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AGRICULTURAL CREDIT AND RURAL PROGRESS IN JAMAICA

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1. Introduction

The agricultural credit system in Jamaica experienced substantial growth, institutional changes and financial difficulties in the past decade. In many ways the experience of the system as a whole and the various institutional strategies to deal with the problems of credit supply illustrate the classic dilemmas of agricultural finance in LDC's. This history takes on special poignancy in the light of the island's economic difficulties in the post 1974 recession-energy deficit world and the hopes, inspired in the early 1970s, that a new democratic political order with a socialist program would guide Jamaica's future. A political mandate for increased public sector activity and redistributive policies coincided with a shift in world economic conditions that severely compromised the island's growth potential. This scenario should be kept in mind as the context within which changes in rural credit institutions and strategies occurred.

Economic Growth and Stagnation

During the late sixties and early seventies, the Jamaican economy registered respectable rates of growth (six percent for real Gross Domestic Product) although this was not true of the agricultural sector which declined at an average annual rate of

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four percent. During the mid-seventies, however, there was a severe economic recession. Total real gross domestic product decreased by 2.8 percent per annum between 1973 and 1978, negative growth being recorded in each of the last five years. Key sectors such as mining, manufacturing, construction, and commerce declined at average annual rates of three percent, seven percent, 10 percent, and eight percent respectively. The agricultural sector was the only productive sector to experience positive growth (three percent per annum) over the same period.

This dismal economic growth experience was associated with sharp contractions in domestic savings and investment. Domestic savings which averaged 17 percent of gross national product in between 1965 and 1970, averaged only 10 percent between 1971 and 1975, becoming negative thereafter. Though foreign investment helped to boost real national savings early in the decade, real net capital formation contracted almost continuously from J$250 million in 1970 to J$29 million in 1977.

The growing deficit in the balance of payments has had a seriously debilitating effect on the economy. Net foreign reserves fell from J$130 million in 1974 to <u>minus</u> J$196 million in 1977 to place Jamaica on the verge of international bankruptcy. A sharp, prolonged decline in export earnings combined with an inability to reduce imports sufficiently led to this state of affairs. Domestic inflation also accelerated during this period, largely as a result of the growing public sector deficit and rising import prices. Annual inflation rates (using the Consumer Price Index as the measure) rose from 9 percent in 1972 to 48 percent in 1978.

'Stagflation' affected the financial sector. Government debt increased substantially as a proportion of commercial bank assets (from 11 percent in 1970 to 33 percent in 1977). Commercial banks increased their holdings of government securities because the decline in aggregate demand and credit ceilings reduced private sector demand for bank credit, and because legal liquid assets reserve requirements were periodically increased. Interest rates, ranging between two percent and 12 percent on bank deposits, and seven percent and 12 percent on government securities during the past five years, did not keep pace with inflation. Negative real rates of interest ranging between eight and 40 percent prevailed. Consequently, savers have subsidized borrowers.

In summary, the Jamaican economy experienced a long economic recession since 1972. Exports declined, balance of payments deficits grew, and inflation rose to unaccustomed levels contributing to a negative real rate of interest situation in which savings are penalized and borrowing subsidized. The agricultural sector has been the one principal area experiencing some degree of positive growth.

The extent to which substantial credit flows contributed to Jamaican agricultural performance is a matter of some controversy. In what follows, we describe and appraise the performance of the agricultural credit system. The main thrust of our analysis is that fundamental weaknesses in the design and operation of the public sector credit programs, as well as the general and sectoral economic disequilibrium which undermined the effectiveness and viability of rural credit programs in Jamaica.

II. The National Network of Agricultural Credit--Growth, Institutional Change and Performance

A. Growth

There have been five major formal sources of agricultural credit in Jamaica throughout the 1970s: the commercial banks; the Agricultural Credit Board; the Jamaica Development Bank; the Self-Supporting Farmers Development Program; and the Crop Lien Program. Commercial banks are the largest single source of credit to the agricultural sector. This credit is largely short term and goes to medium sized and larger farmers with good credit ratings and limited risks. In more recent years the commercial bank network has extended loans to large government agricultural cooperatives such as the sugar cooperatives which bought out the former large sugar estates that had been in private hands.

