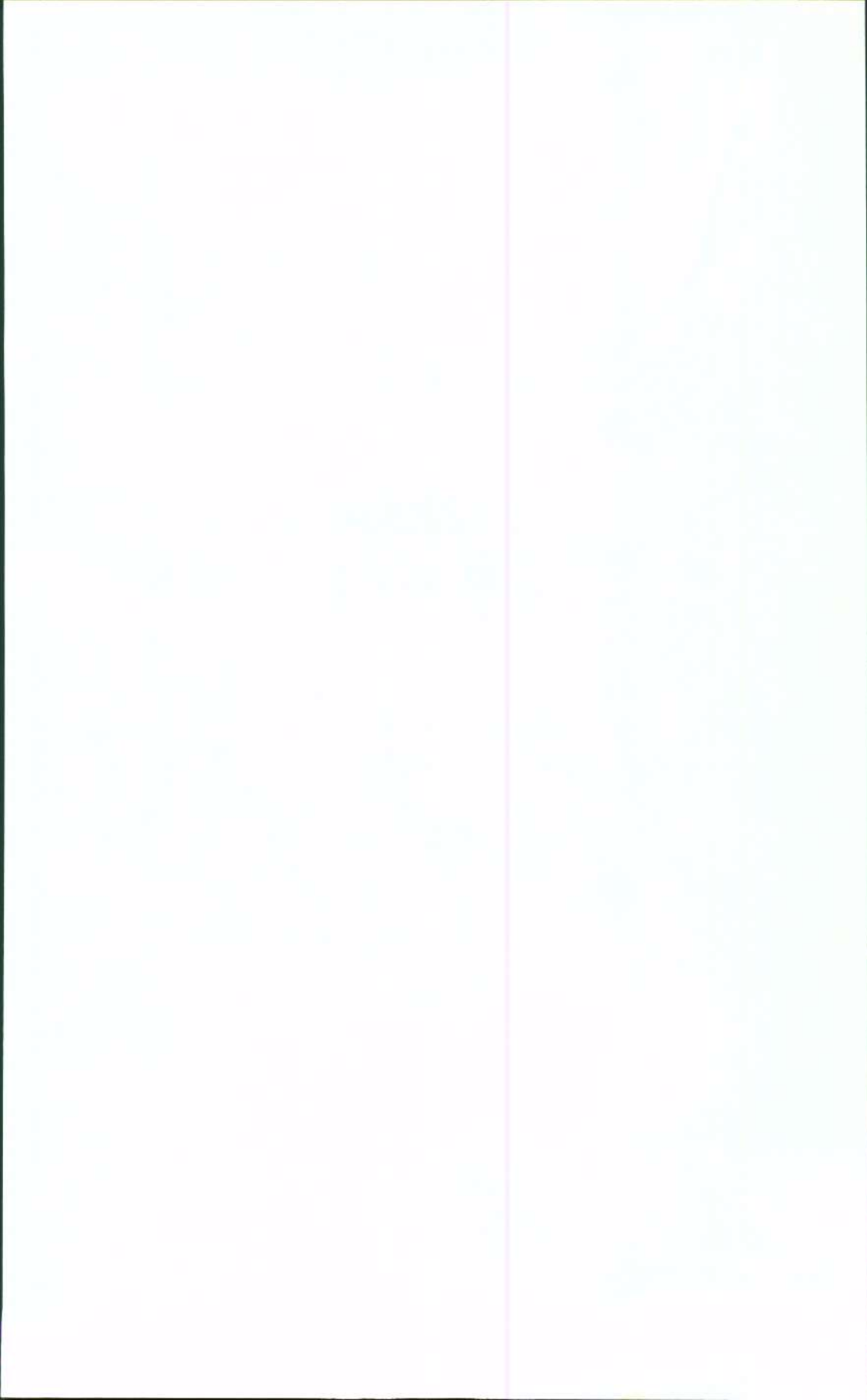


ZAMBIA

by SEAN NAGLE



1.

MAIN FEATURES OF THE ECONOMY

Zambia covers an area of 752,612 Km² or almost 75 million hectares. Four basic ecological zones exist, with varying potentials for agricultural growth – the northern high rainfall areas, the western semi-arid plains, the central southern and eastern plateaux and the Luangwe-Zambezi rift valley. The land surface is mostly flat and the climate subtropical with well defined wet and dry seasons. The growing season, December to March is warm and wet.

The estimated population in mid 1984 was 6.44 million. Urban population is growing at a rate of 6.6 percent and rural at only 1.1 percent per annum. Density is low at 8 persons per Km² and in rural areas only 3 to 4 persons per Km². In 1984 over 48 percent of the population lived in urban areas, and 84 percent were less than 40 years old.

Of an estimated labour force of 1,844,600 in 1985, 361,520 (the lowest in ten years) were in formal employment, while the agricultural labour force is estimated at 1.5 million. The increase in the labour force is largely either unemployed, underemployed or displaces others who are employed.

Average income per caput in 1983 was US \$501 but in 1985 it was only US \$80. At a meeting with Zambia's aid donors in 1984 it was suggested that real income per caput in US dollars and adjusted for terms of trade had fallen to less than one third of its 1974 level by 1984. After 1981 as seen from Table 1, the real output of the economy declined for three consecutive years up to 1984. Preliminary estimates for 1985 show that there is a recovery and an increase of 3.4

percent over the 1984 level. The level of G.D.P. is still lower than 1981. Export earnings fluctuated all through the period. The improvement in export earnings in 1983, 1984 and 1985 was due to devaluation (depreciation of the kwacha) and not to an improvement in export prices. The volume of imports decreased as evidenced by shortages of raw materials and consumer goods. There was heavy out-flow of resources on account of invisibles i.e. services by foreigners for Zambians which offset the surplus in the trade balance.

The primary sector has shown very little change between 1979 and 1985. Agriculture which has grown only slightly as seen in Table 1 has contributed what little growth there is. This lack of growth in agriculture is disappointing since not only is it expected to make up for the fall off in the growth of mining but also to replace it in 10 to 12 years' time when mineral deposits run out.

TABLE 1

Real Variables in the Zambian Economy 1979-1985

GOVERNMENT BUDGET	1979	1979 %	1980	1981	1982	1983	1984	1985	1985 % of Total
G.D.P.: (1977 Producer Prices) Km.									
Primary Sector	651	33.0	509	544	505	537	532	552	26.5
Secondary Sector	464	23.5	553	580	575	546	549	575	27.6
Tertiary Sector	858	43.5	934	995	979	936	931	953	45.9
Total	1,973	100.0	1,996	2,119	2,059	2,019	2,012	2,080	100.0
% increase	—		1.0	6.1	-2.9	-2.0	-0.4	3.4	
Agriculture as % GDP	14.8		15.2	15.5	14.1	15.6	16.5	17.4	
GDP per capita (K) 1977 Prices	351		352	361	340	324	313	311	
External balance (K million):									
Goods and services	45		-124	-435	-324	-37	187	674	
Transfers	-54		-308	-222	-245	-258	-439	-528	
Current account balance									
Capital movements	-9		-432	-657	-569	-295	-252	146	
(Excl. reserves)	N/A		276	401	376	112	125	N/A	
Government budget (KM):									
Ordinary Receipts	635		809	852	879	1,100	1,096	1,534	
Expenditure	956		1,314	1,389	1,643	1,476	1,328	2,184	
Deficit	-321		-505	-537	-764	-376	-232	-650	

Source: Bank of Zambia Annual Reports, 1979-1985.

Economic Review and Annual Plan 1986.

National Commission for Development Planning Lusaka.

Of the 75 million hectares of land, about 31 million are in national parks, forest and urban townships; 29 million hectares are uncultivated; 7 million are under shifting cultivation. Of the remaining 8 million hectares approximately 2 million are under crops. The main crops and livestock production are detailed in Table 2.

Large-scale commercial farmers have the best land along the line-of-rail (from the Copperbelt in the North to Livingstone in the South) amounting to about 100,000 hectares or 5 per cent of about 2 million hectares of cultivated land. Medium and small commercial, have about 400,000 hectares or 20 percent, and are located mainly in Central Southern and

Eastern Provinces. Traditional farmers have about 1.5 million hectares or 75 per cent of the total cultivated land.

The secondary sector has not changed markedly over the period 1979 to 1985 as seen in Table 1. In 1985 it accounted for almost 28 per cent of G.D.P. It is dominated by 37 parastatals and in 1985 employed 48,490 people, 26,510 of whom were in parastatals. In 1983/84 there was excess capacity of more than 40 per cent for 22 out of 31 products by the parastatals. These companies are mainly involved in import substitution industrialization. They are uncompetitive due to the high cost of imported raw materials and to the massive depreciation of the kwacha.

This sector in 1985 accounted for almost 46 percent of G.D.P. It is dominated by community, social and personal services and in 1984 employed 228,790 which figure includes domestic servants.

The Government has been urged by the International Monetary Fund (I.M.F.) to put the country's finances in order. The deficit as seen in Table 1 was reduced in 1983 and 1984 but increased by approximately 280 percent in 1985. In an effort to reduce the deficit "constitution" expenditure and subsidies have been reduced and there is a freeze on the hiring of administrative personnel in the government services.

The Governments' financial position is adversely affected by the falling price of copper. These deficits have been financed mainly through domestic borrowing and in particular bank borrowing, a potential source of inflation. The remainder of the deficit is financed through external borrowing and this led to an increase in the cost of debt servicing in absolute terms and as a percentage of total expenditure. Exports are dominated by copper which in 1985 accounted for almost 90 percent of total exports. Real copper prices started to decline rapidly after 1974 and 1984 prices were 57 percent lower in real terms than they had been in the 1970/74 period. Even in current terms, prices are below the 1974 level.

TABLE 2

Production and Marketing of Selected Crops 1981-85, Livestock and Livestock Products Zambia 1980-1985, Production 000's Bags

	Maize			Soyabeans			Rice			Seed Cotton		
	Area (ha)	Production (bags)	Marketed (bags)	Area (ha)	Production (bags)	Marketed (bags)	Area (ha)	Production (bags)	Marketed (bags)	Area (ha)	Production (Kgs)	Marketed (Kgs)
1985	566900	12480	7530	9836	138	121	10701	140	86	45841	52174	52174
1984	506500	9686	6348	9400	119	105	8695	115	67	51990	40914	40914
1983	546700	10392	5902	4957	65	76	7014	120	63	33140	20455	20455
1982	456000	8162	5672	4857	70	57	5920	65	36	23870	12766	12766
1981	622000	16561	7704	2541	40	36	12080	70	33	31600	16762	16752

	Sunflower			Groundnuts			Virginia Tobacco		
	Area (ha)	Production (bags)	Marketed (bags)	Area (ha)	Production (bags)	Marketed (bags)	Area (ha)	Production (bags)	Marketed (bags)
1985	62519	847	828	31911	181	27	1459	2278	2276
1984	57690	675	803	29520	165	14	2080	2488	2488
1983	46790	398	609	31390	137	13	2180	2287	2287
1982	41440	273	426	22440	117	9	2160	2072	2072
1981	67010	384	384	29098	149	18	5020	2842	2757

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
Cattle	'000 head	84.0	92.3	100.0	110.0	112.0
Pigs	'000 head	48.4	47.9	44.0	41.0	41.4
Poultry	mn	12.5	13.8	9.8	13.0	17.0
Eggs	'000 box of 10	155.0	137.0	113.0	144.0	169.0
Milk	mn Litre	9.3	10.2	11.7	15.0	22.7

Source: Monthly Digest of Statistics; Ministry of Agriculture and Water Development, Economic Reports; Economic Reports and Annual Report 1986, N.C.D.P.

Zambia has had three programmes for economic development none of which was very successful. From 1986 there is an annual plan and a system of medium-term financial planning. Budgetary estimates have been made more accurate.

Since Independence in 1964 Zambia has followed a Humanist policy. Humanism is an attitude of mind, a system of thought, which concentrates on human interests rather than on the external world or upon religious ideals. It emphasizes the primary role of government as one of encouraging development from below, so as to inspire local initiative in the rural areas. Development can only spread through the co-operative movement.

2.

MONETARY POLICY AND FINANCIAL DEVELOPMENT

2.1 CURRENCY AND EXCHANGE RATE

From Independence in 1964 to January 1968 sterling was used. After the introduction in January 1968 of the Kwacha (= 100 Ngwee) it was tied to the U.S. dollar until July 1976, when it was devalued 20 percent and pegged to the SDR at the rate of $K\ 1 = SDR\ 1.0848$. Further devaluations brought the rate to $K1 = 0.7810$ in January 1985. After July 1983 the kwacha is officially valued in terms of a basket of currencies for which the US dollar is the intervention currency. This allowed the kwacha to depreciate slowly with minimum political risk. In the two years to July 1985 this meant a devaluation against the US dollar of more than 40 percent. In spite of this the kwacha was very much overvalued and trading in the black market at approximately one third of its official value.

In October 1985 the Government began a weekly auction of foreign exchange. Since then the exchange rate for all foreign currencies is determined each week by the marginal bid which takes up the amount of foreign exchange available for that week. The US dollar remains the intervention currency. As expected, after the auction there was a sharp devaluation of the kwacha from K2.20 per US dollar the previous week to K5.01 per US dollar. Average exchange rate movements are shown below for the period 1977 to 1986.

Average Exchange Rate (Zambia) 1977 = 1986: (K per \$)

1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
0.790	0.800	0.793	0.789	0.868	0.928	1.251	2.200	5.700	11.900

Source: IMF, International Financial Statistics.

Economic Review and Annual Plan 1986 N.C.D.P.
Bank of Zambia.

At one stage in 1986, the exchange rate was K15.0 per US dollar. This was due largely to the fact that the Bank of Zambia had reduced the number of dollars available at the weekly auction, from US \$9 million to US \$5.5 million. Out of this US \$5.5 million, 1.5 million was reserved for the banking system, 2 million for fuel and communications leaving only 2 million for general imports. On an annual basis about US \$104 million goes on imports now whereas over US \$300 million went on them previously. Unless the amount of foreign exchange available is increased the value of the kwacha will continue to fall.

2.2 MONETARY POLICY

In the early 1980,s monetary developments were largely influenced by a restrictive monetary policy pursued by the Bank of Zambia. This policy was adopted due to the country's precarious external payments position, excessive demand conditions coupled with occasional supply problems and the resulting high inflationary pressures on the economy. The main demand management policy instruments used included quantitative credit ceilings and an upward change in the interest rate structure in 1983.

In early 1983 the kwacha was devalued and a floating exchange rate regime was adopted. As a result the rate of growth of all monetary aggregates slowed down in 1983

compared to previous years, as seen from Table 3.

