WORKSHOP ON ENHANCING ACCESS TO FINANCE FOR THE NUTMEG SECTOR IN GRENADA

UNITED NATIONS
UNCTAD

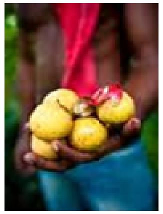
Grenada Grand Beach Resort, St. George's
7 - 8 July 2011

Nutmeg value chain

Farmers		GCNA			
Pre-harvest inputs; field maintenance	**Harvesting . collecting**	**Delivery & Drying**	**Processing & packing**	**Storage**	**Shipment**
					

GCNA's Agent	Spice grinders	Food processors	Retail
Based in Brussels Markets, sells all spice Receives 5% sales commission	Grinding spices close to market (nutmeg loses flavour quickly after ground)	Food flavouring and preservation applications	Sale to end consumer
			

Domestic value chain

Farmer	Agri-processor	Retail sales	Export
Can sell directly to agro-processor	SMEs	Local supermarkets and other channels (MNIB)	Mainly regiona markets in other Caribbean islands
			

“The financial sector…

…is well established, properly regulated by the Eastern Caribbean Development Bank and stable. The financial sector comprises: the Grenada Development Bank (a state-owned bank); 5 private commercial banks, four of which are local offices of international banks; and 12 credit unions...

pp. 10-11, the AEDP Report

Table 2. Providers of finance and risk appetite for lending to the agricultural sector			
Type	Risk appetite for agricultural finance risk in general and smallholders in particular	Administrative willingness to handle smallholder loans	Role in development
Commercial banks	Low if at all; require adequate collateral which many smallholders lack	Low to none; not commercially economic to service small loans	Through SME lending but on viable commercial terms
Credit unions	Arguably greater tolerance for risk as borrowers are also members	Arguably greater tolerance and operationally more geared to doing do	Lending still has to be on commercially viable terms; agricultural sector loans still a small part of overall portfolio
NGOs	Medium. Generally not lenders but are close to rural development efforts and therefore more tolerant of risk; might have or could develop micro-financing	Willingness to administer smallholder business, but as not a lender could have trouble with loan administration	Not lenders so limited funds; good partners for development institutions such as GDB
Marketing boards (GCNA, GCA, MNIB)	Medium-high but restricted by availability of funds; can provide advance payments for purchase of inputs	High. Already administer accounts of many farmers and agri-processors	An important cornerstone of agricultural finance through the assignment of contracts and proceeds of sales; could partner with finance providers including GDB or micro-lenders
GDB (and other development lenders)	High. Mandated to work with smallholders and small businesses such as agri-processors	Administratively capable (but needs to be re-developed)	It is a development institution
Government	Very high; risk-taker of last resort; obligated to respond in disaster	Willingness perhaps, but not its remit and lacking capability; could provide guarantees to lenders	Essential expectation of government

List of challenges

- Small size of the island and farms
- Mountainous terrain
- Insecure land tenure
- Inadequate finance and credit mechanisms
- Poor infrastructure
- Weak institutional support particularly from the research and extension services
- Hurricane devastation
- An aging farm population
- Praedial larceny
- Inadequate attention to needed institutional and market reforms

Array of financing techniques

Type	Lender/source/Type	Security	Repayment
Advance or pre-payment	Chocolate factory / enterprise		Self-liquidating from value of cocoa at delivery
Assignment of contracts	Banks, credit unions	Assignment of contract proceeds with GCNA, GCA, MNIB	Self-liquidating from value of delivered nutmeg
Input financing	GCA		Sel-liquidating from value of delivered cocoa
Micro-lending programmes	▪ NGO--Agency for Rural Transformation (ART) Credit unions ▪ Developmental financing institutions ▪ For-profit financing companies	Varies, but 'classic' micro-lending tends not to require collateral	Cash flow
Small business loans	Commercial banks, credit unions	Land, vehicles, equipment, assignment of salaried income	Cash flow
Land purchase	Commercial banks	Mortgage on land	Cash flow
Land clearance grants	Government		None required
Long-term program for tree crops	GDB		Was offered in past [currently not on offer since Ivan; lack of funds]
Soft loan programs	GDB, Government		Cash flow

Two key questions

1. To what extent can the risk appetite or administrative capacity of financial institutions be increased in order to accept a greater number and range of agricultural sector borrowers?

2. How can the credit profile/worthiness of the borrowers be improved or enhanced in order to make them more acceptable to commercial lenders and credit unions?

