

ABSTRACT

The Role of Agricultural Credit in Agricultural
Development : The Case of the Agricultural Development
Bank of Trinidad and Tobago

Roger Jugmohan

The preponderance of " Supply - Leading " finance over the past decades has led to the emergence of Development Financial Institutions among the Lesser Developed Countries. One such institution is the Agricultural Development Bank of Trinidad and Tobago. However, since its establishment in 1968, the ADB has been faced with massive repayment problems, which together with high operating cost and subsidized interest rate undermine its ability to achieve its original objectives successfully.

Within this context the Intermediate Cost of providing Agricultural Credit by the ADB is examined using both empirical and descriptive approaches. The lending

behavior of the ADB is critically examined using both Portfolio theory and the and the Neo-Classical theory of firm. A Cobb-Douglas cost function is used to estimate the cost-output relation of the ADB.

The cost of funds, administrative cost and risk costs are the three main components of total lending cost by the ADB. Both risk and administrative costs predominate over cost of funds. This stems from the high labour cost and default rate of the bank. The empirical results revealed that wage rate, arrears rate, and output of the ADB impact both positively and significantly on cost while loan size exerts a negative, yet significant influence.

Economic efficiency, cost effectiveness and institutional viability of the ADB calls for reform in the design and implementation of its credit programs. This should include restructuring loan size; effective loan monitoring, collection and appraisals processes; performance incentive schemes for loans officers; promotion of savings mobilization; developing innovative lending schemes; greater autonomy in decision making and

the minimisation of information asymmetry between the bank and the government.