A restrictive monetary policy continued in 1984. Demand management policy instruments were intensified to reduce demand and high inflationary pressures. More quantitative credit ceilings were introduced and interest rates were raised. Monetary aggregates were influenced by an agreement with I.M.F. in July 1984 and the Bank of Zambia exercised control on their growth, as seen in the increase in the money supply. The greater part of primary liquidity was retained within the banking system.

Policies followed in 1984 continued in 1985 up to the last quarter of the year, when important monetary policy decisions were implemented. The monetary authorities set out to regulate the growth in the money supply through open market operations in treasury bills. From September 3rd 1985 a daily market in treasury bills started. A money supply target for a particular period was set and a specific amount of treasury bills were sold or bought on the market to achieve this.

Interest rates were decontrolled to allow the market to freely respond to the laws of supply and demand. The treasury bill rate moved from 9.5 percent in October 1985 to 24.0 percent in December 1985. The treasury bill rate in December 1986 was 28 percent. (Table 4).

The main purchasers of treasury bills are the commercial banks (90 percent approximately). Non-bank financial institutions take up the remaining 10 percent. The Bank of Zambia is now trying to interest private individuals in them.

It is obliged to discount treasury bills as and when required by the commercial banks. The Bank does not have its own paper in the sense that treasury bills are government instruments and go towards financing government activities.

TABLE 3

Money Deepening Ratios

	1977	1978	1979	1980	1981	1982	1983	1984	1985
	(as a % of GDP)								
Currency in Circulation	7.0	6.9	5.7	5.7	6.4	6.8	6.6	6.9	6.2
	(as a % of GDP)								
Deposit Money	29.7	22.7	26.5	24.7	22.6	30.6	27.6	28.8	27.8
	(as a % of GDP)								
Currency and Deposits	19.8	17.5	19.4	16.9	16.3	19.1	17.3	20.6	19.4
	(as a % of GDP)								
Total Money	35.8	28.5	31.4	30.1	28.4	36.7	33.1	34.5	33.2
	(nominal % Δ)								
Total Money	12.1	-8.6	30.2	9.0	7.9	17.9	10.2	18.1	23.5
	(real % Δ)								
Total Money	-9.6	-22.9	19.7	-2.6	-4.3	+5.1	-8.6	-6.0	-16.4
Mem, : % Δ Price	21.7	14.3	10.5	11.6	12.2	12.8	18.8	24.1	39.9

Source C.S.O. Economic Review and Economic Plan 1986. National Commission for Development Planning. Bank of Zambia Annual Reports.

TABLE 4

Main Interest Rates 1976-1986

Year	Average Treasury Bill rate	Prime Rate Loans	Savings A/C Deposits	12 months AND over Time Deposits	Memo % price
1976	4.37	8.25	6.0	7.25	17.4
1977	4.38	6.25	6.0	7.25	21.7
1978	4.50	9.50	7.0	8.25	14.3
1979	4.50	9.50	7.0	8.25	10.5
1980	6.0	9.50	7.0	8.25	11.6
1981	6.0	9.50	7.0	8.25	12.2
1982	6.0	9.50	7.0	8.25	12.8
1983	7.5	13.0	8.0	8.25	18.8
1984	9.50	17.50	15.50	15.50	24.1
1985	24.0	25.0	15.50	15.50	39.9
1986	28.0	30.0	16.50	20.50	58.7

Source: Bank of Zambia
(Unpublished data for 1986).

Commercial banks Primary Liquidity Ratio is 40 percent. They have to hold 25 percent of demand deposits and 17 percent of time deposits in cash. These liquidity ratios are only effective at the end of each month. During the month they purchase treasury bills and earn interest on what would otherwise be non-interest bearing deposits.

Monetary development over the period 1977 to 1985 has been characterized by changes up and down in domestic liquidity. The changes as seen from Table 3 have not been of great magnitude and were due mainly to the balance of payments position. Failure to expand the economy to any great extent is due to the deterioration of the overall balance of payments position over the period.

The nominal rate of growth of money is erratic with periods of expansion and contraction, as seen in Table 3. The increases in 1984 and 1985 are due mainly to the depreciation of the kwacha.

Auctioning of foreign exchange brings about depreciation of the kwacha and increases the money supply in nominal terms. Revenue increases but this improvement in revenue is offset by increases in expenditure due to price and cost increases, together with increases in external debt service payment, through the budget. Ultimately all the additional money finds its way into the market and if the supply of goods and services do not increase to match the increase in money supply as is the case in Zambia inflation increases. Part of the additional money supply is withdrawn due to foreign exchange auctions and this brings a contradictory influence to bear on the money supply. Real change in the money supply as seen in Table 3 is negative, practically every year due to the rate of change in the price level.

2.3 FINANCIAL DEVELOPMENT

Over the period 1974 to 1985 the ratio of total money (ie currency plus deposit money) over G.D.P. increased substantially from 23.8 percent in 1974 to 41.6 percent in 1985 as seen in Table 5. It followed an unstable path and this can be attributed to the erratic fluctuations in the nominal money supply.

Domestic credit as a percentage of G.D.P. has fluctuated over the period 1974 to 1985 as shown in Table 5. It increased substantially in 1982 and shows a continual decrease since. There has been an increase in the demand for domestic credit and Government has competed with the private sector. The decline in the share of net credit to the private sector in 1985 as shown in Table 5, in the absence of credit ceilings both to the public and private sector indicates the crowding out of the private sector. The Government expanded its credit at the expense of the private sector.

TABLE 5
Financial Deepening Ratios

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
<i>Total Money %</i>												
G.D.P.	23.8	31.1	33.3	35.8	28.5	31.4	30.1	28.4	36.7	33.1	40.5	41.6
<i>Net Domestic Credit %</i>												
G.D.P.	21.9	44.9	51.9	64.6	66.2	60.3	58.9	62.9	80.4	75.0	70.7	63.8
<i>Net External Liabilities %</i>												
G.D.P.	—	6.8	1.2	1.6	5.9	1.9	1.6	8.9	2.9	10.8	4.8	7.6
					% Share of domestic credit							
Government	18.8	44.7	58.8	62.7	71.6	70.0	75.2	67.5	68.6	67.5	66.4	67.5
Private Sector	81.2	55.3	41.2	37.3	28.4	30.0	24.8	32.5	31.4	32.5	33.6	32.5

Source: Bank of Zambia Annual Reports
(Calculations by the Author).

2.4 PRICE CHANGES

Table 6 details the Consumer Price Indices for high and low income urban groups. Large increases have been recorded since 1983. This is due to the decontrol of prices in 1983, the gradual removal of subsidies, inadequate supplies of essential consumer goods and the Kwacha's continued depreciation against other currencies. The changes in the consumer price index are symptomatic of inflation.

In September 1985 interest rates were decontrolled followed in October by auctioning of foreign exchange. The auction was introduced in order to counteract the existing, flourishing black market in the kwacha. Both of these measures had an immediate effect on prices and have resulted in unprecedented rates of inflation as shown in Table 6.

2.5 INTEREST RATES

The level and structure of interest rates is set by the Bank of Zambia. The policy adopted was one of altering the nominal rate only rarely, and then the goal was to get the maximum productive utilisation of credit. Table 7 gives details 1976 to 1986. At the urging of the International Monetary Fund in 1983, rates were increased in order to bring nominal interest rates more in line with the rate of price inflation. Rates were also increased in 1984, 1985 when decontrolled and 1986. They are now at an all time high and the prime loan rate in 1986 is more than double what it was in 1983. (Table 7).

Quoted nominal rates of interest have tended to be low relative to the rate of inflation. This has resulted in negative real rates i.e. nominal rates adjusted for the expected rate of inflation. The rise in the real return on holding money depends on the rise in nominal interest rates and the expected decline in the rate of inflation. Table 7 shows the difference between

selected interest rates and the actual rate of inflation. Real rates are negative every year 1976 to 1986, peaking at an all time high in 1986. However, quoted rates of interest understate loan charges since Zambian credit agencies impose fees which raise the effective nominal rate of interest. Agricultural loanees are charged ledger fees, pay for application forms and Local Purchase Orders (L.P.O.) from the Agricultural Finance Company (A.F.C.). Commercial banks charge commitment fees, penalty fees on overdrawn accounts and front end fees. Interest is charged to farmers for a twelve month period eventhough a seasonal loan is repayable within nine months. In the 1982/83 season the author found that A.F.C. charged 6.2 percent, commercial banks 1.5 and Cooperative Credit Scheme (C.C.S.) 4.1 percent, above the nominal rate.

TABLE 6
Consumer Price Indexes, Low and High Income Groups 1974 to 1985 (1975 = 100)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Low Income Urban	90.8	100	18.8	23.5	16.4	9.7	11.7	14.0	12.5	19.8	23.5	47.2	57.7
High Income Urban	92.2	100	16.1	19.9	12.2	11.3	11.5	10.4	13.2	17.8	24.8	32.7	59.8
Average			17.4	21.7	14.3	10.5	11.6	12.2	12.8	18.8	24.1	39.9	58.7

Source: C.S.O. Monthly Digest of Statistics.

Bank of Zambia Report and Statement of Accounts for year ending 31/12/85.
 Unpublished data 1986.

TABLE 7
Selected Interest Rates and Inflation

Year	Nominal Rates of Interest				Average ^a Inflation	Real Rates of Interest					
	Central bank	Post office	Savings deposits	12 months and over time deposits		Prime loan rate	Central bank	Post office	Savings deposits	12 Months and over time deposits	Prime loan rate
1976	6.0	3.75	6.0	7.25	17.4	8.25	-11.4	-13.65	-11.4	-10.15	-9.15
1977	6.0	3.75	6.0	7.25	21.7	6.25	-15.7	-17.95	-15.7	-14.45	-15.45
1978	6.50	4.25	7.0	8.25	14.3	9.50	-7.8	-10.05	-7.3	-6.05	-4.80
1979	6.50	4.25	7.0	8.25	10.5	9.50	-4.0	-6.25	-3.5	-2.25	-1.00
1980	6.50	4.25	7.0	8.25	11.6	9.50	-5.1	-7.35	-4.6	-3.35	-2.10
1981	7.50	4.0	7.0	8.25	12.2	9.50	-4.7	-8.2	-5.2	-3.95	-2.70
1982	7.50	4.25	7.0	8.25	12.8	9.50	-5.3	-8.55	-5.8	-4.55	-3.30
1983	10.0	4.25	8.0	8.25	18.8	13.0	-8.8	-14.55	-10.8	-10.55	5.80
1984	14.50	15.50	15.50	15.50	24.1	17.50	-9.6	-8.60	-8.6	-8.60	-6.60
1985	17.50	15.50	15.50	15.50	39.9	25.0	-22.4	-24.40	-24.4	-24.4	-14.90
1986	30.00	16.50	16.50	20.50	58.7	30.0	-28.7	-42.2	-42.2	-38.2	-28.7

^a Average of High and Low Income Groups.

Source: C.S.O. Bank of Zambia Annual Reports and unpublished data.

Negative real rates of interest cause savers to incur capital losses. During 1985 the average inflation rate was 39.9 percent while the interest rate paid on savings deposits by the Commercial banks was 15.5 percent (negative real rate of 24.4 percent). In December 1985 savings deposits with the Commercial banks amounted to K 242 million. Due to the negative real rate of interest the real value of these was K 183 million, a loss of K 59 million due to depreciation. These savings deposits are held mainly by numerous small savers, who can least afford such losses.

Negative real rates cause inefficiencies in resource allocation and encourage overinvestment. They also discourage use of internal resources or self-finance. They subsidise the few well-to-do borrowers at the expense of the poor.

Credit institutions have a spread between their interest costs and interest returns. The Bank of Zambia determined this spread until October 1985 when the government decontrolled interest rates. Interest rate spreads are intended to cover administrative and risk costs. Risk costs include loss of interest income, loan capital by default and the cost of trying to obtain repayment. If the spread is not sufficient to cover these costs the institution loses its capital base. This has happened to the Agricultural Finance Company (A.F.C.) as it did to its predecessor the Credit Organization of Zambia (C.O.Z.). The spread required must increase with inflation. In 1986 the commercial banks had a spread of 13.50 ie the spread between minimum deposit rate and the loan rate to farmers. Agricultural Finance Company (A.F.C.) in 1985 had a margin of only 1.5 percent. Zambian Agricultural Development Bank (Z.A.D.B.) had a similar margin.

Inadequate margins for A.F.C. have led to the government paying administrative subsidies, and to capitalising losses. Interest on loans as a proportion of cash production costs of farmers are relatively low according to the author's survey. The average in 1982/83 was 4.09 percent. It is highest for

traditional farmers (those with less than five hectares) at 9.48 percent and lowest at 2.45 percent for medium-scale commercial farmers (those with twenty hectares but less than fifty hectares). The rate for small commercial farmers (5 and less than 20Ha) is 6.76 percent and for large-scale commercial farmers (with more than 50Ha) it is 3.14 percent. Farmers seem capable of absorbing higher interest rates and of paying interest rates which give an adequate spread to the credit institutions. Higher rates would ensure a more even distribution of available credit and encourage farmers to economise on its use.

2.5.1 *Conclusions*

Real rates of interest are negative. When real rates are positive and high, financial deepening takes place. Where there is deepening the difference between deposit and loan rates tend to lessen. From Table 7 for example it is seen that the difference between saving deposit and prime loan rates has increased from 2.50 percent in 1982 to 13.5 percent in 1986.

Inadequate interest rate spread causes operating losses in credit institutions and discourages lending by commercial banks to small-scale farmers.

2.6 SAVINGS

Satisfactory mobilization of savings depends on the provision of a positive real rate of return, adequate deposit facilities, ease of withdrawal and on the general level of education. In Zambia the rate of return is negative, adequate deposit facilities do not exist in rural areas, it is difficult to make withdrawals in rural areas and due to lack of education some rural people cannot see the benefits of saving and do not trust the system.

The economy will benefit from a greater proportion of saving in financial institutions as it will from a longer maturity structure of financial savings. Some progress has been made in both directions in Zambia, but savings need to be deepened further. Institutions involved in lending to farmers only do not usually seek to attract deposits. The Co-operative Credit Scheme (CCS) however introduced a pilot scheme in two Provinces in 1983. Details are given in Table 29.

2.7 SAVING PATTERN OF 500 FARMERS: FINDINGS FROM A SURVEY BY THE AUTHOR 1982/83

Savings take two forms (I) Physical assets ie. fixed investments and (II) Financial assets ie. currency deposits and investment in government securities.

For farmers saving can be a simple exchange of present income against an equal amount of income in the future or against the security which comes from possession of a store which can be used in an emergency. It can be a type of saving which adds more than one unit to future income for each unit of present income foregone.

