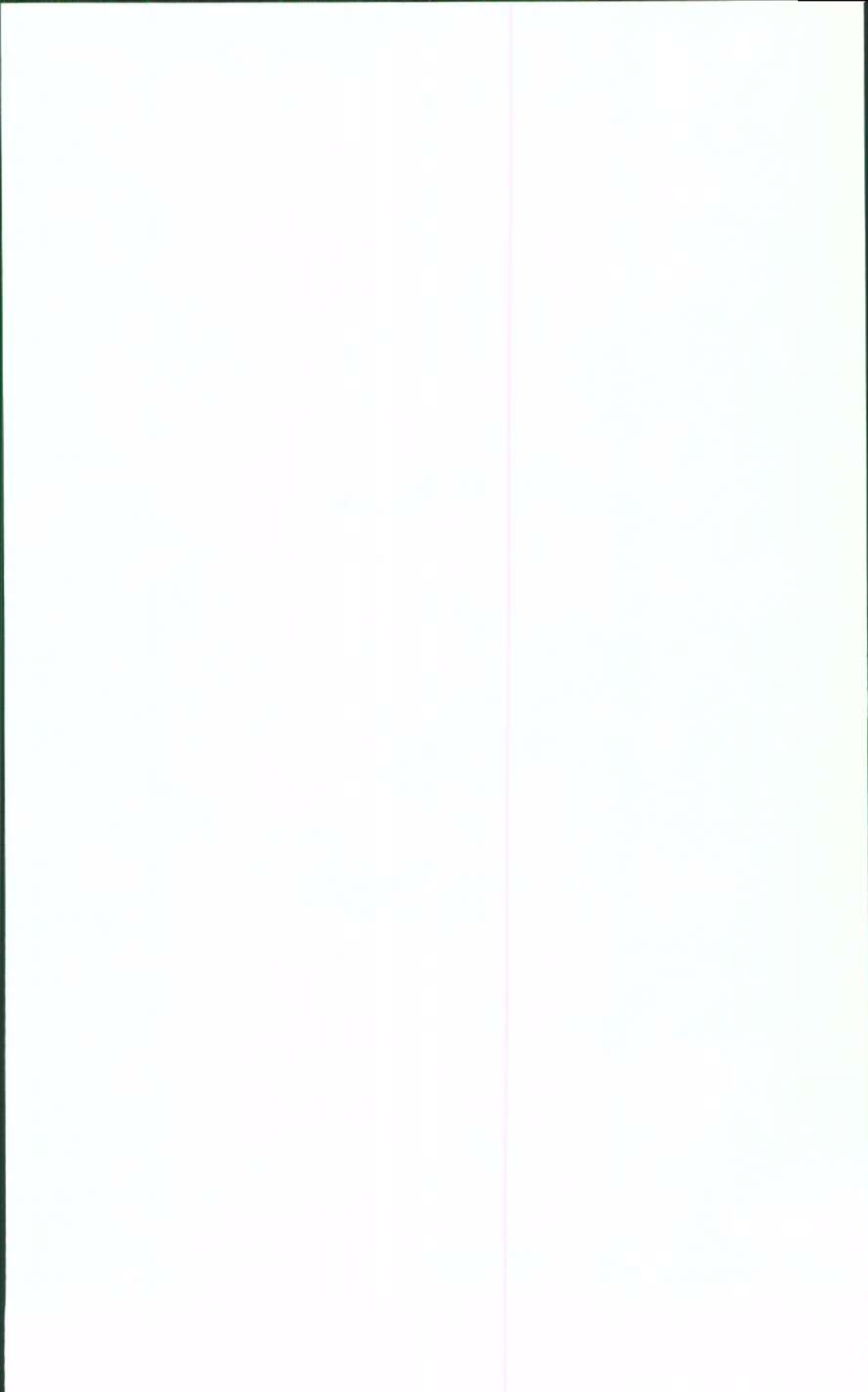


# ZIMBABWE

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1.

## MAIN FEATURES OF THE ECONOMY

### 1.1 GENERAL

Zimbabwe is a landlocked country of about 390.000 sq.km. bordered by Mozambique on the East, Botswana on the Southwest, Zambia on the Northwest and the Republic of South Africa on the South. In 1985, the population was estimated to be about 8.2 million, 98 percent of whom are of African origin, while the remaining 2 percent are non-Africans, mainly of European origin. The population growth is high, with an estimated rate of increase of 3.5 percent p.a., and while the overall population density is 21 persons per sq.km., population concentrations are highest in the Eastern and Central provinces of the country.

Gross National Product per capita was estimated at US \$740 in 1983<sup>1</sup>, but the distribution of income is extremely uneven. Inequality of income is rooted in the unequal land distribution. Colonial regulation, updated by the Land Tenure Act of 1969, divided the national land area into roughly two equal parts for European and African settlement. The relatively few Europeans possessed the best land, with the Africans being restricted to communal areas with generally inferior agronomic and infrastructural conditions. At the time of Zimbabwe's independence in 1980, this division resulted in an allocation of approximately 2.5 hectares of land for each African compared to 65.2 hectares for each non-African. Similar disparities

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(1) World Development Report 1985.

existed in the distribution of other productive assets and income: for example, in 1978, the average annual cash earnings of Africans were roughly one-tenth those of the Europeans.

## 1.2 THE ECONOMY

In 1980, the new government took over a well-diversified economy that produced a wide range of agricultural and manufactured products for the domestic market and which had managed to export mining and agricultural products, despite the international economic sanctions during the period of the Unilateral Declaration of Independence (UDI). Notwithstanding the basic strength and growth potential of the national economy and the existence of a well-developed administrative structure, the major constraints to be faced were:

- extreme economic inequalities and lack of access to social services, in particular education and health, for the majority of the population;
- significant shortages of skilled manpower, especially in the public sector and at the technical level, caused by emigration of white Zimbabweans;
- depleted capital stock and an infrastructure in need of rehabilitation; and
- internal and external socio-political and security problems, which resulted in an unfavourable business climate and high freight costs of imported and exported goods.

In order to overcome the above-mentioned constraints, the government embarked on an ambitious programme of growth and equity based on expansionary monetary, fiscal and income policies. Table 1 shows the evolution of Zimbabwe's Gross Domestic Product (GDP) in constant 1980 prices for the period 1979-1984, as well as the balance of payments and the government budget. It appears that the economic performance experienced three distinct periods in the short time since its

independence was gained. The overall growth was strong in 1980 and 1981, with real annual growth rates of 11.3 percent and 13 percent respectively; however, in 1982, economic conditions began to deteriorate drastically, and in 1983 GDP declined by 3.4 percent and hardly grew in 1984. After the first two years of fast economic growth, serious internal and external imbalances made it necessary to introduce a stabilization programme with major policy adjustments. As can be seen from Table 1, a recovery began in 1984, led by the agricultural sector, which had been hit by severe droughts in 1982 and 1983, and seemed to have strengthened in 1985.

TABLE 1

*Key Economic Indicators. GDP (factor cost) at constant 1980 prices (in million Z\$)*

	1979	1980	1981	1982	1983	Estimates 1984
Primary sector	444	458	496	501	469	529
Secondary sector <sup>1)</sup>	1142	1244	1321	1321	1292	1267
Tertiary sector	1312	1524	1828	1824	1761	1763
TOTAL	2898	3226	3645	3646	3522	3559
Overall growth rate (%)	1.5	11.3	13.0	—	-3.4	1.1
Agr. sector growth (%)	—	3.2	8.3	1.0	-6.4	12.8

1) Includes mining, manufacturing, public utilities and construction.

Source: Central Statistical Office, September 1985.

*Balance of Payments (in million US\$)*

	1979	1980	1981	1982	1983	1984
Goods	137	5	-270	-314	-97	67
Services (non-factor)	-106	-106	-199	-76	-75	-58
Net factor service income	-81	-79	-136	-229	-220	-133
Net transfers	-56	-121	-133	-143	-129	-53
Current account balance	-106	-301	-738	-762	-521	-177
Capital movements (excl. reserves)	254	118	319	609	134	218
C/A as % of GNP	2.7	5.7	11.8	11.6	9.2	3.3

Source: Reserve Bank of Zimbabwe and World Bank Staff estimates.

*Government Budget (in million Z\$)*

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85 (est.)
Revenues	675	951	1334	1763	1943	2115
Recurrent expenditures	599	615	762	911	1326	1491
Transfers	372	528	673	897	906	962
Capital expenditures	55	107	158	218	208	200
Loans and investments (net)	25	49	114	235	178	225
Overall balance	-376	-348	-373	-498	-675	-763
Financed by:						
External	73	94	254	103	140	647
Domestic	303	254	119	395	535	116
Overall deficit as % of GDP	12	9	8	9	11	11

1) Includes blocked external securities pool converted into government bonds.

Source: Ministry of Finance, Economic Planning and Development.

During most of the UDI period, Zimbabwe had trade and current account surpluses, but after its independence, the country's external position began to deteriorate. By the end of 1982, the current account deficit amounted to US \$762 million or 11.6 percent of GNP in 1981/82. The stabilization programme, supported by the IMF through a Stand-by Agreement beginning in April 1983, was effective in reducing the balance of payments deficit by progressive cuts in foreign exchange

allocations and a devaluation of the Zimbabwean dollar by 20 percent in December 1982 so that at the end of 1984, the current account deficit was US \$177 million or 3.3 percent of GNP. Since December 1982 the Zimbabwean dollar has been linked to a basket of currencies reflecting the relative weights of Zimbabwe's principal trading partners. Recent import restrictions and cut-backs in foreign exchange allocations have restored the external balance, but sharp reductions in imports have hurt the economy. Consumer goods account for only about 15 percent of the total imports, intermediate and capital goods for 70 percent and petroleum for the remaining 15 percent.

In 1979/80, the overall government deficit amounted to 12 percent of GDP, even though increased use was made of domestic and foreign credit. During the last years of UDI, at the time of its independence, Zimbabwe's external debt was still small. The overall deficit even declined marginally in 1980/81 and 1981/82, and its share in GDP was reduced to 8 percent as revenues grew faster than expenditures due to the rapid economic growth and major tax increases. With the slowing down of the economy, the overall deficit rose to Z\$675 million and reached 11 percent of GDP in 1983/84. The government found it increasingly difficult to finance these deficits because the amount of external aid was less than expected and it had to rely on additional short-term commercial borrowing at relatively high interest rates. The total public debt increased from Z\$1.7 billion, with an external component of 22 percent in June 1981 to Z\$3.8 billion in June 1985. About two-thirds of the external borrowings of Z\$1.5 billion were from private sources.

Total government expenditures grew at an average annual rate of 25 percent between 1979/80 and 1983/84. Increases in spending were largest for social services, followed by interest payments on the public debt. Transfers include, apart from interest payments, pensions, subsidies, district administration



costs and drought relief funds. Expenditures on economic services, which includes agriculture, also increased rapidly. Much of the increase in spending for agriculture was, however, related to large subsidy payments. Due to the tight budgetary situation, capital expenditures slightly declined after 1983/84 and accounted for only 8 percent of the total government spending in 1983/84.

Apart from a strong agricultural sector, Zimbabwe's economic base consists of several important elements. In 1984, the tertiary sector accounted for 45% of GDP, while it provided for 48 percent of the formal employment. Its main components are commerce, education services, public administration, transport, and communication, and other services.