Table 4: A Summary of Micro-credit programmes in Grenada

Organization
Agency for Rural Transformation Ltd. (ART) http://artngogrenada.org/micro-project-loan-fund/6-income-security/35-micro-project-loan-fund-mplf
Microfinance Grenada www.mixmarket.org/mfi/caribbean-microfinance-grd www.microfin.org/
Grenville Co-Operative Credit Union Limited (GCCUL)
National Development Foundation of Grenada Ltd. (NDFG)
Caribbean Development Capital www.devcapital.net/index.html
European Investment Bank www.eib.org

Recommendation 1. Government to define 'finance periods' and design programs and policies appropriate to the period

This report recommends that three finance periods be defined, each period having a distinct influence on the financing programs and policies that need to be implemented. It is up to Government to make such a determination as this would become a policy issue. These finance periods will have a strategic impact on the finance programs and their implementation. A pragmatic assessment would suggest that are three 'finance periods' are as follows:

(1)Normal Times
(2)Disaster Shock and Beginning Recovery
(3)Continuing Recovery & Revitalization.

Table 5: Summary of Farmers' Survey

22 farmers reporting	*No./ % of farmers reporting 100% self-financing (income, savings)*	*No. & % of farmers reporting Gov't financing*	*No. & % of farmers reporting bank financing*	*No. & % of farmers reporting credit union financing*
Land preparation & clearance	8 / 36%	9 / 41% (range of Gov't part: 10—55%)	0	1 / 5% (35% CU finance)
Replanting	13 / 59%	6 / 27% (range 20—75%)	0	0
Equipment	14 / 64%	1 7 5%	0	0
Private road access	7 / 32%	0	0	0
Working capital	10 / 45%	4 / 18% (20—50%)	0	0

Farmers' reported credit facilities

The following table provides a breakdown by loan type and provider.

Credit facilities as reported (figures in EC$) Surveys submitted by 22 farmers						
	Type of lender					
Credit purpose	Chocolate Factory	MOA/ Government	GDB	GCNA	Commercial banks*	NGO (Grencoda)
No credit facility: 6 farmers						
Crop advance 1 loan	10,000					
Farmer soft loan 7 loans		16,000 @ 8% 40,000 @ 8.5%** 21,000 @ 8.5% 10,000 @ 8.5% 20,000 @ 8.5% 6,400 @ 8.5%	24,000 @ 8.5%*			
Land clearance 8 loans or grants?		2,000 3,000 1,000 2,000		1,000 2,000 3,000		2,000
Land purchase 4 loans secured against land					No amt / 8yrs 30,000 @ 14% 10,000 @ 10.5% 8,000	
'Regular' credit 4 loans				4,000	5,000 / land as col/ rpmt with produce sale 30,000 @ 8.5% 55,000 / land as col	
* Only one farmer specifically mentioned a GDB loan at 8.5%; the other 5 listed here mentioned 8.5% loans from the Government; as GDB is government-owned, the assumption is that 8.5% loans come from the same loan program. This needs to be verified.						

3 finance periods

(1) ***Normal Times***, characterized by a mature nutmeg industry producing consistent cash flow and revenues for farmers; the sector is not affected by natural disaster and thus provides an environment in which normal financial parameters and risk assessment apply. The financing in this period is essentially of a short-term nature focusing on inputs and field maintenance and repaid through the collection and delivery of nutmeg to GCNA. Thus, increased lending by commercial banks and credit unions is a viable proposition.

(2) ***Disaster Shock and Beginning Recovery***. This period would be the immediate aftermath of a hurricane with widespread sector disruption and destruction of tree crops. The period would perhaps cover the first 3-5 years after the event and would be characterized by financial needs for clearing land and replanting. As farmers' revenue generating capacity is destroyed, this program would be a disaster relief program, or an 'insurance' program. Loans would have a Force Majeure rescheduling provision (discussed later).

(3) ***Continuing revitalization***. In this period nutmeg trees have been replanted and are beginning to declare and produce. However, the sector is far from a return to normalcy. This period would last from 5 years after the disaster to 7-8 years after. This period would be characterized by soft or subsidized loans primarily from the GDB and have medium-term tenors. Once there is a return to Normal Times, loan repayments would fall due.

