

II. Small Farmer Loans and Investment in Agricultural Enterprises

Background and Aid Strategy

To enhance the effectiveness of the ROC's current overseas agricultural cooperation projects, the ICDF has been gradually shifting its focus from demonstration farms to production/marketing team projects with marketing functions. By increasing the sustainability of agricultural projects, the ICDF is helping to develop agricultural integration through the linkage of production and marketing, so as to increase the economic value of agricultural products. It has appropriated US\$3 million for a small farmholders financing scheme that will give farmers who participate in the technical mission's projects the funds they need to upgrade their agricultural technology and expand production.

The ICDF has instituted such assistance programs in the Caribbean and Central America for small farmers participating in ROC technical projects. In the Caribbean region it has signed loan agreements with financing institutions, but in some other countries it is providing production funds to farmers through the technical missions.

In order to enhance the benefits of agricultural cooperation projects conducted by ROC technical missions, the ICDF is extending its small farmholders financing scheme to include investment in agricultural enterprises. The technical missions will help extension farmers operate small agricultural businesses and, once these are running smoothly, help them to achieve independence.

Financing Scheme and Investment Projects

Small Farmholders Financing Scheme (SFFS)

The aim of this program is to provide to extension farmers the technology and financial aid they need throughout the entire agricultural process. The technical missions play a guidance and oversight role with regard to production and marketing techniques, but financial institutions are responsible for implementing the loans. Not only does the loan program help farmers to increase their income, but it also helps them to establish personal credit credentials that will greatly improve their ability to secure credit when applying for loans at commercial banks in the future.

The SFFS is being implemented only in technical mission extension areas, and loan applicants are limited to extension farmers. The close cooperation between technical mission personnel and extension farmers enables mission personnel to determine the interest and capability of borrowers in farming, cultivation skills and loan repayment ability. As they provide agricultural technology guidance and conduct extension visits during the loan period, mission personnel will be able to determine how loans are being used.

The objective is to select the most effective extension farmers as the program's beneficiaries, ensuring that loans can be smoothly recovered. Although the selected financing institutions will make the actual loans, the technical missions will be responsible for the final determination of borrowers' qualifications. The mission's technical guidance and oversight role can help borrowers repay their loans and, by lessening credit risk for the financing institution, enhance their borrowing ability.

Investment in Agricultural Enterprises

The goals of investment in agricultural enterprises include fostering the sustainability and profitability of agricultural businesses; linking the stages of input, output, processing, transport and sale; accelerating the commercialization and diversification of agricultural products; and fully integrating agriculture and business. The ultimate objective is to create wealth for farmers.

Agricultural enterprise investment projects follow these guidelines:

Project goals:

Projects should promote the commercialization of agriculture in the host country, raise agricultural output, increase the value of agricultural products, and create wealth for farmers.

Project content:

Project content should be in line with agricultural cooperation projects conducted by the ROC technical mission, actively help farmers to invest in agricultural enterprises, increase the added value of agricultural products, and deliver economic benefits.

Investment items:

In conjunction with agricultural cooperation projects conducted by the ROC technical mission, investment items include agricultural production and the operation of agricultural enterprises. Investment may cover any stages of production, collection, grading, processing, packaging, transport and sale.

Investment period:

The investment period will depend on the recovery period but generally will not exceed seven years. Annual supervisory audits will be conducted to examine the projects' return on investment and the loan recovery status.

Amount of investment:

Investment in any one project shall generally not exceed US\$200,000.

Investment assessment and review:

An analysis is performed of each project's technological, commercial, economic and financial aspects. Investment is approved only after a project has been found to be feasible.

Guidelines for the Planning and Assessment of Financing Scheme and Investment Projects

Guidelines for Planning Agricultural Loan Programs

Nature of program:

In agricultural production projects conducted by technical missions, the stages from production to sale are supervised by the technical mission or some other organization (such as a local cooperative, farmers' organization or assets supplying firm). Oversight of these control points can ensure that farmers repay their loans, obviating the need for them to provide collateral or additional guarantees. Without such control points, financing institutions will usually require collateral or additional guarantees.

Project implementation and management institutions:

In opening access to credit by small farmers, the ICDF has taken into consideration the problems of debt collection or liquidation of collateral when small farmers cannot repay their loans. The process may require specialized technology, legal support and financial operations that are beyond the resources of the technical missions. To lessen the burden on them, local financial institutions or NGOs may be given responsibility for lending and debt collection duties.

While the designated financing institutions will be responsible for account management in these schemes, the technical mission will retain responsibility for risk assessment and for the sustainability of the farming activities.

