

FINANCING SMALLHOLDER PRODUCTION:
A COMPARISON OF INDIVIDUAL AND GROUP CREDIT SCHEMES
IN ZIMBABWE

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Introduction

Financial institutions in Africa have found production credit for small farmers to be an expensive and unprofitable venture. Detractors of smallholder lending have been led to declare it "neither warranted nor generally possible" (Howse, 1974, 259.)

By contrast, near universal support has been given to group credit -- a method of extending loans to associations of farmers rather than to individuals -- as a potential organizational solution. Leading authorities have claimed that "group approaches may be an economic necessity in organizing credit systems" (Lele, 1975, 97; see also Uphoff, 1984, 68) and that indigenous village organizations as channels for delivering credit . . . deserve consideration and study." (Miller, 1977, 86.) The World Bank concedes that "the best prospects, in the future, will lie in some form of group responsibility for individual borrowings" (World Bank, 1975b, 49.)

The purpose of this paper is to examine the role of farmer organization in the mobilization and administration of agricultural finance. We show that, in the communal lands of Zimbabwe, farmer groups facilitate savings and access to institutional credit. We also demonstrate that terms of joint liability are the most effective in reducing administrative costs and recovering loans. The Commission of Inquiry into the Agricultural Industry in Zimbabwe has recommended that "loans in the communal areas (should) be made normally to groups" (Chavunduka, 1982, 155; see also Whitsun Foundation, 1980a, 85.) This paper provides evidence to unequivocally endorse this view.

Sources of Credit

Credit for peasant farmers in Zimbabwe originates in the main from the Small Farm Credit Scheme of the Agricultural Finance Corporation (AFC), a government-sponsored national agricultural bank. The program was launched in 1978/79 by the Muzorewa government in a bid to build rural political support in the waning days of Zimbabwe-Rhodesia. It was expanded substantially after 1980 by the independence government of Robert Mugabe with financial assistance from the International Development Association of the World Bank. In 1983, the AFC made loans to peasant farmers totalling \$23.4m, about 90% of which was to purchase seasonal inputs. The average seasonal loan was approximately \$250 per farmer, enough for example to grow two hectares of maize or one and a half hectares of cotton (AFC, Statements of Loan Account, 1984.) The AFC is the dominant force in institutional credit in Zimbabwe, providing 58% of all loans in the areas surveyed in a study of farmers organizations in the 1981/82 season (Bratton, 1984,) and an even higher proportion in other parts of the country and later years (see Table 6.1.)

The active non-government (n.g.o.) sector in Zimbabwe channels small amounts of finance to peasant farmers, in this case 33% of

all seasonal loans in 1981/82. Unlike the AFC, which is charged with serving the country as a whole, n.g.o.'s are local in scope. Loans are distributed through projects targetted at specific villages or farmer groups in particular regions. In 1982, for example, Silveira House disbursed \$93,000 in its "pump-priming revolving loan fund" in Mashonaland, all of it to purchase seasonal inputs (Silveira House, 1983, 89.) The average loan was \$41 which, taken together with a farmer deposit, was enough for one acre of maize. The Silveira House scheme is clearly more modest, reaching fewer farmers with a smaller credit package than the AFC scheme.

Despite differences in scale of operation, there are basic similarities in the way that government and non-government credit agencies approach the peasant sector. Farmers always receive their loans in kind, in the form of "crop packs" of seed, fertilizer and chemicals. The AFC will also finance tractor ploughing and, on occasion, hired labor for cotton and tobacco growers. N.g.o. credit regularly includes the cost of transport services to deliver inputs to the farm. In both cases, the credit agencies are faced with farmers who lack tangible assets, for example a freehold title to land, that can be held in security against a loan. As a result, loans are guaranteed by a lien on the farmer's crop, administered in Zimbabwe in the form of a "stop order" on payment by a marketing board. When the board receives the crop, it first pays the lender in full before releasing any proceeds to the farmer.

Otherwise, government and n.g.o. institutions have a distinct orientation which determines who each serves. The AFC is charged by government to supply finance to execute national policies of urban food security and agricultural production for export. As in the commercial sector, the thrust of the AFC loan program towards the small farmer is to boost the output and sale of marketable crops. Selection criteria for credit users are clear and tight. Only farmers who are resident full-time in a rural area are eligible. The main considerations are the technical and economic viability of the farmer's proposed cropping program and his or her "integrity and ability" (AFC, 1984, 4; Nyengirai, 1984, 5.) In order to be included in the AFC loan program, a farmer must have the skills and experience to reap a return on an investment in new crop inputs. The AFC deploys its own field staff to screen farmers for loans. The policy of accepting only those deemed to be a sound risk means that farmers with the highest yields, highest crop sales, or a record of repayment in an established credit scheme are given preference. By definition, these are the biggest and best farmers.

The n.g.o.'s have more liberal lending policies. They aim not only to maximize output but also at educational and welfare goals. The Silveira House revolving loan fund, for example, was first established in 1970 "primarily to help the needy, [that is those without enough cash]" (Reid, 1982, 15.) The focus is on the farm family and agricultural credit is regarded as a means to

improve the nutrition and incomes of its members. Eligibility for a loan does not necessarily depend on the possession of proven farm management skills but on agreement to undergo training in financial discipline (including record and book-keeping) and to follow recommended practices during the cropping season. Farmer groups are entrusted to make the selection of eligible users from among their own number. Households that are beginning the transition from subsistence to market production often find that n.g.o.'s are the only available source of official financial support. The proportion of women receiving loans as head of households, or in their own right, is higher with Silveira House than with AFC.

N.g.o.'s nonetheless generally resist establishing themselves as permanent financial institutions. Not only do n.g.o.'s lack the resources, but they are generally committed philosophically to bridging their clients over to self-reliance at the earliest opportunity. The aim is to "prime the pump" for a few seasons in order to enable the household to accumulate its own resources to purchase seasonal and capital requirements. Indeed, as of 1983, Silveira House decided to phase out the revolving credit fund in order to concentrate on the formation of producer cooperatives and credit unions (Silveira House., 1984, 70.)

