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# SYNCHRONIZATION OF CREDIT AND MARKETING POLICIES:

## THE CASE OF TRINIDAD AND TOBAGO

by

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### I. INTRODUCTION

A significant proportion of recent efforts in the development of Agriculture in Trinidad and Tobago seems to have been predicated on the assumption that the critical limiting factor in that development was the provision of adequate capital for investment in the sector. Thus the Government, having replaced the old Agricultural Credit Bank by the present Agricultural Development Bank in 1970 was prepared to launch a concerted programme to develop the sector.

The new Bank took over the assets and loans portfolio of the A.C.B. and was further financed by loans from the Inter-American Development Bank. By December 31st 1973, the A.D.B. had had an estimated \$12.9 million in loans outstanding to the Agricultural Sector. The estimate for December 31st 1974, is \$18.8 million.

Actual loans approved for the life of the A.D.B. are as follows:

Table 1

\$ million

	<u>Loans Approved</u>	<u>Actual Disbursements</u>
1970	2.3	
1971	4.2	2.4
1972	9.5	4.6
1973	5.6	6.1
1974	8.3	5.2 (Estimated)

Thus by the end of 1974 the A.D.B. had approved a total of \$29.9 million for investment in the agricultural sector and actually invested 18.3 million over the period.

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\* Farm Management Consultnat, Agricultural Development Bank of Trinidad and Tobago.

It has however become increasingly clear that this investment by the A.D.B. is not yielding significant tangible or measurable results. Several factors account for this including the normal vagaries of weather, etc. In 1973, for example, Trinidad and Tobago was hit by a serious drought as well as by a Swine Fever Epidemic. These set-backs attacked the major areas of Bank lending in short term crops and in pork production.

Other reasons for the lack of observable performance include the fact that some of the enterprises have long gestation periods, e.g. tree crops and may not yet have attained maturity. In addition there exists no established method for monitoring progress and the increase in output in the agricultural sector, so that it is impossible to describe accurately the net effect of the A.D.B.'s loan programmes.

But the fundamental reason lies in the fact that it is only now becoming clear to officials in the Bank especially that credit is not the major constraint to the development of the agricultural sector. In other words, the solution to the problem of agriculture does not lie simply in making available investible funds to small and medium sized farmers who would have otherwise been unable to secure such credit from the commercial banking sector. Once investible funds had been made available, even if the quantities might have at sometime been considered inadequate, the existence of the other limiting bottlenecks became obvious.

#### The Bottlenecks to Agricultural Development

The experience of the Agricultural Development Bank over the five years of its life has indicated clearly that while credit availability is critical, there are several other very important constraints to the development of the agricultural sector in Trinidad and Tobago. The most important of these at the technical level has been identified as marketing, but other aspects such as extension and research also play important roles.

It has become increasingly understood that investment in agriculture in the absence of stable, if not secure, and known markets will reduce simply to the acquisition of land by individuals as investments in wealth or status, rather than as productive investments. In Trinidad and Tobago, the markets for traditional export crops are all foreign and sufficiently protected to be stable if not always remunerative. It is often assumed that this is one of the major reasons for the pre-dominance of export crop production even under unfavourable market conditions when other crops seemed to be more profitable.

But perhaps the most significant feature of these export markets is that they are completely organised and served with large volumes of



information so that potential farmers know of the conditions existing in those markets. Normally in countries like Trinidad and Tobago with strong export sectors, the markets for domestic food crops are not highly developed and activity in these areas is usually confined to small subsistence level production. In an attempt to provide the impetus to the development of production of those crops the Central Marketing Agency was formed to organise the domestic market. Along with the establishment of the A.D.B., this was seen to be the step needed to get the domestic agricultural sector moving.

Unfortunately, the marketing activity is still weak and unorganised.

More than this, however, is the fact that other inputs more directly relevant to actual production by the farmer are not made available to him. Research on relevant problems -e.g., the production of tomatoes in the wet season- has been very limited. There are many other areas of this nature which have not been explored or have been inadequately explored. In particular, it appears that insufficient work has been done on livestock management and feeding systems in the context of Government's often stated goal of significant expansion of the livestock sector.