Zimbabwe's manufacturing sector accounted for 28 percent of GDP in 1984, contributed about 35 percent of the total export earnings<sup>2</sup> and provided for 16 percent of all formal employment. It is highly developed and diversified, producing nearly all types of consumer goods as well as many producer goods. In the mid-1970's, Zimbabwe's share of the total African value was about 30 percent for iron and steel, 23 percent for chemicals and plastics, 16 percent for machinery and 11 percent for clothing. The bulk of manufacturing is in large-scale firms. Significant future expansion in manufacturing is essential to generate foreign exchange.

The country has a large number of minerals with gold, asbestos, chromite, nickel, copper and coal as the most important. The mining sector accounted for 6 percent of GDP in 1984 and 25 percent of the total export earnings, with gold alone accounting for 15 percent in 1982. It also provided 5 percent of the total formal employment of about 1 million persons in June 1984. However, prospects for the future growth of the mining sector are limited with the exception of

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(2) Manufactured goods based on minerals accounted for 24 percent of the total export earnings.



gold because of stagnating world markets and domestic production conditions.

### 1.3 AGRICULTURE

Agriculture plays an important role in the Zimbabwean economy. In 1984 it accounted for 14 percent of GDP, provided for 53 percent of the total employment and 26 percent of the formal sector employment, and contributed to about 40 percent of the total export earnings. The economic performance of the agricultural sector has been quite uneven due to periodic droughts (see Table 1). Sustained growth will be critical to the foreign exchange situation, both through increased exports and reducing imports through an increased production of food for a rapidly growing population.

The structure of Zimbabwe's agriculture consists of two main sectors: a modern, technologically advanced sector comprising about 4 500 large-scale commercial farmers who occupy nearly 39 percent of the total agricultural land and the traditional small farmers sector, comprising about 800 000 farm families and totalling some 4 million people on about 49 percent of the agricultural land in the so-called "communal areas". In addition, there are approximately 8 500 small-scale commercial farmers and 35 000 families who have recently been settled by the government on land previously held by large-scale commercial farmers. The present agricultural land use is summarized in Table 2.

TABLE 2

*Present Agricultural Land Use*

Type of Farmers	Total area (mil. ha.)	Share of Agr. land area (%)
Large-scale commercial	12.82	38.6
Small-scale commercial	1.42	4.3
Communal	16.35 <sup>1)</sup>	49.2
Resettlement	2.64	7.9
TOTAL	33.23	100.0

1) According to the National Household Survey, only 1.65 million hectares had been planted for the 1984/85 season.

Source: World Bank Land Subsector Study, 16 January 1986.

The Communal Lands Act of 1982 vests the ownership of all communal land in the President, who holds the land in trust for the people. The District Councils actually control the occupation and the utilization of communal lands. Most of the settler families have been located on individual plots, while only about 2 400 families have organized themselves into cooperative farms. From a credit point of view, both communal and resettlement farmers have no land title and therefore cannot provide adequate security for loans.

Zimbabwe's agricultural land has been classified into five regions on the basis of agricultural potential under rainfed conditions, with Natural Region I having the highest potential and Natural Region V the lowest. Table 3 presents the distribution of agricultural land by Natural Region and indicates that commercial farmers occupy two-thirds of the three best Natural Regions, while three-fourths of the communal farmers are located in the two poorest zones.

TABLE 3

*Distribution of Land by Natural Region*

Natural Region	Commercial Farming Areas (%)	Communal Areas (%)
I	3	1
II	27	8
III	22	17
IV	26	45
V	22	29
TOTAL	100	100

Source: Agricultural Sector Study, World Bank Report, December 1983.

On the whole, the modern commercial sector operates, in areas with better rainfall, using modern inputs but still practicing relatively labour-intensive production methods. On the other hand, communal farming, takes place in areas with lower rainfall and generally uses few modern inputs. In 1982, the labour force and employment situation indicated that on the total estimated labour force of almost 2.5 million people, formal employment amounted to 1 million, communal farmers accounted for another 1 million, while other informally employed accounted for 131 000. Eleven percent of the labour force, was unemployed = 268 000 people. It is important to note that over half of the male labour force is employed in the formal sector, while women account for a majority (56 percent) of the communal farmers.

The government thus faces two main development challenges in the agricultural section: sustaining agricultural growth while at the same time raising the incomes and standards of living of the small holder families who make up the vast majority of the rural population. Government efforts to expand productivity in communal farming by ensuring adequate incentives need not conflict with similar efforts in the large-scale commercial agricultural sector.

Agricultural production consists of maize, tobacco, cot-

ton, groundnuts, wheat, soyabeans, sorghum, coffee, sugar, milk and milk products, and meat. As can be seen from Table 4, the bulk of the marketed production derives from the large-scale commercial farming sector. Production in the communal areas is also quite diversified, but less than 25 percent of its production value is traditionally sold in the domestic market.

TABLE 4

*Marketed Production of Selected Commodities, 1982/83*

Type of commodity	Market Volume ('000 tons)	Market share (%)	
		Communal	Commercial <sup>1)</sup>
Maize	1,391	23	77
Wheat	213	5	95 <sup>2)</sup>
Sorghum	19	10	90
Soyabeans	84	1	99
Groundnuts	16	16	84
Cotton	158	23	77
Tobacco: flue-cured	87	0	100
Tobacco: burley	4	60	40
Coffee	7	0	100
Milk & milk products	165	0	100
Cattle ('000 heads)	511	13	87

1) Large and small-scale farms.

2) Partly irrigated.

Source: Estimates of the World Bank Agricultural Sector Mission, September 1983.

In 1985, the national raw sugar production amounted to 400 000 tons, while sorghum and groundnuts were less marketed (17%). The main export items are tobacco (21%), sugar (6%), cotton lint (5%) and maize (4%).

## 2.

## MONETARY POLICY AND FINANCIAL DEVELOPMENT

## 2.1 MONETARY POLICY

The Reserve Bank of Zimbabwe (RBZ) works in close cooperation with the Central Government and the Ministry of Finance and Economic Planning, but operates independently in its choice of monetary instruments. The RBZ has generally employed traditional monetary instruments, of which the determination of liquidity ratios and of discount rates have been used most frequently. Open market operations also play an important role in the conduct of the monetary policy.

Since 1981 tables show that monetary policy has been employed as a major strategy for restraining domestic demand pressures and restoring the internal balance. As can be seen from Table 5, interest rates were raised by RBZ in 1981, bringing lending rates closer in-line with domestic inflation rates. Nevertheless, these rates provide no incentives to commercial banks to engage in high cost lending operations to small farmers. In 1981, interest rates on deposits were also raised, especially on longer-term deposits, which prompted some shift in the composition of the banking sector's liabilities from demand to fixed term deposits. Deposit rates, however, remained negative in real terms, as can be seen by comparing the nominal interest rates with the rate of change in price level for urban families.

Interest rate policies were complemented by other monetary measures in 1981, including raising the statutory reserve requirements for demand and fixed term deposits held by the

commercial banks, accepting houses and finance houses. In addition, the statutory liquid asset ratio for the finance houses was raised from 15 to 20 percent. The RBZ has also successfully used moral persuasion to induce the commercial banks to maintain their liquid assets above the statutory requirements, which actually amount to 40 percent of the liabilities to the public.

TABLE 5  
*Selected Interest Rates, 1980-85 (as of 31 December)*

	1980	1981	1982	1983	1984	1985 (30/9)
<i>Bank Rate</i>	4.5	9.0	9.0	9.0	9.0	9.0
<i>Lending rates</i>						
Commercial banks:						
Minimum overdraft	7.5	13.0	13.0	13.0	13.0	13.0
AFC:						
Short-term	8.0	12.0	12.0	12.0	13.0	13.0
Long-term	7.5	12.0	12.0	12.0	13.0	13.0
<i>Deposit rates</i>						
Commercial banks:						
Savings	3.0	7.0	7.0	7.0	7.0	7.0
Fixed (12 months) <sup>1)</sup>	4.2	10.1	10.4	12.5	9.6	9.9
Building societies:						
Savings	3.5	7.75	7.75	7.75	7.75	7.75
Fixed (12 months)	4.5	8.50	8.50	8.50	10.00	10.00
POSB <sup>2)</sup>						
Savings	3.25	7.5	7.5	7.5	8.5	8.5
Fixed (12 months)	4.50	8.5	8.5	8.5	10.0	10.0
General Price Index <sup>3)</sup>	7.3	13.9	14.6	19.6	18.2	20.0 (est.)

1) Middle of the reported range.

2) Savings in the Post Office Savings Bank are tax exempt.

3) Average index for urban families.

Source: Reserve Bank of Zimbabwe, Quarterly Review, December 1985.

During 1981 and 1982, the RBZ attempted to influence the liquidity conditions and credit allocation of the banking system through the management of its own portfolio. In



mid-1981, it started purchasing short-term paper from the banks in order to alleviate liquidity shortages in the banking system. In this way the RBZ enabled the commercial banks to allocate more resources to the Agricultural Marketing Authority for financing the 1981 record harvest and to the export industries for financing accumulated export stocks following transport problems. In mid-1982, as the demand for private sector credit started to become less tight, the RBZ ceased its open market policies. At the same time, the RBZ provided nearly Z\$200 million to the government in the form of overdraft facilities, while it assisted in mobilizing funds from the non-banking sector, in particular the Post Office Savings Bank, insurance companies and pension funds, in order to facilitate the financing of the government budget deficit. This role continued in 1983 and thereafter.

## 2.2 MONEY SUPPLY AND FINANCIAL DEVELOPMENT

Table 6A presents the data from Zimbabwe's Monetary Survey for the period 1979-1984. In general, a continuous expansion of the money supply can be noticed, although a monetary restraint took place in 1983 with the cessation of the open market activities of RBZ. In particular, the quasi-money supply increased in 1981 and 1982 as a result of the impact of raising the interest level on the volume of fixed-term deposits. In general, the sophisticated level of Zimbabwe's formal financial sector is indicated by the relative high share of fixed-term deposits, about 54 percent of the total money supply.

TABLE 6A

*Monetary Survey, 1979-1984 (in million Z\$)*

	1979	1980	1981	1982	1983	1984
Net foreign assets <sup>1)</sup>	205.5	177.9	40.3	-36.9	-412.3	-138.9
Domestic credit:						
- private sector	723.5	827.1	1187.8	1339.8	1681.6	1679.1
- government	199.8	370.9	332.9	594.2	507.1	466.8
Total dom. credit	923.3	1198.0	1520.7	1934.0	2188.7	2145.9
TOTAL ASSETS	1128.8	1375.9	1561.0	1897.1	1776.4	2007.0
Money and Quasi-money:						
- Currency	107.6	157.2	198.5	237.5	227.4	258.8
- Demand deposits	355.6	475.6	480.2	533.5	542.5	686.8
- Short-term deposits	246.2	319.1	356.1	465.5	987.2 <sup>2)</sup>	1109.6 <sup>2)</sup>
- Other term deposits	283.7	262.4	364.5	456.3		
Total money	993.1	1214.3	1399.3	1692.8	1757.6	2055.2
Other	135.7	161.6	161.7	204.3	18.8	-48.2
TOTAL LIABILITIES	1128.8	1375.9	1561.0	1897.1	1776.4	2007.0

Since 1979, the net foreign assets have deteriorated reaching its lowest point with a deficit position of Z\$412 million in 1983. This has mainly been the result of the worsening current account balance situation, at least until 1983, and the large government deficits partly financed by external sources.