The source of credit varies markedly among the communal areas surveyed. The vast majority of loans in Guruve (88%) originate from the AFC with only a handful (5%) from the non-government Commission for Social Services and Development (see Table 6.1.). The pattern is reversed in Wedza where Mt. St. Mary's Mission administers most loans (71%) and the AFC deals only with a slim stratum of experienced farmers (23%..) Where both government and non-government sources are available, farmers are in a position to compare the strengths and weaknesses of each. In Wedza in 1983, more farmers favored AFC credit (30%) than presently had it. The reason most frequently given was that AFC, unlike the mission, did not ask farmers to pay a deposit towards the cost of inputs. The farmers either overlooked the fact that AFC charged interest whereas the mission loan was interest-free, or preferred to pay interest at the time of loan recovery as opposed to a deposit "up front." The probable reason is that farmers have cash in the pocket in September, when they are paid for the crop, but have exhausted their cash reserves by the following June when deposits are due. Farmers also felt that the mission loan limitation of one acre of maize per farmer was unnecessarily restrictive and welcomed the AFC's willingness to finance more ambitious cropping programs. Those who favored the non-governmental scheme (58%) did not usually refer to the terms of the loan. Instead they mentioned the timely delivery of inputs and the availability of transport to market. These are part of the mission's integrated program of support services, of which the provision of credit was only a part.

It is notable that commercial bankers, local traders and professional moneylenders play almost no role in financing peasant agriculture in Zimbabwe. In no district did any

respondent say that money or goods were borrowed from a bank or store, though in Wedza fertilizer was available on credit direct from a city manufacturer. Nor is there much evidence of organized moneylending by middlemen of the kind prevalent in West Africa or South Asia (Miller, 1977, 11 ; Tapsoba, 1981.) Only one farmer in the survey claimed to have a line of credit at a local store, which happened to be owned by his uncle. A rural trader from Chinyika remarked: "Loans are a very limited aspect of [my] business. I only extend [credit] to a few farmers with a very good agricultural record." (Majuru, 1984, 2.) As will be shown later, funds for input purchases do flow among family members and relatives, but rarely in the form that farmers identified as a "loan," that is, with a specified repayment date or interest rate. In Zimbabwe, only a few farmers (9%) report formal "loans" from sources within the extended family, though in Gutu, where institutional credit is scarce, this practice is much more common (40%) than elsewhere (see Table 6.1.)

Use of Credit

As in other parts of Africa, institutional credit in Zimbabwe is not directed principally at the smallholder (Lele, 1975, 81). After five years of independence the lion's share of agricultural finance -- 73% of AFC loan funds in 1983 -- was still consumed by the large scale commercial farmer (see Table 6.2.) Long-term loans for the purchase and improvements of Land are only available to this sector and medium-term loans to communal farmers for draft power, fencing and agricultural machinery are too scarce to meet demand. (Chavunduka, 1982, 150.)

The provision of agricultural finance to peasants has a recent history in Zimbabwe. Between 1964 and 1978 the Agricultural Loan Fund (ALF) gave loans through a network of newly-established cooperative societies (Whitsun Foundation, 1977; Chester, 1976; Chavunduka, 1982, 152.) A serious effort to finance smallholder production was only begun, however, after the Agricultural Finance Corporation assumed control of lending to the peasant sector. Whereas in 1979 communal area farmers received less than 2% of total loan funds, by 1983 their share had jumped to 17% (see Table 6.2.) In terms of numbers of loans, this represents 69% of the transactions entered into by the AFC. In short, since independence there has been a marked shift in government credit policy toward the smallholder without, at the same time, seriously impairing the access of the large commercial producers.

Despite the redirection of credit facilities, the household survey data from three communal areas in Zimbabwe indicates that loan money remains hard to come by. In 1981/82, fewer than one in five smallholders (18%) had a loan from an institutional credit scheme (see Table 6.3.) Most official loan money is extended for crop production and is most readily available in the well-watered parts of the country. Availability of loans declines with rainfall. A farmer on Guruve is ten times more likely to receive a seasonal loan than a counterpart in Gutu. Financial institutions in Zimbabwe, both governmental and non-governmental,

concentrate their investments in natural regions of high agricultural potential and low risk of crop failure.

In actuality, the proportion of survey respondents with a loan is well above the national average due to the unusual characteristics of two of the survey districts. Guruve, especially Chipuriro on the plateau, has reliable rainfall, deep red clay soils and warm temperatures. Even during the droughts of the early 1980's, small farmers regularly produced plentiful surpluses of maize and cotton. The bankers of the AFC have therefore provided Guruve with relatively generous credit facilities to the point where 31% of farm households receive a seasonal loan. Wedza is atypical in another sense. From 1966, the Catholic mission at Rusunzwi ran a package program for maize in which fertilizer and seed were provided on credit. Farmers gradually gained experience in the management of loans and arrangements were made for those with a good repayment record to graduate from the mission into the national AFC loan program. At the time of the survey, 19% participated in a credit scheme. Guruve and Wedza are therefore better endowed with financial services than other peasant agricultural areas of Zimbabwe. Of the districts surveyed, Gutu, where only 3% of farmers have loans, has the most nationally representative credit rating. The norm is that only one out of every twenty farm families (5%) has access to seasonal credit.

Small farmers who secure a seasonal loan are likely to become repeat users of credit rather than gaining an independent capacity to finance farm operations. Three out of four households (72%) who take a loan in one season continue the practice in the following season (see Table 6.3.) For AFC clients, the second loan is invariably larger, permitting the application of recommended levels of fertilizer to extended acreages. Repetitive use of credit is most common in Guruve (90%), probably because of the relative abundance of loan funds and the reliable production and repayment record of most farmers there. It is lowest in Wedza (53%) perhaps because the use of cash for input purchases is widespread, or because farmers in Wedza can choose from several credit schemes, some of which are expanding and attracting first-time users.

Because of the limited spread of institutional credit, the demand by peasant farmers for loan funds is not being met. Hopeful applicants are regularly turned away from the annual AFC loan application meetings held during April at rural service centers throughout the country. Even after drought years, non-governmental loan schemes that require a farmer deposit are fully subscribed, despite the financial hardship entailed for the household.

In 1983, exactly half (50%) of all farmers interviewed said that they would like to have a loan in the season to come (see Table 6.3.) Current loanees were much more likely to express interest (91%) than those without a loan (41%). This suggests that the experience of using credit has generally been a favorable one.

Even after a season of drought, debt had not risen to a point where credit users had become discouraged and wished to withdraw. Perhaps credit users harbor the reasonable expectation that debts will be rescheduled or even cancelled if only they wait long enough. Interestingly, the level of demand for seasonal credit, especially among non-users, is almost identical in every natural region, including those least hospitable to crop production.