Even where research work has been done, the link between research and application has been extremely weak. Thus the next critical bottleneck in the agricultural development process is the supply of extension service. This service, which at present does not provide sufficiently strong technical assistance to farmers, is not even geared to supply farmers with urgently needed farm management systems and principles. Thus farmers have been forced to utilize traditional methods of culture and management and have been hard pressed to demonstrate the results that had been hoped for.

Akin to this problem with respect to extension, is the fact that it is impossible to evaluate the results that in fact have been achieved. The gap here is one of information about the profitable performance of particular enterprises as well as on the availabilities and demands for particular crops. Thus no data is available to determine whether or not farming is a profitable occupation nor is data available on which sound marketing decisions can be based.

To be concerned however, with the lack of observable success in agricultural financing, the inefficiencies of the marketing systems and the inadequacies of extension and research, is to be concerned with the symptoms of a larger shortcoming. This concerns policy. In Trinidad and Tobago there exists no clear cut policy on agriculture and none of the institutions involved in the development of agriculture is clear either on what the unique goal of the society or the government is or on what specific roles they are expected to play in achieving that goal.

Thus each institution operates by defining, more or less objectively or openly, its own policy framework and its own role within that framework.

## II. THE ROLE OF POLICY IN THE DEVELOPMENT PROCESS

Most analyses of the methods by which underdeveloped countries or regions may achieve such development have concentrated principally on the economic problems involved. In particular they have been concerned with the development of theories of the interaction of the economic variables that have been assumed to be relevant. The objective has always been one of producing a body of theory that is in some way universally acceptable.

These analyses have in large measure suffered from the fact that they have been politically neuter and there has been an increasing call, in the Caribbean Region at least, for a return to 'political economy'. Until this recent shift, the role of policy, government and politics in the development of an economy or a sector has been ignored.

The brutal fact is that the development of agriculture in most underdeveloped countries normally would require a substantial adjustment in agricultural structures, significant institutional change and large injections of social overhead and more directly productive investment. All these changes are to be presumed to be designed to meet a single socially acceptable goal, whether that acceptance is obtained in an authoritarian or a democratic society.

The establishment of specific goals in this way implies the establishment of a policy for development, and in our case, a policy concerning agriculture's role in that development process.

In Trinidad and Tobago there has been developed no such firm policy and there seems to be an attitude that such a policy is not needed. The simple explanation of this approach is that with the presence of the lucrative petroleum resource, especially at the present time, agriculture is of minor importance in the economy. The sector produces approximately 8 percent of total exports and 10 percent Gross Domestic Product.

Thus despite many statements about the development of the domestic agricultural sector, and indeed several million dollars have been invested in this direction over the last five years or so, no attention has been paid to the fundamental policy issues affecting agriculture. These issues seem to center around the export orientation of the economy and the role of the traditional export crops -sugar, cocoa, coffee, citrus- and the heavy dependence on imported supplies of food, and where import substitution has been attempted, the import of raw materials.



Since the balance of imports, exports and domestic production has not been decided upon, attempts are being made to expand all activities at the same time in the context of limited resources with highly competitive uses. Thus the establishment of a viable livestock industry becomes highly competitive with the expansion and improvement of the sugar industry. Without policy guidelines investment has been channelled into the livestock sector in such a manner that the industry becomes highly dependent on imported sources of supply of raw materials and is subsequently highly subject to fluctuations in the world markets for these produces, particularly feed stuffs.

But the lack of policy towards agriculture has other implications of a more micro-economic and institutional nature. Firstly, institutions like the Agricultural Development Bank and the Central Marketing Agency operate largely in a vacuum and often in conflict. Secondly, the infra-structural investment that is necessary to make investment in farming profitable is not forthcoming, e.g. the provision of access roads, electricity, water supplies and so on. Thirdly, the government has not used its own resources to their fullest potential nor has it harnessed the resources available through the University of the West Indies to open the frontiers on agricultural research, technology and management.

The net result is ad hoc measures that serve more to confuse than to provide a step forward.

In the present paper an attempt will be made to assess the performance of the C.M.A. and A.D.B. under existing circumstances and to demonstrate how the setting of policy guidelines for coordinating the activities of these two major institutions together with the extension services might lead to more harmonious development of agriculture in the territory.