Suggested periods

Before 1955:	Normal
1955—1960:	Disaster Shock and Beginning Recovery
1960—1967:	Continuing revitalization
1967—2003:	Normal
2004—2008:	Disaster Shock and Beginning Recovery
2009—now:	Continuing revitalization

Recommendation 2. *Priority to be given to preventing or reducing loan defaults after a catastrophic event through (a) an insurance programme and/or (b) incorporating a Force Majeure rescheduling or restructuring provision in loan agreements*

The extremely level of loan defaults is one of the major impediments to improving access to financing, particularly from profit-motivated lenders but also from non-profit motivated organizations.

(a) For the Disaster Shock and Beginning Recovery period, the Government's policy of providing grants should be replaced with an insurance approach to the extent possible. It should be recognized that in the case of a disaster, Government is not the insurer of last resort but in fact is the insurer of first resort. The objective of insurance is to make the insured 'whole', i.e., to bring him/her into a position equivalent to that before the insured event occurred. Government needs to bring together the work of FAO and the Caribbean Catastrophe Risk Insurance Facility (CCRIF). The parameters of claims (what is eligible and how much) needs to be determined before the next catastrophe. For example, claims payments can be made for loan repayments, land clearance, and replanting. Government needs to create an insurance facility with farmers and other directly parties such as agricultural lenders as insureds. Government would then reinsure itself. This scheme would complement international disaster relief efforts. A key feature for the finance sector should be the repayment of agricultural loans in the event of a Force Majeure.

(b) Given the known consequences of a catastrophic event, lenders should be required to incorporate a policy on rescheduling/restructuring in the event of Force Majeure. All loans should be required to have a provision for rescheduling on a case-by-case basis.

Government as insurer; farmers have ‘insurance’

Insured	Insurer	Reinsurer
Farmer	Government	Private market such as Munich Re or Swiss Re

Recommendation 3. Government should consider a debt forgiveness programme.

Default rates in the agricultural sector went from serious levels before the hurricanes to stratospherically high after. Farmer default rates under the Agricultural Enterprise Development Programme (AEDP) are about 95% as farmers have taken it for granted for the funds advanced as loans were grants. There is a total impasse on this issue and this is one of the greatest impediments to moving forward. A solution needs to be found and there may be no other practical way forward.

Government's option vis-a-vis defaulting farmers

The basic options are as follows:

•Do not pursue farmers (as seems to be the case at the moment) but at the same time keep the debt on the books

•Pursue non-payers legally

•Reschedule the debt

•Write-off the debt

Recommendation 4.(a)   MOA not to be a direct lender but should consider guarantee programs to assist GDB and other interested financial institutions

This report concurs with the AEDP Report (see annex) that the MOA should not be a direct lender and should revert to delegating these tasks through the GDB. MOA finance support should be limited to guarantee programs to financial institutions with risk sharing among the parties.

Recommendation 4(b): *As a corollary to 5(a), this report supports the AEDP Report recommendation to form a Credit Management Unit (CMU).*

Recommendation 5. MOA to re-develop the capacity of the Grenada Development Bank in agricultural finance

As a corollary to the above recommendation, MOA needs to re-develop the agricultural lending and administrative of the Grenada Development Bank. GDB is already legally the government's agent bank and should be maintained as such.

Ombudsman

Recommendation 6. *Given the many financing initiatives from all types of lenders, MOA to create and maintain an agricultural finance ombudsman office which will maintain a database of all agricultural financing programmes in Grenada and will advise farmers and agro-processors and their respective organizations about the agricultural financing programmes of the various lenders as to the most appropriate financier or finance program*

Recommendation 7. *GDB to develop and support micro-lending programs and initiatives within NGOs or financial institutions on a risk-sharing basis*

Recommendation 8. *GDB along with Government to explore the possibility of a syndicated lending facility from the commercial banks*

Recommendation 9(a): GCNA's role in relation to financing should not change (i.e., it has not traditionally been a source of finance and arguably should not be)

Recommendation 9(b): GCNA should review its overdraft facility to see if it can instead use assignment of export contracts and proceeds to reduce the rate

Recommendation 10. Develop farmers' organizations (FOs) and agri-processing organizations (APOs)

Recommendation 11. Develop certificate courses in finance and lending/borrowing concepts

As a corollary to Recommendation 3, certificate courses in (i) financial concepts, (ii) debt management, (iii) writing a bankable business plan, and (iv) record keeping should be developed to meet the needs of the agricultural sector.

Recommendation 12. *The prime motivation of all parties in executing recommendations is to realize that these improvements can go a long way to making the agricultural a more attractive career alternative for the young.*