized by their improved production techniques, their search for markets outside of their immediate community and their reduction of the number of crops produced for cash income.

This phase provided new challenges for ORD. New sub-projects were introduced to meet the differing needs of the farmers. These included:

- sale of vegetable seeds
- use of food preservation and solar drying techniques
- provision of storage facilities.

During this stage in ORD's growth it was able to secure more grant funds from IAF and Rockefeller funding agency. It got more technical assistance from USAID and later from Pan American Foundation. With this funding ORD helped the "*subsistence farmers*" to become semi-commercial farmers.

The training of both administrative and field staff was upgraded. Refresher training courses were provided in personnel development and management, market identification and advanced level pest and disease control methods.

Both farmers and field workers took their tasks seriously. VFC distributed seeds and other inputs and at the same time provided the necessary advice and information for the successful production of the crop from planting to marketing.

Since the majority of ORD beneficiaries became semi-commercial or emergent farmers, there was an increase in the use of inputs and credit which led to the acquisition of more community storage barns to hold the additional volume of inputs. The emergence of the entrepreneurial spirit also came onto prominence, with the development of mini-traders, predominantly female. Nonetheless, producers now had more surpluses, and rather than sell to intermediaries (traders), the majority marketed their surpluses in Kingstown themselves. They, thus received the additional profits that normally would have gone to middlemen and retailers. Consequently, farmers now see farming as a business and make more demands on the local VFC and area coordinators. One female VFC reported that farmers seek advice and inputs from her, twelve hours a day. The confidence of farmers in ORD has increased and they no longer depend exclusively on the erratic visits of the Ministry of Trade and Agriculture extension staff for technical advice.

With consolidation in training and technology diffusion techniques (resulting in increased capability of staff and more surplus produced from farms), a number of farmers consequently qualified to move into the third stage of development; commercial farming.

AGRICULTURAL LOANS

Financing to small farmers is most difficult. They encounter the most problems in seeking finance to operate their businesses.

Basically, because:-

- they approach the bank individually,
- they very often do not have security,
- the land on which they grow may not belong to them,
- it may be Crown land or family land,
- there may be no title or deed to the land,
- sometimes where there is a title, the land belongs to two or more persons of which one may be living abroad; he can't be located and therefore, the bank will not use this title as security.

Small farmers view the bank as an enemy, not as a friend. They can't relate to them. Unless the government steps in and creates the right policies and offers incentives, the banks will not entertain farmers' requests.

Often, small farmers approach the bank without any documented proposal for the bank officials to look at, and no market for the crops they wish to grow.

The bank sees farming as the most unpredictable business in the economy and refuses to lend money to the farmers unless the loans are secured by assets and of course, in most cases, this is impossible.

The farmers themselves can't foresee the future, and the market will not wait for them. Example a couple years ago in St. Vincent, there was a joint venture agreement between ORD and a partner on tumeric, a crop that is a little smaller than ginger, used for making curry powder and also for the making of natural food colour. This was a good venture, the market was there. The contract was signed. It seemed a good proposal on paper and therefore the financial institutions went ahead and approved loans to many small farmers, of course with the guarantee of ORD. The farmers went into full production but by the time they were ready to harvest, the market was no longer there and the partner withdrew his contract. ORD lost more than a million dollars and many of the farmers had to grow other crops to pay back the bank loans.

The bank is also aware of the fact that when the loans are given to the small farmers they do not use the money wisely. The money is sometimes used to grow other crops beside what the loan was given for the many times used for purposes other than farming. Many banks thus supervise the disbursement of loans very closely.

From experience lending agencies which operate in the districts where the farmers live are more successful in their lending policies. One reason is due to the fact that the people who sit on loan committees know everyone in the village.

We note in Table 1 that the export crops which are bananas, ginger, plantain, hot peppers, approximately 53 per cent of all the loans are for one traditional crop, bananas. Therefore we can clearly see that there is need for more funds to be allocated for non-traditional crops if we are to make a success of the agricultural diversification programme.

Root crops and tree crops are increasingly becoming export crops and therefore some emphasis should be placed on these commodities.

Cognizant of this heavy concentration of loans for bananas and the small amount allocated to non-traditional crops, CFDC was formed to assist small farmers in this area.

CARIBBEAN FARMERS' DEVELOPMENT COMPANY

In 1990 the Caribbean Farmers' Development Company was formed to address the specific problems of small farmers.

For example CFDC established an internal Revolving Credit Support Fund to facilitate short-term reimbursable capital to member organizations for the following actions:-

- bulk purchase of seeds and planting material,
- bulk purchase of farm inputs,
- bulk purchase of packaging materials,
- payment of farmers for agricultural produce,
- trial commercial shipments of agricultural produce,
- working capital,
- construction of a packing shed.

Of course it is only natural that the interest rates will be lower and less bureaucracy exists.