In addition, the manner in which the SFFS is implemented will vary according to the scope of agricultural cooperation project items and the number of farmers receiving assistance. The ROC technical mission may assume full responsibility for all duties or, if the agricultural financing need is large or complicated, may assign a local financial institution or NGO to take part in implementation.

Legal compliance:

Because the ICDF financing scheme may raise issues concerning tax and banking laws in the host country, the ICDF has devised two approaches for avoiding potential problems. When cooperating with a local financial institution, the ICDF will sign a risk sharing agreement with that institution. It will place program funds in a time deposit account at the institution, and the institution will use its own funds to establish a credit guarantee fund for its loans. If a local NGO is in charge of lending, the ICDF will sign a commissioned management contract with it before entrusting its funds to the organization. Both approaches have been adopted in the financing scheme in three Eastern Caribbean nations.

Guidelines for Assessing Agricultural Enterprise Investments

The assessment of agricultural enterprise investments also takes into consideration such economic benefits as improving the level of agricultural outputs, increasing employment and fostering rural development, in addition to such financial questions as rate of return and investment recovery period.

The ICDF therefore reviews the following points when planning agricultural enterprise investment projects.

Market and industry analysis:

Does the invested industry have sufficient market demand and potential customers? Will the prices of the resulting products make them competitive with imported goods? Does the invested enterprise receive government subsidies or controls? Does the enterprise's industry have a sound structure? Does the enterprise have an adequate supply of raw materials and energy?

Technological analysis:

Can the enterprise obtain necessary equipment, raw materials, manpower and resources? If human resources cannot meet technical requirements, the technology plan must be changed.

Management system analysis:

Does the invested enterprise have adequate manpower and capability to perform administrative and management duties?

Financial analysis:

Will the project's cash flow and rate of return be sufficient to maintain financial stability? For this reason, information on the project's expected expenditures and revenue is compiled and used to produce a cash flow table.

Analysis of investment environment:

Do the host country's labor conditions, labor supply, investment laws and incentives favor the investment items?

Projected Benefits of Loan and Investment Projects

- The influx of funds from investors and lenders will expand agricultural output and accelerate agricultural diversification.
- The promotion of an integrated production/marketing framework among farmers will stabilize agricultural production, increase product added value, and strengthen sales channels.
- Instilling a long-term sustainable management outlook among farmers will help increase rural employment and farmers' incomes.
- Upgrading their agricultural sectors will help friendly nations increase agricultural output value and improve their export competitiveness.

Current State of Implementation of Small Farmer Loans and Agricultural Enterprise Investments

Following the signing of contracts, NGOs have been commissioned to run the SFFS in Grenada and Belize. The technical missions in Panama and Honduras have recommended that the ICDF itself run loan programs in these countries, and commercial banks have been assigned to manage the loans in other countries.

The following table shows the status and method of the ICDF's SFFS in various countries.

<i>Country</i>	<i>Eligible farmers</i>	<i>Executing Agency</i>	<i>Collateral</i>	<i>Method</i>
Honduras	Rice farmers	Technical mission	Not required	Raw materials and revolving funds are provided to technical mission extension farmers, helping them to increase rice production.
Honduras	Fishermen	Technical mission	Not required	Raw materials, revolving funds, and financing for cages and equipment are provided to the technical mission's extension fishermen.
Belize	Rice and vegetable farmers	Belize Marketing Board	Not required	US\$150,000 is provided under this project, which aims to develop target crops in conjunction with the Ministry of Agriculture and the Belize Marketing Board.
Grenada	Vegetable, fruit and flower growers	Industrial Development Corporation	Required	US\$100,000 has been provided to the Industrial Development Corporation of Grenada for loans to vegetable, fruit and flower growers assisted by the technical mission, easing the problem of loan availability.
St. Christopher	Vegetable and fruit growers	Agricultural Industrial Development Bank	Required	The ICDF has deposited funds at the development bank, to be used for loans to farmers assisted by the technical mission.
Dominica	Vegetable and fruit growers	Agricultural Industrial Development Bank	Only required for more than €2,000	The ICDF has deposited funds at the development bank, to be used for loans to farmers assisted by the technical mission.
St. Vincent	Hog raisers	Local commercial banks	Required	Local banks will provide loans from their own funds to hog raisers on a list of candidate borrowers drawn up by the technical mission. The mission will provide technical assistance only to the farmers.
Panama	Fishermen	Technical mission and fishermen's cooperative	Purchased assets will serve as collateral	Fishermen are provided loans for boats and equipment. The fishermen's cooperative will withhold one third of the catch for the repayment of loans.