The remaining agricultural credit sources are public sector institutions or programs. The oldest of these public institutions is the Agricultural Credit Board created in 1960. This institution has two portfolios: one serving larger farmers through direct loans; the other aimed at small farmers and channeled through the national network of small people's cooperative banks.

Loans in both cases are largely short term and seasonal and, in the case of the people's cooperative banks, includes small loans as well.

The Jamaica Development Bank began making large, medium to long term "development" loans to essentially medium to large farmers from 1969 onwards. The Small Farmer Development Program was also established in 1969. It makes medium to long term loans to much smaller farmers than those serviced by the Jamaica Development Bank. Limitations on farm acreage, gross sales and assets have created a clientele for the SSFDP that can best be characterized as medium sized farmer. Finally, there is the Crop Lien Program created by the government in 1977 and administered by the Ministry of Agriculture through their extension agents in conjunction with the people's cooperative banks which disburse these loans. Crop Lien loans are strictly small, short term and seasonal, limited to domestic foodstuff producers and focused on small farmers with little or no previous loan experience.

Table 1 summarizes the growth of formal agricultural credit through these five major sources. Although loans outstanding in nominal terms grew almost seven fold in eight years, this increase was only two times in real terms, reflecting the inflationary erosion of the capital base for agricultural lending.[1]

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[1] The large rise in loans outstanding between 974 and 1975 (Table 1) is partially due to a change in the Bank of amaica's classification of agricultural loans reported by commercial banks in 1975. Some kinds of loans which had previously been reported under distributed trades and other sectors were hereafter listed as agriculture. It is estimated that slightly less than half of the net increase in loans outstanding from 1974 to 1975 were due to this change in classification (Graham, Bourne and Begashaw, 1978, Ch. IV).

TABLE 1

Total Loans Outstanding to Agriculture in Jamaica In Current and 1970 Dollars: 1970-1977

Total Agricultural Loans Outstanding In Current Values And In 1970 Dollars (End of Year Balances)

Year	Current Values (J $000)	In 1970 Dollars (J $000)
	(1)	(2)
1970	25,320	25,320
1971	30,557	28,558
1972	35,162	32,141
1973	49,005	37,041
1974	60,060	34,817
1975	112,743	55,731
1976	136,715	61,088
1977	165,821	65,207
1978	167,821	51,605

Sources: *Statistical Digest* (Bank of Jamaica, various years; *Monetary Statistics* (Department of Statistics), various years; Annual Reports of the Jamaica Development Bank, Self-Supporting Farmers Development Program.

Note: The Implicit GDP deflator was used to correct for inflation.

In 1978 there was practically no change in amount of credit in nominal terms, and a pronounced contraction in real terms.

B. Institutional Changes

Table 2 permits an insight into the changing roles of the several institutions and programs comprising the agricultural credit supply network during the 1970s. The sources are classified into the farm size categories that most typically reflect the majority of their portfolio.[2] From this profile it can be seen that large farmers benefited handsomely from the agricultural credit initiatives in Jamaica during the 1970s.[3] Commercial banks and the Jamaica Development Bank increased their relative portfolio substantially until 1977 while, at the other end of the spectrum, the small farmer oriented Agricultural Credit-Board Peoples Cooperative Bank program lost ground markedly. In 1977 and 1978 there was an improvement in the credit status of small farmers. Two factors accounted for the later shift: first, the Crop Lien Program was established and people's cooperative bank credit expanded; second, commercial banks reduced their lending to agriculture. The Crop Lien Program was the largest source of credit increase during that year, eclipsing the customarily dominant role of commercial banks within the total portfolio. No doubt the substantial erosion of the older small farmer credit line through the Agricultural Credit Board had caused

[2] Detailed information on the size distribution of loss is provided in Table 6 of Graham and Bourne (1979).