The RBZ was successful in controlling the expansion of domestic credit from 1983 onwards. As a result, the government had no difficulty in the course of 1983 in meeting the IMF ceiling on domestic credit set under the Stand-by Programme. By the end of 1983, domestic credit expansion was reduced to an annual growth rate of 13 percent in particular as the credit to the government was contained with a decrease of nearly 15 percent in 1983. Nonetheless, the commercial banks found themselves in a difficult liquidity situation, especially during the last months of 1983 as their deposits stagnated. This tight liquidity situation was relieved in late 1983 when 12-month fixed-term deposit rates were raised (see Table 5) and the liquidity ratio was reduced from 35 to 30 percent. Domestic credit fell by 2 percent in 1984. This decrease resulted from

the sluggish demand in credit for the private sector and from a main fall in government credit. The government limited its borrowing from the banking system as it utilized the blocked external funds of non-residents (see Table 1) and increased its borrowing from non-bank institutional lenders such as the POSB, insurance companies and pension funds, to finance its budget deficit. Still, with increased economic activities in the near future, strong competition can be expected for the demand of domestic credit between the private and public sector.

The General Price Index is used for deflating the nominal financial variables in order to assess the extent to which monetary and credit policies in Zimbabwe have led to a change in the intensity of financial intermediation relative to the growth of the economic activities. It appears from Table 6B that at least until 1983 some financial deepening took place. It can also be noticed that the ratio of the total money supply to GDP decreased from 1980 to 1983 and slightly recovered in 1984. The ratio of the domestic credit to GDP stabilized in 1984 after an increase in 1983, while the ratio of the private sector credit to GDP increased in 1980 to 1984, with a peak in 1983. The level of these financial deepening ratios is relatively high, although it should be remembered that Zimbabwe has an important modern economic sector.

TABLE 6B

*Financial Deepening Ratios*

Nominal growth rates (%)	1980	1981	1982	1983	1984
- Total money	22.3	15.2	21.0	3.8	16.9
- Domestic credit	29.8	26.9	27.2	13.1	-2.0
- Private sector credit	14.3	43.6	12.8	25.5	-0.5
- Government credit	85.6	-10.2	78.5	-14.7	-8.0
Total money as % of GDP <sup>1)</sup>	37.6	34.6	36.7	34.6	36.1
Domestic credit as % of GDP	37.1	37.6	42.0	43.1	37.7
Private sector credit as % of GDP	25.6	29.3	29.1	33.1	29.5
Increase of Net Foreign Assets as % of GDP	-1.0	-3.8	-1.8	-7.7	5.1

*Memorandum: General Price Index*

1) Both of RBZ and banks 7.3 13.9 14.6 19.6 18.2

2) No data available on distinction between short-term and other term deposits.

3) GDP at factor cost in current prices (Source: Central Statistics Office, September 1985).

Source: Reserve Bank of Zimbabwe and IMF, October 1985.

## 3.

## PERFORMANCE OF FINANCIAL INSTITUTIONS

## 3.1 STRUCTURE OF THE FINANCE SECTOR

Zimbabwe has a well developed financial sector which is, however, almost exclusively geared to the modern sector. In 1984, banks and non-bank financial institutions, such as the Post Office Savings Bank, Building Societies, insurance companies and pension funds, accounted for 5 percent of the GDP at factor cost in current prices and employed 16 000 persons or 1.5 percent of the formal sector employment in June 1984.

The Reserve Bank of Zimbabwe (RBZ) performs the traditional functions of a central bank and regulates and monitors the financial sector, but as yet it has not played an active role in providing support to the development of a rural financial sector for the benefit of the majority of the population in the country. Apart from giving a low priority to its development role, RBZ also currently lacks the tools for an active intervention in the rural financial sector.

There are five commercial banks<sup>3</sup> which, taken together, have over 100 branches in the various urban centres. They provide full banking services to the different sectors and types of clients, although their rural lending is limited to large-scale commercial farmers. These farmers hold freehold land titles which offer an adequate security for their loans.

Table 7 presents the advances of commercial banks by sector over the period 1979-1984. It can be noticed that the

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(3) Standard Bank, Barclays, Grindlays, Zimbank and the Bank of Credit and Commerce.

share of the public sector in the total commercial banks' credit has increased from 23 percent in 1979 to 45 percent in 1984, mainly at the expense of the private sector credit which saw its share decreasing over the same period from 69 to 48 percent. Increased financing of the government deficit was an alternative outlet for the commercial banks following the decrease in demand for credit by the private sector in 1983 and 1984. With the revival of the economy in 1985, an increase in demand for credit by the private sector was, however, bound to arise<sup>4</sup>. It can be seen that agricultural credit continuously increased in nominal terms over the period 1979-1984, although its share in the total private sector credit of the commercial banks has remained more or less constant at about 25 percent with a lowest point of about 18 percent in the drought years of 1981 and 1982.

Associated with the commercial banks are five Finance Houses. These provide mainly hire purchase and leasing services which present attractive alternatives to the purchase of farm machinery by large-scale commercial farmers. Four Merchant Banks offer specialised financial services to corporate clients, and two Discount Houses accept call money which is invested in short-maturity financial assets such as bills. The Post Office Savings Bank and three Building Societies offer deposit facilities to the general public and collect savings, including those from the rural population. The mobilized savings are invested in Government Bills and urban mortgage financing. There is also an active Stock Exchange and a large number of institutional investors such as insurance companies, trust companies, pension and provident funds. All these financial institutions have, however, an urban and modern sector bias.

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(4) Figures up to June 1985 confirm an increase in private sector credit of 20 percent compared to the end of 1984.



TABLE 7

*Distribution of Commercial Bank Advances by Sector, 1979-84 (In percentages)*

	1979	1980	1981	1982	1983	1984
Public sector	22.7	32.3	44.1	38.8	39.0	45.3
Households	7.6	7.1	5.7	4.0	10.0	6.3
Non-residents	0.3	0.3	0.1	0.1	0.1	0.6
Private sector:						
– Agriculture	16.0	14.8	9.3	9.9	11.2	12.6
– Mining	4.2	3.8	4.4	5.7	4.4	3.3
– Manufacturing	23.0	17.4	16.8	13.5	14.4	11.7
– Construction	1.2	0.8	0.6	0.3	0.5	0.5
– Trade	8.8	7.3	5.1	6.7	9.1	9.2
– Finance	11.2	9.2	9.1	7.4	7.9	6.7
– Other <sup>1)</sup>	5.0	7.0	4.8	13.6	3.4	3.8
Total private sector	69.4	60.3	50.1	57.1	50.9	47.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
(In Z\$ million)	(325.8)	(388.4)	(616.5)	(815.4)	(882.4)	(858.1)
<i>Memorandum Items</i>						
Growth rates of advances (%):						
Total	-9.2	19.2	58.7	32.3	8.2	-2.7
Public Sector	-28.6	69.6	116.8	16.5	8.9	12.7
Private Sector	-0.7	3.4	32.0	50.7	-3.6	-8.6
– Agriculture	-1.0	9.8	—	41.2	21.8	8.7
– Secondary sector <sup>2)</sup>	-13.0	-7.7	57.0	18.2	7.2	-21.4
– Tertiary sector <sup>3)</sup>	18.7	12.0	28.7	92.4	-20.2	-6.0

1) Includes unallocated and timing adjustments.

2) Includes mining, manufacturing and construction.

3) Includes trade, finance and others.

Source: Central Statistical Office, September 1985.

In addition to the above-mentioned financial institutions, there are four specialised development finance institutions which channel loan funds to specific economic sectors and clients such as agriculture, industry and small-scale firms. These include the Agricultural Finance Corporation (AFC), the Industrial Development Corporation, the Zimbabwe Development Bank and the Small-scale Enterprise Development Corporation.

### 3.2 RURAL FINANCIAL SERVICES

Before Zimbabwe's independence, only large-scale commercial farmers had access to institutional credit, while government sponsored funds were provided on a limited scale to emergent small-scale commercial farmers under the so-called African Lands Purchase Scheme. The majority of the small farmers in the Communal areas, who traditionally had no freehold land titles, received no institutional credit and were dependent on traditional credit sources such as relatives, neighbours, private traders and shopkeepers, and/or some small credit schemes promoted by non-Government Organizations and input supply companies. Although the Agricultural Finance Corporation (AFC) was established in 1971, it was not until 1979 that it started lending to the small farmer sector through special credit schemes supported by the World Bank/IDA. At present, only 10 percent of the total number of 800 000 small farmers in Zimbabwe are serviced by AFC. AFC is analyzed in more detail in Chapter 6.

Apart from AFC, a number of other institutions, financial and non-financial, actually provide agricultural credit. Large-scale commercial farmers are well serviced with seasonal credit, term lending and hire purchase or leasing facilities by commercial banks, finance houses, AFC and cooperative companies. The Farmers Cooperative Limited (FCL) with a membership of about 3 000 large-scale commercial farmers, is a highly efficient company with a staff of 1 500. It retails farm inputs and consumer goods through 19 branches to both members and the general public including small farmers, while it also manufactures and retails its own animal feed. Banking services, such as short-term credit and deposit facilities, are provided to members. Although cooperative companies of large-scale commercial farmers have existed in Zimbabwe for a long time as autonomous and successful business organizations, the same cannot be said of the government-sponsored cooperatives for

small farmers. While these cooperatives have been singled out by the government as a major channel for providing inputs to small farmers in Communal Areas, they have not yet been very successful in channelling credit and marketing services to farmers due to serious management and financial weaknesses. Apart from cooperatives, traditional forms of cooperation exist widely in Zimbabwe, and over 10 000 informal groups with more than 500 000 members provide limited financial and other services, such as group savings facilities, bulk purchase of inputs, credit, marketing and extension.

Table 8 summarizes the distribution of agricultural short-term credit channeled to both large and small farmers through the different institutions. AFC's share in the total short-term agricultural credit has gradually increased from 38 percent in 1980 to 43 percent in 1984. It should be noted that Table 8 does not include credit provided through the Cattle Finance Scheme (CFS) which is operated by the Cold Storage Commission. This scheme's objective is to increase beef production and provide credit to approved large-scale commercial beef producers for contract cattle fattening. At the end of January 1986, about 2500 borrowers were involved in the CFS.

TABLE 8

*Distribution of Short-term Credit to Agriculture, 1980-85 (In percentages)*

Year End	AFC	Commercial Banks	Cooperatives & Companies <sup>1)</sup>	Total (In Z\$ 000)
1980	38	34	28	100 (164,075)
1981	34	30	36	100 (179,871)
1982	37	35	28	100 (228,711)
1983	41	32	27	100 (304,236)
1984	43	32	25	100 (333,161)
1985 (March 31)	42 <sup>3)</sup>	35	23	100 (412,567)

1) Includes agricultural cooperatives of large-scale commercial farmers (such as FCL) and input supply companies (such as Windmill Fertilizer Co. and AGRICURA, an agrochemical company).

2) Does not include funds under the CFS which amounted to Z\$19.1 million in 1979, Z\$51.6 million in 1983, Z\$63.0 million in 1984 and Z\$75.0 million in 1985.

3) According to FAC's statistics in 1984-85, a total credit of Z\$165 million was granted, including Z\$23 million long-term loans and Z\$21 million special assistance and relief loans.

Source: CSO, Quarterly Digest of Statistics, June 1985.

Large-scale commercial farmers near the urban centres have, apart from credit, a wide range of institutional financial services, such as deposit taking and issuing and check cashing facilities, at their disposal. General banking and rural savings facilities, however, hardly exist in communal areas, while rural savings of small farmers savings clubs collected by commercial banks, the POSB and the Building Societies in general are not directly reinvested in the rural areas. The POSB, and the Building Societies in particular, are statutorily not allowed to lend directly to the rural sector and are thus important mechanisms for mobilization of funds for Government finance and urban construction activities. Currently, AFC does not offer deposit facilities, although its Act does not exclude this possibility. However, it operates a group insurance scheme with one of the insurance companies for all loans extended to farmers who are 65 and older.