In respect of the saving behaviour of the farmer it is helpful to know the preferences he has for saving ie. alternative methods. Some of the preferences are outlined. Table 8 shows savings by each category of farmer (categories already defined) from the 500 surveyed. It shows savings as a percentage of total income. For traditional farmers it is 25.28 percent and large-scale commercial 21.28 percent. These are relatively high levels of savings and are not commonly held to exist.

The survey is based on conditions prevailing at the time, it was carried out. There may be differences in amounts saved from year to year. The estimates are subject to errors of observation due to their residual character. A further factor which can cause variations is the fact that agricultural incomes are affected by climatic conditions.

The traditional and small-scale commercial farmers saved more on aggregate than did large-scale farmers. This could be due to lack of investment opportunities for traditional and small-scale farmers.

The method of holding savings is shown in Table 9. Cash accounts for 17 percent and this may be due to lack of financial institutions, capable of providing an opportunity to hold liquid deposits and paying interest rates that are positive in real terms. If the five percent loaned to relations is added to cash holdings then 22.1 percent of savings are not deposited.

Commercial banks hold 48 percent of the savings. These cause savings to flow partly from rural to urban areas and partly to large-scale farmers due to their lending policy.

Post Offices hold 23.5 percent. These just act as collection points for the Government and the savings they take in are passed on for investment in government securities.

Savings of farmers in the Survey are on average 26 percent of income. Institutions not taking deposits are not complete and institutions taking deposits that do not consider it worthwhile to mobilise rural savings also lose. They lose because they fail to use these savings and also because they do not know their customers as well as they might if they held their deposits as well as lending to them.

TABLE 8
Savings by Five Hundred Farmers

1. Category	(in K)				
	Traditional	Small Comm.	Medium Comm.	Large Comm.	Total
2. Total income	244,959	448,403	244,864	255,739	1,193,965
3. Total expenditure	183,031	324,189	174,669	201,320	883,209
4. 2 - 3 = savings	61,982	124,214	70,195	54,419	310,756
4. 4 as a percentage of 2.	25.28	27.70	28.67	21.28	26.03 (Av.)

Source: Author's Survey of 500 Farmers 1982/83.

TABLE 9

Method of Holding Savings and Amount by Area and by Category

Category	(In K)				Total
	Traditional	Small Comm.	Medium Comm.	Large Comm.	
Total	68,020	115,782	104,350	68,178	356,330
Post Office	25,720	28,947	8,676	20,331	83,674
% total	37.8	25.0	8.3	29.8	23.5 (Av.)
Coops	3,213	5,592	8,880	4,710	22,395
% total	4.7	4.8	8.5	6.9	6.3 (Av.)
Comm. banks	21,072	53,574	61,584	35,113	171,343
% total	31	46.3	59.0	51.5	48.1 (Av.)
Loans to relations	2,650	6,811	7,503	1,000	17,969
% total	3.9	5.9	7.2	1.5	5.0 (Av.)
Cash in hand	15,365	20,888	17,702	7,024	60,979
% total	22.6	18.0	17.0	10.3	17.1 (Av.)

Source: Author's Survey of 500 Farmers 1982/83.

Farmers lose since their savings held mainly in banks and post offices are not used for the benefit of the rural community. There is also a tendency for farmers to hold cash which earns nothing and this is on average 17 percent of the total amount saved.

Finally rural savings are not effectively mobilised and the mechanisms and incentives for channelling them into financial intermediaries are defective. These can be improved by increasing the deposit facilities in rural areas and by the provision of a positive real rate of interest.

If local farmers hold their savings with convenient local credit institutions the following benefits accrue:

- Local pressure would help to enforce stop orders and to exercise moral suasion on delinquent borrowers;
- Some information on a potential borrower would be available and this would indicate his ability to repay a loan should he be given one;
- The institution is a complete financial intermediary and there

should be ease of withdrawal to encourage farmers to allow the institutions to hold their savings.

3.

PERFORMANCE OF FINANCIAL INSTITUTIONS

Financial institutions in Zambia are divided between bank and non-bank. Institutions that lend and take deposits are classified as banks, whereas those that lend but do not take deposits are non-bank institutions.

For the purpose of this study commercial banks are examined. Non-bank institutions looked at are Development Bank of Zambia (D.B.Z.), Zambia State Insurance Corporation (Z.S.I.C.), Zambia National Savings and Credit Bank, Credit Union and Savings Association (C.U.S.A.), Zambia National Provident Fund and Small Scale Enterprise Promotion Ltd. (S.E.P.).

3.1 COMMERCIAL BANKING SECTOR

There are nine commercial banks in Zambia. These are listed in Table 10 together with the number of urban and rural branches for each bank. Meridien, Indo-Zambian and African Commercial Bank commenced operations in 1985. In 1980 they had 66 branches and agencies in urban areas as compared to 35 in rural areas. The position as at December 1986 is that they have 74 urban and 41 rural branches and agencies.

The government owns the Zambia National Commercial Bank and has a 51 percent interest in the Indo-Zambian bank. The remaining banks are privately owned.

Table 11 shows the trend in the banking system liabilities 1979 to 1985. Deposits have grown each year and there was a

substantial increase in demand deposits in 1985. This amounted to an increase of K 305.0 million or more than 52 percent due mainly to the fact that interest rates were increased substantially as already stated. All other deposits show an increase. Deposits are on average approximately 48 percent of total liabilities.

The amount due to banks abroad increased by K 378.8 million. Much of this increase took place in the last quarter of 1985 when the foreign exchange auctions were introduced. K 80 million of the K 87 million owing to the Bank of Zambia was lending to the parastatal sector through the commercial banking system.

Table 12 shows the distribution of commercial bank credit to the economy. Commercial bank credit to the private sector increased substantially in 1983 and the entire increase took place between August and December. There was a further substantial increase of 30.8 percent in 1984. On both occasions the main contributory factor was the increase in demand for agricultural credit by the co-operatives in order to pay farmers for their crops. Parastatals continue as the greatest beneficiary of credit with almost 45 percent in 1985 as against 34 percent in 1984. The private sector's share decreased as did that of non-residents. Government's share at 11 percent in 1985 was more than double what it was in 1984.

Table 13 shows the lending pattern of the three main commercial banks. Over the period 1981 to 1985 Barclays loaned an average K 600 million or 42 percent to agriculture. Of this K 600 million, large-scale farmers received K 219 million or about 37 percent while small farmers in the Lima Scheme received K 18 million or 3 percent. Agricultural parastatals received the remaining K 363 million or 60 percent.

TABLE 10

Branch-Network of Commercial Banks in Zambia. December 1986

	Urban	Rural
Zambia National Commercial Bank	15	15
Standard Chartered Bank	16	9
Barclays Bank (Zambia) Ltd.	25	16
Grindlays Bank International (Z) Ltd.	7	1
Citibank	1	NIL
Bank of Credit and Commerce	5	NIL
Meridien Bank	3	NIL
Indo-Zambia Bank	1	NIL
African Commercial Bank	1	NIL
Totals	74	41

Source: Bank of Zambia and some of the Banks.

TABLE 11

Banking System Liabilities

	1979 %	1980 %	1981 %	Year			
				1982 %	1983 %	1984 %	1985 %
DEPOSITS:							
Demand	26.7	23.1	20.7	20.3	22.0	19.0	19.5
Savings	6.1	6.8	7.3	7.0	6.6	6.6	5.3
Time	16.5	18.2	15.8	18.6	19.7	20.8	13.9
Government	1.9	2.1	1.2	1.2	1.2	1.3	1.3
Non Residents	2.1	2.1	2.0	2.0	1.8	1.5	1.4
OWING TO:							
Bank of Zambia	0.5	0.2	4.2	1.3	0.8	0.5	1.9
Banks Abroad	0.3	2.1	1.2	2.3	0.9	2.5	10.1
Zambian Banks	1.2	1.6	1.8	0.9	1.6	0.8	1.3
Bills Payable	1.0	0.9	1.4	1.0	1.4	1.5	0.8
Other Liabilities	43.7	42.9	44.4	45.4	44.0	45.5	44.5
Total Liabilities	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(Millions Kwacha)						
Total	1,445	1,549	1,791	1,980	2,500	3,043	4,540

Source: Bank of Zambia Annual Reports.

TABLE 12

Zambia Commercial Bank Deposits and Loans by Depositor and Borrower Group 1977-1985

	1977	1978	1979	1980	1981	1982	1983	1984	1985
TOTAL DEPOSITS AND LOANS									
(Kwacha millions end of period)	1,496	1,037	1,158	1,605	1,780	1,907	2,495	2,695	3,026
Loans and Advances Kwacha millions	333	319	393	795	936	747	1,209	1,198	1,385
Loans and Advances as a % of total									
Government	4.1	1.4	0.3	0.5	0.6	2.7	28.4	5.4	11.0
Statutory Bodies	3.2	5.1	8.6	1.7	9.4	6.6	6.9	7.7	8.8
Parastatals	52.2	42.8	41.7	23.4	34.3	37.7	30.7	33.9	44.6
Public	40.0	45.1	47.9	29.1	30.4	52.1	33.6	44.3	35.0
Non-Resident	0.5	5.6	1.5	45.3	25.3	0.9	0.4	8.7	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposits: (millions K)	1,163	718	765	810	844	1,160	1,286	1,497	1,641
Deposits as % of total									
Government	2.7	3.8	4.0	4.0	2.5	2.2	2.4	2.5	1.8
Statutory Bodies	6.5	5.6	6.9	8.6	8.6	7.5	8.2	9.3	7.7
Parastatals	8.0	11.6	29.5	23.6	16.9	21.9	19.8	19.3	19.9
Public	80.4	73.9	55.3	60.0	67.8	64.8	65.9	65.9	67.5
Non-Resident	2.4	5.1	4.3	3.8	4.2	3.6	3.7	3.0	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Zambia Quarterly Financial and Statistical Review.

TABLE 13

Commercial Bank Lending Pattern to Agriculture (KMillions)

Bank	1981	1982	1983	1984	1985	Total
BARCLAYS						
Farmers	21.9	32.5	42.4	66.3	55.9	219.0
Lima scheme	1.9	2.5	2.5	6.8	4.3	18.0
Parastatals	65.2	71.2	53.2	94.9	78.5	363.0
Total lending to agriculture	89.0	106.2	98.1	168.0	138.7	600.0
Total lending	258.1	270.2	262.7	328.2	299.1	1,418.3
Agricultural lending as % of total	34.5	39.3	37.3	51.1	46.4	42.3
STANDARD:						
Large-scale farmers	54.3	58.1	70.7	85.2	88.1	356.4
Small-scale farmers	0.9	1.3	1.5	1.8	2.1	7.6
Parastatals	33.3	34.0	35.2	46.9	38.1	187.5
Total lending to agriculture	88.5	93.4	107.4	133.9	128.3	551.5
Total lending	192.7	204.2	162.8	206.5	228.7	995.0
Agricultural lending as % of total	45.9	45.7	65.9	64.8	56.1	55.4
ZAMBIA NATIONAL COMMERCIAL BANK						
Farmers	0.7	3.7	4.3	4.5	5.5	18.7
Agricultural parastatals	4.2	13.1	20.7	38.0	155.0	231.0
Lending to agriculture	4.9	16.8	25.0	42.5	160.5	249.7
Total lending	157.4	188.8	260.6	311.9	439.5	1,358.2
Agricultural lending as % of total	3.1	8.9	9.6	13.6	36.5	18.4
INDO/ZAMBIAN BANK						
Agricultural parastatals						10.0
AFRICAN COMMERCIAL BANK						
Farmers						5.1
Agricultural parastatals						5.0

Source: The above Commercial Banks.

Standard Bank loaned K 551.5 million to agriculture. The break down was K 356 million or about 64.6 percent to large-scale farmers and K 7.5 million or 1.4 percent to small-scale farmers. Agricultural parastatals obtained K 188 million

or approximately 34 percent. Overall 55 percent of total lending went to agriculture.

Zambia National Commercial Bank loaned over K 249 million to agriculture over the period 1981 to 1985. Only 7 percent went to farmers. On an overall basis 18 percent of its total disbursements 1981/1985 went to agriculture. 1985 saw a substantial increase in lending to parastatals: this figure jumped from K 38 million in 1984 to K 155.0 million in 1985. This was due in part to the fact that lending to them by the other banks was reduced in 1985. Lending to agriculture as a percentage of total lending increased from 13.6 percent in 1984 to 36.5 percent in 1985.

The Indo/Zambian Bank loaned K 10 million of its total lending of K 25 million in 1985 to agricultural parastatals. It did not lend directly to farmers.

African Commercial Bank loaned in 1985 a total of K 35 million. Of this amount, farmers received K 5.1 million and agricultural parastatals K 5.6 million. Agriculture received 30.6 percent of total lending.

From the above data it can be concluded that the commercial banks are concentrated in urban areas and lend mainly to large-scale farmers the majority of whom are along the line-of-rail or developed area of Zambia. The amount loaned to small-scale farmers is very small. Agricultural parastatals receive large amounts and this is used to provide inputs, purchase crops and provide transport and storage facilities. Loans to the agricultural parastatals need to be guaranteed by the Ministry of Finance and National Commission for Development Planning (N.C.D.P.)

Due to lack of banking facilities in rural areas transaction costs for borrowers are high. If local banking facilities are provided, banks will attract a greater amount of savings, and transaction costs to the borrower will be reduced.

The newly created Bank of Zambia Credit Guarantee Department could become involved in guaranteeing loans to

farmers. It has no plans to do so at present as it is considered to be too risky a proposition.

3.2 THE DEVELOPMENT BANK OF ZAMBIA: (D.B.Z.)

D.B.Z. commenced operations in 1974. It is an autonomous institution whose shares are held by both government and private interests. It was established to foster the economic development of the country by identifying, promoting and supporting viable projects. It does not seek to attract deposits.

The Bank makes available equity capital as well as long and medium-term funds to develop enterprises engaged in the activities of:

- manufacturing, assembling and processing of industrial goods whether of agricultural, forestry or ranching origin;
- large-scale corporate agriculture and ranching.

For the purpose of facilitating its operations, the Bank borrows both locally and internationally. Long-term loans have been granted by the Government, Zambia National Provident Fund and the Zambia National Building Society.

The Government has also guaranteed promissory notes which are sources of additional local funding. Foreign currency borrowing takes the form of lines of credit. When a devaluation of the Kwacha takes place, the Bank revalues the foreign currency loan and the increased cost must be borne solely by the borrower. In January 1983, the Kwacha was devalued by 20 percent and a farmer who borrowed K 200,000 just prior to devaluation, incurred increased repayments of K 40,000 as a result, and the annual interest, assuming it is at 12.5 percent, would have increased by K 5000. Since 1983 the Kwacha has been devalued further and the introduction of the foreign exchange auction has regularly increased the repayments for borrowers of foreign exchange.