[3] Again allowance must be made here for the large relative increase in commercial bank loans from 1974 to 1976 (Panel A, Table 4) in part due to the reclassification of agricultural loans in 1975 discussed in the previous footnote. Nevertheless there was a large unambiguous rise from 1971 to 1974.

sufficient concern and grievances that a new initiative and program was felt necessary to redress this imbalance. Unfortunately this initiative led to substantial problems of default as we shall see shortly.

In addition to the large vs. small farmer profile depicted in Table 2, there is a foreign vs. domestic resource division that merits discussion. A large proportion of the loanable resources of the Jamaica Development Bank and the Self-Supporting Farmers Development Program come from foreign sources (i.e., the World Bank and Caribbean Development Bank in the former case and the Inter-American Development Bank in the latter case). Domestic sources are almost exclusively geared to short term seasonal loans (through commercial banks, the Agricultural Credit Board and Crop Lien Program) while foreign resources are earmarked for medium to long term developmental loans (the Jamaica Development Bank and the Self-Supporting Farmers Development Program). In 1970, the rural financial market expanded to include the new, internationally financed Jamaica Development Bank and the Self-Supporting Farmers Development Program. Whereas in 1969 they played no role whatsoever, these institutions were the most rapidly growing sources of funding for agricultural credit between 1974 and 1978. The role of international resources was crucial to the expansion of total credit supply during the 1970s, and more importantly, indispensable towards lengthening the term structure to include developmental financing. However, growing problems of delinquency and declining foreign exchange

TABLE 2

Selected Data on Loan Activity by Farm Size and Source of Loans in Jamaica During the 1970s

A. Percentage Distribution of Total Agricultural Loans Outstanding at End of Year by Farm Size Categories And Source for Selected Years in Jamaica

Farm Size and Sources	Years 1971 (1) %	1974 (2) %	1976 (3) %	1977 (4) %	1978 (5) %
I. Large Farmers and Cooperatives	45.8	60.8	77.4	72.0	68.2
(a) Commercial Banks	39.1	44.2	60.2	54.4	48.8
(b) ACB-Direct Loans to Farmers	4.7	4.2	3.0	2.9	3.4
(c) Jamaica Dev. Bank	2.0	12.4	14.2	14.7	16.0
II. Medium-Sized Farmers	13.2	16.2	11.5	12.7	14.9
(a) Self-Supporting Farmer Development Program	13.2	16.2	11.5	12.7	14.9
III. Small Farmers	40.9	22.9	11.0	15.2	16.9
(a) ACB--Peoples Coop. Banks Loans	40.9	22.9	11.0	9.5	9.9
(b) Crop Lien Program (Min. Agric.)	--	--	--	5.7	7.0
TOTAL (%)	100.0	100.0	100.0	100.0	100.0
TOTAL (J$MN)	30.5	60.1	136.7	165.8	167.8

B. Percentage Distribution of the Annual Change in Loans Outstanding to Agriculture (from January 1st to 31st December) by Farm Size Categories and Sources for Selected Years in Jamaica

	Years 1971 (1) %	1974 (2) %	1976 (3) %	1977 (4) %	1978 (5) %
I. Large Farmers and Cooperatives	54.9	76.0	80.2	46.9	-221.2
(a) Commercial Banks	36.0	37.2	47.2	27.4	-453.7
(b) ACB-Direct Loans to farmers	8.3	2.5	2.3	2.4	46.9
(c) Jamaica Dev. Bank	10.6	36.3	30.7	17.1	185.6
II. Medium-Sized Farmers	36.7	17.2	16.8	18.2	159.5
(a) Self-Supporting Farmer Development Program	36.7	17.2	16.8	18.2	159.5
III. Small Farmers	9.2	6.9	3.0	34.8	161.5
(a) ACB-Peoples Coop. Bank Loans	9.2	6.9	3.0	2.9	38.9
(b) Crop Lien Program (Min. Agric.)	--	--	--	31.9	122.6
TOTAL (%)	100.0	100.0	100.0	100.0	100.0
TOTAL (J$MN)	5.2	11.0	24.0	29.1	1.9

earnings raise serious questions as to whether Jamaica will be able to secure new international financing for these activities or, for that matter, even service the current debt obligations incurred on past loans from the international agencies. This will be discussed further in a later section.