Given erratic seasonal rainfall, enrollment in a credit scheme exposes producers to high levels of risk. For this reason many small farmers justifiably regard borrowing money from a financial institution with scepticism and suspicion. The other side of the coin of unmet demand for credit among some farmers is the refusal among others to expose themselves to risk. A broad stratum of farmers, again exactly half of the total (50%) expresses no interest in borrowing money to purchase farm inputs. The reasons given are instructive (see table 6.3.) All are variations on the same theme, that is, fear of debt. Some farmers (38%) state this explicitly, often using an identical phraseology: "I am afraid I will fail to repay." As one Gutu farmer lamented, "Everything I earn from selling maize goes to my children's school fees!" A similar response was heard from a farmer group secretary in Guruve: "Even when we sell forty bags there is not enough left of the check to feed the children. It seems like we are working for other people and not for our families. We say 'no' to finance!"

The root cause is the low rate of return on the existing technical packages under the conditions faced by peasant farmers, a problem which credit availability alone cannot alleviate.

Although the basic theme is fear of debt, the farmers explanation is sometimes indirect. It may be couched in terms of the farmer's own physical infirmity (13%) or the shortage of good land (10%.) Asked an elderly cultivator in Gutu, pointing to a barren stretch of sandveld: "How can a field like this produce enough to pay back a loan?" Only a minority (14%) give what might be regarded as a positive reason for shunning credit, that is, that they prefer to use their own cash (see Table 6.3.)

Use of Savings

Without credit, farmers must pay the full price for farm inputs before the agricultural season begins. In Zimbabwe's peasant sector, large amounts of household savings are mobilized to cover the cost of modern methods of farming. There are substantial flows of capital along informal channels into and within the peasant household. Indeed more cash is mobilized informally for input purchases in Zimbabwe than is distributed by formal institutions. By conservative estimate, between two and three times as much money is available in an average year from personal sources than from official credit schemes. As in other parts of Africa, smallholders have a greater capacity to generate savings than is commonly assumed (Adams, 1978; von Pischke, 1981.)

One theme of this study is the thorough integration of peasant producers in Zimbabwe into the cash economy. Almost all small farmers (86%) commit savings to purchase seed, fertilizer or chemicals (see Table 6.4.) The use of cash is most common in Wedza (92%), perhaps due to the proximity of the area to the capital city and its high rate of male labour migration. But even in other places, like Guruve where credit is plentiful (83%), or Gutu which is far from a major urban centre (82%), the overwhelming majority of households also invest personal savings into agricultural production. The "average" amount of cash mobilized by each household in 1981/82 was \$50 in Gutu, \$57 in Wedza and \$129 in Guruve, although the range of disposable incomes available for input purchases is very wide in each district. With steady increases in input prices, especially for fertilizer, these amounts will have since risen.

Where do these savings come from? When asked, farmers gave the following answers, in order of priority (see Table 6.4.): First, money for input purchases (50%) is raised from the sale of agricultural produce, usually in the preceding season. Most of this cash comes from price-controlled crops sold through official marketing channels, although some income does derive from garden crops peddled in local markets. In all areas of the country, crop sales are the largest source of savings for input purchases. Peasant farmers in Zimbabwe are clearly willing to "plough back" into agriculture part of the proceeds of present production. The importance of sales, however, should not be overstated. A "seasonality" effect is suspected in the data. The survey questions concerned the 1981/82 agricultural season, that is, the season following the bumper harvest of 1980/81 in which peasants earned record incomes from selling maize.

Following drought seasons - - or even normal seasons - - agricultural sales fall and remissions from urban wage earners become a more commonly used source of cash for input purchases.

Remissions from relatives in town make an important secondary contribution even when the rains are good. Almost one-third (29%) of households rely on absent wage earners to provide the wherewithal to purchase inputs, though this overall figure is skewed downwards by the unusually low level of remissions to the self-sufficient farmers of Guruve (12%.) Working relatives either send money home or, more commonly, purchase input items in town at low prices. As the rains approach, husbands or relatives arrive for a visit home carrying a bag of seed or fertilizer or a piece of farm equipment.

The contribution of wage remissions to the household budget as a whole is even more substantial. We have not considered the use of this type of income on household expenditures on food, clothing, passenger transport or education, but only expenditures on seasonal agricultural inputs. The proportion of rural households that depend on urban wages for social and consumption spending is almost certainly higher than the one in three reported here (Bonnievie, 1983)

The remainder of savings for agriculture come from casual wage labor (21%), often on a neighbor's farm, or from craft sales, artisan work or beer-brewing (18%.) Local sources of off-farm income, especially in areas that are marginal for crops, play an important supporting role in the commercialization of peasant production (Truscott, 1983.)

The use of personal savings does not depend on whether the household has a loan from a credit scheme. There is no discernible difference in the frequency of cash purchases of inputs between credit users (84%) and non-users (87%) (see Table 6.4.) In other words, agricultural credit only partially meets and does not eliminate the need for households to raise their own resources. Farmers tend to simultaneously follow a variety of farm management practices on different household plots, with some plots set aside for the application of input packages provided on credit. Other plots are reserved for the inputs that the household assembles from sources of its own, while still other plots are cultivated entirely without benefit of purchased inputs. Only in exceptional cases will farmers receive enough credit to apply uniformly high levels of inputs to all plots. This is further indication of the generally limited spread of credit services in that loan recipients can rarely borrow enough to cover the cost of all the inputs they use.

Whether farmers use credit or cash clearly determines whether they are able to purchase and apply inputs at recommended levels. For example, the maize fertilizer package promoted by the national extension service in Wedza calls for five bags of fertilizer per acre: a basal dressing of 3 x 50kg bags of compound fertilizer, plus a top dressing of 2 x 50kg bags of nitrogen. Fewer than one in ten farmers (9%) actually purchases and applies this package! (Bratton and Truscott, 1985, 1.) The great majority (83%) buy smaller amounts of fertilizer (53%) or no fertilizer at all (30%.) There is a close relationship, however, between adoption of the recommended package and the use of credit. Most of those who follow the recommendation (76%) are credit users, whereas most of those who depart from the recommendation (74%) use cash alone. The implication is clear. The recommended fertilizer package is not usable by small farmers in the absence of credit. The chances of wide diffusion are negligible because institutional credit will always be in short supply. When farmers invest their own resources, they cut back to smaller and cheaper input packages. These packages have the potential to diffuse widely, by tapping into the substantial informal flows of savings that originate, enter, and circulate in the communal lands.