### III. THE ROLE OF THE CENTRAL MARKETING AGENCY

The Central Marketing Agency was established by Act of Parliament in 1966 (amended in 1969 and 1971) to exercise the following functions:

- a) to regulate wholesale marketing throughout Trinidad and Tobago of agricultural produce and handicraft products.
- b) to control and operate wholesale markets throughout Trinidad and Tobago and to regulate the flow and movement of agricultural produce and handicraft products into retail markets.
- c) to develop and carry out a coordinated programme for the purchasing, selling, handling, storage, processing, distribution and transportation of agricultural produce and handicraft products and to operate and maintain services necessary or incidental thereto.

In the pursuance of its role as outlined above the C.M.A. has become involved in wholesale, retail, import and regulatory activities in agricultural products.

Thus it is the sole importing agent for crops shipped under the Agricultural Marketing Protocol of the Caribbean Community. In addition it is the sole importer of certain crops from other sources -crops such as onions and Irish potatoes.

In addition it operates a wholesale purchasing market for domestic crops and is also a retail trader in the same crops. The Agency supervises and maintains the Central Market where private wholesalers and retailers ply their trade. The C.M.A. also acts as intermediary for both farmers and food processors. For farmers, the C.M.A. would purchase certain inputs, particularly livestock feeds and fertilizers, at wholesale prices for resale to farmers at more competitive prices than the farmers would have been able to achieve in the open markets. This is especially so for farmers purchasing small quantities of these inputs.

The C.M.A. would also purchase certain crops from farmers to be sold to processors. The major crop in this respect has been pigeon peas to food processors and pigs to the meat processing plant.

Finally the C.M.A. has undertaken relatively small forays into export marketing in the North American and London markets for non traditional tropical crops with export potential.

In order to undertake these tasks, the C.M.A. is invested with certain powers and authority. Largely because the Agency was designed initially to regulate and control prices and supplies and, implicitly to control the effects of seasonality in production, it was granted the power to operate a system of guaranteed prices and a system of contract farming.

But the Agency has not fulfilled its projected goals particularly because it weakly explored the regulatory functions which had been assigned to it. The guaranteed price system administered by the C.M.A. is not designed as a fundamental regulatory mechanism designed to yield farmers a stable and remunerative level of income and to encourage the bulk of output to pass through the Agency thus increasing its market power. Rather it has been designed as a last resort method by which producers could avoid total loss in times of large harvests. At other times, the C.M.A. guaranteed prices have no bearing to either production costs or to existing market prices.

The same shortcoming affects its contract farming system so that the Agency is unable to control sufficient of the agricultural output of the country to control income production and prices.



#### IV. THE ROLE OF THE AGRICULTURAL DEVELOPMENT BANK

Charged with the responsibility of increasing investment in the agricultural sector both absolutely and in relation to investment in other sectors, the A.D.B. has had to interpret Government policy towards agriculture in determining the areas into which investment should be directed.

The Bank has therefore developed a lending programme in which loans for pig production, short term vegetable and food crop production and for the production of tree crops predominate both in terms of number and total investment. More recently the Bank has been investing more funds in forestry and agro-industry particularly food processing. In 1974, the Bank approved over 700 loans totalling TT\$8.3 million and distributed as follows:

<u>Loan Performance 1974</u>			
<u>Food Group</u>	<u>Loans Approved</u>	<u>%</u>	<u>Loans Disbursed</u>
<u>Development Loans</u>	<u>\$'000</u>		<u>\$'000</u>
Cereals, Grains	25	-	15
Sugar, Syrups	99	1.1	59
Pulses, Nuts	5	-	3
Roots, Starches	350	4.2	210
Vegetables	145	1.7	87
Fruits	515	6.2	309
Meats	2019	24.3	1211
Eggs	394	4.7	236
Milk & Products	451	5.4	271
Fish & Products	598	7.2	359
Other Crops	243	2.9	125
Land Acquisition	342	4.1	205
Agro Industry	692	8.3	415
Forestry	542	6.5	325
Other	88	1.1	53
Maintenance Loans	<u>1815</u>	<u>21.8</u>	<u>1322</u>
Total	8323	100.0	5205

In 1973, due to a severe shortage of investible funds, investment by the Bank is estimated at approximately 5.6 million dollars, while in 1972 loans totalling \$9.5 million were approved.