It is clear that the financial sector in Zimbabwe, with the exception of the agricultural development bank, AFC, has an

urban or at least a large-scale commercial farmers bias and has not supported rural development in communal areas.



## 4.

## RURAL CREDIT OUTSIDE FINANCIAL INSTITUTIONS

## 4.1 INTRODUCTION

Apart from AFC, financial services to communal area farmers are provided by services cooperatives and informal farmers' groups. The former, registered under the Cooperative Societies Act of 1956, carry out activities like agricultural input supply and marketing in accordance with the provisions of the law under which they are established. On the other hand, the informal farmers' groups are neither registered nor do they operate within the provisions of a given law in this sense, they are informal associations. The cooperatives are under the direct supervision of the Department of Cooperative Development of the Ministry of Lands, Agriculture and Rural Settlements, while the informal groups operate outside the official circuit and are often supported by non-Governmental Organizations.

## 4.2 AGRICULTURAL SERVICES COOPERATIVES

The first African cooperatives were established in 1956 after the Cooperative Societies Act was passed. Since then they have steadily increased in number, and currently total 673 registered cooperative societies with approximately 80 000 members. Out of these 440 are agricultural services cooperatives<sup>5</sup>, with 68 000 members, which are affiliated with

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(5) In addition, there are 107 agricultural producer cooperatives, mainly in settlement areas, and 125 different types of mostly urban services cooperatives.



14 cooperative unions. Ten of these secondary unions belong to the Central Association of Cooperative Unions (CACU), which was established by the government in 1972 in order to represent cooperative interests at the national and international level but which remained dormant until around 1981.

The number of primary societies expanded between 1964 and 1967 when the government established a credit scheme, the so-called Agricultural Loan Fund, which channelled short-term agricultural credit through the societies to peasant farmer members on a community responsibility basis. In 1969, the scheme was abandoned because the loan recovery rate was highly unsatisfactory, with members avoiding repayment by side-marketing their crops. High credit overdues and bad debts have weakened the primary societies and have even discredited them with the farmers, although they are still important in providing agricultural input supply and marketing services at the grassroot level. The societies place bulk orders for fertilizers, pesticides, seeds and other requirements with the unions and distribute the inputs to members on a credit or cash basis. Marketing services include the assembling of members' produce and transportation to the marketing boards. To cover these costs, the societies charge a levy based on the volume of produce marketed. Cooperatives have generally made it possible for small farmers in communal areas to market their surplus production and to obtain their inputs at relatively cheaper terms than if each individual farmer were to take care of himself. Cooperatives provide an important link between farmers at the grassroot level and various development agencies at the national level, through which services can be channeled to scattered small farmers in communal areas.

At present, the secondary cooperative unions are the main feature of the cooperative movement in Zimbabwe. They perform the following main functions:

- purchase inputs in bulk from national suppliers and distribute them to primary societies on a cash or credit basis; unions

- involved in the Small Farm Credit Scheme in communal areas do this on account for AFC;
- send crops to marketing boards as well as process payments to farmers;
  - keep accounts for the affiliated primary societies;
  - extend advances to member primary societies to be used to pay farmers for crops delivered to marketing boards while awaiting processing of payments; and
  - offer general retail services for consumer goods and inputs to members and non-members alike.

TABLE 9

*Supply of Inputs by Cooperatives, 1979-82 (In thousand Z\$)*

Year	Fertilizer	Seed	Spares & Implements	Other Sales	Total Turnover
1979	1142	317	66	285	1815
1980	7804	1424	192	1895	11315
1981	5085	867	323	2296	8571
1982	7618	1152	409	2860	12039

Source: Department of Cooperative Development.

It is estimated that during the financial year 1984/85, the cooperatives handled inputs worth Z\$55.5 million of which Z\$24 million were cash sales and Z\$31.5 million AFC credit sales. As the unions distribute between 80 and 85 percent of all inputs supplied to communal areas, they appear to be a suitable mechanism for channelling short-term credit to communal farmers, provided their current weaknesses in management and financing can be resolved.

With regard to crop marketing, the cooperatives are involved in the supply of bags, cotton bailing materials, crop transportation from collection points to the marketing board

depots, processing of stop-orders on behalf of AFC's Small Farm Credit Scheme and payment to farmers once cheques have been received from the marketing boards. The volume of crops handled during the period 1979-82 is presented in Table 10.

TABLE 10

*Crop Marketing by Cooperatives, 1979-82*

Year	Maize (tons)	Deliveries <sup>(1)</sup> (%)	Cotton (tons)	Deliveries <sup>(1)</sup> (%)
1979	6271	19	1586	—
1980	20189	25	1669	5
1981	89074	30	5694	8
1982	88013	26	3002	7

(1) Percentage of total communal areas deliveries.

Source: Department of Cooperative Development.

As can be seen from the above figures, the marketing function of the cooperatives, in particular for cotton, is not as significant as one would have expected. Due to the relatively high margins charged and the delays in payment, many farmers prefer to market their crops through small informal groups which organize joint transportation of produce to marketing board depots where proper weighing and grading also occur. Nevertheless, cooperatives have a large potential in produce marketing if their services can be improved, operational costs reduced and prompt payments to farmers effected.

Another activity of the cooperatives which has recently gained more importance is the retail selling of inputs and consumer goods for cash to farmers. Retail business has enabled some unions to substantially improve their cash flows, while making better use of the cooperative warehouses during the slack season after the farmers have collected their inputs

from the unions. Because of the importance of the retail business and with the help of an USAID grant of Z\$400 000, the government sought the services of the Farmers Cooperative Limited from September 1985 to September 1987 in order to improve the retail operations of the unions. Restructured retail outlets have already reported substantial sales increases; for example, one of the best unions in Central Mashonaland anticipated a total retail turnover of well over Z\$6 million in 1986.

Before cooperatives can participate effectively and on a wide scale in providing rural financial services in communal areas, major weaknesses in management, operation and financing have to be resolved. Management problems are caused by a high turnover of poorly trained and remunerated staff. Therefore, Cooperative unions rely heavily on staff from the Department of Cooperative Development for the management of their operations. As a result, the farmers believe that the unions belong to the government. Operational problems among cooperatives are also caused by the lack of up-to-date financial information; audited accounting reports of the unions are two to three years overdue, while accounting services to primary member societies hardly exist. Deficient transport planning and inefficient handling of products are reflected in high costs which are passed on to the farmers by marking up the agricultural input costs by 15-20 percent. That all cooperatives have serious financial constraints and are undercapitalized can be seen from their lack of adequate working capital and their poor liquidity position. This makes them, at best, dependent on high-cost overdrafts from commercial banks.

#### 4.3 INFORMAL FARMERS GROUPS

Zimbabwe is characterized by an active organization and

participation of farmers at the grassroot level. It is estimated that over 30 percent of the rural households in the communal areas belong to informal farmers groups which mainly supply input and limited financial services to their members (see Table 11).

TABLE 11

*Informal Rural Financial Groups in Zimbabwe, 1985*

Types of groups	Primary purpose	No. of groups	Members	% of rural households <sup>1)</sup>
Savings Development Movement (SDM)	Savings	6000	150000	18.8
Silveira House	Credit	567	59535	7.4
Windmill	Inputs for cash/credit	2000	60000	7.5
Agricura	Inputs for cash/credit	n.a.	n.a.	n.a.

1) Assuming 800 000 rural households.

Source: IFAD, General Identification Mission in Zimbabwe, May 1985.

Although the above-mentioned groups differ substantially in their objectives and size, they have the following strong and weak points in common:

- They are voluntary and self-help associations which are managed by the farmers themselves to meet specific economic needs. Management is entrusted to democratically elected committees which operate on a non-salaried basis.
- They are generally small in size and their operations, management and record keeping are relatively simple. Their size and structure allows effective communication and control, and makes it possible for semi-illiterate members to actively participate in the management.
- The groups have a strong affiliation to their respective



sponsoring agencies, which are NGOs and private input supply companies. The groups are still financially weak, have a limited volume of operations and rely on training and material support from their sponsors.

- They have not yet formed higher organizational structures at the district, provincial or national level for coordination of their activities, and they hardly receive any direct government support.

In order to promote small farmer development in Zimbabwe, this unique network of informal groups will need to be used, strengthening their positive aspects and eliminating or reducing their negative features.

#### 4.3.1 *The SDM Savings Clubs*

While large-scale commercial farmers located near the urban centres have a wide range of institutional financial services at their disposal, rural bank services, including institutional rural savings facilities, hardly exist in communal areas. Still, small farmers save, although often in non-monetary form, in order to meet their fluctuating seasonal and annual cash needs.

The original idea of savings clubs in Zimbabwe in the early 70s was to encourage poor farmers, women in particular, who had no access to institutional credit, to regularly save small amounts for specific productive or provident purposes such as the purchase of agricultural inputs<sup>6</sup> and the payment of childrens' school fees. The savings clubs have been supported by a group of voluntary promoters who eventually founded

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(6) The extension service, Agritex, has worked out crop input packages which specify input requirements and costs for minimum standard areas, starting from the subsistence level up to cash crop programmes. Income-generating projects on an individual or group basis are also encouraged.



the Savings Development Movement (SDM), registered under the Cooperative Societies Act. At the national level, SDM has two offices in Harare and Bulawayo which provide training, stationery and advice to the individual clubs. SDM employs no permanent staff and currently has 10 volunteers who carry out promotional work; it also has a training centre at Hatfield near Harare where courses for club leaders and field staff are held. Although the clubs work closely with SDM, they are not affiliated with it. Table 12 summarizes the expansion of savings clubs over the period 1970-84. The number of clubs has grown steadily even during the severe drought years of 1982 and 1983. Annual savings are presently estimated at about Z\$5 million, with individual savings averaging Z\$35 per member.

TABLE 12

*Expansion of Savings Clubs, 1970-1984*

Year	No. of Clubs	Membership
1970	30	200
1972	202	7000
1976 <sup>1)</sup>	501	20000
1980	200	4000
1981 (Dec.)	1500	30000
1982 (June)	3000	60000
1983 (Aug.)	5000	125000
1984 (Jan.)	5500	140000

1) Most clubs ceased to operate from 1976 until the time of independence because of security problems in the rural areas.

Source: IFAD, General Identification Mission in Zimbabwe, May 1985.

The savings clubs have an average membership of 25-30, with a minimum number of 10. An elected management committee of at least five persons, who receive no remuneration, is responsible for the proper functioning of the club and

the safety of the cash. The club members meet weekly and deposit at least the minimum amount stipulated in the club rules, which can be as little as 20 cents. Members who fail to deposit the minimum amount each week are liable to pay a fine of one cent, while a member who does not make a deposit for ten weeks consecutively is normally dismissed from the club. Money collected at the weekly meetings is banked immediately by the management committee in a club savings account with either a nearby Building Society or a POSB. A member depositing money in the club receives stamps certificates, equal to the money deposited, which are stuck in the member's savings book. Since each page of the savings book holds twenty stamps of twenty cents value each, one full page of the savings book represents Z\$4 savings. This simplified bookkeeping makes it easy for members to understand the transactions. Normally, the group members do not receive interest on their deposits. The bank interest is used for covering general administrative expenses of the clubs.

Individual withdrawals are possible by giving one week's notice and are effected from the club's account by signatures of three management committee members. Savings clubs do not operate as savings and loan cooperatives or credit unions, although occasionally they do lend to individual members. There have been suggestions to register savings clubs as cooperatives, but this should be done on a voluntary basis only, since the success of the savings clubs is based on their self-help character and their informal structure. At the same time, it should be mentioned that due to the characteristics and limited objectives of the savings clubs, the SDM's idea of establishing a Cooperative Savings Development Bank has not yet received the support of the individual members or of the Government Cooperative Development Department.