C. Performance

It is useful to assess the performance of the system as a whole. Column 2 of Table 3 underlines the fact that total credit has been rising substantially as a percent of gross domestic product since the early 1970s. This reflects the growing rate of inflationary financing in the economy through substantial increases in the money supply. Agricultural credit per se slightly declined as a proportion of total credit (panel A, Col. 1). However, from 1975 to 1977, it has been growing more rapidly than total credit. (For reasons cited in footnotes 1 and 2, the only unambiguous trends are those from 1970 to 1974 and from 1975 to 1977.) The agricultural credit/agricultural GDP ratio (Col.3) increased from 32 to roughly 37 percent in the earlier subperiod and from 56 to 63 percent between 1975 and 1977. This rising average ratio of agricultural credit to agricultural gross domestic product implies an even higher marginal agricultural credit-agricultural GDP ratio. As a result of the credit slowdown (Column 1, Table 3), the average credit ratio decreased substantially in 1978.

TABLE 3

Credit Ratios and Implicit Credit Subsidy For
The Jamaican Agricultural Credit System in Recent Years

A. Credit Ratios

Year	Agricultural Credit/ Total Credit	Total Credit/ Total GDP	Agricultural Credit/ Agricultural GDP
1970	7.8	27.2	32.3
1971	7.6	30.8	30.7
1972	6.4	31.5	33.0
1973	6.8	41.2	38.2
1974	6.5	41.2	36.9
1975	9.1	46.7	55.9
1976	8.9	55.3	60.1
1977	9.9	61.1	62.6
1978	7.8	62.1	53.2

B. Estimates of Real Rate of Interest for Agricultural Credit and Implicit Credit Subsidy As Percent Of Agricultural GDP

Year	Rate of Inflation	Avg.Nominal Interest Rate Agric.Loans	Real Rate of Interest (Col.2-Col.1)	Agr.Credit/ Agr.GDP	Credit Subsidy as % of Agric. GDP (1)
1975	15.7	10.0	- 5.7	55.8	3.2
1976	8.2	10.0	+ 1.8	60.1	0
1977	14.0	10.0	- 4.0	62.6	2.5
1978	27.9	10.0	-17.9	53.2	9.3

Sources: Statistical Digest (Bank of Jamaica), various years; National Income and Product (Department of Statistics), various years.

Notes for Panel C: (1) Subsidy as a percent of Agric. GDP is estimated by taking the proportion of total outstanding agricultural credit to total agricultural GDP (column 4) and multiplying this by the negative rate of interest (column 3). For this exer ise, the appropriate measure of inf ation is the implicit GDP deflator.

The ratio of agricultural credit to agricultural GDP has been rising in recent years because of the "deadwood syndrome". Many of the loans outstanding are deadwood, that is, in permanent default on the one hand, and very likely permanently diverted to non-agricultural uses on the other hand. The high and rising credit/GDP ratio when combined with high and rising delinquency strongly suggest that farm loans are either not being applied to agricultural activities or, are being applied inefficiently when compared to earlier years. Given the growing stagnation in the economy as a whole, it is possible that much of this credit may be leaking out of the economy as capital flight as well as into real estate, land and other inflationary hedges. This indicates the need for a reform of the credit strategies adopted in recent years, a topic to which we will return in the final section.

The final issue warranting discussion in this section is the implicit subsidy built into the current credit programs. Panel B of Table 2 present estimates of the real rate of interest for agricultural credit. The average interest rate charged for agricultural credit (from a low of three to seven percent in government programs to 13 to 14 percent in commercial banks) is clearly below the average rate of inflation (Col. 2 vs. Col. 1). The net result is a negative real rate of interest (Col. 3) which in recent years has been rising dramatically. Furthermore, if one multiplies the real rate of interest times the agricultural credit/agricultural GDP ratio one can estimate the implicit credit subsidy as a percent of agricultural GDP. Column 5 shows that in 1978 this reached 9 percent, a high level by any standard.