Research elsewhere in Africa leads us to expect that formal credit will be channelled to classes in rural society who have wealth, power and prestige (Eicher and Baker, 1982, 199.) A predictable finding emerges from the data in Zimbabwe that the social distribution of small farm loans is uneven. Credit is concentrated in the hands of farmers who have the largest reserves of cash. In every district in Zimbabwe, credit users

invest more personal resources into input purchases than do non-users. In Guruve in 1981/82 they used almost four times as much cash (\$264 versus \$69) and in Gutu nearly five times as much (204 versus \$44) (see Table 6.5.) In short, small farmer credit in Zimbabwe does not reach the most needy. Indeed, credit helps to widen the gap between poor and wealthy farmers. When credit and savings are added together and total expenditures on crop inputs compared, the credit users in Guruve and Gutu are seen to enjoy at least seven times as much in seasonal capital resources as non-users (e.g. \$482 versus \$69.)

The question arises as to why credit is more evenly distributed in Wedza than in other districts and why the disequalizing effect is less severe there than elsewhere. We already know that more farmers take loans from the mission than from the AFC. One plausible hypothesis is that non-government credit schemes are more likely to serve poor farmers than government schemes. The Wedza data lend support to this hypothesis, though the case is not compelling. In 1981/82, the "average" Wedza farmer put \$57 from his own pocket towards input purchases compared with \$67 for mission credit users and \$94 for AFC credit users. We conclude that both types of scheme concentrate on the wealthier farmers but that the bias is less marked for the n.g.o. than for the government credit scheme.

Groups and Savings

This paper is part of a broader study of small farmer organization. Therefore the main issue of interest is the effect of organization among farmers on the mobilization of agricultural finance. In particular, we want to evaluate the effectiveness of group methods of credit administration in Zimbabwe. Before turning to this topic, a few words must first be said about the role of farmer groups in organizing rural savings. The literature on this subject is fairly comprehensive (Smith and Dock, 1982; Arnold, 1982; Chimedza, 1984) so the review here will be short. But because credit is scarce and because farmers fear debt, rural savings are clearly the major source from which future production must be financed.

There is evidence to suggest that group farmers are better able than individuals to raise cash for crop production through informal, non-institutional channels. The reason is not that group farmers (90%) are significantly more likely than individuals (84%) to commit their own cash to seasonal input purchases (see Table 6.6.) Nor do they spend significantly more on inputs (\$119) than individuals (\$110.) In fact, the behavior of group and individual farmers is virtually identical in terms of the use of cash. Only in multipurpose groups (Type D) do farmers rely on cash more frequently than normal. Perhaps, as will be shown, they lack consistent access to institutional credit over several seasons (for a classification of farmer groups see Bratton, 1984, 7.)

Rather, the distinctive role of group organization is to provide a framework for the accumulation of rural savings. Oddly, when we first asked farmers about where they obtained cash for input purchases, nobody mentioned savings as a source. When we re-visited farmers in Wedza in 1984 we therefore made sure to probe into this subject. The habit of saving for planned agricultural purchases is beginning to catch on among Wedza farmers with almost one-half (48%) reporting that they regularly, at least once a month, set aside money to buy fertilizer.

Significantly, group farmers (51%) are much more likely than individuals (28%) to engage in regular savings (see Table 6.6.) Group farmers may have caught the savings habit as clients of the extension service, whose message emphasizes the need to plan ahead for improved agriculture. It is noteworthy, however, that group members tend to save alone in the privacy of the household, rather than pooling with others in a joint-savings account. The bonds of group organization apparently do not bind members tightly enough that leaders are automatically entrusted with the safekeeping of money. Unlike other parts of the country such as Manicaland and Mashonaland West, the farmers of Mashonaland East have yet to take with gusto to the idea of savings clubs. Yet once procedures are taught for record keeping and banking, farmers do respond. A campaign to promote savings clubs in Wedza raised the proportion of farmers who belong from 2% to 9% between 1982 and 1984 (Bratton and Truscott, 1984, 2.) Without exception, all the Wedza farmers who save together with others are members of pre-existing farmer groups who have added savings as a supplement to other group activities (see Table 6.6.)

Precisely how does group organization help members mobilize cash? There are basically two formal structures, each with its own procedures. For those who wish to save with others there are savings clubs and for those who wish to save alone there are cash groups.

A feature of savings clubs is the common desire of members to save money as an alternative to the use of agricultural credit. The members, overwhelmingly women, commit themselves to meet weekly and deposit small amounts of cash, usually ten or twenty cents. Each member sticks stamps into her savings book according to the amount of the deposit and the treasurer keeps a central record. The consolidated club fund is banked in an interest-bearing account of the nearest branch office of a financial institution. In Maungwe District, Manicaland, during the 1982 drought, 920 farmers in 34 clubs accumulated savings of \$14,400 (Chimedza, 1984, 53.) Savings are not spent solely on production inputs but also for consumption and ceremonial purposes such as clothing, funerals and weddings. The group discourages the whimsical dissipation of savings by asking members to explain the purpose of each withdrawal. While they cannot ultimately refuse a member access to her own funds, the group encourages frugal budgeting, for example by setting savings targets to cover major household investments. Between July and October, each member or the group as a whole withdraws a lump sum

to buy fertilizer and seed. If a bulk order is made, two members go to the post office or building society to draw a check in favor of the supplier. In most cases, members obtain input items without outside financial help, but "after a bad season, some of us have to go back to relatives or to credit" (Kumboedza Guzha club, Zwimba.)

Cash groups are more loosely organized than savings clubs. Cash groups include men, often a majority, and meetings are limited to two or three per year. They may even assemble spontaneously when other avenues of input procurement, for example through credit, become closed or oversubscribed. All accumulation is done within the individual household without shared targets or organized rules of savings and budgeting. After the harvest is in, the chairman calls a meeting of farmers in the area "to see what money we have for ordering fertilizer" (Dombwe cash group, Mangwende.) The group compiles a bulk order with each participating household pledging to pay for a given proportion of the inputs. The chairman or secretary then contacts the local fertilizer company representative or, if none is available, travels to town to place the order. Payment is made at this time or at some later date before the despatch of the goods. In the past, the group used to pay the local fertilizer representative directly, but this is no longer possible because of banditry in the communal lands. The members gather again on the appointed delivery day, to participate in unloading the delivery truck. The group then disperses and, in the loosest of cash groups, may not subsequently meet until inputs are needed again in the following year. One chairman claimed that, after taking credit for three years beginning in 1976, his group was now completely weaned: "we are now buying cash and have no need to go back [to credit], even in this bad year" (Nyachowe Group, Zwimba.)