#### 4.3.2 *Silveira House Groups*

In 1968, input package programmes for poor farmers in communal areas were started by a Catholic Association, Silveira House, located on the outskirts of Harare. The SH loan scheme, based on a group approach, aimed at assisting farmers to improve their productivity and standard of living by providing credit, adequate extension, bulk supply of inputs and marketing. Initially, SH provided credit from its own funds, complemented by a 50 percent farmers' contribution to support the production of one acre of maize for each member of the group. Motivation courses, extension services and group supervision were provided through "farmer field promoters". The groups were expected to be self-sufficient after four years.

The SH credit scheme achieved 100 percent repayments between 1971 and 1976, but loan recovery deteriorated during the war years, and in 1979, which was a drought year, repayments fell below 50 percent. The scheme was discontinued in 1980 after the introduction of AFC's small farm credit scheme in the communal areas. AFC currently lends to some SH groups, and they are the only group loans under the small farm credit scheme administered by AFC. AFC's recent experience with the SH groups has been unsatisfactory, largely because it disregarded some of the conditions upon which the success of the credit scheme was based in the early 1970's. These included:

- solid preparation and training of the group members and effective grassroot-level organization of the groups;
- relatively small groups with a strong commitment, a sense of purpose and effective internal group control and pressure, while still retaining individual autonomy and responsibility for loan receiving and loan repayment;
- initial small credit volume, the requirement that the farmers make some financial contribution and only gradual expansion in credit volume over time;

- mandatory group marketing in order to enforce credit repayment discipline; and
- committed and voluntary group leadership supported by training, extension and supervision services.

With the rather abrupt transfer of the SH groups to AFC in 1980, and the premature introduction of group lending with a joint repayment responsibility of the group members, most groups have since disintegrated due to large overdues or are being restructured in order to continue their credit operations with AFC. Silveira House, which has a well-equipped training centre, now gives attention to the promotion of credit unions: 11 of these unions have been established, out of which four are registered.

#### 4.3.3 *Other Informal Groups*

Other informal groups which provide financial services to their members include the Windmill Fertilizer Savings Clubs, the Agricura Savings Clubs and the Adult Literacy Savings Clubs. Operationally, all these groups are very similar to the SDM Savings Clubs. In the late 1970s input supply companies such as Windmill Fertilizer and Agricura Chemicals started promoting distribution of agricultural inputs to groups of small farmers in communal areas. The rationale for the formation of these groups was based on collective ordering, transport and timely distribution of inputs to small farmers for cash or credit. The clubs, which consist of 10 to 25 people, meet weekly or fortnightly to collect savings from members; during these meetings, arrangements are also made for savings withdrawals as well as purchases of inputs and their delivery on behalf of the club members. These clubs maintain accounts instead of stamp books for the individual members. In the past, loan recoveries of credit sales were effected through placing of stop-orders with the Government Marketing Boards. The

stop-order system and the credit sales of inputs to individual farmers have now been abandoned due to large bad debt losses, but the cash sales of input supply companies continue, particularly to women's savings clubs. The Windmill Company decided to terminate its involvement in promotional and credit support to its own groups at the start of the 1986/87 season, because AFC's small farm credit scheme has made the company's activities superfluous.

The various informal financial groups in Zimbabwe have demonstrated that, if given the opportunity and appropriate support, poor people in rural areas are capable of organizing themselves to provide and acquire financial services for their own good. In the absence of formal financial institutions in the communal areas, the informal groups have amply demonstrated their potential for mobilizing rural savings and using these funds for productive purposes; they have also shown that there is a potential demand for other financial services, such as credit, in the communal areas. Both savings and credit have been used to finance seasonal inputs supported by extension services from Agritex, sponsoring agencies and AFC.

The potential and scope for strengthening and expanding the non-institutional financial services in the communal areas are considerable. However, before this potential can be realized, a number of major problems have to be addressed. These include:

- Lack of banking facilities in communal areas. As more and more savings clubs are established in more remote areas, the problem of the security of the saved money until it has been deposited at the nearest banking facility will increase. Here AFC, with its relative wide branch network, has an enormous potential for providing rural banking services; a potential which has not yet been tapped;
- Financial and technical weaknesses of the NGOs as sponsoring agencies. These have forced them to cut down on promotional and training activities. All NGOs are dependent



- on external funds, while their approach and activities sometimes have met resistance from such government agencies as the Department of Cooperative Development; and
- Lack of collaboration among the NGOs involved in promoting informal groups. This has tended to foster paternalistic attitudes among the promoting agencies towards their groups. A coordinated action programme is required for the development of viable farmers groups in the communal areas on an extensive scale.



## 5.

INFRASTRUCTURE FOR RURAL DEVELOPMENT AND  
PRICING POLICIES

## 5.1 GOVERNMENT SUPPORTING STRUCTURE

Government policies and programmes related to pricing, input supply, marketing, research and extension, financial services and road transportation have played a significant role in Zimbabwe's agricultural development. Although government interventions stem from the colonial period, it was only after Independence was achieved that top priority was given to the development of the communal area farmers. Still, the pricing and marketing system is oriented to a great extent, to the needs of the large-scale commercial farmers rather than of small farmers.

An inadequate road network and a low level of transport services in communal areas constitute an additional constraint on input delivery and agricultural marketing and therefore on the agricultural development of small farmers. The rural road network heavily deteriorated during the war of liberation and has since been restored to its pre-war condition, through great governmental efforts and with external financial support. However, it is still inadequate. The maximum distance between a small farmer's homestead and the nearest all-weather road corresponds to a full day's travel with an ox cart, while the current truck services in the communal areas are insufficient.

The agricultural extension service, Agritex, is now primarily oriented toward the small farmer<sup>7</sup> and only provides

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(7) In view of the high extension worker/farmer ratio of 1:800, a group approach is followed with formation of extension farmers' groups.

services on demand to the commercial farmer. Agricultural research, under the direction of the Department of Research and Special Services of the Ministry of Lands, Agriculture and Rural Resettlements, has recently initiated programmes which are focussed on specific problems of communal farmers. These include the Communal Area Research Trials which involve a range of fertilizer, varietal and crop husbandry trials and a Farming Systems Research component supported by CIM-MYT.

## 5.2 INPUT SUPPLY AND PRICING

The input supply system has not changed much since the Pre-Independence period when it mainly serviced the large-scale commercial farmers. It is characterized by government-fixed input prices<sup>8</sup>, a small number of input supply wholesalers who deliver beyond Harare and a physical distribution network which is still mainly geared to the needs of the large-scale commercial farmers who are located along the main railway and roads. Although the fertilizer and chemical companies have some sales representatives in the field to take and arrange orders, they do not handle the delivery of the inputs. For most communal farmers who require small consignments and are not close to marketing centres, the absence of a retail distribution network is a major constraint, and this should constitute a priority target for future government action. So far, the government has opted for the cooperative unions as the most suitable input delivery channel in the communal areas, in spite of the many problems of these organizations which often prevent them from offering adequate and efficient services to communal farmers (see section 4.2.). In the medium term, a multi-channel distribution system consisting of cooperatives,

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(8) ex-Harare.

aggressive input supply agents and rural retailers, and informal farmers groups with fair competition is preferable.

Annual fertilizer sales in Zimbabwe are presently about 500 000 tons, out of which the communal farmers use 25 percent. Table 13 summarizes the fertilizer sales to commercial and communal farmers over the period 1979-84.

TABLE 13

*Annual Fertilizer Sales, 1979-84 (In '000 metric tons)*

Year	Commercial Farmers	Communal Farmers	Total Sales
1979/80	323	32	355
1980/81	401	90	491
1981/82	436	96	532
1982/83	372	98	470
1983/84	376	106	482
1984/85	375	125	500

Note: About 60 percent of the total fertilizer consumption is used for maize.

Source: IFAD, General Identification Mission in Zimbabwe, May 1985.

It can be seen that fertilizer use by commercial farmers is stagnant, while the small farmers present an expanding market. Currently, the input/output price ratio of fertilizer still seems favourable for most crops, but this situation could change with the gradual abolishment of the government subsidy on fertilizer prices introduced in 1983 and a further stabilization of the output prices.

Table 14 presents the main delivery channels of fertilizers for large and small farmers.

TABLE 14

*Fertilizer Delivery Channels, 1984/85 (In '000 metric tons)*

Delivery Channels	Large Farmers	Small Farmers
Direct Sales	150 (40%)	—
Cooperative companies	225 (60%)	25 (20%)
Cooperative Unions	—	50 (40%)
Direct purchases	—	30 (24%)
Traders	—	20 (16%)
Total	375 (100%)	125 (100%)

Source: IFAD, General Identification Mission in Zimbabwe, May 1985.

The distribution through cooperative unions and direct purchases by farmers, mainly through informal groups, account for two-thirds of the total fertilizer sales to small farmers, with only a minor role for private traders. In this context, it can be remarked that the early delivery rebates offered by the fertilizer companies can be quite attractive for cash purchases by savings clubs, but are hardly economical for cooperative unions in view of the costs of commercial bank overdrafts and additional handling and storage costs. Table 15 presents the current early delivery rebates of the Windmill Fertilizer Company for promotion of regular sales throughout the year. Assuming a maximum discount for early delivery to the Cooperative Unions in March for use by the farmers in November and financed by a working capital loan with an interest of 13% p.a., net savings of only 3.3% would be generated, not taking into account handling and storage costs.

TABLE 15

*Early Delivery Rebates (EDR) on Input Purchases*

Delivery in	EDR (%)
March	12.0
April	10.0
May	8.0
June	6.0
July	4.0
August	2.0
September	—

Source: Information from Windmill Company.

Agro-chemicals are sold through distributors and co-operatives as well as directly to farmers by 11 companies, although 90 percent of the market is controlled by four companies. Prices are fixed annually by the government.

The Seed Cooperative Company of Zimbabwe runs breeding and seed multiplication programmes for the main food crops (maize, wheat, soya, sunflower and sorghum). Seeds for small farmers, in particular maize seeds, are distributed through traders, cooperative companies and the Central Association of Cooperative Unions. Prices are fixed ex-Harare annually. In general, there is no shortage of seeds, although seed is available in small bags in rural areas at much higher prices than in Harare, and delays in supply are experienced, often due to late price announcements.

### 5.3 AGRICULTURAL MARKETING AND PRICING

Agricultural marketing in Zimbabwe differs for government-controlled products, which depend on legally established parastatal marketing monopolies, and for free market products such as tobacco, sugar, tea, horticultural



crops, pig and poultry products. The Marketing Boards cover the major agricultural commodities produced by both large and small farmers. The Grain Marketing Boards (GMB) is the exclusive buyer of maize, sorghum, wheat, groundnuts, soyabbeans, sunflower, coffee, rapoka (finger millet) and munga (pearl millet), with maize accounting for the main part of the trading activities. It is also a buyer of last resort for edible oils, and imports rice on behalf of the government. The Cotton Marketing Board (CMB) handles all cotton produced in Zimbabwe, which it grades, gins and sells either for domestic use or for the export market. The Dairy Marketing Board and the Cold Storage Commission are buyers of last resort; these purchases, however, account for the bulk of their respective markets, largely as a result of pricing policies which discourage competition.

The Agricultural Marketing Authority (AMA) is the umbrella organization under the Ministry of Agriculture which controls the activities of the Marketing Boards (with the exception of the Tobacco Marketing Board). AMA makes recommendations for the annual producer prices and the marketing policy to be followed, and borrows on behalf of the Marketing Boards.