Thus, not only does credit appear to be increasingly used in an inappropriate (i.e., non agricultural) or inefficient fashion, but also the beneficiaries or borrowers are enjoying a sizable subsidy. The social costs of this credit strategy could be substantial if, as indicated earlier, relatively large borrowers form an important part of the credit portfolio. This calls for a more detailed evaluation of the performance of the major institutions and programs comprising the national system of agricultural credit in Jamaica.

III. Institutional Performance: The Question of Arrears and Institutional Viability

In evaluating the performance of the Jamaican rural financial market an important question is whether the institutions and programs are financially viable. Central to the issue of viability is the loan repayment experience of lenders. Table 3 summarizes the arrears record for all the Jamaican institutions and programs. The commercial banks have respectable recovery rates (i.e., low arrears rates). However, all the public sector programs record alarmingly high arrears rates. This raises a serious question as to whether any of the latter programs are financially viable. To place this issue in context it is helpful to discuss the large farmer and small farmer programs separately even though the arrears are high in both cases.

TABLE 3

Arrears Ratios for Selected Agricultural Credit Institutions and Programs in Jamaica In the Mid to Late 1970s

	Arrears on Amounts Due (1)	Arrears to Total Loans Outstanding (2)
I. Commercial Banks[1]		
1) 1978	4.4[2]	4.4[2]
II. Public Sector Agricultural Credit Programs		
A. Jamaica Development Bank (Commercial window)		
1) 1974	N/A	2.2
2) 1976	81.2	8.2
3) 1978	82.6	19.6
B. Self-Supporting Farmer Development Program (SSFDP)		
1) 1978	38.0	18.0
C. Agricultural Credit Board (People's Cooperative Banks)		
1) 1978	N/A	39.0
D. Crop Lien Program (Ministry of Agriculture)		
1) 1978	94.6[3]	94.6[3]

Notes: 1) From files of anonymous commercial bank in Jamaica in 1978.

2) Commercial Banks classify a debt as in danger or "arrears" due to a variety of factors in the subjective judgment of a loan officer. The loan does not have to be formally "due" to be classified and, conversely, a loan may be beyond the due date but not be in danger of non-payment and hence not classified.

3) Amounts Due and Loans Outstanding are the same here. This is a seasonal loan program.

Sources: From Loan Files of the Institutions or Programs in Question.

B. The Large Farmer Arrears Issue

The JDB arrears experience is a classic case of the large farmer delinquency problem. The JDB was originally established in 1970 to service the medium to long run developmental needs of fairly large capital intensive activities in the tradition of "modernizing" agriculture through capital intensive investments in the form of creating dairy or beef herds, installing dairy equipment, tractors, pumps, new pastures, fencing, wells, irrigation, new plantation crops, etc. These investments were financed by large loans which represented a substantial part of annual net flows of agricultural credit. Therefore, any serious problem in delinquency in this program affected an important component of the total credit portfolio and, moreover, one that is allegedly on the "cutting edge" of the modernization drive in Jamaican agriculture.

The Bank did not design its accounts in such a way as to detect the arrears on the amounts due until recently when pressed to do so by its international creditors. Internal failings partly account for the repayment difficulties experienced by the Jamaica Development Bank. It is clear that insufficient attention was paid to designing appropriate arrears measures and setting up the machinery to implement effective and timely collections. At the same time there was clearly a deficiency in loan appraisals despite the early emphasis on staffing this division at the expense of the collection division. Arbitrary interference with established loan review procedures became common under the former

Managing-Director of the Bank. In retrospect, the institution has paid dearly for this behavior with rising arrears rates and low staff morale.[4] Growing resistance to repayment very likely has played a role in farmer behavior as a result of the disclosures about the Bank's management (which they were privy to beforehand in any event), and the feeling that they could get away with it.