Groups and Credit

Achieving access to finance from an institutional credit agency is more difficult for peasant farmers than getting any other agricultural service. In Zimbabwe, technical advice is widespread but credit is highly concentrated. An interesting enquiry is whether farmers organizations can provide a gateway to scarce services as they do for relatively abundant ones, like extension. One test of the effectiveness of an organization is whether it can secure goods and services for its members even when these are in short supply.

The answer in Zimbabwe is clear. Membership of farmers organizations goes together with access to credit. Far more group members (32%) use credit than individuals (7%) (see Table 6.7.) Only in Guruve are farmers (24%) able to obtain credit in their own right as independent plottolders. This is because the AFC started credit early in Guruve at a time when group lending had yet to receive serious consideration in government circles and because, in any event, group organization is relatively weak in Guruve. Everywhere else the association between groups and credit is almost perfect. Individual credit users are an

extremely rare species (1%) compared with users in groups in both Gutu (7%) and Wedza (31%).

It therefore appears that, in Zimbabwe, the surest way for a small farmer to obtain loan funds is to join a group whose members are clients of a credit agency. Indeed, when farmers were asked why they joined, the most frequent answer -- after collective labor (39%) -- was "to get credit" (26%). Farmers obviously seek material advantage from group membership and seasonal loans are a powerful incentive to cooperation. In some cases, especially in Guruve, farmers join with others simply to be recognized for AFC financing though the "group" formed in this manner may exist in name only and for no other common purpose. More often, especially in Wedza, credit is one activity among many within groups first organized for labor or marketing. Even in these groups, through choice or circumstance, not all members will participate and the credit users form a subset within the group.

Certain types of group offer better prospects for credit access than others. Since credit goes to the better-off farmers it is not surprising that access is best in the marketing (Type C) (38% multipurpose groups (Type D) (46%) where these farmers congregate (see Table 6.7.)

The causal role of group organization can be tested by examining the time sequence of access to credit. If farmers have credit before joining we can conclude that group organization plays no part in loan access. If, however, credit follows after group membership we are on stronger ground in imputing an organizational effect. The data indicate that the great majority (84%) of group credit-users first receive a loan in the year they join or in a later year. We can therefore infer that groups form an organizational gateway through which farmers pass en route to the adoption of credit.

Once initiated into formal capital markets, farmers in groups (17%) are also more likely than individuals (5%) to be repeat users of credit (see Table 6.7.) Market group (Type C) farmers are most likely to secure credit on a regular basis, whereas formative producer cooperatives (Type D) have difficulty in doing so with members fluctuating back and forth annually between credit schemes and hastily assembled cash groups. The overall relationship of repetitive use is not as strong as with one-time use, which can be interpreted as further evidence that group membership helps farmers get access to loan funds for the first time. Since repetitive use is lowest in Wedza where n.g.o.'s are active, it might also be taken to mean that n.g.o. schemes, being dependent on repayment into a revolving fund, are unstable and prone to collapse when large number of subscribers default. This is exactly what happened when n.g.o. schemes in Zimbabwe found themselves without money to lend after the disastrous drought of 1982/83. Since farmers are attracted to groups by the promise of credit, the collapse of small schemes can actually undermine organization-building at the grassroots. The AFC,

however, has the institutional resources to adjust loan repayment schedules and tide defaulters over until better times. In 1983, AFC began to reschedule short-term loans over two to five year repayment periods depending on the farmer's position and his prospects of future success.

Farmers in groups also evidently feel more confident in facing risk, perhaps because a group offers a supportive environment for producing and marketing a crop. Of farmers who plan to take a chance on borrowing in the future, group members (62%) again stand significantly apart from individuals (40%) (see Table 6.7.)

The fact that group organization and credit use are closely associated is less dramatic than at first apparent since it results from policy as much as from probability. All credit agencies in Zimbabwe take advantage of the existence of voluntary organizations for the administration of small loans. For example, n.g.o.'s lend exclusively to groups and never (0%) to individuals (see Table 6.7.) Silveira House has adopted this policy to encourage "the development of strong cooperatives" which it perceives as "a socially desirable objective" (Reid, 1982, 2.) The AFC policy is more diverse, with service offered to both kinds of farmer. Although AFC is the main source of credit for individuals (76%), it also engages in lending to group members, in some cases through an experimental group lending scheme launched after independence.

There is a clear pattern in the different types of farmer group favored by different agencies. AFC works most regularly with members of extension (Type A) and market groups (Type C.) The connection with extension groups is explicable by the loyalty of government extension workers who naturally encourage farmers to work with the government credit agency. -Indeed, extension group members completely shun n.g.o. credit (0%), perhaps because they are encouraged to do so by government extension staff jealous of n.g.o. rivalry. The market group connection dates back to the pre-independence period when government credit was distributed through marketing cooperatives. By contrast, most n.g.o. loans go to members of labor groups (Type B) and multipurpose groups (Type D.) The probable reason here is that n.g.o. extension programs promote collective labor and reward with credit those farmers who engage in it.

Individual and Joint Liability

From the standpoint of a financial institution, there appear to be distinct advantages to doing business with groups rather than with individuals. At minimum the processes of farmer selection and input delivery can be streamlined. More significantly, the cost of loan administration can be reduced if a single loan can be granted to a group as a corporate entity. At best, where joint liability is accepted, credit institutions can be relieved of some of the risk of loan recovery and the burden shifted onto organizations of the farmers themselves.

Although all credit agencies in Zimbabwe have financial relations with farmer groups, a group policy is more integral to the operations of some schemes than others. Three levels of group involvement can be distinguished according to the degree of responsibility for loan administration that is devolved by the agency to its clients. It should be noted, however, that in Zimbabwe farmers determine which level of involvement best suits their own group by subscribing to the scheme of their choice.