The marketing system applies to the whole country, but in practice it has favoured the commercial farming areas, where the farms are large and geographically concentrated, where there are good transport and communication links, and where the Marketing Boards maintain an extensive network of depots. On the other hand, in the communal areas, with unfavourable infrastructural conditions, the marketing services are generally inadequate and costly. A sample survey has estimated that crop marketing costs account, on the average, for 5 percent of the total variable costs of commercial farmers against 25 percent for communal farmers. In order to resolve this problem, the government has extended the coverage of the rural depots of the Marketing Boards in the communal areas,



often at an operating loss, while the farmers are urged to utilize the cooperative unions for marketing their crops to the Marketing Boards. Nonetheless, the interests of the communal farmers will be best served if alternative marketing intermediaries who compete at fair terms are made available.

Within the communal areas, direct producer-to-consumer grain transactions are permitted, but as soon as the commodities move out of these areas, they become controlled products. In 1984/85, the GMB operated through 57 permanent depots along the main rail line, 136 open storage collection points, where only the identification of the product takes place, and 240 approved traders. Small farmers as registered growers with the GMB can use five alternative marketing channels:

- direct delivery to GMB with their own or hired transport;
- delivery through cooperatives;
- delivery to approved dealers of the GMB who pay the farmer the government controlled price less a 4 percent handling charge and less transport costs to a GMB depot calculated at standardized rates (Z\$0.22 per ton per kilometer);
- cash selling to any trader who subsequently sells to a GMB-approved dealer; and
- direct cash selling to a consumer within the communal area.

Growers or traders must be registered with the GMB in order to sell to the Marketing Board. The minimum volume for delivery to a GMB depot is 500 kg. Marketing through cooperatives (26 percent in 1982/83, see section 4.2.) is not popular because of the large margins charged and delays in payment; instead, small farmers prefer to sell their grain at the GMB depots where proper weighing and grading occur, although the minimum required volume, accessibility and distance are major deterrents. Although the producer prices at the depots along the rail line are uniform, actual farm-gate prices differ widely according to the transport costs to the depots.

Cotton has become an attractive cash crop for small

farmers mainly due to its characteristics of drought resistance and low labour intensity, and in 1984/85, small farmers delivered 45 percent of the total volume of seed cotton. Seed cotton is only purchased from growers registered with the CMB. Farmers' delivery through cooperatives is rather insignificant: only 7 percent in 1982/83 (see section 4.2.). The CMB has nine ginnery depots and nine transit depots which are located at a distance of not more than 60 km from the growers. The delivery months are from mid-June to mid-September. CMB supplies farmers with cotton seed, packs and twine.

Both the GMB and CMB administer a stop-order system on behalf of AFC's small farm credit scheme. Registration fees of Z\$1 per stop-order are charged to the farmer, but the Marketing Boards receive no compensation whatsoever for their high administrative costs. Although the stop-order system is unique, the current problem of side-marketing by the farmers has become increasingly serious. Small farmer borrowers can easily avoid the AFC stop-orders by using someone else's Marketing Boards registration card (in the same family, husband and wife can have different cards) or by marketing through one of the alternative channels.

There is sufficient evidence to suggest that communal farmers are highly responsive to price incentives and that the structure of the agricultural output is determined to a large extent by the relative prices of the commodities. For example, the increase in the producer price of maize from Z\$85 to Z\$120 between the 1980/81 and 1981/82 seasons resulted in an increase in planted area, while with good rainfall, the total maize production increased from 1.6 million tons to 2.9 million tons. The government price policy for the agricultural sector is therefore highly important to the farmers. Table 16 presents the producer prices of the main commodities.

TABLE 16

*Producer Prices, 1979/80-1985/86<sup>1)</sup>*

Commodity	Unit	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Maize	Z\$/ton	85.00	120.00	120.00	120.00	140.00	180.00
Groundnuts	Z\$/ton	390.00	420.00	450.00	450.00	500.00	750.00
Seed Cotton	Zc/kg	37.50	40.00	51.50	51.00	57.00	67.00
Sunflower <sup>2)</sup>	Z\$/ton	—	—	—	255.00	285.00	n.a.
Soyabeans	Z\$/ton	168.00	178.50	210.00	273.00	301.25	n.a.
Tobacco <sup>3)</sup>	Zc/kg	79.80	181.54	166.82	186.39	203.72	n.a.
Wheat	Z\$/ton	135.00	165.00	190.00	220.00	250.00	285.00
Sorghum	Z\$/ton	105.00	115.00	115.00	120.00	140.00	180.00
Coffee	Z\$/ton	2470.00	1550.00	1550.00	1700.00	2040.00	n.a.
Beef <sup>4)</sup>	Zc/kg	81.10	102.10	129.20	130.40	148.10	n.a.

1) All crop years refer to marketing years (April-March).

2) Sunflower has become a controlled product since 1983/84.

3) All tobacco, average realized price.

4) Average realized price.

Sources: Ministry of Agriculture, August 1984 and Marketing boards.

Government intervention in producer prices has generally been favourable to agricultural production. The main weakness in the pricing policy has been the high budgetary costs of supporting low consumer prices mainly for the urban population. Large subsidies have been paid by the government to the Marketing boards, millers and vegetable oil expressors in order to keep consumer prices down. This cheap food policy was abandoned in 1983, and since then consumer prices have been continuously adjusted upwards.

## 6.

## AFC AND AN OVERVIEW OF RURAL FINANCE

## 6.1 THE AGRICULTURAL FINANCE CORPORATION

The Agricultural Finance Corporation (AFC), established by an Act of Parliament in 1971 and wholly owned by the government, is currently the only financial institution which, in addition to its traditional large-scale commercial farm customers, provides credit to small farmers in communal areas. Since 1981, AFC has played an increasing role in small farmer lending through the ongoing World Bank assisted Small Farm Credit Project.

6.1.1 *Organization and Management*

AFC is a relatively well managed, specialized lending institution whose objective is to promote agriculture in Zimbabwe by making credit available to individuals, farmers' groups and cooperatives. Its Board, comprised of nine directors appointed by the Minister of Agriculture, determines the overall policy of the corporation. The General Manager, who is an appointee of the board approved by the Minister, is assisted by two Deputy-General Managers: one responsible for Finance and Administration and the other for Operations. Currently, there are eight Provincial Branch Offices and 15 District Offices with separate staff for large-scale and small-scale farm operations. District Inspectors who hold Diplomas in Agriculture, are responsible for the collection and appraisal

of loan applications and supervision of the field staff. Direct contact with the farmers and farmers' groups is maintained through Inspector Assistants and Credit Assistants who have approximately 8 to 10 years schooling. It has been decided to decentralize the loan recovery staff as well, who until recently have operated from the head office in Harare.

AFC's total staff has doubled from 375 in 1981 to nearly 800<sup>9</sup> in 1985; this was largely due to the fast expansion of the small farm credit project. While most of the senior staff are well trained and competent, the middle-level and junior staff operating in this field are less experienced, and their individual performance requires further improvement. Another critical area, in view of the decentralization efforts of AFC, is the recruitment of experienced Provincial Branch managers.

AFC gives high priority to further development of its organizational structure in order to improve its institutional performance. Main attention is given to:

- decentralization of accounting functions and staff;
- further development of AFC's branch system into decision-making and fully accountable centres;
- implementation of loan appraisal, supervision and recovery by the branch field staff;
- design and implementation of improved training programmes based on in-service training; and
- development of informal and formal liaison mechanisms with other institutions such as Agritex, Cooperative Unions, and Marketing Boards.

### 6.1.2 *Lending Operations*

The lending policies of AFC are embodied in a general

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(9) 498 field staff, out of which 352 are assigned to small-farm operations.



policy statement which stipulates the broad objectives of AFC lending, the purpose for which loans can be used, the eligibility criteria for loans and the financial policies to be followed.

Until 1979, AFC lent primarily to large-scale commercial farmers; only after Zimbabwe's Independence did it also begin to lend to communal farmers through the Small Farm Credit Scheme and the Resettlement Scheme.

Total loans granted by AFC increased sharply during 1980-85 from Z\$77 million to nearly Z\$165 million, as can be seen from Table 17.

TABLE 17

*AFC Lending Activities, 1980-85 (In Z\$ '000)*

	1980	1981	1982	1983	1984	1985
Loans granted:						
- Term lending	10142	14134	18201	16504	20143	22649
- Short-term	50383	72771	77411	82650	107863	121154
- Special schemes	16777	7900	6852	7206	9638	20996
	77302	94805	102464	106360	137644	164799
Growth rate of loans granted (%)		22.6	8.1	3.8	29.4	19.7
Loans budgeted		95609	144976	143553	162194	165581
Variation with loans granted (%)		0.8	29.3	25.9	15.1	0.5

Source: AFC information.

The annual growth rates of loans granted were low in 1982 and 1983 due to severe droughts but picked up again in 1984 and 1985 with an average growth rate of 25 percent. The proportion of short-term loans increased from 65 percent in 1980 to 78 percent in 1984, while it slightly decreased to 74 percent in 1985. Much of AFC's expansion in lending occurred in short-term loans under the Small Farm Credit Project which trebled in value between 1981 and 1984 - from Z\$10 million to



Z\$30 million. Although AFC's performance in loans granted versus loans budgeted has been quite good, especially with regard to the unforeseen droughts, loan disbursements versus loan approvals have deteriorated over the last three years, which could be an indication of input delivery problems.

Short-term credit constitutes the bulk of AFC's loan portfolio and is granted mainly for the purchase of seasonal inputs. These loans are repayable within two years and are usually secured by stop-orders on crop sales. Medium-term loans, which have a maturity of up to five years, are used to finance the purchase of farm machinery, implements, irrigation equipment and livestock. The largest share of medium-term loans is for the acquisition of farm implements; these loans are secured by a notorial bond over moveables and a reservation of charge of AFC on the items financed. Long-term loans are granted for a period of 5 to 15 years for investments in development and improvement of land and water resources, construction of farm buildings and for the purchase of breeding livestock. These loans are secured by mortgages redeemable in equal instalments. Generally, farmers' own contributions to term lending vary from 15 to 25 percent of the total investment. Borrowers over 65 years of age are required to subscribe to AFC's mortgage insurance scheme which provides for repayment of the loan up to Z\$150 000 in the event of the borrower's death.

Data on the average size of loan approvals specified by maturity and type of borrower are presented in Table 18. The average size of short-term loans for communal farmers rose in nominal terms by 36 percent (Z\$356 in 1981 to Z\$484 in 1984) while for large-scale commercial farmers the increase was 25 percent (Z\$ 5 320 to Z\$6 629 over the same period). For both groups, this implies a decline in real loan size. Only for the small-scale commercial farmers did the increase in loan size from Z\$1 084 in 1981 to Z\$2 600 in 1984 mean an improvement in real terms. Similarly, there was no increase in real terms in

the size of the medium-term loans for the three categories of farmers.

TABLE 18

*AFC Average Loan Sizes, 1981-1984 (In Z\$)*

	1981/82	1982/83	1983/84	1984/85
<i>Short-term loans</i>				
Communal farmers	356	337	439	484
Small-scale commercial farmers	1084	1415	1815	2600
Large-scale commercial farmers	5320	6585	6874	6629
<i>Medium-term loans</i>				
Communal farmers	364	441	718	411
Small-scale commercial farmers	4887	2740	4817	5704
Large-scale commercial farmers	30615	31502	33500	35596

Source: AFC information.