A comment is in order on the policy of the international agencies. One cannot help but conclude that the Jamaica Development Bank obtained more loan funds from these sources than it could manage. This is frequently a problem in these programs. The Jamaica Development Bank found it difficult to exercise any self-discipline in this situation and probably had little idea of how much it could manage effectively since it did not have any prior experience in administering these kinds of developmental loans. Ultimately in these kinds of circumstances, more responsibility is placed on international lenders if only to protect their loan capital. It would appear that in this case the responsibility was too lightly regarded.

The macroeconomic behavior of the economy contributed to the arrears problems by depressing gross incomes and the debt repayment ability of farmers[5]. Domestic price inflation generated

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[4]This state of affairs became known through the Auditor Generals reports in 1978 and 1979 reviewing the issues of conflict of interest and mismanagement in the JDB. The results of these findings have been made public in the Daily Gleaner newspaper.

[5]This issue is fully discussed in Bourne and Graham (1980).

substantial increases in agricultural wage rates (Table 4, Col. 1). Prices of capital services and current non-labor inputs also increased substantially, partly because of price increases by foreign suppliers but also because of exchange rate devaluations in 1977 and 1978. (For example, import prices for chemical fertilizers in Column 2, Table 4). Agricultural product prices did not increase sufficiently to offset increases in factor prices plus declines in farm productivity, as can be seen from Table 4, Columns 4 to 7. Quantitative import restrictions induced by the balance of payments crisis made matters worse for farmers by reducing the supply of imported inputs and consequently agricultural output. As a result, gross profits were seriously squeezed. Real operating surplus declined in 1974, 1975 and 1978. Finally, the exchange rate devaluations increased the local currency values of farm debts funded by international agencies.

C. <u>The Small Farmer Arrears Problem</u>

Table 3 shows that the arrears performance of the small farmer credit programs, with one exception, is not any better than that for the large farmer Jamaica Development Bank program. In effect, the delinquency problem affects all public sector programs. The old line Agricultural Credit Board-People's Cooperative Bank program records about a 40 percent arrears in relation to loans outstanding. Not surprisingly the accounts are not designed to create an arrears measure on accounts due. No doubt the latter measure is considerably higher since there are medium term loans within its portfolio.

TABLE 4

Annual Percentage Changes in Farm Input Prices and Supplies, Farm Productivity and Farm Profits

Year	Per Worker Income	Import Price of Fertilizer	Quantity Index of Fertilizer Imports	Land Sugar Cane	Productivity Domestic Food Crops	Sugar Import Price	Bananna Export Price	Food Crop Farm Gate Prices	Real Gross Profits
1971	n.a.	32	46	- 5	7	3	6	23	24
1972	n.a.	27	20	- 3	2	22	0	2	2
1973	12	- 9	49	- 1	2	11	62	37	7
1974	25	132	-11	- 1	3	31	5	33	- 5
1975	39	1	15	- 7	4	100	35	26	- 4
1976	3	-48	- 6	4	- 6	-56	-28	8	1
1977	7	42	-23	- 2	11	32	44	35	6
1978	22	45	- 4	10	2	29	59	- 2	- 8
AVG	18	28	11	- 1	3	21	23	20	4

Source: Computed from data in: a) Jamaica Department of Statistics <u>Labor Force</u>; <u>External Trade Report</u>; <u>National Income and Product Accounts</u>; <u>Year Book of Jamaica</u>. b) National Planning Agency <u>Economic and Social Survey</u>. c) Ministry of Agriculture <u>Indices of Domestic Agricultural Production and Farm Gate Prices</u>. d) Bank of Jamaica <u>Balance of Payments</u>.

Note: The decline in prices of imported fertilizer in 1976 is attributable to very large notional cost imports under bilateral aid agreements.