The A.D.B. estimates that at the end of 1973 it had a total of \$12.9 million in outstanding loans to the agricultural sector and that by the end of 1978 this should increase to \$42.3 million. Thus after nine years of operation the Bank estimates it would have made gross investments of a total of TT\$92.4 million for a crude average of TT\$10.3 million per year.

Unfortunately the weakness in the operations of the Central Marketing Agency and the consequent lack of coordination and of information leaves large question marks over the effectiveness of this large investment in the sector that is being channelled through the A.D.B.

In the first place the A.D.B. is hampered by the lack of organised markets for the short term crops in particular, which are mostly secured by crop liens which are in the present circumstances impossible to implement. In addition the lack of a stable marketing and a satisfactory management system means that the Bank cannot guarantee that its investments are producing reasonable and stable income for its borrowers.

Secondly, the absence of adequate market information leaves the Bank unable to decide when to limit its investments in particular areas, and the Bank may find itself in the unfortunate position of investing funds to the detriment of its own borrowers as well as to the detriment of other farmers in the sector.

This situation highlights the link between marketing and the effectiveness of credit. In addition to the problems arising from the absence of market information, an effective marketing system would simplify the Bank's problems of recovering its loans since it could use the point of marketing as the source of loan repayments. At present this occurs only in certain limited areas.

#### V. EXISTING COORDINATION BETWEEN INSTITUTIONS

The evidence suggests that the major institutions where policies should be synchronised are the Agricultural Development Bank, the Central Marketing Agency and the Extension Services of the Ministry of Agriculture.

At the present time there exists a certain amount of cooperation between the institutions, particularly between the A.D.B. and C.M.A. In some cases, this cooperation is very unofficial and informal. Officers of the A.D.B. when faced with certain problems would call on officers of the C.M.A. who would assist. This is often done in the case of pig marketing, particularly in Tobago, where the C.M.A. acts as buying and shipping agent for the Meat Processing Plant. In such a



situation Bank officials may point out a farm that has excess stock or has experienced particular difficulty in selling stock and the C.M.A. would pick up this stock promptly. In addition the Agency can be used as a source for servicing the loan, by deducting payments due to the Bank from the farmers income. Where the Agency does not buy pigs in this manner, the Bank has been able to obtain the cooperation of the Meat Processing Plant in making deductions for borrowers payments.

In other cases, especially in earlier years when the C.M.A.'s contract farming system was still operating, the Bank would call on the Agency to prepare contracts for its borrowers. This the Agency would do, even though the system of contracts was never developed into a truly effective marketing tool, and has since largely broken down. Perhaps the most clear cut area of coordination between the Bank and the C.M.A. at present is that of investment in poultry enterprises, particularly broiler production. There exists a Poultry Industry Control Committee operating from the C.M.A. which is the source of control of the growth and stability of the poultry industry. All applications for loans for poultry from the Bank are referred to this Committee for their comment and information on the existing condition of the market and the effect of making such a loan on the market. Despite this fact however, the poultry industry is still highly unstable because of the inefficiency and inadequacy of methods of controlling its operations.

With respect to Extension, the Bank recognises the critical relationship between the effectiveness of credit and the effectiveness of extension. In this regard, attempts have been made to formalize a relationship between these two institutions under the umbrella of a loan to the Bank by the I.D.B. After several months of negotiation, the Extension Services attached a small number of officers to the Bank to service Bank borrowers principally but not exclusively. The system had just begun to operate smoothly when difficulties arose within the Ministry of Agriculture and the system was brought to an end. Since then there have been no new areas of coordination although there is some cooperation at the level of individual officers who would respond to a call from officers of the Bank for solving individual farmers' problems or assistance in the preparation of farm plans. But this is not organised. All this occurs in the context of an Agricultural Extension Service that seems to be inefficient and largely ineffective in the first place. Efforts are now being made to reorganise and increase the effectiveness of the Extension Division in the Ministry.

We have noted that there exists several areas of cooperation between agencies despite the internal and inter-agency difficulties that do exist. But the agricultural sector requires more than casual cooperation -and requires that this be replaced by clearcut and effective coordination starting at the policy level.