First there is the individual liability approach, best illustrated by the loans extended to individual farmers under the AFC Small Farm Credit Scheme. Since the AFC field inspectorate cannot physically identify all potential loanees on an individual basis, farmers are reached through the medium of farmer group committees. Contact is made with the chairmen of farmer groups who assemble their members at loan application meetings. For ease of administration, applications are accepted at one time only and the chairman may be asked to help appraise individuals whose reputation is not known to the AFC field officer. Although there is no formal requirement of group membership, the AFC spreads information about credit through the local organizational network and therefore tends to attract group members. The AFC still takes the farming record of the individual as the prime determinant of eligibility. Experience has shown, however, that even in loosely knit groups, members encourage and reinforce one another in the use of improved crop management practices, thus raising yields and loan repayment rates. In practice, long-standing members of durable groups are favored in the AFC individual lending scheme and loanees are asked to inform the company if they leave or change groups. This is the most limited level of group involvement in loan administration. Even though groups assist in the identification of reliable farmers, loans are made to and recovered from individuals. Liability for repayment rests with the one farmer alone whose name appears on the AFC loan register.

The second level of group involvement is voluntary joint liability. A good illustration in Zimbabwe is the revolving loan fund administered by Silveira House (SH) in Mashonaland between 1970 and 1983. This program promotes a closer connection between the use of credit and other activities. For SH the strength of the group rather than the farming record of the individual member is the criterion for loan eligibility. As with AFC, loans are made and accounted for on an individual basis but, unlike AFC, SH will not lend to a farmer who cannot prove membership of an active group. Indeed, the leadership committee of the group is asked to nominate recipients for credit. Furthermore, SH gives "group awareness" training at a residential course and in the field to instill cohesiveness, discipline and motivation. Emphasis is placed on mutual aid and collective responsibility, for example, as one mission official put it "seeing the neighbor's field as being as important as your own." The aim is for group members to do all agricultural operations in concert on the plots where credit scheme inputs are applied. Even so, not all may reap an equally successful

harvest and when produce is sold, some members may be unable to pay. In the event, the proceeds from the crops of other group members are not withheld to cover the debt. Instead, members bring social pressure on one another in the knowledge that, without full repayment, all will lose eligibility for future loans. In practice, this leads debtors to raise cash for repayment from non-agricultural sources. In extreme cases, other group members will opt to cover the debts of delinquent colleagues as a means of retaining group eligibility. The effectiveness of voluntary group liability therefore depends heavily on the cohesiveness of the farmer group itself.

The third and final level of group credit is mandatory joint liability. As a result of negotiations between credit agencies in 1980, the AFC agreed to enrol just over 100 proven Silveira House groups for short-term loans. Each farmer was given the full amount for two hectares of maize, an average of \$290 per farmer in 1980, or roughly ten times the amount extended from the revolving loan fund (Silveira House, 1982, 71.) These farmers formed the nucleus of a separate group lending program within the AFC Small Farm Credit scheme which, by 1984 and despite the drought, expanded to cover 500 groups (Nyengorai, 1984, 3.) The distinguishing feature of this approach is "joint and several" liability. Responsibility for loan administration and repayment rests with the group as a whole. Group leaders divide up the loan among members and do all internal accounting on a form provided by AFC. Members are also expected to sell produce to the Grain Marketing Board or Cotton Marketing Board under one group name and registration number. Repayment for all members is channeled to the AFC by means of a stop order on the group account. Group members therefore have no choice about covering the debts of fellow farmers who fail to market enough, but do so automatically as collective guarantors of the group loan. Mandatory group liability is the approach to credit administration that demands the most of each group member and imposes the severest survival test on farmer organization.

Credit Schemes Compared

Credit schemes incur two basic types of expense. First there is the cost of delinquency and default on loan repayment. Farmers fail to repay for several reasons: the recommended technology is not inherently profitable, or credit and ancillary services arrive late, or the farmers themselves regard the loan as a free gift from government. A high rate of default is also linked to "overly ambitious expansion of credit facilities with inadequate follow up by the . . . authority responsible for collection." (Lele, 1975, 97)

The second cost is the administrative overheads which arise when staff, buildings and transport are deployed in the task of extending loans to a large number of small farmers every season. Administrative costs are usually lowest for long-term loans to small farmers (World Bank, 1975a, 145.) As one authority has noted, "neither government nor private credit institutions have yet found a way to make loans of a size needed by small farmers on an individual basis and at the same time keep administrative costs under control." (Miller, 1977, 74.)

Because of the political appeal of cheap credit, financial institutions in Africa have generally been reluctant to charge an economic interest rate. There is evidence that farmers are willing to pay a realistic price for borrowed money over short periods, providing they receive financial input and marketing services on time (Miller, 1977, 25.) Nonetheless, subsidized interest rates have been the rule. Few credit schemes have been designed to fully cover the costs of default and administration. In Zimbabwe, the Silveira House scheme was operated on an interest-free basis until 1982 when a nominal 5% charge was introduced. International donors covered administrative overheads and made regular infusions of capital into the revolving loan fund. As for AFC, concessional interest rates for new borrowers (starting at 9% and rising each year) were negotiated as part of the agreement with the World Bank. According to one estimate, the interest rates charged by AFC by 1983 (13%) covered the cost of either loan default or loan administration, but not both (Reynolds, 1984, 3.) Under these circumstances, every loan extended to a small farmer represents a depletion of the capital stock of the lending institution. To expand a credit program, or simply to maintain it, the institution must seek replenishment of loan funds from a government or donor.

In theory at least, group lending on terms of joint liability promises to reduce the rates of default and loan administration. Too often, however, the supposed advantages of group lending are asserted as an article of faith, without supporting empirical evidence from operational programs. It is therefore valuable to compare the performance of individual and group lending schemes where these have operated side by side in Zimbabwe.

The most commonly cited advantage of group lending is that it cuts the unit cost of loan administration. A single loan made to a collectivity of farmers reduces overheads in direct proportion to the number of farmers in the group. In Zimbabwe, estimates of administrative costs in peasant sector credit schemes are difficult to come by. One estimate for the AFC small farm credit scheme is for administrative overheads of up to 11% of loan capital (Reynolds, 1984, 3.) This may be a conservative estimate given that AFC has embarked on a major decentralization initiative to serve the peasant sector with added expense incurred for new buildings, transport and staff. It also ignores the cost of stop-order processing absorbed by the marketing boards. Non-government credit agencies with small staffs, low salaries and modest headquarters, might be expected to be more cost effective than a public corporation. But because they operate with tiny amounts of loan capital, n.g.o.'s cannot achieve economies of scale. In 1983 Silveira House devoted about one-half of staff time to administering its own revolving fund and incurred an overhead rate for that scheme of about 12% (personal communication, Mr. L. Ndiemera, Director, Agriculture Department, SH.)