It provides technical assistance and advisory services in an

effort to promote economic development.

Table 14 shows the amount sanctioned 1974/75 to 1985/86. Out of 448 loans made 202 were to farmers and agro-industries, 28.5 percent of total funds went to agriculture and the average size of loan to agriculture was K 393,265 which is large by any standard and suits only very large farmers. It has made four loans totalling K 11 million to Zambia Sugar Company.

Projects which have been financed include machinery, crop enterprises, dairy projects, poultry units, mixed farming and a small holder sugar cane project, in which D.B.Z., participates with a consortium of lenders headed by the Commonwealth Development Corporation. The aim is to benefit 300 small farmers, and the loan is provided out of the special fund for rural development which has been financed by the Norwegian Development Agency (grant) and the Canadian International Development Agency (loan).

TABLE 14

Development Bank of Zambia: Agricultural Loans to Farmers and Agro-Industries 1974/75 - 1985/86

Year	Total amount sanctioned	Amount sanctioned to agriculture	Total No. of Loans	No. of loans to agriculture	Agricultural loans as percentage to total sanctioned
	K 000'S	K 000'S			
1974-75	6,628	2,299	14	4	34.69
1975-76	8,429	1,609	25	14	19.01
1976-77	5,672	1,981	22	12	34.93
1977-78	10,899	2,731	21	10	25.06
1978-79	11,946	3,351	33	20	28.05
1979-80	22,519	6,514	48	18	28.93
1980-81	39,250	5,404	70	26	13.77
1981-82	25,149	4,264	42	16	16.95
1982-83	11,669	5,247	33	21	44.96
1983-84	29,260	8,744	35	15	29.88
1984-85	44,394	13,460	62	28	30.31
1985-86	63,041	23,835	43	18	37.80
Totals	K 278,856	79,439	448	202	28.5 (Av.)

Source: Annual Reports D.B.Z.

The amount of the loans granted is up to 75 percent of the total fixed cost of the project and the balance 25 percent is expected to come from the borrowers, who must be limited companies. If expansion projects are involved, the existing assets which constitute an integral part of the project, could be considered as part of the promoters contribution. Minimum debt/equity ratio required is 3:1. A commitment fee of 20 percent on local component of the loan and 2 percent on foreign component is payable.

The data shows that the average loan size is large and loanees are large-scale farmers. Demand for foreign currency has declined drastically as borrowers are not willing to risk losses due to devaluation of the kwacha. The Bank of Zambia should assume this risk. D.B.Z. is very well managed and has a

modern management organization structure. It has a very high recovery rate due to proper assessment of the feasibility of projects and subsequent monitoring of them, on an on-going basis. When the new Lima Bank is operational (1987/88 season), D.B.Z. is to cease lending to agriculture.

3.3 ZAMBIA STATE INSURANCE CORPORATION: (Z.S.I.C.)

The Zambia State Insurance Corporation (Z.S.I.C.) decided in late 1975 to provide finance for agriculture. The aim was to make medium and long-term finance available to farmers. This was to be done with the assistance of the Ministry of Agriculture and Water Development. It has very little contact with the borrower after the initial giving of the loan and this is a severe drawback since it leads to unauthorised use of loan funds and poor repayment rates.

Funds come from Z.S.I.C., itself and originally, the Board authorized an expenditure of K 1 million per annum for lending to selected farmers. Over the period 1975 to 1986 it disbursed on average K 856,300 per annum as shown in Table 15. Applications are all received at the main offices. Investigators are then sent from Lusaka to the applicants' farms, but often due to lack of transport, these investigators cannot carry out proper supervision.

It was to make medium and long-term loans, yet according to Table 15, 4.4. percent of its financing between 1975 and 1986 was of a seasonal nature. Its official procedure also states that loans for less than K 20,000 cannot be considered, but this is also contradicted by the detail in Table 15. The number receiving loans is small and for the period 1975-1986 was 268 farmers, 68 from Lusaka Province. Loans were mainly for machinery, land purchase and livestock. Over the period 1975/86 these accounted for about 84 percent of the total disbursed.

TABLE 15
Zambia State Insurance Corporation: Loan Disbursements by Province: 1975-1986

Province	No. of farmers	Machinery 000'S (K)	%	Farm Purchase 000 (K)	%	Livestock 000'S (K)	%	Poultry 000 (K)	%	Pigs 000'S (K)	%	Farm Develop- ment 000'S (K)	%	Seasonal 000'S (K)	%	Total 000'S (K)	Percent of overall
Lusaka	68	743	31.7	613	26.2	187	8.0	411	17.5	68	2.9	262	11.2	59	2.5	2345	27.4
Luapula	14	232	55.6	—	—	148	35.5	—	—	—	—	30	7.2	7	1.7	417	4.9
Northern	23	551	72.4	—	—	121	16.0	15	2.0	25	3.3	39	5.1	9	1.2	760	8.8
North Western	6	197	82.0	—	—	22	9.2	16	6.7	—	—	—	—	5	2.1	240	2.8
Copperbelt	33	740	53.2	466	33.5	140	10.0	20	1.4	—	—	21	1.5	4	0.4	1392	16.2
Southern	40	418	38.2	165	15.2	496	45.3	—	—	—	—	—	—	14	1.3	1095	12.8
Eastern	24	458	79.3	—	—	38	6.6	—	—	—	—	—	—	81	14.1	577	6.7
Western	12	147	42.2	33	9.5	168	48.3	—	—	—	—	—	—	—	—	348	4.2
Central	48	551	39.7	276	19.9	270	19.4	22	1.6	10	0.7	64	4.6	196	14.1	1389	16.2
Totals	268	4037		1553		1590		484		103		416		375		8563	100.0

Source: Zambia State Insurance Corporation.

Recovery rates are very poor. Z.S.I.C. admits to less than 40 percent and this low recovery is due mainly to loans being made based on factors other than potential project viability. It is also due to the fact that Z.S.I.C. does not have expertise in the agricultural lending field. Lending to agriculture is to cease after 1986/87 when the Lima Bank becomes operational.

3.4 NATIONAL SAVINGS AND CREDIT BANK

The role of the National Savings and Credit Bank (N.S.C.B.) is to supplement banks in the mobilization of savings. Practically all of its funds are lent to the government.

Its clientele is composed mainly of low income savers. For a long period its minimum balance was K 0.50 raised to K 10 in 1984. It does not have current accounts and therefore does not have ledger charges. Unlike the other banks it cannot create money. Its main source of income is from its investments. These investments are placed with the Government and other institutions. As at 31/2/85 total investments were K 43 million. Total deposits in 1984 and 1985 were K 46.7 million and K. 54.9 million respectively.

In 1985/86 the bank carried out an aggressive advertising campaign to encourage the public to open new accounts at all branches in the country and as a result 46,943 new accounts were opened.

In 1986 there were 183 branches, 14 of which were opened in 1985. In areas where there are no other banking facilities the bank undertakes to collect the savings of companies in these areas and then deposits can only be withdrawn at Head Office. There is a commission charge of 4% on services rendered. It has many problems some of which are as follows:

- It is unable to compete effectively with banks
- Fraud is a problem
- The low minimum balance increases the transactions cost of

such accounts

- The bank has limited space and is prevented from introducing other banking facilities, sought by customers
- Agency fees to the Post Office are very high at 50 Ngwee per transaction in 1985, compared to an earlier charge of 28 Ngwee.

3.5 ZAMBIAN NATIONAL BUILDING SOCIETY (Z.N.B.S.)

Z.N.B.S. was set up in 1971. It has 15 branches. It gives mortgage advances for private dwelling houses and commercial and industrial property. Its activities are confined to urban areas and it caters for high income groups.

3.6 ZAMBIAN NATIONAL PROVIDENT FUND (Z.N.P.F.)

Z.N.P.F. is a form of social welfare. Its contributions come from members and their employees and these constitute its main source of funds.

Investments are mainly with the Government and parastatals. Loans are also made to the private sector. Interest rates are competitive but are higher by 2 percentage points for private loans as against loans to the Government.

Its activities are confined largely to urban areas since it is there that most of the formal employment is.

3.7 SMALL SCALE ENTERPRISE PROMOTION LTD. (S.E.P.)

S.E.P. was set up in 1982 on the initiative of the Development Bank of Zambia and the Friedrich Ebert Foundation (FEF) a private West Germany socio-economic Foundation. It is a registered financial institution and operations commenced

in January 1983. The following shows the ownership of the company (1/1/86) and as can be seen, there is a majority Zambian shareholding.

	Share Capital %
Development Bank of Zambia	25.0
Zambia Congress of Trade Unions	15.0
Zambia National Commercial Bank	10.0
Village Industry Service	1.0
Zambian Ownership	51.0
Fredrich Ebert Foundation	24.5
Netherlands Development Finance Company	24.5
Total	100.0
Total (000s Kwacha)	1,700.0

Source: S.E.P. Annual Reports.

Its main objectives are as follows:

- to help small-scale entrepreneurs set up business;
- to help existing businesses to expand or improve through the provision of both financial and non-financial services. Preference is given to projects which will contribute to the use of the local raw materials, creation of jobs at low investment cost, import substitution and the development of local technology and manpower skills.

Its financial services are as follows:

- equity funds not exceeding K 50,000 can be provided per company. These funds have enabled firms to obtain long term finance from the Development Bank of Zambia. From January 1986 the emphasis has shifted to loan's financing;
- Micro-project loans of between K100 and K1,000 per project

are available. These are repayable in six months and are given for working capital. Approval is generally given within one week of application. Medium-term loans of between K1,000 and K10,000 per project repayable in eighteen months are given for both working capital and small investments in plant and equipment;

- Long-term loans of between K10,000 and K500,000 are also given. These loans are repayable over a maximum period of 12 years;
- Leasing and hire-purchase facilities are available. Guarantees can be given.

Table 16 gives the projects approved by S.E.P. 1983-1985. Seven of the 46 projects were in the agro-industry area, and these received 17.7 percent of the amount loaned. Development Bank of Zambia loans accounted for 66% of total lending.

TABLE 16

Small Scale Enterprises Promotion Ltd. Approved Projects by Sector 1983-1985

Sector	No. of Projects	Amount (K)	% of Total	Agro-Industry No. of Projects	Amount to Agro-Industry
Equity Investment	16	230,500	11	2	22,000
Long-term loans	4	408,585	19	2	250,585
Medium-term loans	14	80,340	4	1	2,500
DBZ Long-term loans	12	1,433,000	66	2	106,000
Totals	46	2,152,425	100	7	381,085

Source: S.E.P. Annual Reports.

S.E.P. provides the following non-financial services:

- Management and accounting services;
- Serviced industrial plots, production and workshop facilities on lease, rent and outright purchase;

- Procurement of raw-materials, plant and equipment;
- Provision of transport and warehouse services.

Activity is concentrated in Lusaka but it is hoped to extend its services to other parts of the country.

4.

RURAL CREDIT OUTSIDE FINANCIAL INSTITUTIONS

This section looks at a number of agencies involved in financing rural enterprises. Informal sources of finance are described as is the ability of farmers to provide from their own resources part of their financial requirement. Zambia obtains finance for rural activities either in the form of grant or soft loan from many external sources. These sources are summarized as is the contribution made to them by the Zambian government.

4.1 INFORMAL SOURCES OF FINANCE

The informal sources of finance for agriculture come from a non-commercial sector and a commercial sector. The non-commercial sector is represented by loans from friends and relatives who often charge no interest. The commercial sector is made up of crop buyers, input dealers, landlords and professional money lenders. Crop buyers and input dealers are not a source of credit in Zambia. Moneylending is not widespread in Zambia and less prevalent in rural than in urban areas. From the Author's Survey of 500 farmers only one farmer obtained a loan from a moneylender (Table 17). No other detail on disbursement by moneylenders is available.

Of the 500 farmers questioned by the author, a large majority responded that when they borrow for personal use (wedding, funeral, illness and so forth) they borrow from friends or relatives with no interest rates charged, though this

may be disguised in reciprocal calls on a farmer's time, labour or other resources. Usually, the farmer gives priority to repaying a loan in the informal market even if it takes longer than he planned originally.

Table 17 shows loans from non-commercial informal sources for 500 farmers in the 1982/83 season. Three loans were from relatives and friends, three from other farmers and one from a moneylender. Traditional farmers received 3 and medium commercial 4 of the 7 loans.

4.2 OWN RESOURCES OR SELF-FINANCE

Self-finance is defined as the investment within a particular enterprise of savings accumulated by the owner of that enterprise. Agriculture has been known to get its finance from within itself. This is in contrast to other industries where finance in the form of equity is obtained from all sectors of the economy. The farm business has usually been initiated by the family providing the initial finance either to purchase land and / or to go into production.

Any business will retain some of its profit so as to meet contingencies. For the limited company, it may be in the form of retained earnings. Private wage earners will keep a liquid deposit in a post office or bank. The farmer is no different. Those who have experience of money may need to retain less than those who have lately come to know and use money. Many farmers in Zambia fall into the latter category and it is likely that what they retain is relatively large and not really needed.

Table 18 gives details concerning self-finance, and shows that farmers in Zambia can provide on average about 84 percent of their requirement from their own resources. This ability varies between the different geographical locations.

Mpika had the largest average at 90.7 percent, with

Mazabuka lowest at 77.4 percent. Mazabuka is a developed area on the line-of-rail, while Mpika is away from the line-of-rail and less developed. This is evident in the amounts available in the case of large-scale commercial farmers in these two areas, where Mpika had 73.4 and Mazabuka 40.9 percent. The large farmers in Mpika had to rely more on their own resources since the supply of credit was not plentiful as it was to Mazabuka farmers.

Traditional farmers in all the five areas provided on average about 96 percent of their own finance. This suggests that they produce at a level appropriate to the amount of self-finance at their disposal, since they receive little credit from formal sources. There is a possibility of their moving to small commercial status, if the necessary credit is made available to make up the amount needed for such a move.

Ability to provide self-finance is high at approximately 92 percent on average among the small-commercial category also. The suggestion and solution offered for traditional farmers may well apply to these also.

TABLE 17

Farmers by Category and Source who Received Loans from Non-Commercial Informal Sources 1982/83 Season

Category	Relatives and Friends	Other Farmers	Money lenders
Traditional	1	1	1
Small Commercial	—	—	—
Medium Commercial	2	2	—
Large Commercial	—	—	—
Total	3	3	1

Source: Author's Survey of 500 Farmers.