The relative importance of the Agricultural Credit Board program has declined through time. Its reputation has suffered as a result of its longstanding arrears problem. Annual reports are intermittent and irregular. Accounting and managerial practices are deficient and loan appraisal and collection procedures perfunctory. The Self-Supporting Farmers Development Program, originally established within the Agricultural Credit Board in 1969, was transferred into the Jamaica Development Bank in 1974. Government budgetary support to cover the Agricultural Credit Board overhead, deficits and new loan capital has diminished in the face of competing demands by newer programs in the public sector. As a result there has been a decline in the real resources available for loans in this program during the 1970s. Finally, when the Crop Lien Program was established in 1977, it was located in the Ministry of Agriculture instead of the Agricultural Credit Board. At present the institution is engaged in a holding action on a diminishing base of real resources.

The Crop Lien Program is the most recent initiative to reach the small farmer. Launched in 1977 in an effort to stimulate local foodstuff production and save on foreign exchange for food imports, the program was widely publicized and, apparently did reach a large number of farmers. The program was strictly short term and seasonal. Roughl ' $9.5 million were disbursed to some 30,000 farmers. Alleg dly farmers with commercial bank, Jamaica Development Bank, or Self-Supporting Farmers Development Program loans were ineligible. Ministry of Agriculture extension agents engaged in the loan appraisals which were rather casual and perfunctory. Repayments were expected to be voluntary with little if any inducement needed but, as is clear from Table 3, by financial standards, the program was a complete failure with only a six percent recovery rate (i.e., 94 percent arrears rate) after one and a half years of operation. Clearly a "grants" mentality was operating here with no serious sanctions for default, and, one might add, no serious consequences for the public officials responsible for designing the program with its inbuilt failure for effective loan recovery.

The Self-Supporting Farmers Development Program is currently the only public sector credit program with a modicum of success. The arrears rate in this program is 38 percent for the amounts due and 18 percent for loans outstanding. Only in comparison to the Jamaica Development Bank, the Agricultural Credit Board or Crop Lien Programs, is this a very respectable performance. Moreover, the lower arrears ratio comes with a price, namely, a high supervisory overhead that is largely absent in the other programs. A highly decentralized set of field officers with separate staffs for loan appraisal, technical assistance and loan collection guarantee a close monitoring of loans by field personnel who are close to the farmer and local conditions. This is in sharp contrast to the Jamaica Development Bank operations in which all these operations are conducted out of one central office.

In summary, small farmer loan programs in Jamaica have been difficult to design and implement successfully. High arrears rates are common and a "grants" mentality difficult to overcome. Political support for non-repayment among many politicans reinforces this behavior and makes it even more difficult for public officials to correct the situation. The absence of effective sanctions (since foreclosures are either difficult or legally impossible depending on the program) and, at the same time, the absence of public accountability for poorly designed programs practically guarantee failure.

The only strategy that has been moderately successful to date is a highly expensive supervisory credit program that monitors (or pressures) the farmer so frequently that it prevents arrears from getting more seriously out of hand. The overhead supervisory costs in this program appear to offset to some extent the otherwise high arrears that would invariably emerge without it. A highly subsidized supervised credit program like the Self-Supporting Farmers Development Program which at least inculcates more responsible repayment behavior and effectively implements on-farm investments is preferable to an equally subsidized non-supervisory program (like the Agricultural Credit Board and Crop Lien) that saves on supervisory costs but generates high delinquency, poor credit attitudes and probably a diversion of resources to non-farm uses.

IV. Conclusions

Jamaica, in the 1970s, has shifted between a planners and a bankers perspective on agricultural credit strategies. This struggle is still not resolved. The planners and characteristically the plan-oriented Ministry of Agriculture have alwasys viewed credit from the credit use approach. After the physical production targets have been established concerning how much agricultural output is desired, all policy instruments including credit are directed to that end. Credit programs are launched to service these production programs. The most recent example is the Crop Lien Program. Nonrepayment of loans is considered of lesser importance that substantially increased domestic foodstuff production. There is an implicit assumption that the opportunity cost of public funds is low. The planners approach invariably transforms credit programs into income transfers and rationalizes their results after the fact.