Substantial savings are achieved only when several farmers are administered on one loan account as with the AFC group lending scheme. In 1983 an average group loan reached 20 farmers, with group size ranging from 4 to 172 farmers (AFC, Group Lending Scheme, Loan Register, 1983.) The administrative burden is not borne entirely by AFC because Silveira House continues to recruit, train, advise - - and in some cases do the bookkeeping for - - groups promoted to the group lending scheme. Even if AFC costs are estimated to double without this support, the administrative overhead of true group lending remains at a mere 1% of capital loaned. This rate compares favorably with the overhead involved in lending to large-scale commercial farmers in Zimbabwe. In theory, joint liability benefits groups by encouraging leadership committees to develop skills and procedures for financial control. Indeed group lending can only function smoothly if group leaders learn to keep careful records of loans and repayments for each member. In practice, few farmer groups in Zimbabwe are entirely self-reliant in this regard. The continued need for paid accounting services represents a hidden cost of the otherwise cost-effective group lending approach. The main point, however, is that remarkable economies are available in Zimbabwe to the credit agency that adopts a "joint and several liability" approach.

Let us now turn to the question of delinquency and default which has received less attention in the literature as a realm in which group lending has potential advantages. The story of smallholder credit recovery in Zimbabwe is a mixed one, though by no means as unhappy as elsewhere in Africa (Chavunduka, 1982, 152.) Before independence, the African Loan Fund achieved an average annual recovery rate of less than fifty percent on short-term seasonal loans. Its staff were poorly trained and debt recovery through cooperatives seriously damaged the reputation among farmers of the cooperative movement. A private sector lending organization, the African Loan Development Trust (ALDT), exercised stricter credit control and was able to achieve an average 91% rate of current recoveries each year in the period 1968-1978. The revolving fund program of Silveira House was equally successful at its inception with an average annual rate of 87% over the same period. In both cases the credit agency was dealing with a small number of carefully chosen clients and exercising close management supervision.

In the analysis of loan recovery rates, much depends on the reliability of data. It is therefore worth explaining how repayment figures are derived for this study of the post-independence period. Our first effort was to question each respondent in the 1983 survey about the loan repayment record of the household. Because answers often appeared evasive, understandably so at a time of drought and debt, we readministered the same questions as a cross-check to a subsample of the same households in Wedza in 1984. Consistent answers from one year to the next were obtained only 77% of the time, with some farmers denying loans that they had previously admitted to having. However many credentials and assurances of confidentiality

were offered, many farmers evidently thought that the interviewers represented, or reported to, a credit agency.

We therefore could not in this case place confidence in the interview method and an alternative had to be devised. Objective records on repayment were gathered from loan account statements on file with AFC and Silveira House. A common measure of current recovery was used, namely the percentage of funds in an institution's loan portfolio repaid by a given date. The date chosen was 30 September each year by which time eighteen-month loans issued in April of the previous year fell due. Produce marketing is normally complete by this date if revenue from crop sales are to be used to finance inputs for the next season. Areas of the country were selected where the three types of loan scheme with distinct liability arrangements -- AFC individual, AFC group, Silveira House group -- were simultaneously in operation over three seasons from 1980/81 to 1982/83. The aim of the research design is to control as far as possible for regional and seasonal influences, so that repayment rates for the three types of lending schemes can be compared in isolation.

In all, four peasant farming areas in Zimbabwe enjoy the co-existence of individual and group liability credit schemes -- Mangwende, Goromonzi, Mhondoro and Ngezi/Sanyati. Regardless of season and type of scheme, repayment rates are generally highest in Mangwende, a high-rainfall maize production area, and lowest in Ngezi/Sanyati, a more marginal area best suited to cotton production.

A full list of current recovery rates is given in Table 6.8. It is immediately apparent that, due both to drought and the rapid expansion of credit in the early 1980's overall repayment levels are lower than the pre-independence schemes which were successful. Final recovery rates will be marginally higher than the proportions reported here. Payment of loans in arrears (that is, between the due date and the writing off of bad debts) are not included. Due to the re-scheduling of debts, many arrears accounts were still open at the time of analysis. Late payment of arrears, however, is unlikely to alter the relative standing of the different types of lending schemes reported below.

The main finding is that, under most conditions, joint liability is a more reliable organizational arrangement for loan recovery than individual liability. In 1980/81 and 1981/82, the farmers who took loans from a group lending scheme were more likely to pay off current loan obligations. The advantage of group lending holds true regardless of whether the joint liability terms are voluntary (as with the Silveira House revolving credit funds) or mandatory (as in the AFC group lending scheme.) In both cases, and in both years, the recovery rates are significantly higher for group lending (on average 72% and 85%) respectively than individual lending (54%) (see Table 6.8.)

The superior loan recovery record of the group approaches can be traced to several factors. First, the selection of credit recipients is done by group members themselves who are in the best position to assess the character and ability of their neighbors. Group farmers are unlikely to enter into a joint liability arrangement with individuals they know to be lazy or untrustworthy. Said one group chairman: "when people join they have to agree to repay; we are wary of the laggards who can only promise [but not perform]." (Nyachowe group, Zwimba.) Second, the group provides a mechanism to monitor the performance of individual plottolders throughout the agricultural season. Members who fall behind in their cropping program, say by failing to weed on time, can be reprimanded, advised, or even assisted by the group. Finally, the group enforces collectively acceptable behavior at the time that loans are due. In the best organized groups, the chairman consults the written records and advises each member how much he or she must market to cover the loan obligation. Plans may be laid to transport the crop in bulk, an arrangement which reduces the opportunity for illegal marketing. If not enough crops are sold to pay off the loan by means of stop-order, then the group will urge or help the farmer concerned to raise cash. Both AFC and SH officials report that, throughout the year, farmers trickle in to credit agency offices with small unsolicited payments. One savings club committee in Gutu apparently tells its members "to use their savings to pay off fertilizer debts." (Kuzibatira group, Gutu.) Another group claimed that "since we have a poultry and vegetable project for all members of the group, we have a way to get cash to pay off loans." (Nhedzewa Mupukwa group, Wedza.)