TABLE 18

Own Resources as a Percentage of Credit Required by 500 Farmers by Category

Category	Mpika	Mazabuka	Solwezi	Chongwe	Mumbwa	Average
Traditional	99.21	88.13	98.32	96.03	97.91	95.93
Small Comm.	95.31	92.43	90.63	95.36	85.32	91.81
Medium Comm.	94.84	87.12	84.72	99.25	79.13	89.00
Large Comm.	73.42	40.91	64.52	47.32	73.83	60.00
Average	90.69	77.41	84.55	84.49	84.05	

Overall average approximately 84 percent.

Source: Survey of 500 Farmers by the Author.

Medium commercial in Mpika, Chongwe and Mazabuka all provide between 99.3 and 87.1 percent of their requirement. Solwezi and Mumbwa provide 84.7 and 79.1 percent respectively. The overall average is approximately 84 percent and it would seem that Solwezi and Mumbwa obtain more credit than the former three areas. More credit to all areas would enable these to move to the large-scale commercial category.

Finally, with the exception of Mazabuka and to a lesser extent Chongwe, large-scale commercial farmers provide between 73.8 and 64.5 percent of their own requirement and on average 60 percent. Mazabuka was lowest and suggests that it received most credit and was followed in this regard by Chongwe.

From details obtained from the institutions involved in lending it would appear that most lenders to farmers estimate the cash cost of a crop or project and then if they lend, lend 100 percent of the required amount. The fact that farmers can provide part of the financial requirement from their own resources must be taken into account.

Farmers surveyed, who received credit, received more than they required from an external source. Some of this credit was not used for seasonal purposes or if it was, it was used as a

substitute for self-finance. The available self-finance was then used either as medium and /or long-term finance, or it was taken out of the system.

4.3 EXTERNAL SOURCES OF FINANCE

Foreign governments give financial assistance to Zambia to assist it in becoming developed. The form this aid takes can vary, but it is only aid in the proper sense if it is in the form of grants or loans on concessional terms. This aid partly offsets the shortfall in the domestic mobilization of savings, both public and private.

Zambia receives financial assistance for rural development from many foreign countries and from institutions such as the European Economic Community, the International Bank for Reconstruction and Development, the African Development Bank, the International Development Association and the African Development Fund. The proposed spending on capital projects by the Ministry of Agriculture and Water Development (M.A.W.D.) for 1986 amounted to K 289,934,800 and 66 percent of this was from foreign sources, made up of grants and loans. In 1986 agricultural parastatals received a mixture of grants and loans amounting to over K 80 million.

5.

INFRASTRUCTURE FOR RURAL DEVELOPMENT AND PRICING POLICY

This section deals with marketing of agricultural commodities, pricing policies, crop insurance, input supply, seed supply, food storage, irrigation, transport, extension service and land tenure.

5.1 MARKETING OF AGRICULTURAL COMMODITIES

The Government has from the foundation of the State controlled the marketing of agricultural products. The job of input supply and marketing of agricultural products was given to a parastatal titled the National Agricultural Marketing Board (N.A.M. BOARD), established in 1969. At its inception it was responsible for the marketing of all grain crops and other named controlled products by an Act of Parliament (fruit/vegetables, cotton and agricultural inputs like seed fertiliser, chemicals, implements and grain bags).

It was restructured in 1978 since its first organizational set-up proved to be unwieldy and difficult to manage. Cotton trading, marketing of fresh fruit/vegetables and seed operations were withdrawn from it.

In 1982 NAMBOARD handed over its grain purchase and input distribution functions to the Provincial Co-operative Unions (PCUS). NAMBOARD was left with the duty of importing fertiliser and shortfall maize, from surplus to deficit provinces, either directly or through the P.C.U.S.

The new system worked reasonably well for the 1982/83 and 1983/84 seasons. The Unions were able to collect, transport, store or cover all purchased produce. A very serious situation developed in the 1984/85 season when 40 percent or more of the maize crop was uncollected when the rains came in November. There were many reasons for this failure but the main one was, co-ordination problems between NAMBOARD and the Unions as agents and rather than rectify the situation through the Unions, the Government reverted to NAMBOARD, as the principal buyer of maize with the co-operative Unions as agents when needed as well as buying all other crops in their areas. In 1985 agency agreements between NAMBOARD and the co-operative Unions were not signed on time due to disagreement on agency fees. When this problem was resolved the new system worked well in some cases, but in others amounted to a mere duplication of functions.

The Government in January 1986 came up with new measures to stream line the marketing system and haulage of maize. It is intended to discontinue the monopoly position of NAMBOARD in the marketing of maize and fertiliser. Information on how the new arrangements are working out is not yet available.

LINTCO has the responsibility of organising the production and marketing of cotton, since its inception in 1978 and now soyabeans and coffee in Southern and Northern Provinces and during 1986 received K8,983.500 in loans. K 6 million of this went to Eastern Province Agricultural Development Project with the remainder going to cotton development schemes. Its purchases for 1985/86 are shown in Table 19. Up to 1985 tobacco development was the responsibility of the Tobacco Board of Zambia (T.B.Z.). The latter was replaced by National Tobacco Company of Zambia (N.T.C.Z.) in 1985. It is modelled on the same lines as LINTCO i.e. it is involved from extension to marketing. Purchases for 1985/86 are shown in

Table 19. Production has declined from 13.2 million kilos in 1964 to 2.3 million kilos, in 1985. This is due partly to poor management by T.B.Z. and partly to increased costs of production, particularly in recent years.

D.P.B. is involved in the purchasing, processing and marketing of milk and milk products. It has suffered from severe financial problems especially lack of foreign exchange. This lack has meant that it could not purchase raw materials and spare parts for the processing machines. It is unable to meet demand.

5.1.1 *Crop Marketing Problems*

Crop marketing faced problems in the 1984/85 and 1985/86 seasons. The major problem in both seasons was due to the untimely release of funds which relies on bank overdrafts guaranteed by the Ministry of Finance and the National Commission for Development Planning. NAMBOARD was unable to pay the farmers. This situation has arisen due to the poor financial performance of the commodity marketing parastatals and Unions. Other contributory factors are unremunerative price margins, organizational and managerial inefficiencies, erratic and irregular restitution payments by the Government.

Another problem is the shortage of fuel which invariably occurs at some time of the season. There is also an annual shortage of grain sacks which causes great difficulty in trying to organize the timely collection of crops.

From the above data it would appear that a proper marketing system has not developed in Zambia. Both NAMBOARD and the Unions have tried to do this, but without success. The changing pattern confuses the farmers and does not allow the marketing institution whether NAMBOARD or the Co-operative Unions to develop and set up a proper

organizational structure.

Co-operative Unions have not developed adequately to handle the tasks given to them in the area of maize marketing. Now as agents they are often in competition with NAM-BOARD and facilities are duplicated in some instances and are non-existent in others.

TABLE 19

Summary of Crops Purchased by N.A.M. Board and Other Agencies during 1985

Crop	NAMBOARD		UNIONS		LINTCO		NMC		TBZ		ROP		Total Bags
	Bags	%	Bags	%	Bags	%	Bags	%	Bags	%	Bags	%	
Maize	788	11	6401	89	—	—	—	—	—	—	—	—	7,189
Sunflower	5	0.9	501	99	—	—	—	—	—	—	1	0.1	507
Groundnuts	—	—	30	100	—	—	—	—	—	—	—	—	30
Soyabbeans	4	3	102	84	16	13	—	—	—	—	—	—	122
Paddy Rice	0.2	0.2	88	88	—	—	12	12	—	—	—	—	100
Wheat	—	—	34	52	—	—	31	48	—	—	—	—	65
Sorghum	1	7	12	—	—	93	—	—	—	—	—	—	13
Beans (mixed)	—	—	5	100	—	—	—	—	—	—	—	—	5
Finger millet	—	—	0.6	100	—	—	—	—	—	—	—	—	0.6
Seed Cotton*	—	—	—	—	30,255	100	—	—	—	—	—	—	30,255
Tobacco (Burley ^a)	—	—	—	—	—	—	—	—	566	100	—	—	566
Tobacco (Virginia ^a)	—	—	—	—	—	—	—	—	2,195	100	—	—	2,195
Cow Peas	—	—	0.7	100	—	—	—	—	—	—	—	—	0.7

* In Kgs.

Source: Ministry of Agriculture and Water Development.

Regularly, fertiliser has been sent to the wrong destination due to mismanagement. By the time it is rerouted at great expense the rains may have come, leaving the roads impassable so that the original purchaser does not receive it. It is then left to become spoiled due to poor packaging and to exposure. This has necessitated it being reprocessed by Nitrogen Chemicals of Zambia (NCZ). Seed has also been wasted under similar circumstances.

A study of the marketing system was carried out in 1986, to assess the most efficient marketing arrangement for produce, fertiliser and other inputs. The findings and recommendations of this were not available to the author at the time of writing.

5.2 THE PRICING SYSTEM

Prior to Independence in 1964 the pricing policy was one of providing a cheap and adequate supply of food to the mining sector. Producer prices were based on the cost of production of a relatively small number of large-scale expatriate farmers. These received an adequate return on capital. Small farmers did not receive adequate return on their labour. African crops such as millet and cassava were discriminated against, as they were excluded from the official marketing circuit. Production patterns were distorted due to over emphasis of policy on maize.

After Independence, prices were kept low continuing the pre-Independence policy. In order to keep prices low, agriculture received large subsidies.

Once a year, the Government through the Price Control Board sets minimum producer prices. At the same time it provides subsidies on major farm inputs such as fertiliser. It also establishes maximum retail prices for basic consumer goods.

There is pan-territorial pricing of commodities and inputs

throughout the crop season. Locational advantage and relative profitability of crops is not taken into account.

The Government sets prices for commodities with the exception of poultry, pork and vegetables. The producer price for maize is the only legal market price for it. Prices are announced usually in May. Minimum prices are as in the past based on the estimated cost of production of commercial farms. Cost of production as a basis of fixing the prices of agricultural commodities is ineffective since the auctioning of foreign exchange commenced at the end of 1985. This method of determining the value of the currency increased immediately the cost of inputs by between 100 and 300 percent. These costs have increased further during 1986 due to the exchange rate depreciation working itself through the system. If price controls are maintained, a new method of calculating the prices of agricultural commodities must be found. This will have to take account of all cost movements particularly those attributable to exchange rate depreciation and inflation arising from it.

Table 20 gives details of producer prices 1980-1986. Prices were increased each year since 1980. Operation Food Production was introduced in May 1980 and is to make Zambia self-sufficient in food by 1990. The price increases 1980-1986 are part of this operation and are an incentive towards achieving its objective. The largest increases in 1986 over 1985 are detailed in Table 20.

TABLE 20

Variations in Agricultural Producer Prices: (1980-1986) in Kwacha

	Unit	1980	1981	1982	1983	1984	1985	1986	1986 as % increase
Maize	90 Kg	11.70	13.50	16.00	18.30	24.50	28.32	55.00	94
Groundnuts	80 Kg	35.00	42.70	48.00	55.00	71.50	91.67	131.35	43
Sunflower	50 Kg	16.40	17.60	20.75	21.50	21.50	27.88	41.95	50
Soyabeans	90 Kg	32.00	36.30	42.21	45.30	52.50	60.90	112.10	84
Wheat	90 Kg	20.00	26.00	32.00	35.75	42.50	45.20	86.40	91
Paddy Rice	80 Kg	18.00	18.60	28.00	40.00	40.00	40.00	55.57	39
Sorghum	90 Kg	6.00	9.00	9.00	16.00	18.65	26.90	31.35	16
Millet	90 Kg	6.00	6.00	6.00	29.00	29.50	38.10	56.25	48
Virginia Tobacco	Kg	1.57	1.65	2.40	2.70	2.80	3.45	5.12	48

Source: Ministry of Agriculture and Water Development.

NAMBOARD must sell maize to the Millers (nationalised since December 1986) at below cost prices and the difference is covered by restitution from the Government. On many occasions these funds were not forthcoming and farmers were paid late. The farmer therefore incurred a loss due to the opportunity cost on delayed proceeds. Farmers were unable to repay their loans and had to pay additional interest charges.

These extra costs effectively reduced the price received by the farmer and cut his margin which may have been very thin to start with. A serious problem for farmers in some areas is the fact that they are paid by cheque and there are no banks in their area. Payment of farmers through the Post Office Savings Bank would solve this problem.

The other agencies such as LINTCO operate on a much smaller scale and do not seem to have the same problems in paying farmers for their crops. An added advantage for the farmer is that these agencies offer a package which means he can obtain inputs on time.

5.2.1 *Non-Price Incentives*

Farmers are encouraged to increase production by means of non-price incentives. The incentives currently offered are as follows:

- a flat rate of tax of 15 percent on income from agriculture;
- Development allowance for growers of tea, coffee and citrus fruit;
- Two-year write off period for farm machinery and equipment;
- Withdrawal of Selective Employment Tax on incomes of expatriate personnel engaged in the agricultural sector.

The foreign exchange incentives for crops have been difficult to implement and farmers have waited years for payment. This will also need modification now due to the new exchange rate system in operation.

It would seem that a new method of fixing producer prices of agricultural commodities is required. Prices must be based on the current costs of production of all categories of farmer and must allow a margin of profit which will encourage increased production.

5.3 CROP INSURANCE

Zambia State Insurance Corporation (Z.S.I.C.) is the sole provider of crop insurance. It has had a number of schemes the latest of which was introduced for the 1986/87 season and is outlined below.

The Zambia State Insurance Corporation Limited has a revised maize insurance policy in operation for the 1986/87 season. It will now apply to all levels of farmer. Previously the scheme had been limited to farmers with a crop programme of over 30 hectares. It is hoped that this new policy will eliminate on one hand the various delays and misunderstandings that

were experienced during the past seasons. On the other hand the Corporation obviously wishes to secure its financial interests after the past continuous adverse weather which affected nearly all the farmers insured. The scheme includes soyabeans and sunflower not included previously. The farmers pay the premiums.

The expected mutual benefits to be gained by the farmer and the Corporation is reflected in the scheme with regard to simpler calculation of the sum insured, reduction in the real cost of the insurance, an option to increase the cover of insurance at reduced rates and perhaps more important to the interests of a farmer early and mutually agreed loss settlements.

As in previous schemes, the farmer will be expected to observe good husbandry practices and generally adhere to the conditions of the policy in order to avoid any bottlenecks in the settlement of claims.

This policy will cover a farmer growing maize, soyabeans or sunflower against the following perils: fire, lightning, flood, storm, malicious damage, riot, strike and drought.

