Stabroek news

National Development Strategy

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Aid to rice industry

On February 1, the government announced it had reached an agreement with bankers for a relief package for 1,200 small rice farmers whose outstanding principal was no more than $10 million each. These farmers account for only 11% of the total rice industry debt to commercial banks. Under the deal, the Guyana Association of Bankers (GAB) has agreed to forgive the unpaid interest on non-performing loans of less than $10M as of August 31, 2001. The loans in this category are said to total $1.2B. Further, all of the GAB banks have agreed to write off 25% of the principal on the non-performing accounts at the end of an agreed period as long as there has been satisfactory debt servicing. The remainder is to be rescheduled over a maximum of 10 years at a minimum interest rate of 10% subject to upward adjustments depending on the average six-month rate on one-year Treasury bills. The rates are to be reviewed in January and June each year.

The moratorium on payments on principal is to be extended to the end of this year and on interest payments up to June of this year. Commercial banks are also prepared to approve additional working capital up to a maximum amount of $3M. The bankers will get a waiver of the 45% corporation tax on the profits from the restructured loans plus, of course, the servicing of loans that were more or less beyond recovery. Banks have further agreed to suspend judgements already secured against farmers once they have signed a loan restructuring agreement. Those who default once those agreements are signed would see immediate levying on their collateral. Farmers who backslide on this restructured arrangement also risk serious damage to their creditworthiness in the future.

The government and the bankers association must be congratulated for striking this deal. Givin the ravages of successive bad weather systems, falling rice prices on the international market, rising cost of inputs and the closing of the OCT route to the EU, the small rice farmers were severely clobbered and had little prospect of getting back on their feet. The extenuating circumstances were clearly beyond their control but that in itself should give rise to a profound examination of the viability of the small rice farmer and whether in light of the hostile international trading climate and vastly fluctuating weather systems it is an endangered occupation. It would be interesting for future reference if the government/bankers/rice associations can document how many of these farmers are still prepared and in a position to get back on the land and how they fare under the restructuring deal and after they have paid off their loans. Can they make a profit at current yields and in the milieu of shrinking markets and hostile weather?

The other concern now is the fate of the rest of the industry. The restructuring deal will directly benefit the small farmer but it is unlikely to have a knock-on effect on the large farmers and farmer/millers who owe the lion's share of the debt to the banks. They, too, require some sort of consideration in the rescuing of the industry. Millers and exporters need to be in a sound financial position before they can mill and market the rice produced by the debt relieved farmers. President Jagdeo has held firmly to the position that the large millers/farmers have to make their own approaches to the banks and he has held to that view on the basis that these enterprises were either mismanaged or the principals are able to meet their obligations and are unwilling to do so. This presumption should not be allowed to mar the opportunities that should be available to those who are genuinely unable to meet their obligations and those who have been badly affected by factors beyond their control. The government should seek to strike a commensurate deal with the bankers for these large millers/farmers.

This newspaper recently reported the startling fact that 56 rice mills, or nearly half of all the mills in the country, are out of business because of financial troubles and another 25% are in danger. There will be a shake-out in the milling industry but this is far more than that. If there is genuine doubt about the use of their loans and their financial status the millers/farmers should be prepared to open up their books and financial statements for inspection. They should be willing to provide a detailed account of, for example, how a large loan was utilised and what specific occurrences led to their heavy indebtedness. Once the banks - either individually or collectively - are satisfied that these are bona fide explanations and they are willing to pursue some type of restructuring then the government should also play its part.

Bailing out the small farmers is a crucial and important step. However, the policy of aiding the rice sector will not thrive unless similar assistance is extended to the millers and big growers.