CFDC helps in identification, formulation and sourcing of financing for development of projects for marketing infrastructure and equipment for member organizations. CFDC

TABLE 1. ***Distribution of Agricultural Loans by the Agricultural Development Bank*, Jan.-May 1992**

Categories	No. of Loans	% of Total Loans (%)	Total Value of Loans	% of Total Loans (%)	Average Size Loan
Export Crops	300	63.3	$995,774	37.5	$3,319.25
Root Crops	25	5.3	$136,570	5.1	$5,462.80
Tree Crops	2	0.4	$4,240	0.2	$2,120.00
Vegetables	6	1.3	$35,870	1.4	$5,978.33
Fishing	68	14.3	$717,955	27.1	$10,558.16
Livestock	37	7.8	$473,570	17.9	$12,799.19
Infrastructure	36	7.6	$288,263	10.9	$8,007.31
TOTAL	474		$2,652,242		$5,595.45

Source: Summary of Agricultural Loans; Agricultural Development Bank, Roseau, Dominica.

helps in strengthening small farmers organization as well as provide joint market for the organization, and will coordinate the preparation of commodity specific documents to generate decision-making information for farmers on diverse aspects of production, harvest, post-harvest handling and marketing and by so doing, it helps to ease up the worries and frustration encountered by the small farmers.

It is also easier for farmers to receive loans as a group from CFDC rather than as individuals, as is the case of ORD. This is one way of alleviating the problems of financing faced by small farmers. CFDC motivates farmers to come together and form groups, and by extension there is unification of farmers, not only in one member state, but in the OECS islands, Barbados and Antigua where CFDC has its members.

However, despite all the problems faced by small farmers in the region in respect of financing, small farmers have done well and are still doing quite well in their contribution to the economic development.

SUSTAINABILITY OF SMALL FARMS

The sustainability of small farms depends on two factors. To be sustainable a small farmer must have a diversified production base. This can be accomplished either through the production of a wide range of crops produced e.g.

- short-term crop e.g. vegetable
- medium-term crops e.g. root crops
- permanent tree crops

or through a wide range of farm activities:

- crops
- small ruminants
- poultry/eggs or pigs etc.

To finance the development of a diversified production base on small farms, it is essential that the financial institution be prepared to finance the development of a stable income stream from the farm. The ideal financial package would be a combination of credits for productive inputs, and grants for strengthening farm/household infrastructure.

Currently most financing of small farms by non-commercial financing sources is short-term credit which is product specific, i.e. financing a productive activity over the production cycle. The commercial financing institutes tend to finance physical assets on the medium-term basis using the asset as collateral for the loan. This is essentially a very low risk approach.

There aren't any cases (I know of) in which small farms can receive grants for "*institutional strengthening*" i.e. ensuring the capability exists to undertake the proposed productive activity, so that the volume of activity does not create a drain on the assets of the farm, endangering both the current capability and the long-term sustainability.

For sustainability, a small farm has to be generating an "*investable crop*" surplus. That is a surplus that will be used (partially at least) in farm investment as against farm household investment. One major consideration is the

source of information to identify small farm investment opportunities.

ENVIRONMENTAL ISSUES

The environmental issues arise from three considerations. The first is the impact on the environment arising from the pattern of use of the physical (natural) resources. For example such activities as the clearing of forests and the cultivation of slopes without anti-erosion measures. A second issue has to do with the impact of the inputs used in production. Here we are referring to such problems as leaching from the use of agricultural chemicals such as herbicides and pesticides, or the compacting of the soil from the use of machinery in tilling.

A third environmental issue arises because small farmers seldom incorporate into their farming practices, methods to improve the quality of the physical resources e.g. planting trees to hold the soil, using of organic fertilizers (manure) to improve over time the texture of the soil and crop rotation or fallowing to give the soil some rest and to disrupt any buildup of harmful organism in the soil.

How can financial resources play a role in addressing the environmental issues mentioned above.

Financial resources give the small farmers the capability to either continue his already established practices, expand his range of activities, and/or adapt new techniques and technologies. Thus in deciding to finance a productive activity, the credit institutions can also make a decision regarding the type of inputs that will be used, the technologies that are appropriate and the pattern of use to which the natural resources will be applied. A conscious awareness of these decisions is essential in financing sustainable small farm activities.

Environmental considerations are essentially considerations about the sustainable potential of the physical resources and should be an integral part of financing sustainable development of small farms.

TABLE 2. ***Financing Terms of Specific Farm Implements***

	Short-term	Medium-Term	Long-Term	Loan/Grant
Farm Inputs:				
- Planting material	x			
- Chemicals	x			
- Organic material	x			
- Equipment rental	x			
- Transportation	x			
Farm Labour	x			
Farm Tools:				
- Small implements		x		
- Irrigation equipment		x		
- Small mechanical tools		x		
Farm Equipment:				
- Small machinery			x	
- Tractor/components			x	
- Vehicle			x	
Farm Structure:				
- Fences	x			
- Animal pens	x			
- Storage for inputs	x			
- Hut		x		
Farm Infrastructure:				
- Drainage		x		x
- Access road		x		x
- Terraces		x		x
- Anti-erosion methods		x		x