The new sum insured or level of insurance will be based on those production costs that directly affect the ability of the farmer to continue in business after a loss. The costs covered constitute the cost of seed, fertiliser, labour, tractor hiring costs, fuel and oils, repairs and maintenance, interest, insurance, transport and a percentage of capital costs.

The indemnity or the money settlement to the farmer following a loss by an insured peril will be the difference in the amount between the total sum insured and the actual yield achieved by the farmer on the whole farm.

Example:

Sum Insured / Ha	= K 2148
Cropped programme	= 50 Ha
Total Sum Insured	= K 107.400

Assume yield of 15 bags/ Ha (due to an insured peril)

$$\begin{aligned}\text{Income} &= 15 \text{ Bags} \times \text{K } 78 \text{ (producer price)} \times 50 \text{ Ha} \\ &= \text{K } 58,500\end{aligned}$$

$$\begin{aligned}\text{Indemnity} &= \text{K } 107,400 - 58,500 \\ &= \text{K } 48,900\end{aligned}$$

As was the case last year (1985/1986) no excess will apply. This is because the policy is on production costs only as opposed to the expected yield used in the old policy which included the profit element and hence the application of excess. The fixed sum insured in the Main Cover may be increased at an additional premium by further selecting a sum insured under the optional Extended Level of Insurance Cover but this will be in respect of damage, due to fire and lightning only.

This extension is not separate and can only be given with the Main Cover. The sums insured under this extension are not related to the production costs but rather arise out of a need to give increased protection to a farmer for those perils which occur at a stage when the crop is fully mature. The extended cover will apply to the same farm and in the same corresponding level of insurance as that chosen for the Main Cover.

There is a rebate of 10% for every claim free year up to a maximum of 50%. Each claim year will carry a 20% loading on the premium in the succeeding year of insurance.

Assessment of the yield for the purpose of establishing the

extent of loss is done before harvest. At this stage, the farmer and/or his representative and the Corporation mutually agree on the estimation of the yield attainable following a loss.

The farmer however has to meet a number of conditions to facilitate quick loss assessment. The main conditions are as follows:

1. The farmer must give at least one month notice of his intention to begin harvest;
2. The farmer supplies all such information regarding the purchase and application of inputs as may be required by the Corporation;
3. All losses as a result of drought must be reported by 31st March of the season insured but immediately in case of losses caused by any other perils.

A separate Fire and Lighting Policy (not to be confused with the extended cover) is open to anybody who requests it. It is based on a five year average yield, at a rate of 2.25% for maize, 1.25% for soyabeans and 1% for sunflower. All other crops such as wheat, groundnuts, tea, sugarcane, may still be insured for Fire and Lightning only on the basis of previous yields.

The new scheme is an advance on the previous schemes particularly since it is now open to all farmers. If farmers who obtain credit have insurance cover, repayment should improve. Farmers will not hold resources to cover risks, now covered by insurance, and as a result resources will be released for self-financing and will reduce the demand for credit.

5.4 INPUT SUPPLY

There have been inefficiencies in the purchase and distribution of inputs. NAMBOARD has ordered late and in insufficient quantities as well as importing excessive amounts. It has incurred heavy costs in terms of storage and of using up

scarce space for which there are alternative uses. Poor storage led to wastage of inputs.

When supplies are inadequate large-scale farmers obtain most of the supply. This is due to the fact that they have the finance or quick access to it, to enable them to buy. The small farmer on the other hand, may not have the finance and may not be able to obtain credit. Even if he obtains credit it is very often too late to obtain inputs. Large-scale farmers live near the line-of-rail and have easy access while small farmers do not and may have no access due to wet weather affecting dirt roads, lack of transport, lack of fuel and poor distribution management by NAMBOARD.

Seed is supplied by Zamseed which is a parastatal company. Supply of seed is not a problem but difficulties are caused by Unions placing their orders late. Transport is also a problem in that there are not enough trucks available.

To improve the system inputs need to be purchased on time and an equitable distribution must take place between large and small farmers. Storage management needs to be improved. Distribution needs to be in the correct direction and must be timely. Waste of seed and fertiliser must be stopped by the provision of proper storage facilities. On an overall basis NAMBOARD can store 7.7 million tonnes of maize which accounts for 99 percent of all marketed major food crops. It is still inefficient, since much of the storage space is too distant from the buying points in the area of production and causes unnecessary transport. Handling bottlenecks occur and crops are 'left' at buying points and deteriorate due to lack of protection from rain. Facilities need to be provided in remote areas. Substantial rural storage is needed in the chief maize growing areas. Hard standings would be adequate. Production prices are uniform throughout the year and farmers do not have an incentive to provide themselves with storage facilities. Depots are not capable of handling the entire crops, and between 20 and 40 percent is wasted.

Increased facilities closer to the points of production and processing need to be provided, for maize. There is great need for improvement in the organization and management of storage facilities, for all crops and inputs.

5.5 IRRIGATION

Zambia has up to 10 million hectares of arable land suitable for irrigation. Presently there is little more than 10,000 hectares out of which over 7,500 hectares are in NAKAMBA-LA Sugar Estate. Irrigation is a long-term objective due to the heavy investment needed. In 1986 K 260,000 is being spent on an irrigation programme and K 720,300 on irrigation research and development. Both are funded by Zambia itself, and are totally inadequate.

5.6 TRANSPORT

The transport of agricultural products involves haulage, in a period of 4 months, of some 6-7 million tonnes of produce from buying point to depot. In addition, about 200,000 tonnes of seed and fertiliser is transported in the opposite direction, much of it over dirt roads. There is excessive transport of maize between provinces and this should be rectified. Transporters are reluctant to work in the remote areas, due to wear and tear of their vehicles from bad roads for which they are unsuited because they are too big. There is a lack of spare parts and of maintenance facilities. Emphasis is now on improving feeder roads so as to enable trucks to transport inputs and produce on time. This objective is not being achieved and, as seen from the following Table progress with roads in some Provinces was hardly noticeable between 1980 and 1984. Most progress however was made in the more distant Provinces i.e. Northern Luapula and North Western.

TABLE

Bitumen and Gravel Roads by Province, 1980-84 Kilometres

	1980	1984	Increase over the period	Metres per sq km (1984)
Central	1,428	1,423	-5	15.0
Copperbelt	1,595	1,601	+6	50.8
Eastern	1,457	1,503	+46	21.8
Luapula	1,256	1,377	+121	27.2
Lusaka	1,949	2,041	+92	90.2
Northern	2,138	2,289	+151	15.4
North-Western	1,197	1,296	+99	10.2
Southern	1,599	1,607	+8	18.9
Western	1,240	1,263	+23	9.8

Source: Economic Review and Annual Plan 1986, National Commission for Development Planning.

5.7 EXTENSION SERVICE

There is a countrywide extension service and a nominal ratio of one extension officer to approximately 300 farm units. Many posts are unfilled and there is an unending shortage of funds. Officers are criticised for visiting large-scale farmers only. There is no extension for traditional farmers growing traditional crops such as cassava. Extension officers need to be spread more evenly and apply farming systems to specific areas. There is over emphasis on the production of hybrid maize and the overall situation of the farmer is not assessed and an appropriate local solution in consultation with the farmer is not looked for.

Funding of the service is inadequate and some districts have no form of transportation. There is no money to pay officers subsistence either. Morale is low and there is lack of coordination between this service and others, such as input supply and credit. Only K 2,611,000 went to the Extension Service in 1986, by way of capital assistance.

5.8 LAND TENURE

In Zambia no mortgage or charge can be created over land after 1st July 1975 without the consent of the President. It is within the power of the President to fix the maximum amount that may be received, recovered or secured in the case of a mortgage or charge as a debt or advance. All land is held by way of a statutory leasehold for a term of 100 years subject to conditions as may be prescribed. Rent is uniform for all types of land. The Land Tenure Laws made it difficult for farmers to provide loan collateral since they do not have unique title to the land. Permanent improvements such as buildings, irrigation, land clearance, etc. can be offered as collateral. Lenders, however, find it difficult to separate these from the land so that they could be sold in case of default. For this reason they are slow to accept such collateral.

Differential rents should be introduced to balance out differential advantages of the various land qualities and location. Title Certificates need to be issued more quickly.

6.

KEY FINANCIAL INSTITUTIONS AND AN OVERVIEW OF
RURAL FINANCE

In this section the operations of the three key institutions presently involved in rural finance are reviewed. The Agricultural Finance Company (A.F.C.) established in 1970 is first and is followed by the Zambian Agricultural Development Bank (Z.A.D.B.) in 1979 but operational only in 1983 and finally Z.C.F. Finance Services Schemes including the Co-operative Credit Scheme which started lending in 1975.

The section concludes with a brief description of the present state of rural financial markets and the proposed changes and their likely consequences.

6.1 THE AGRICULTURAL FINANCE COMPANY (A.F.C.)

The A.F.C. effectively came into operation in June 1970, to take over the functions of the Credit Organization of Zambia (C.O.Z.) although it was not a legal successor to that Organization. C.O.Z. was liquidated in 1969 when it had K 22.9 million in debts.

A.F.C. was originally a subsidiary of The Rural Development Corporation, itself a subsidiary of Zambia Industrial and Mining Corporation (Z.I.M.Co). In 1984 the Rural Development Corporation was dissolved and the A.F.C. became a direct subsidiary of Z.I.M.Co. In the same year the Cattle Finance Company was merged with A.F.C. The merger was intended to rationalize and streamline the credit delivery

system in the parastatal sector.

It is a supply leading institution and like all supply leading institutions it does not seek to attract deposits. Its liability structure is characterized by an absence of deposit liabilities. There is therefore no pooling of savings for lending to borrowers, which is normally associated with the concept of financial intermediation. This lack of ability to mobilise savings means that it does not have a continual flow of resources available for lending. The absence of deposit facilities also means that A.F.C. does not know its customers as well as it would, if they were also depositors. Borrowers when they save, do not have the facility to lodge their savings with the lender.

A.F.C. provides short-term, medium-term and real estate loans. Short-term or seasonal loans are repayable within one year. Medium-term loans are secured on plant and equipment and are repayable within three to five years. Real estate loans are secured on leasehold properties and are repayable within twenty years.

Since 1985 A.F.C. also provides cattle loans which were formerly advanced by the Cattle Finance Company. These loans are normally secured on cattle whose purchase the loan finances and are repayable over periods of up to twenty months, in the case of steers and sixty months for females and bulls. Repayment is generally effected from the sale proceeds of the cattle upon which a loan is secured.

In 1982 the Cattle Finance Company entered into an agreement with the International Development Association (I.D.A.) under which advances are made to small holders against the purchase of cattle and fencing materials. Finance is provided through the Government Republic of Zambia (G.R.Z.). A.F.C. now administers this project and to March 1985 K 213,668 has been advanced to it.

The company operates a branch network of 52 offices countrywide, consisting of 42 district offices, 9 provincial

offices and Head Office.

In 1984 Head Office was re-organized and now has five departments. These are Accounts, Operations, Legal, Internal Audit and Secretarial/Administration. The manpower strength in 1986 was 710.

6.1.1 A.F.C. Performance

The unsatisfactory performance of the company can be seen from the following statement of accumulated losses amounting to K 95,726,924 to March 1985. Over the fifteen years 1970 to 1985 these losses have been consistent and ever increasing to 1984. Statements for 1982-1985 are as follows:

A.F.C. Statement of Accumulated Losses 1982-1985

	1982	1983	1984	1985
Accumulated losses 1st April	21,434,585	30,183,558	49,819,557	75,020,321
Loss for the Year	8,748,973	19,635,999	25,200,764	20,706,603
Accumulated losses 31st March	30,183,558	49,819,557	75,020,321	95,726,924

Source A.F.C. Annual Accounts 1982-1985.

The share capital of the company has been eroded by losses and in March 1985 was a negative K 35.9 million. The authorized capital is K 65,000,000 and issued and fully paid at 31/3/85 was K 43,497,581 while K 13,465,172 was received and is now pending allotment making a total of K 56,962,753. The deficit on reserves at 31/3/85 was K 92,891,817, leaving approximately a negative K 35.9 million as stated above.

The operational losses sustained each year are due mainly to the high administrative expenditure in maintaining its large branch network and to its very small interest margin or spread

on loans. This margin in 1985 was only 1.5 percent. For the same period finance charges were K 13.012 million on its borrowings which comprised 64 percent of its total operating cost. In 1985 the amount loaned was K 52 million and administrative overheads were K7.4 million. To break even, would have required a margin of 14.2 percent. This reflects the company's dependency on borrowed funds in order to sustain lending operations. Since 1980, A.F.C. borrows from a consortium of the commercial banks having previously depended on the Government. The following Table shows ever increasing short-term indebtedness, up 645 percent 1982-1985:

Short-Term Indebtedness	1985 K	1984 K	1983 K	1982 K
Fisheries agency loan	240,000	240,000	240,000	240,000
Short-term loans from commercial banks Interest 8.5 to 10.5%	80,000,000	80,000,000	80,000,000	17,000,000
Short-term loans from commercial banks Interest 10.5 to 16%	34,000,000	30,000,000	—	—
NONRAD non interest loan	25,000	—	—	—
Loan from government	100,000	—	—	—
Proportion of long-term indebtedness repayable within 12 months	274,338	100,000	—	—
Co-operative Agency Loan	—	—	—	511,163
Totals	114,639,338	110,340,000	80,240,000	17,751,163

Source: A.F.C. Annual Accounts 1982-1985.

6.1.2 *Loan Portfolio and Security*

A.F.C. divides its loan portfolio into large-scale and small-scale loans. As a matter of policy and practice, it uses such loan security arrangements as mortgages, insurance policies, legal charges on crops, animals and machinery. It is not a pre-condition that the intending farmer must give collateral

security before the loan is given. Where such material and marketable assets exist, A.F.C. demands the offer by the farmer of such assets as security. However, the basis of investment decision making is viability of the proposed programme. The mandatory demand for the offer of material and collateral security would certainly exclude all small-scale farmers.

6.1.3 *A.F.C. Disbursements*

Table 21 shows loans approved 1980/81 to 1985/86 for large-scale and small-scale farmers. The average size of loan for large-scale over the period was K 30,368 while for small-scale it was only K 1,162. Since the 1984/85 season small-scale farmers are receiving more than fifty percent of the value of loans approved.

Table 22 shows that line-of-rail provinces ie. Lusaka Central, Southern Copperbelt and Head Office (all with predominantly large-scale farmers) received the greater share of loans by value each year 1982/83 and 1985/86. In the 1985/86 season they received 79 percent of approved loans.