Examples of Assessment and Oversight Cases

Costa Rican Guava Processing Project

Project funding:

US\$100,000

Implementing organization:

Association of Small Guava Agro-industrial Producers

Project content:

In this project local wild guavas are processed to increase their utilization rate and value, creating income for individual farmers and boosting the community economy. Any surplus that is generated after paying off interest and principal will be used to expand the processing plant, build rural roads and improved housing, and establish a community benefit fund.

The Turrialba Association of Small Guava Agro-industrial Producers (APPAG, Asociación de Pequeños Productores Agroindustriales de Guayaba), which was established to perform the preliminary processing of wild Turrialba guavas, has been very successful in improving farmers' technology and promoting the development of agricultural enterprises.

APPAG purchases wild guavas from local farmers and processes them into pulp, which can be preserved for up to one year. This pulp, which has replaced fresh fruit as a raw material, can be sold for relatively high prices to secondary food processing plants. The investment in this project was 27,664,850 Costa Rica colons (equivalent to US\$92,216 in April 2000). It is expected that 366,000 kg of guava pulp can be produced annually, and that the actual internal rate of return will be 22 percent.

The project has made it possible for APPAG to establish a processing plant, with the ICDF providing loans and holding mortgage rights on the equipment. The Costa Rican Department of Agriculture and Animal Husbandry assisted with the project, and the ICDF technical mission oversaw construction and purchasing.

APPAG began repaying the interest and principal on the ICDF loan of US\$92,216 during the second year of operations.

Eastern Caribbean Small Farmer Loan Program

Project funding:

US\$100,000

Implementing organization:

Grenadan Industrial Development Corporation (GIDC)

Project content:

The ICDF has provided US\$100,000 to GIDC so that it can offer loans to farmers receiving agricultural technology assistance from the technical mission.

Under this project the technical mission is helping farmers to apply for loans from the Grenadan Department of Agriculture (DOA). After DOA personnel have performed a preliminary assessment of the farmers' qualifications, including area farmed, level of technical assistance anticipated, and intention to repay, the information is submitted to the technical mission for review. If suitable, the technical mission helps the applicants to write up proposals for presentation to the DOA.

Once formal agreements have been signed, these are submitted to the GIDC, which is responsible for investigating the creditworthiness of the loan applicants. The GIDC, with the participation of technical mission personnel, ICDF trade personnel and DOA extension personnel, performs a final review of the applications at its monthly loan review committee meetings. After the list of approved loan applicants is jointly signed by GIDC and the technical mission, the National Commercial Bank (where the funds are deposited) is notified to write checks to materials suppliers, and this completes the appropriation process.

This SFFS is being implemented in three countries of the Eastern Caribbean. Thirteen farmers have obtained loans thus far, and more than \$540,000 (50 percent of available funds) has been disbursed.

More farmers are applying for loans in Grenada than in the other countries. Much of the success of Grenadan farmers in receiving loans can be attributed to the efforts of the implementing organization. Thanks to the GIDC's rigorous credit surveys and oversight, its efforts to make credit investigation more transparent, and the full support of the Grenadan Department of Agriculture, the ICDF small farmer loan program has been exceptionally successful in Grenada.

Conclusions

The small farmer loan program is implemented in conjunction with agricultural technology cooperation projects in districts receiving ICDF assistance. Experience has shown that when the technical mission is fully involved in the program, the loans can help farmers participating in the agricultural development projects to create wealth. However, if the technical mission provides technical assistance only, or subsidies for production inputs only, farmers find it more difficult to achieve the self-sufficiency that production oriented loans can help to achieve.

Since many of the farmers assisted by the technical missions cannot provide the collateral or security needed to secure a loan from an ordinary commercial bank, the ICDF provides funds for these purposes to participating banks and shares the lending risk with them. By taking advantage of the ICDF's risk sharing mechanism, the banks can bypass the normally complex procedures and onerous regulations that often prevent extension farmers from getting the funds they need.

In the Eastern Caribbean SFFS, financing institutions in Grenada, St. Christopher and Dominica are participating in accordance with the ICDF's operating procedures. Thus far, implementation has been most successful in Grenada.

To capitalize on the lessons learned, the implementing institution, Ministry of Agriculture extension personnel, the technical mission and ICDF trade personnel have jointly drafted a small farmholders financing implementation procedures handbook. This outlines the responsibilities of each participating party, farmers' loan application procedures, and credit review committee guidelines. The handbook will also be helpful to financing institutions considering the implementation of small farmer loan programs.