### 6.1.3 *Quality of Loan Portfolio*

AFC's status of outstanding loan portfolio and arrears for the period 1983-85 is presented in Table 19. It appears that the total arrears, consisting of principal and interest, increased by 183 percent: from Z\$23 million in 1983 to Z\$65.1 million in 1985. On 31 March 1985, the total outstanding loans totalled Z\$271.9 million including interest, while arrears constituted 24 percent of the loan portfolio. The effect of such a low recovery rate on the lending interest structure is that AFC would have to lend at 27 percent instead of at the current rate of 13 percent per annum in order to sustain the original value of the loan portfolio (see Table 20).

TABLE 19

*AFC Total Outstandings and Arrears (in million Z\$)*

	March 31, 1983			March 31, 1984			March 31, 1985		
	Outst.	Arrears	%	Outst.	Arrears	%	Outst.	Arrears	%
<i>Short-term Loans</i>									
- Communal farmers	12.8	2.8	21.9	22.2	9.0	40.9	34.1	13.3	39.0
- Small-scale commercial	4.6	1.8	39.1	8.4	3.8	45.2	13.3	4.9	36.8
- Resettlement	n.a.	n.a.	n.a.	6.9	1.9	27.5	11.2	5.0	44.6
- Large-scale commercial	70.7	8.8	12.4	106.5	23.6	22.2	110.4	27.0	24.5
Total short-term	88.1	13.4	15.2	144.0	38.3	26.6	169.0	50.2	29.7
<i>Medium/Long-term Loans</i>									
- Communal farmers	0.5	0.04	8.0	2.8	0.2	7.4	5.5	0.8	14.5
- Small-scale commercial	1.0	0.35	35.0	2.5	0.6	24.0	4.2	1.0	23.8
- Resettlement	n.a.	n.a.	n.a.	1.5	—	—	3.2	0.6	18.8
- Large-scale commercial	71.3	9.2	12.9	83.5	8.9	10.7	90.0	12.5	13.9
Total medium/long term	72.8	9.6	13.2	90.3	9.7	10.7	102.9	14.9	14.5
TOTAL LOANS	160.9	23.0	14.3	234.3	48.0	20.5	271.9	65.1	23.9

1) Arrears as percentage of total outstandings.

Source: AFC information and author's calculations.

Arrears on short-term loans quadrupled between 1983 and 1985, accounting for 30 percent of the outstanding short-term loan portfolio. It should be noted that relating arrears to outstandings understates the true position, as arrears should be related to amounts falling due with past dues brought forward. To date, however, AFC does not provide these data, and information is also lacking on the aging structure of the overdues and the subdivision of arrears by location, type of borrower, maturity and loan purpose. This makes it difficult for AFC to identify and subsequently to correct the underlying factors of the deteriorating loan portfolio.

TABLE 20

*Effects of Loan Recovery on Interest Rates (in million Z\$)*

	Recovery Rates			
	76%	85%	90%	95%
AFC Loan Portfolio	271.9	271.9	271.9	271.9
Loan Repayment	206.6	231.1	244.7	258.3
Interest Received <sup>1)</sup>	26.9	30.0	31.8	33.6
Accumulated value of loan portfolio	233.5	261.1	276.5	291.9
Real Value of loan portfolio <sup>2)</sup>	198.5	221.9	235.0	248.1
Funds required to sustain portfolio	73.4	50.0	36.9	23.8
Interest rate <sup>3)</sup>	27.0	18.4	13.6	8.8

1) Based on a lending interest rate of 13 percent p.a.

2) Assuming an annual inflation rate of 15 percent.

3) Required interest rate to sustain the portfolio at original value.

Source: World Bank Preparation Report, Rural Financial Services Project, May 1986.

Although a large part of the deterioration in AFC's loan portfolio can be ascribed to droughts in the period 1981/82-1983/84 which particularly afflicted the communal farmers, some more fundamental underlying factors can be distinguished. These include:

- Rapid expansion of lending to the small farmers which has stretched AFC's supervisory capacity;
- Problems experienced by small farmers in input supply and loopholes in the present marketing system. With the availability of alternative marketing channels, AFC borrowers find it convenient to circumvent the stop-order system administered by the Marketing Boards and thus to avoid deductions for loan repayments from crop sales receipts; and
- Ineffective AFC lending and loan collection strategies and procedures.

One unusual AFC lending policy is to allow a repayment period of two seasons for short-term agricultural loans. For example, farmers receive loans in kind for maize (which accounts for over 70 percent of AFC short-term loans), during

July-August before planting in September. However, they are not required to repay these loans before the end of December of the following year. This results in two production loans outstanding for a part of the second season, which increases exposure to defaulting. It is a common practice in most rural credit institutions to grant production loans for 9 to 12 months and to require loan repayment before disbursement of the next season's loan is made. Recently, AFC has instructed its field staff to strictly follow this practice; the result was a substantial increase in rejection of loan applications from communal farmers. Lending for maize in marginal areas has also been reduced in favour of more drought-resistant crops such as sorghum and cotton. AFC has also received Z\$25 million from the government for rescheduling the 1981/82 seasonal loan repayments, although only Z\$2.1 million of communal and resettlement farmers' loans were rescheduled versus Z\$5 million of large-scale commercial farmers'.

#### 6.1.4 *Small Farm Lending*

AFC credit operations to small farmers have expanded rapidly since the start of the Small Farm Credit Project and the Resettlement Scheme, as shown in Table 21. Currently, about 10 percent of all small farmers in Zimbabwe are covered by AFC. By comparing AFC small farmer clients with the number of small farmers who are registered with the Grain Marketing board (315 000 in 1985) and the Cotton Board (160 000), it can be seen that AFC finances at least one-fifth of the semi-commercial farmers, who, in addition to their home consumption requirements, produce a surplus for the market. According to a National Household Survey on communal land areas in 1983/84, AFC small farmer clients have larger farm sizes (2.6 ha compared with 1.8 ha for non-AFC clients). AFC credit is also granted predominantly to males (70 percent of the



AFC small farmer clients are male household heads, compared with only 46 percent for non-AFC clients).

TABLE 21

*AFC Credit to Small Farmers, 1979-1984*

Year	Communal Farmers		Small Commercial		Resettlement	
	Z\$ mln.	No. farmers	Z\$ mln.	No. farmers	Z\$ mln.	No. farmers
1979	0.6	2500	1.0	n.a.	—	—
1980	4.2	20000	3.1	n.a.	—	—
1981	10.1	35000	4.2	n.a.	0.4	900
1982	13.2	45000	4.4	n.a.	1.5	4170
1983	23.4	54000	5.4	n.a.	8.3	18000
1984	30.0	67000	8.6	2000	12.2	22500

Note: where necessary contradictory figures from different sources have been slightly adjusted.

Source: AFC Proposed 5-year Plan (1985/86-1989/90), 1st Draft, December 1984 and AFC Annual Reports.

Loans to small farmers, with the exception of the Silveira House groups, are extended on an individual basis, although AFC requires that farmers at least form groups in order to reduce the costs of contacting them and to facilitate bulk handling of inputs and produce. In view of the actual number of small farmer clients (100 000) and the projected annual increase of 10 000 communal farmers in AFC's 5-year plan, it is obvious that continuation of the present lending system to individual small farmers will become prohibitive because of the large increases required in field staff. For example, administrative lending costs as a proportion of the outstanding small farmer loan portfolio amounted to 16 percent in 1983/84 and to 12 percent in 1984/85. Development of viable group lending will therefore be indispensable in AFC's long-term lending strategy to small farmers.

Under the present lending system, AFC field staff arrange



meetings with the farmers well in advance of the lending season to explain AFC policies and procedures and to assist them in completing loan application forms, loan agreements and stop-order forms used for recovery of the loans through the Marketing Boards. AFC provides short-term loans for seasonal production requirements on a package basis and mostly in kind. When a loan application is approved, a buying-order is sent to the farmer and to the designated input supplier (either the input supply company or the cooperative union), while at the same time a stop-order is sent to the appropriate Marketing Board. Upon presentation of the buying order to the supplier, the farmer collects his inputs, and when he sells his crop to the Marketing Board or the cooperative union, the stop-order is executed and appropriate deductions for the loan are made.

All loans to small farmers are guaranteed by the government for a shortfall in administrative expenses and for non-repayment of the loans. This "no loss and no gain" basis of the small farm lending operations is quite unsatisfactory for AFC, as it denies financial viability in a fast growing sector which is expected to account for over 50 percent of AFC's loan portfolio in the early 1990s. A better alternative, in view of the relatively high administrative costs of small farm lending would be to allow AFC a reasonable margin by charging lower interest rates on funds it borrows from the government.

#### *6.1.5 AFC Financial Structure and Performance*

Trends in AFC's net worth and profitability are presented in Table 22.

TABLE 22

*Trends in Net Worth and Profitability, 1981-85 (in million Z\$)*

	1981	1982	1983	1984	1985
Total Assets	156.0	158.5	181.2	241.7	285.1
Total Liabilities	137.0	135.8	155.0	209.6	244.8
Net Worth:					
- Nominal	19.0	22.7	26.2	32.1	40.3
- Real <sup>1)</sup>	19.0	19.8	19.1	19.8	20.7
Net Income:					
- Nominal	2.7	3.6	3.5	5.9	6.2
- Real	2.7	3.1	2.6	3.6	3.2
Net Income as % of total assets	1.7	2.3	1.9	2.4	2.2

1) In constant 1981 prices.

Source: AFC information.

Between 1981 and 1985, AFC's net worth in nominal terms more than doubled, although in real terms the increase was only 9 percent. The real net income also increased by only 19 percent over the same period, while the profits were very modest when expressed as return to capital employed. Underlying AFC's modest profitability is the limited growth in lending operations to the large-scale commercial farmers, the major source of operational profits. As the government refunds AFC for deficits made on the Small Farm Credit Project and on other special schemes, the loan portfolio of these lending activities has not been a source of loss or profit for AFC.

Table 23 is a summary of AFC's annual balance sheets giving an insight into its financial structure.

TABLE 23

*AFC Annual Balance Sheets as of March 31 (in Z\$ '000)*

	1981	1982	1983	1984	1985
<i>Assets</i>					
Current Assets	719	3829	1746	2505	5240
Loans:					
– Short-term	81017	78179	96881	144040	169013
– Long-term	70542	72263	77291	90300	102941
Total loans	151559	150442	174172	234340	271954
Farm Properties	1031	1222	1175	594	1013
Fixed Assets	572	890	2026	2149	4744
Investments	2150	2150	2150	2150	2150
Total assets	156031	158533	181269	241738	285101
<i>Liabilities</i>					
Short-term:					
– Government	52046	39850	56403	102958	105601
– Other	14261	9018	11002	19127	15317
Long-term:					
– Government	57011	66551	70833	82517	121131
– Other	13695	20436	16785	5029	2713
Total liabilities	137013	135855	155023	209631	244762
Reserves	19018	22678	26246	32107	40339
Total liabilities and reserves	156031	158533	181269	241738	285101

Source: AFC audited financial accounts.

AFC liabilities are made up of short and long-term borrowings with its biggest creditor being the government of Zimbabwe, to whom in 1985 AFC owed nearly Z\$227 million or 93 percent of the total liabilities. The remainder consists of borrowings from domestic and external sources such as commercial banks, the World Bank, AfDB and KfW. The structure of AFC's liabilities typifies an institution which is highly geared and which has been increasingly relying on outside funds for its lending operations. This unstable financial situation could be rectified by converting part of the government long-term loans into share capital, as well as by accepting deposits from farmers and recycling these funds with a reasonable spread for agricultural and rural lending purposes. On

the other hand, these measures should not lead to a relaxation in AFC's financial discipline nor to a lower efficiency in lending operations.