Table 23 shows that the percentage of applicants receiving credit was 34.5, 30.6 and 53.7 percent for 1983/84, 1984/85 and 1985/86 while from the same Table it is seen that 15.6, 17.7 and 15.8 percent of the amount applied for was disbursed for the same years. Over the 1970/71 to 1984/85 period approximately 69 percent of total agricultural credit went on seasonal credit, 25 percent on medium-term, and 6 percent on long-term credit.

6.1.4 *Support Level per Hectare for Maize*

The support level per hectare of maize is shown in Table 24. In the 1985 season 12,480,700 90Kg bags of maize were

produced from an area of 566,900 hectares. This is an average of 22 bags per hectare. From a survey by the author of 500 farmers it was found that the average yield was 28 90Kg bags per hectare as shown in Table 24. A.F.C. claims that as a result of its loans, average yield is 40 90Kg bags per hectare as shown in Table 24. A.F.C.'s estimate would seem to be high and indicate that the support level of K 657 per hectare is too high. It reemphasises the fact that A.F.C. lends one hundred percent of the cost of production, when it lends.

6.1.5 *Loan Recovery*

Default rates for A.F.C. are very high as shown in Table 21. The A.F.C. has very poor loan appraisal monitoring and loan recovery systems. It does not have credit histories of borrowers and has no clear idea of their current financial situation or their ability for self-finance. The average repayment rate was 62.8 percent, for 1980/86 (Table 24). It was as low as 47 percent in 1981/82. 1985/86 saw loan recovery at 87 percent an increase of 30 percent over 1984/85, due mainly to A.F.C. actively pursuing borrowers in arrears. Default in A.F.C., was largely due to the fact that disbursing and collecting were not the responsibility of the same organization. The Co-operative Unions collected debts for it and this was not a good method since the collector was not financially or legally liable to the A.F.C. It now collects its own debts and when possible pursues legal action against defaulters. At the end of 1985 A.F.C. was owed K 160 million. Failure to repay this is due mainly to lack of discipline among farmers. There is a very low ratio of supervisors to farmers and this is a contributory factor to the low recovery rate. The ratio is approximately one loan supervisor to one thousand farmers.

The system of loan collateral is not clear and there is no documentation of the legal rights of the debtor, and creditor with regard to repossession of collateral. The vast majority of farmers have no title deeds to their land and therefore have no collateral to offer.

TABLE 21
The Agricultural Finance Company Limited - Loans Approved (Kwacha)

Season	Large-scale			Small-scale			Totals		
	No	Value K	% of Total	No	Value K	% of Total	No	Value K	Recovery %
1980/81	1,214	39,588,697	53	20,809	35,099,460	47	22,023	74,688,157	67
1981/82	1,738	42,315,544	57	40,004	32,506,466	43	41,742	74,822,010	47
1982/83	1,864	52,096,727	59	31,249	36,272,868	41	33,113	88,369,595	56
1983/84	1,500	48,880,279	53	40,205	42,967,965	47	41,705	91,848,244	63
1984/85	1,764	59,171,447	48	59,934	64,419,076	52	61,698	123,590,523	57
1985/86	1,256	41,462,039	44	35,258	53,171,034	56	36,514	94,633,073	87
Total	9,336	283,514,733		227,459	264,436,869		236,795	547,951,602	62.8 (AV)
Average	1,556	30,358		37,910	1,162		39,466		

Source: Agricultural Finance Company.

TABLE 22

The Agricultural Finance Co. LTD. - Loans Approved by Province

Season	1982/83		1983/84		1984/85		1985/86	
Province	No.	Value %	No.	Value %	No.	Value %	No.	Value %
Head office	9	6.1	98	7.0	2	2.5	3	2.6
Central	5,168	28.1	6,186	29.6	7,050	24.3	5,696	40.3
C/Belt	1,012	2.7	1,184	2.1	1,342	3.1	470	1.9
Eastern	3,454	11.2	10,458	13.1	17,203	14.8	9,610	9.5
Luapula	1,007	1.4	1,159	1.6	1,884	2.4	1,082	1.3
Lusaka	3,364	13.5	3,531	12.5	5,084	12.9	3,218	11.8
N/Western	812	0.9	684	1.3	1,150	1.2	665	0.8
Northern	6,067	7.0	8,268	9.0	13,417	10.7	6,528	6.8
Southern	11,220	25.6	8,991	21.3	13,455	25.4	8,308	22.5
Western	1,000	3.5	1,257	2.5	1,111	2.7	947	2.5
Total	33,113	100.0	41,816	100.0	61,698	100.0	36,527	100.0

(million Kwacha)

	1982/83	1983/84	1984/85	1985/86
Total	88.4	91.9	123.6	94.6

Source: A.F.C.

TABLE 23
Agricultural Finance Company LTD. - Loan Statistics

Loan allocation Applications:	K 62 million		K 52 million		K 80 million	
	No	Value Millions K	No	Value Millions K	No	Value Millions K
Received	71,341	385	73,744	316	44,174	266
Approved	48,329	88	61,698	123	36,527	95
Loans Opened	24,662	66	22,578	67	23,742	58
Loan Disbursed		60		56		42 (up to 31.3.86)
RECOVERIES: amount K		38.0		45		48.5
PERCENTAGE		63%		75%		87%
% of applications for which loans were opened					53.7	
Disbursements as % of amount loaned		15.6		17.7		15.8

Source: A.F.C.

TABLE 24

Agricultural Finance Company Ltd. - Maize Production Supported by A.F.C. Loans

	1983/84	1984/85	1985/86
Lending (K millions)	60	56	60
Support level* per H.A. (K)	657	657	657
Total hectareage by loanees	91,324	86,758	91,324
Production at an average yield of 40 90Kg bags per hectare (millions of bags)	3.65	3.47	3.65

* The average support level is taken each season since the allocation is at the same rate. The input rate is at the old rate also which means that the level of lending has not changed with rising costs.

Source: A.F.C. (Unpublished data).

There is also potential for political interference with A.F.C. loan contract enforcement and also credit decisions. Dispensers of credit in the credit parastatals including A.F.C., see political force as influencing lending decisions and local recovery performance. When the resources kept by the defaulters are added up to the implicit subsidies, huge amounts of resources have been redistributed in favour of very few producers.

Presently A.F.C. is working out plans designed to improve loan repayment. Charts will be apportioned by amounts owing to specific categories of staff. Those owing more money will be supervised by higher levels of staff. Traditionally A.F.C. has relied on loan supervisors who have not been very effective. Demarcation of staff between appraisal and supervision, it is hoped, will mean more attention and time will be devoted to loan recovery.

6.2 ZAMBIAN AGRICULTURAL DEVELOPMENT BANK (Z.A.D.B.)

The Z.A.D.B. was established by the *Zambian Agricultural Development Bank Act No. 18 of 1979*. This act provides that loans shall be made to all classes of farming and fisheries

enterprises and for all types of agrobusinesses, in the country. Head office is in Lusaka and there is one branch office and three subzonal offices. It has a staff of 61, 27 of whom are classed as professional. The main objective of the Bank is to increase agricultural and fisheries output by improving productivity and thus to increase farm incomes. This can be achieved by providing financial and technical support to farmers. Its operational strategy includes an extension service to all its clients.

The following is a list of eligible borrowers:

- Small-scale farmers and fishermen;
- Large-scale farmers and fishermen;
- Co-operative unions;
- Public organizations engaged in agricultural/fisheries activities;
- Agroindustries.

The Bank extends short, medium and long-term loans. Short-term loans are given to cover a period of six to twenty four months. Medium-term loans are for a period of above two and up to six years maturity. Long-term loans are for above six and up to twenty years maturity with a grace period on repayment of up to three years. Interest rates are shown below.

Interest Rate Structure:

	1 Nov. 1983 to 15 May 1984	16 May 1984 to 30 Nov. 1984	1 Dec. 1984 to 6 Nov. 1985	7 Nov. 1985 to 31 Jan. 1986	1 Feb. 1986 to 31 Dec. 1986
Short-term loans	12%	13%	16.5%	27%	25.5%
Medium & Long-term loans %	13%	15%	17.5%	28%	26.5%

Source: Z.A.D.B., unpublished data.

Interest rates increased substantially in the period Novem-

ber 1985 to January 1986, but declined a little in the period February 1986 to December 1986.

6.2.1 *Loan Conditions*

Loans are secured by the pledge of a collateral. The Bank accepts tangible and intangible assets as security.

Tangible assets include:

- A pledge or mortgage on properties defined as real estate by law;
- A pledge of animals;
- A pledge of chattel mortgage on machinery and equipment.

Intangible include:

- A bank guarantee;
- A personal guarantee;
- A pledge of financial securities, life assurance policies, company shares or negotiable commercial instruments.

The Bank will not lend for a period of less than six months or more than twenty years. It will not directly manage or administer any enterprise. The amount of a loan cannot be less than K500 and not more than 5 percent of the paid-up capital of the Bank.

Conditions are different for small farmers and are as follows:

- The farmer must be of sound character and be capable of carrying on farming activities;
- The bank will have agricultural charges on crops, livestock, machinery and equipment;
- Preferably a track record of farming/fishing which will ensure success of the proposed operations.

6.2.2 *Funding*

It has an authorized share capital of K75 million divided

into 75 million K1 shares. These are allocated as follows:

		K million
Government Republic of Zambia	51%	38.25
International Institutions	30%	22.50
Local Institutions	19%	14.25
	<hr/>	<hr/>
	100	75.00
	<hr/>	<hr/>

Source Z.A.D.B. Annual Reports

To date K17.0836 million has been subscribed as follows:

	K million
Government Republic of Zambia	16.0836
Local Institutions	1.0000
	<hr/>
Total	17.0836
	<hr/>

International institutions have not subscribed and it would appear that they are waiting for the Government of Zambia to take up its full share. The Bank has deposits of K3.5 million from local institutions.

The deficit on reserves at 31st December 1985 was K5,330,509 and when subtracted from the paid up share capital leaves K11,753,191 as share holders funds. The Bank made a loss in 1983, 1984 and 1985. These losses have eroded the share capital and with this trend likely to continue it will soon be negative.

6.2.3 *Disbursements and Recovery*

Table 25 gives details of the amounts disbursed 1983, 1984, 1985 and 1986. This is broken down into short, medium

and long-term loans. Only a small percentage of the approved amount is loaned out each year. This is due to lack of funds on the part of the Bank.

Table 26 shows that for the 1986/87 season 42 percent is going to line-of-rail provinces. This as in the case of A.F.C. shows the bias toward large-scale farmers. Average size of loan brings out this point also as the average loan in North Western was K284 while in Copperbelt Province it was K291,393. This latter Table also shows the amounts disbursed for fisheries 1986/87.

TABLE 25

Zambia Agricultural Development Bank - Lending Operations 1983-1986 (K'000)

	1983	1984	1985	1986
SHORT-TERM LOANS				
Amount approved	1,249	5,154	15,640	18,100
Amount disbursed	1,249	1,345	4,224	3,463
Percentage of approved disbursed	100	26	27	19
Amount due (principal + interest)	—	1,591	1,834	402
Percentage recovered	—	82	77	53 ^a
MEDIUM-TERM & LONG-TERM LOANS				
Amount approved	—	2,860	4,132	7,981
Amount disbursed	—	1,281	2,011	1,577
Percentage of approved disbursed	—	45	49	20
Amount due (principal + interest)	—	25	818	674
Amount recovered	—	13	260	344
Percentage recovered	—	52	32	51
TOTALS:				
Amount approved	1,249	8,014	19,772	26,091
Amount disbursed	1,249	2,626	6,235	5,040
Percentage approved disbursed	100	33	32	19
Amount due (principal + interest)	—	1,955	2,652	1,076
Amount recovered	—	1,604	1,681	556
Recovery rate %	—	82	64	52
Percentage to short-term	100	51	68	69
Percentage to medium + long-term	—	49	32	31

^a To 31/12/86.

Source: Zambia Agricultural Development Bank, Annual Reports and unpublished data.

TABLE 26

*Zambia Agricultural Development Bank**ZADB Lending 1986/87: Crops & Livestock*

Province	No. of Clients	Amount Approved	Average Size of Loan K
Western	112	1,380,577	12,327
C/Belt	8	2,331,145	291,393
N/Western	128	36,364	284
Central	197	3,593,872	18,243
Southern	19,467	11,512,585	591
Lusaka	1,505	5,354,716	3,558
Northern	137	1,996,737	14,574
Luapula	2	220,484	110,242
Eastern	3,992	14,848,262	3,719
Total	25,548	41,274,742	1,616

ZADB Lending 1986/87: Fisheries

Province	No. of Clients	Amount Approved
Central	35	369,219
Southern	57	659,190
Northern	112	1,489,876
Luapula	127	1,278,193
Total	331	3,796,478

Source: Z.A.D.B.

Approved loan funds are used approximately 55 percent for crop production, 14 percent to purchase farm implements and machinery, 8 percent for the purchase of livestock, 7.5 percent for fisheries, 7.0 percent for land purchase, 6 percent for refinancing debts and 2.5 percent for irrigation facilities. For the 1985 and 1986 seasons approximately two thirds of the disbursements went to short-term borrowers.

Recovery rates are shown in Table 25. For short-term loans the recovery rate for 1986 up to 30/6/86 was only 53 percent. Recovery of medium and long-term was even worse, going as low as 32 percent in 1985. Farmers have a "grants

syndrome" ie. attitudes and behaviour based on the belief that funds disbursed by credit parastatals are grants not loans and as such need not be repaid. These attitudes have created a lack of discipline among borrowers. The staff of agricultural credit institutions see political influence as an obstacle to repayment. This together with the lack of recoverable collateral has reduced their efforts at obtaining repayment.

6.2.4 *Deposit Facilities*

It currently takes deposits from institutions only as deposit taking from individuals has been deferred pending the restructuring of the agricultural credit institutions in Zambia.

The Bank's share capital is gradually being eroded, by losses which are growing each year. Presently the management does not know when and in what manner the Bank will become part of the new Lima Bank. An annual report for 1985 was not produced due to the uncertainty prevailing.

6.3 ZAMBIAN CO-OPERATIVE FEDERATION (Z.C.F.)

Z.C.F. is the mother body of the co-operative movement in Zambia and was set up in 1973. Its main objective is to co-ordinate co-operative development so as to improve the quality of life of the people of Zambia. Its functions are outlined as follows:

- Plan for continuing development of the co-operative movement;
- Analyse economic and social problems so as to determine the need for further co-operative development;
- Act as commercial agent for member societies;
- Co-operate with marketing boards.

All of Provincial Co-operative Unions (P. CUS) are

affiliated to Z.C.F. in addition CUSA – Zambia and Commercial Farmers Bureau. Consumer Cooperative, and National Marketeers Co-operative Union are affiliated.