The principal requirement here is for a well integrated policy for agriculture to be enunciated, within which the roles of each of these agencies can be determined and synchronised. At present there exists no such statement of policy in the country nor any directions for operating agencies. All that exists, for example, are the broad statements that appear in the Five-Year Development Plans such as:

"The achievement of the goal of greater self sufficiency in food with a consequent reduction in the share of imports in food consumption, and the clamping down of the incipient inflationary pressure on food prices, depend to a very great extent over the plan period in the small and medium sized farmer." (Second Five-Year Development Plan - 1964-1968).

In the absence of these clear cut guidelines the officers in charge of operating each of the respective agencies within the sector tend to devise their own frameworks and guidelines for operation. Often these are in conflict with each other and with the views of officials of the Ministry of Agriculture. The presence of Ministry officials on the Board of Directors of the C.M.A. and A.D.B. has done little to provide unified, coordinated guidance to these agencies. On the contrary, the Ministry seems too intent on the routine affairs of these agencies so that insufficient time and attention is spent on the broader, more fundamental issues.

If the operations of these Agencies are coordinated with each other under the umbrella of clear cut policies and guidelines emanating from the Ministry of Agriculture, the effect on the sector could be significant. On the contrary the Ministry has often acted so independently that its actions have jeopardised the position of the A.D.B. Significant examples are the payments of compensation for swine fever losses (1973) and hurricane damage (1974) have been made directly to farmers rather than through the Bank which has financed large numbers of these farmers and may therefore have lost considerable sums. In the case of hurricane damage payment is being made through the Bank by Bank staff but the Bank is powerless to recover its debts or control the spending of these funds in productive farm rehabilitation. The effect may well be further losses to the Bank, aggravating an already high default situation with regard to repayments by farmers.

#### VI. TOWARDS GREATER COORDINATION OF CREDIT, MARKETING AND EXTENSION

The evidence suggests that the major institutions whose policies should be synchronised are the Agricultural Development Bank, the Central Marketing Agency and the Extension Services of the Ministry of Agriculture.

The obvious link between these areas or institutions is through the development of a consistent agricultural development policy which charts the roles of each of these institutions as Agencies of implementation.

Early clarification must be obtained on the development objectives and strategies to be followed. Simply to state these goals as import substitution or growing more food is not to define a sufficiently clear strategy for defining credit or marketing policy. Trinidad's agricultural policy calls for the substitution of imports of final goods by local production while increasing the outputs of traditional export crops as well as of other resources available, it seems unlikely that the country would be able to achieve all of these goals simultaneously.

Consequently targets have to be determined and priorities defined. Thus the A.D.B. in its Five-Year Development Plan 1974-1978 has determined a target of expanding food supplies to maintain over the period the levels of nutrition existing in 1973. The major factors of the strategy are:

- (i) To expand domestic production, to satisfy as far as possible the incremental nutritional requirements of the population and in the process hold imports at their current levels.
- (ii) Expansion of production within food groups, e.g. Meats, Starches rather than in specified crops to allow for flexibility of meeting targets depending on local limitations.

Within this strategy, the Bank has established certain priorities for its own lending. Thus attention is focused on the production of root crops and vegetables and new and traditional tree crops (fruits) such as mangoes, avocados, tangerines and guavas as well as citrus and cocoa.

Whilst beef and dairy are taken account of, no special emphasis is put on these because of the non existence at present of all the conditions for significant expansion, particularly breeding stock.

Three (3) other major areas have been singled out by the Bank and these are forestry, fishing and food processing.

Despite the criticism which followed the Bank's development of the Plan, it still remains the only statement of policy by which it could guide its efforts. No similar statement exists either for the sector as a whole or for the other Agencies.



Another area of policy which needs demarcation concerns the productive structure the country wishes to develop. Thus it is not clear whether the emphasis is to be on small farms or medium sized family ventures, cooperative ventures or large scale operations.

All of these have, at one stage or another, been postulated by the Ministry of Agriculture. The Bank has however defined its own areas of concern as the development of small and medium sized farming and fishing enterprise. Large scale operations are however supported in agro-industry and forestry.