AFC's loan portfolio accounts for approximately 95 percent of the total assets, with short-term loans as the most important lending category; their share in the total loans has increased from 53 percent in 1981 to 62 percent in 1985. The growth in short-term loans is largely attributable to the Small Farm Credit Project.

The annual income and expenditure statements of AFC over the period 1981-85 are presented in Table 24. Excluding refund of deficits by the government, but including extraordinary income, AFC's income increased from Z\$11.9 million in 1981 to Z\$29.3 million in 1985, implying a nominal increase of 146 percent over the whole period or an average annual growth rate of 25 percent. Total expenditures increased by 171 percent over the same period and amounted to Z\$26.9 million on 31 March 1985. The larger increase of expenditures can largely be ascribed to increased lending to small farmers which is characterized by high administrative costs. Still, as can be seen from the operating income, increasing costs were met by increasing income.

TABLE 24

*AFC Annual Income and Expenditure Statements (in Z\$ '000)*

	1981	1982	1983	1984	1985 (%)
<i>Income</i>					
Interest	9506	13873	17723	23199	28375 (97)
Fees and Commissions	—	—	—	706	870 (3)
Other <sup>1)</sup>	437	822	1090	(79)	86
Total	9943	14695	18813	23826	29331 (100)
<i>Expenditures</i>					
Administrative expenses	3031	4148	5817	6602	8325 (28)
Interest	5850	7970	10567	14291	17005 (58)
Bad debts	960	434	614	724	1153 (4)
Depreciation	87	135	380	331	375 (1)
Total	9928	12687	17378	21948	26858 (91)
Operating Income	15	2008	1435	1878	2473 (9)
Refund of Deficits <sup>2)</sup>	644	1652	2133	3983	3694
Extraordinary income <sup>3)</sup>	1994	—	—	—	—
Net Income	2653	3660	3568	5861	6167

1) These figures include fees and commissions for 1981-83.

2) Deficits incurred by AFC on the Small Farm Credit Project and resettlement credit schemes refunded by the government.

3) Profits arising from the sale of office premises.

Source: AFC audited financial statements.

The largest single expenditure item is the interest payable for borrowed funds which increased from Z\$5.9 million in 1981 to Z\$17 million in 1985, mainly due to a rapid growth in the volume of borrowed funds. The interest coverage, which is calculated by interest earned divided by interest paid, remained quite stable and averaged 1.66, a factor which could easily be doubled if cheaper funds became available. This would leave an adequate margin to cover the administrative expenses of AFC. Table 25 presents some relevant key financial indicators of AFC.



TABLE 25

*AFC Key Financial Indicators (Ratios)*

	1981	1982	1983	1984	1985
Net Worth/Total Assets (%)	12.20	14.30	14.50	13.30	14.10
Gearing (%) <sup>1)</sup>	78.80	79.30	76.90	73.20	75.40
Liquidity Ratio (times) <sup>2)</sup>	1.23	1.68	1.46	1.20	1.44
Net Income/Net Worth (%)	13.90	16.10	13.60	18.30	15.30
Net income/Total assets (%)	1.70	2.30	2.00	2.40	2.20
Interest Earned/Average Loans Granted (%)		9.20	10.90	11.40	11.20
Interest Paid/Average Borrowings (%)		5.80	7.30	7.80	7.50
Interest Spread (%)		3.40	3.60	3.60	3.70
Administrative expenses/ Average Loans Granted (%)		2.70	3.60	3.20	3.30
Total Provisions/Av. Loans (%)		0.40	0.60	0.50	0.60

1) Long-term liabilities divided by sum of long-term liabilities and net worth.

2) Sum of current assets and short-term loans divided by short-term liabilities.

Source: AFC audited financial accounts and author's calculations.

These financial indicators show a high gearing, a low liquidity, which according to common rules of thumb should be between 2 and 3, a low return to total capital and an interest spread which is insufficient to cover both administrative expenses and provisions for bad debts and depreciation while still leaving a net profit margin.

## 6.2 OVERVIEW OF RURAL FINANCE AND OPTIONS FOR DEVELOPMENT

With regard to the current limited accessibility of small farmers to financial services and the increased commercialization of the small farmer sector, an urgent need exists for the development of a viable rural financial system in the near future. The current problems faced by small farmers in cashing

or depositing payment cheques of marketing boards, has implications for AFC's loan recovery and also indicate the need for concerted rural financial services. The major tasks ahead to reach this long-term development goal are:

- the improvement and expansion of the rural financial services provided by AFC;
- a coordinated promotion and development of the various formal and informal farmers' groups which currently provide limited financial services to small farmers and linking these groups with AFC;
- an increased involvement of commercial banks in providing rural financial services to small farmers; and
- establishment of a specialized Rural Finance Unit in the Reserve Bank of Zimbabwe in order to plan, coordinate, guide, monitor and review the policies and operations of the rural financial sector.

There are good reasons for broadening AFC's current activities beyond the provision of agricultural credit to small farmers in communal and resettlement areas. AFC, with its wide branch network, is in a good position to provide financial services such as credit, deposits, check issuing and cashing, and loan guaranteeing to different types of rural clients. By offering rural deposit facilities, AFC's own resources will be strengthened, while the captured rural savings will be reused in local rural development instead of being siphoned off to urban areas. At the same time, linkage of rural savings and credit will improve AFC's small farmer loan portfolio by providing better information on the financial position of clients, thus improving loan appraisal and supervision.

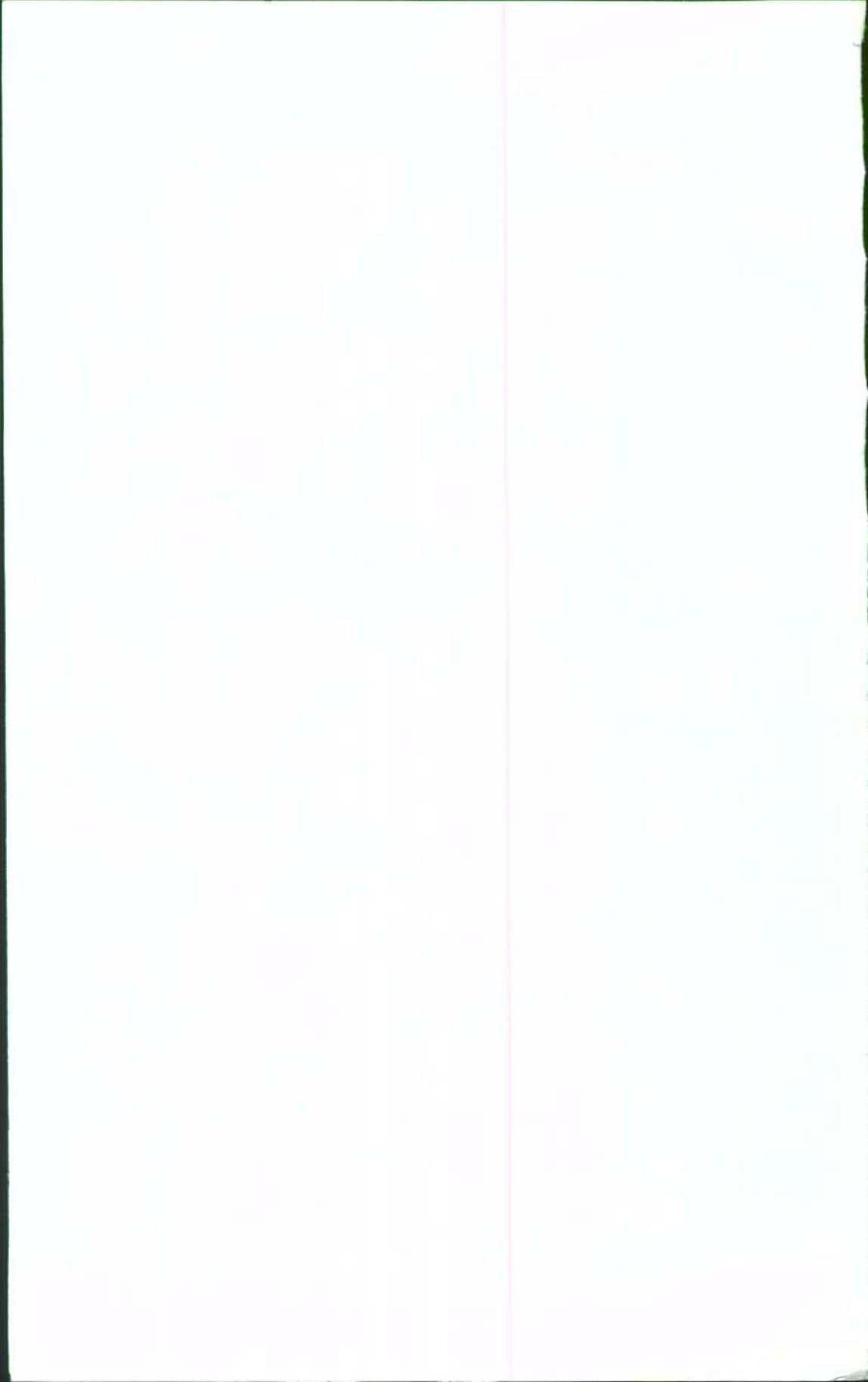
Development of a viable farmers' group lending strategy will need to be worked out in order to achieve AFC's ambitious target of servicing 10 000 new small farmer borrowers per annum. To provide financial services to small farmers efficiently and at a reasonable cost, AFC will need the collaboration of effective farmers' groups, including cooperatives and

savings and credit clubs. Existing cooperatives will need to be strengthened by improving their management and accounting capability, by organizing staff training and by providing sufficient working capital. Promotion and provision of training, technical and financial assistance to informal groups will have to be coordinated and implemented jointly by the various NGOs and AFC. Application of a group lending or a two-tier lending system will first need to be tried out with selected formal and informal groups. The groups will be responsible for the administration, supervision and recovery of the individual loans within the groups and for the repayment of the total credit to AFC.

Since the majority of the financial services are still oriented to the modern sector, until now the Reserve Bank of Zimbabwe, (RBZ) has not played an active role in the promotion of a rural financial sector for the small farmers in the country. At the same time, RBZ lacks the institutional set-up and tools for an active intervention in and supervision of this sector. Still, an urgent need exists to formulate a coherent rural financial sector policy, to coordinate the different government actions related to rural finance, to implement the rural finance policies and to monitor/evaluate the different policies and institutions which form part of the rural financial sector. An important aspect of such a rural financial sector policy will be the setting of an appropriate interest rate structure which provides to the involved institutions a sufficient interest spread between on-lended and borrowed funds in order to cover fully the relatively high administrative costs and the risks of small farmer lending operations. As the rural population increase their savings capacity, positive, real deposit rates will also have to be offered as an incentive.

August 1986







## Summary

The Agricultural Services Division of FAO and FINAFRICA have a long history of co-operation in the name of financial development for the benefit of the rural sector of the less developed countries.

Within this framework they decided to prepare a series of country profiles that should serve as a valuable document to African countries in assessing the strong and weak points of different types of efforts made in involving institutional finance in rural development. The profiles should therefore serve as a support material for policy assessment and formulation and for technical assistance.

The countries were chosen to cover a variety of situations and those included in this second volume are: Burkina Faso, Cameroon, Togo, Zambia and Zimbabwe. Kenya, Mali, Niger, Somalia and Zaire are considered in the first volume.

The analysis is drawn as much as possible according to a common conceptual scheme covering: main features of the economy; monetary policy and financial development; performance of financial institutions; rural credit outside financial institutions; infrastructure for rural development and agricultural pricing policies; key financial institution(s) and overview of rural finance.

Some conclusions applicable to the generality of the situations observed are included in the Preface of this volume along with the detailed scheme followed in the analysis.

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