Head office has a staff of about 95. The nine provincial unions employ 2,018 permanent and 2,707 seasonal workers. Sweden provides the major portion of external technical assistance, and financial assistance comes from Sweden, USAID and on an ad-hoc basis from F.A.O. and E.E.C. In 1985 there were 463 Provincial Co-operative Unions affiliated to Z.C.F. and membership was 147,467.

6.3.1 Z.C.F. Finance Services

Z.C.F. provides loans as detailed in Table 27. These are kept separate from lending by the Co-operative Credit Scheme (C.C.S.) which is described later. Amounts are small but an effort is made to organize production in a systematic and correct manner.

For the first two programmes repayment rates are good but are poor for the others, particularly for the Integrated Rural Development Programme (I.R.D.P.).

Z.F.C. also makes medium-term loans. These are detailed by Union, amount and investment in Table 28. Hammermills are the most popular area of investment since maize can be milled locally and the farmers retain part of their crop for their own consumption. Amounts disbursed are small but may be instrumental in starting local enterprises. They can by their demonstration effect, attract rural people to the idea of greater self sufficiency and achieve for them a more diversified and higher standard of living.

6.3.2 *Credit Unions and Savings Association of Zambia
(CO-OP) Ltd. (C.U.S.A.)*

C.U.S.A. Zambia was set up in January 1969. Its objectives are to provide the usual credit union facilities and to assist in the organization of individual unions.

The principal activities are:

- promoting, supervising and advising credit unions;
- mobilising local savings;
- providing credit to member unions;
- providing risk management (insurance) in three categories:

- (a) life policy
- (b) loan protection policy
- (c) fidelity bonding.

TABLE 27

Z.C.F. Finance Services

SEASONAL LOANS 1983/84 - 1985/86			
Year	No. of Loanees	Amount (K)	Repayment %
NATIONAL LIMA FERTILISER PROGRAMME			
1983/84	103	42,611	91.5
1984/85	266	130,359	98.9
1985/86	372	216,574	N/A
WOMENS PROGRAMME			
1982/83	220	9,069	96
1983/84	540	43,427	92
1984/85	773	69,110	73
1985/86	1,029	81,850	N/A
PEOPLE'S PARTICIPATION PROGRAMME			
1983/84	143	23,163	51
1984/85	318	45,713	57
1985/86	237	18,884	N/A
INTEGRATED RURAL DEVELOPMENT PROGRAMME (I.R.D.P.)			
1984/85	N/A	27,187	N/A
1985/86	312	33,332	26
1986/87	385	41,769	N/A
FINNIDA LIMA PROGRAMME			
1983/84	120	22,073	55
1984/85	175	28,388	N/A
1985/86	355	54,303	N/A

Source: Z.C.F., unpublished data.

TABLE 28

Zambia Co-Operative Federation - Medium-Term Loan Scheme Disbursements in Kwacha

Union	1980/81 to 1985/86						
	Hammer-mills	Oxen & Ox Equipment	Wholesale Dept.	Retail Dept.	Delivery Vehicles	Hardware	Cattle Marketing
E.C.U.	41,400	—	—	—	16,315	—	—
SPCMU	55,000	—	10,000	25,000	20,000	—	—
N.C.U.	—	103,070	25,000	12,000	—	—	—
C.P.C.M.U.	48,000	—	—	—	—	—	—
L.C.U.	87,620	55,000	—	—	—	33,000	—
L.P.C.U.	20,700	—	—	—	40,000	—	—
C.C.U.	43,800	—	10,000	—	—	—	—
N.W.C.U.	37,800	—	—	18,000	—	—	—
W.F.C.U.	54,800	—	14,000	18,000	—	—	43,600
Total	389,120	158,070	59,000	73,000	76,315	33,000	43,600

Source: Z.C.F. Finance Services.

It operates in all provinces and has 188 unions and 117 CUSA affiliated. Membership at the end of 1985 was 34,949. Head office has 42 staff members while provincial staffing is 24.

It receives assistance from Konrad Adenauer Foundation, West Germany and the Canadian Co-operative Development Fund (C.C.D.F.). They provide about 40 percent of CUSA – Zambia's operational budget every year.

Credit unions have not so far been well established in Zambian rural areas. One reason is the fact that there are government sponsored agencies available which provide an easier method of obtaining finance since no prior saving has to be done.

There is no record of the purpose for which loans are made, therefore details about rural lending cannot be established. It would seem that the number of loans must be small, since according to the author's survey of 500 farmers, no loans were obtained from this source.

6.3.3 *Savings Scheme*

Z.C.F. Finance Services introduced a pilot savings scheme in two Provinces in 1983. Details are given in Table 29. The amounts saved 1983/1985 are also shown in the Table. The amounts saved are small. The average amounts deposited in 1985 were K505 for Southern and K786 for Eastern Province.

6.4 THE CO-OPERATIVE CREDIT SCHEME (C.C.S.)

C.C.S. came into existence in 1975, with the objective of increasing the income and improving the standard of living of subsistence farmers. It was initiated by the Government, but with financial and technical support from the Swedish International Development Authority (S.I.D.A.). The Scheme is managed by Zambia Co-operative Federation Finance Services.

Initially C.C.S. operated only in Southern and Eastern Province but now covers all Provinces. The three major sources of funds are the Government, Swedish International Development Authority (S.I.D.A.) and the Co-operative Unions.

6.4.1 *Loan Conditions and Procedures*

- Credit is given only for seasonal production of crops marketed by Cooperative Unions;

TABLE 29

Co-operative Saving Scheme Deposits and Withdrawals 1983-1985 Southern Province

Year	No. of Acc.	Produce Deposits (K)	Voluntary Deposits (K)	Total Deposits (K)	Withdrawals (K)	Balance Year end (K)
1983	64	13291.97	152.00	13443.97	12662.20	781.77
1984	341	133354.17	1074.00	134428.17	128065.58	6362.59
1985	433	217611.69	1031.00	218642.69	202921.42	15721.69
	838	364257.83	2257.00	366514.83	343649.20	22866.05

In Eastern Co-operative Union (ECU) the performance of the scheme has been as follows:

Year	Society	No. of Acc.	Produce Deposits (K)	Voluntary Deposits (K)	Total Deposits (K)	Withdrawals (K)	Balance Year end (K)
1985	Mugubudu	560	529270.17	25899.22	555169.39	481264.42	73904.97
1985	Chalumbe	224	1845453.10	3671.19	188214.29	176075.63	12138.66
1985	Lukusuzi	276	216076.66	990.00	217066.66	196404.82	20661.84
		1060	929889.93	30560.41	960450.34	853744.87	106705.47

Source: Z.C.F. Finance Services Activity Plan 1986.

- Credit is secured by the borrowers crop;
- Recovery is by stop order;
- The amount of credit depends on the amount of land the farmer cultivates;
- Nobody may borrow more than two thirds of the average value of crops he has sold through the Society in the last three years;
- New seasonal credit is granted only when earlier credit is paid back in full;
- Interest is for 12 months even if the real credit period is shorter.

The farmer applies to his co-operative Society which decides on granting or refusing his application. If the applica-

tion is successful it is sent to the Marketing Union where it is examined. It is checked to avoid split loans (more than one loan to one borrower), and people who did not repay previous loans. If successful it is sent to Z.C.F. Finance Services where it is approved or rejected. Unions receive a block loan from Z.C.F. Finance Services after preparing a loan agreement between itself and the Union. The marketing Union prepares an agreement between itself and the Co-operative Society and issues Local Purchase Orders (L.P.O's) to the Society. The Co-operative Society then prepares loan agreements between itself and the successful farmers, who receive their L.P.O's. Farmers then collect their agreed supplies. The process takes approximately four months to complete.

6.4.2 *Disbursements and Loan Recovery*

Disbursements are shown in Table 30 for 1975/76 and 1983/84 to 1986/87. Eastern, Southern and Central Province Co-operative Unions receive the largest amounts each year. In the 1986/87 season these three unions received 67 percent of the total disbursed. There is a big increase in the amount disbursed due to increased funding by the Government for the 1986/87 season.

The farmer delivers his crop to the Co-operative Society, where he receives a crop receipt. The amount of his outstanding loan is deducted and is placed on a crop payment list which is sent to the Marketing Union. It deducts agreed interest and repays the block loan to Z.C.F. Finance Services which issues payments to farmers through the Marketing Union. It sends it to the Co-operative Union from which source the farmer receives payment.

Recoveries are shown in Table 31. In the early years these were reasonably good: between 1979/80 and 1982/83 they were poor. In recent seasons they have improved again. The

main reason for low recovery is the failure of Unions to follow set procedures.

TABLE 30

Co-operative Credit Scheme: Amounts Disbursed by Unions (1975-76 - 1986/87) in Kwacha

Union	1975/76		1983/84		1984/85		1985/86		1986/87	
	000's (K)	%	000's (K)	%	000's (K)	%	000's (K)	%	000's (K)	%
E.C.U.	32	10.8	3,196	76.6	3,329	55.5	2,800	46.8	17,000	24.0
SPCMU.	164	55.4	345	8.3	1,283	21.4	1,500	25.0	14,000	19.7
N.C.U.	—	—	536	12.8	1,050	17.5	900	15.0	12,500	17.6
L.C.U.	69	23.3	19	0.5	39	0.7	400	6.8	2,400	3.4
CPCMU	31	10.5	15	0.4	80	1.3	55	0.9	12,100	17.0
LPCU	—	—	28	0.6	84	1.4	77	1.3	5,000	7.0
CCU	—	—	25	0.6	82	1.3	110	1.8	2,200	3.1
NWCU	—	—	9	0.2	14	0.2	—	—	1,400	2.0
WPCU	—	—	—	—	40	0.7	140	2.4	4,400	6.2
TOTAL	296	100.0	4,173	100.0	6,001	100.0	5,982	100.0	71,000	100.0

- E.C.U. = Eastern Province Co-operative Marketing Union
 S.P.C. = Southern Province Co-operative Marketing Union
 N.C.U. = Northern Province Co-operative Marketing Union
 L.C.U. = Luapula Province Co-operative Marketing Union
 CPCMU = Central Province Co-operative Marketing Union
 LPCU = Lusaka Province Co-operative Union
 CCU = Copperbelt Co-operative Union
 NWCU = North Western Co-operative Union
 WPCU = Western Province Co-operative Union

Source: Zambia Co-operative Federation Finance Services Limited / Co-operative Credit Scheme.

TABLE 31

Co-Operative Credit Scheme. Repayment Record Co-operative Unions

Year	Recovery (percentage)
1976/1977	86.0
1977/1978	72.0
1978/1979	70.0
1979/1980	52.0
1980/1981	65.3
1981/1982	67.4
1982/1983	68.8
1983/1984	89.0
1984/1985	87.0

Source: Co-operative Credit Scheme (CCS) and Zambia Finance Services (Z.F.S.) Activity Plans 1985 and 1986.

6.4.3 Rural Co-operative Agricultural Credit Scheme 1986-1987

In 1986 the Government gave the Co-operative Movement a loan of K76 million to provide seasonal credit to small-scale farmers to enable them to purchase fertiliser and seed for the 1986/87 farming season.

The Scheme is intended for non salaried rural peasants cultivation between 0.5 to 8 hectares of maize. All loans are given as an input package of fertiliser and seed for growing maize.

Applications are through existing primary co-operative societies and credit unions. In areas where primary societies do not exist, applications are through Ward Credit Advisory Committees. (W.C.A.C.) and successful applicants have to register with either Credit Union, Primary Society or W.C.A.C.

There are to be District Monitoring Committees responsible for coordinating the flow of information between bodies

involved. They will be responsible for checking that there is no duplication of loans by the various lending institutions in the district. This committee is not responsible for the actual loan processing and approvals. Z.C.F. Finance Services and CUSA Zambia Central Credit Union will submit to the Ministry of Co-operatives monthly reports on the disbursement, utilization and repayment of loans. All loanees must market their produce through Provincial Co-operatives Unions.

C.C.S. is an excellent method of extending credit to traditional and small-scale commercial farmers since the co-operatives are, or soon will be, active in every rural area. Co-operative Unions must follow the rules and procedures laid down by the C.C.S., since failure to do so in the past has led to a deterioration in recovery rates.

6.4.4 *Co-operative Bank*

Plans to set up a Co-operative Bank in Zambia go back almost twenty years. There is now hope that such a bank will be operational by 1989. K 2 million is needed as a capital base and a further K 1 million in reserve.

Z.C.F. Finance Services has been running the C.C.S. and has experience in the field. It has received assistance from S.I.D.A. in this and it has promised support in establishing the Co-operative Bank. The Government is also fully committed to its establishment.

The Co-operative Unions (CUSA Zambia included) are all agreed on the need for it. They point to the fact that in the first few months of 1986 K 500 million went to the commercial banks when it could have been circulating within the Co-operative Movement, to the advantage of the small-scale farmer. For this to be accomplished C.C.S. management needs to be strengthened. S.I.D.A. has offered assistance in this respect and in all areas where such assistance is required. A

Co-operative Bank was started in similar circumstances in Sweden and experience there will be of great benefit to Zambia.

To take care of technicalities involved in the setting up of the Bank the Co-operative Movement has appointed a task force. They will look at issues such as whether the bank will be registered under the existing banking act or another Act of Parliament.

6.5 CONCLUDING REMARKS

The main financial institutions involved in the distribution of finance to rural areas are biased towards the larger borrower. They are unable to attract funds and their capital bases are being eroded by consistent and ever increasing losses. There is a serious lack of discipline on the part of borrowers, resulting in very low recovery rates.

Commercial banks are the main lenders to agriculture. Much of their funds go to the agricultural parastatals. Lending is mainly to large-scale, commercial farmers.

The investment funds of other financial institutions such as the National Credit and Savings Bank not involved in direct rural financing go to the Government and only a small proportion of this finds its way to rural areas.

The Co-operative Movement with some success to date could become a suitable vehicle for financing rural development. A Co-operative Bank would provide full banking facilities in rural areas, and would mobilise the considerable savings available but neglected at present.

Savings are significant in amount but are not used in a productive way due mainly to the fact that deposit facilities at a positive real rate of interest are not available.

The ability of farmers to partly finance their operations from their own resources is not taken into account, when loans are granted. Farmers receiving loans receive 100 percent of

their total requirements and therefore more than they need, while others who could use some additional finance are denied it.

Finance from external donors makes its way to rural areas, often as part of a package. It has tended to be uncoordinated and often is discontinued before the farmer is capable of sustaining the development effort on his own.

There is need for a co-ordinated and equitable system of distributing the available finance. The system must be continuous, carefully monitored and free from all types of external interference.

The Managing Director of the Lima Bank has been appointed and the share capital is expected to come from the Government, local private sector and external sources.

May 1987