The bankers perspective is less concerned with production per se and more concerned with institutional viability. Bankers are more concerned with the proper evaluations and administration of loans, concerned about charging a sufficient rate of interest to cover costs, determined to protect their cash flow through low arrears (emphasizing collateral and foreclosure), and tend to be pessimistic about the possibilities of servicing the credit needs of small farmers without extensive monitoring, supervision and collection machinery. The Jamaican Development Bank and Self-Supporting Farmers Development Program credit strategies reflect this thinking. However, in the case of the former, poor performance has not only damaged this institution but compromised the credit strategy as well. At present the current impasse between the planners and bankers approach is at a stand-off with no firm political direction being offered by the government to resolve this dilemma.

Public sector credit delivery to small farmers has proven difficult in most countries and Jamaica is no exception. The possibility of achieving this goal without compromising the finanacial viability of the institutions offering this service is slim. Quick and widespread dissemination of loans invariably transforms these credit programs into ad-hoc income transfer programs. On the other hand, careful, expensive supervision of small farmer loans may reduce arrears but the high operating costs limit the scope of the program and, in the end, may not be much more cost-effective than a low cost unsupervised program with high defaults unless the loan recovery rate is high.

More helpful would be a package of agricultural policies that distributed inputs in kind at subsidized cost and promoted minimum price programs and marketing arrangements that would reduce the risk of income variance. Minimum prices affect all farmers equally whereas subsidized credit programs are invariably rationed and, in the end, only favor those who have access to the credit institutions. Policies promoting off farm employment and income opportunities in rural areas could also improve the economic welfare of small farm families. Also, one should not forget that informal credit channels are very likely servicing small farmers more extensively than is commonly known. In light of this, the social return to the use of public sector resources would be higher if applied in a combination of the above policy measures to reach small farmers rather than drained off into ineffectively and inequitably administered credit programs with high default rates.

The pathology of economic stagnation is currently constraining the prospects for financial reforms and recovery in Jamaica. Under more normal circumstances the growing pattern of distortions in the financial sector which cause negative real rates of interest and inequitable credit subsidies could be dealt with through interest rate reforms. The declining rate of savings and implicit taxation of small savers for the benefit of larger borrowers could be corrected through the same reforms. By raising savings deposit rates of interest sufficiently to promote a positive rate of interest, savers would no longer be penalized. At the same time banks could protect their operating margins by raising their loan rates to borrowers, charging an interest rates that more closely correspond to the true opportunity cost of capital and eliminating the unfair advantage borrowers currently enjoy with negative real rates of interest. Public sector programs could also limit the drain on government resources by raising interest rates to more adequately reflect the opportunity cost of government funds.

The constraint on this otherwise sensible strategy is the weak demand for loans in the face of a severe economic recession. The high level of excess liquidity in the commercial banking network suggests that banks would be unable to find customers at significantly higher loan rates until overall inflation is effectively controlled and economic recovery underway. Furthermore, the economic recession and factor and product price distortions have undermined debt servicing ability. Lenders are hard put to recover their capital, much less increase loan charges. One common way to deal with this state of affairs is to institute a rigorous stabilization program which promotes an expansion of exports, sharp devaluations, wage controls, budgetary constraints, indexing for inflation, and drastic financial decompression. Successful implementation usually takes several years, during which there is the inevitable popular but socially costly reaction against the short term results.

Thus the prospects for rapidly eliminating the inequitable and inefficient credit subsidies currently built into the negative real rate of interest setting are slim. This less than ideal structure of interest rates is bound to remain in place until inflation is reduced or some indexing formula adopted, both being unlikely events in present day Jamaica. This implies that savings will continue to be penalized and various forms of non-price rationing utilized to allocate public sector credit. The growth in the supp.y of agricultural credit will be much slower than in the early and mid 1970s with a much smaller number of farmers serviced. Only a significant reduction in inflation and modest economic recovery can create the conditions that could modify this pessimistic scenario, creating the policy space that would permit the financial reforms that are so necessary in Jamaica.

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