There still remains however the important areas concerned with the provision of infrastructural services such as access roads, water, electricity, housing and social amenities which will only derive from an overall government view of the whole process and scope of rural development.

It is postulated here that the coordination required could be obtained by the establishment of a Central Planning Organisation serviced by regional branches of the Organisation. Such an Agricultural Development Corporation will consist of members representing the Extension Services, Administrative, Planning and Research Services of the Ministry of Agriculture, the Agricultural Development Bank and the Central Marketing Agency.

The Central body of this Organisation would be responsible for determining the goals, priorities and plans for the sector, taking into consideration the micro and macro economic concerns that are relevant. Each of the member Organisations would then have a unified and agreed framework within which to play the role that has been demarcated for it.

It is envisaged that each of the member institutions would operate autonomously within the limits of its own rules and regulations and that it would not be necessary to establish new permanent and cumbersome administrative structures to service the implementation of plans.

At the Regional level, the objective would be as far as possible to provide to the farmer from a single Service Center all the services he would require in extension, farm management, credit and marketing. At this level the managers in charge of the respective service agencies would, together with farmers' representatives, form a regional planning committee developing plans, projects and proposals for submission to the Central Committee.

Proposals approved by the Central Committee would be implemented, as indicated, by the relatively autonomous agencies represented. Thus projects of a community nature -e.g. roads, water, electricity- will be financed through the Central Government allocations to the Ministry



of Agriculture. On the other hand farm credit will be provided by the A.D.B. and marketing services by the C.M.A. with the funds that they would have been allocated.

From such a concerted planning effort, it is envisaged that the development process would go forward in a highly organised manner.

These proposals are not new and have in essence been recommended in the Reports of the Land Capability Survey, Phase II, 1973. It is however recognised that the adoption and implementation of such proposals are part of a long term strategy. Yet, in the interim, there exists some areas for more orderly coordination between the C.M.A. and the A.D.B., that could be implemented in the relatively short run.

While the A.D.B. has set priorities in terms of food groups, it has not done so for individual crops which is the level at which both the C.M.A. and to a lesser extent the Extension Services operate.

The Central Marketing Agency is to be shortly reorganised and its management projects a role for the institution that emphasises regulation and management of commodity markets and the supply of adequate market information. The Agency hopes to de-emphasise its own retail marketing activities and to undertake more market surveys for the relevant crops, to develop a distribution system that would concentrate on the collection of produce from farmers at regional centers later to be made available for wholesale distributors, to regulate and manage supplies and to provide up to date information on demands, prices, quantities and locations.

All of these areas are very significant areas for coordination between the C.M.A. and the A.D.B. But the regulation and management of supplies is probably the major area in which such coordination could be made effective. Given adequate market surveys and marketing data on prices, quantities and locations, the C.M.A. and the A.D.B. could prepare and execute plans for the development of specific crops in specific areas in the effort to maintain some stability in supplies of these crops.

Thus the C.M.A. would have identified the potential for these crops on which the A.D.B. could then concentrate its attention. With this kind of coordination it might be possible to tie the requirements for credit to the system of contract production which the Agency wishes to develop and encourage.

Through this mechanism, also, the systems of production subsidies and guaranteed prices could be made more effective as the Agency would gain control over increasingly higher proportions of domestic production. Both processors and private wholesalers would welcome the stability that such control would bring to the agricultural sector.

The C.M.A. has developed a fledgling section for the provision of market information and is prepared to cooperate with the A.D.B., at the management level in the development of plans and programmes for submission to their respective Board of Directors. These two institutions have in fact collaborated in this manner in the preparation of the A.D.B.'s Five-Year Development Plan 1974-1978. The proposed reorganisation of the Extension Services seems designed to make its officers more readily accessible to farmers as well as to provide more expert advice in specialised areas promptly to farmers. The methods outlined above for coordinating C.M.A. and A.D.B. activities could provide for the Extension Services a guide for setting its own crop priorities and targets and for evaluating its own performance.

By developing this area of cooperation and refining its inputs into the planning process in the sector, these institutions can, over time, achieve a level of coordination and cooperation that will increase the level and efficiency of their operations and have greater effect on the development of agriculture in Trinidad and Tobago.