Two qualifications are required to the general finding that group methods are more effective at loan recovery. The first regards the weather. The rainfall regime in Zimbabwe is highly variable, and was never more so than in the first years of independence. Bountiful rains fell in 1980/81 and a bumper harvest was enjoyed; 1981/82 was drier than normal and crops were damaged, but not destroyed. The following year, 1982/83, saw a disastrous nationwide drought with the lowest annual rainfall ever recorded in Zimbabwe. It is clear from the data that loan recoveries are generally related to the prevailing natural conditions. Loan recoveries were appallingly low in 1982/83. Strikingly, we find however, that the standing of different credit schemes is reversed in this year of devastating drought. Recovery rates for AFC (28%) individuals significantly outstrip the group approaches (18% and 9%) (see Table 6.7.)

Group lending therefore appears viable under "normal" conditions, but counterproductive when farmers are exposed to extreme environmental stress. The logic of individual action in different organizational settings supports this view. Individuals will struggle to repay even when they are stringently deprived in order to maintain individual eligibility for credit. By contrast, farmers with joint liability loans have little incentive to pay their share unless they expect other group members to do the same.

Take the example of voluntary joint liability. An individual is bound by the group to repay his own loan only if the group has a realistic chance of maintaining access to credit in the following season. When a natural disaster causes widespread crop failure, it becomes common knowledge that most members will default. Under these circumstances, even the farmer who can repay is likely to withhold, since he knows that the group will forfeit credit eligibility anyway. He has nothing to gain from payment. He may even lose if the credit agency later decides to write off loans due to circumstances beyond the farmers' control. As one field worker observed in Wedza in early 1983: "the farmers know there will be no credit from the mission next season so they are not keen to repay now. Anyway, they think that if they sell a crop they will not be considered for drought relief."

Mandatory group liability imposes an even stronger incentive to evade repayment. In this organizational setting the conscientious client is penalized, not only to the extent of his personal obligation, but for his full surplus which is appropriated to cover the debts of others. If the group loan is not fully paid in one year, the good farmer may even find that crop proceeds are also seized in the following year to pay for a group debt now in arrears! It is not surprising, therefore, that when the crops fail, farmers turn to unofficial markets if they are lucky enough to have something to sell.

The second qualification concerns the relative merits of the voluntary and mandatory approaches to joint liability. The data indicate an interaction effect with the weather which obscures any clearcut and consistent advantage of one approach over the other. The results can be summarized as follows: in a very good season, mandatory joint liability leads to higher rates of loan recovery. In a very poor season, the advantage lies with a voluntary approach. In seasons that are closer to "normal", for example 1981/82, there is no significant difference in repayment rates between the two approaches.

The explanation for these results is straightforward. If farmers must accept joint liability they would rather do so under a freely-imposed contract than under a bureaucratic regulation. The group stop-order, which makes some farmers automatically responsible for the debts of others, is an indiscriminate device for loan recovery that takes no account of changes in the farmers' circumstances from season to season. It also treats farmers in a paternalistic fashion by removing the right to make certain decisions about their own financial affairs. A group stop order works best in a good season when all farmers have the means to repay and least incentive to evade. As the seasons worsen, it becomes burdensome to the farmer and perceived as an unwanted condition imposed by a coercive external agency. Whether they like it or not, farmers are forced to act as their "brothers' keepers." Under these circumstances, a voluntary approach begins to look more attractive. The risk of a bad season is shared with the institution rather than being borne entirely by the farmer. Farmers have the flexibility to weigh

the cost of assuming group debts against the benefit of retaining access to credit. Members can arrive at individual decisions, and be stimulated to group actions, that best suit circumstances at the time. They are less likely to turn to unofficial marketing channels and more likely to retain a long-term relationship of goodwill with the credit agency.

In Zimbabwe, certain drawbacks to mandatory group liability have become apparent. Groups have sometimes been promoted into the group lending scheme of the AFC without full explanation to members of their exposure to heavier obligation. In other groups, repayments have been incomplete, a situation of internal debt has arisen. In mid-1982, over one quarter of groups in the AFC group lending scheme had an internal debt problem (Reid, 1982, 3.) In Goromonzi, the policy was to pay members with the funds available from crop sales and hence the debts of delinquents came to be owed to fellow members. In Mangwende, a tougher tack was taken with total crop proceeds withheld from all group members in an effort to get delinquents to pay. Farmers received the proceeds from crop sales extremely late, in some cases up to a year after delivery to market.

Whatever the method, the end result is the same, namely, to weaken the organization of farmer groups. The farmer groups promoted by SH into the AFC were initially selected from among the strongest in the country, a background which in part accounts for their outstanding performance in a good season. But the cohesiveness of these groups has not been sufficient to protect them against the disruptive effects of mandatory joint liability. While no groups have actually broken up many have experienced desertion by older members. Some group leaders in Mangwende have approached the courts as the only method of forcing settlement of internal debts. Strict screening procedures have been introduced at AFC to identify and "blacklist" farmers who abandon a bad debt with a group and reapply under their own name in the individual liability scheme. The promise of credit has led to the over-rapid expansion of group numbers with new members admitted who lack long-standing commitment to the group as an entity. Large new groups are noticeably more susceptible to internal faction and default than smaller, well-established ones.

Under voluntary arrangements individuals can choose the extent to which they stand for the group as a whole. Unlike the officials of a distant credit agency, group members have intimate knowledge of the circumstances of every farmer. Group members know if a farmer has been absent in town during the cropping season or spend time at the beerhall instead of the fields. They can refuse to bail such an individual out of debt and insist that he raise cash elsewhere. If a household has suffered an unforeseen setback, then the group can gather round and cover payment as a community welfare service.

Above all, the problem is presented to the group for solution and not arbitrarily decided by institutional regulation. There is evidence to suggest that farmers will not shirk responsibilities voluntarily placed on their own shoulders. In an experimental scheme in Wedza in 1983/84, group farmers repaid 75% of current one-acre maize loans of their own volition. In this case, after an average season, farmers chose to pay group leaders, who in turn reported with the funds to a local credit office, entirely without the compulsion of an automatic deduction. Voluntary mechanisms can therefore enhance the ability and confidence of people to run community affairs and are in this regard "developmental." Whereas mandatory joint liability can lead to the disintegration of groups, a voluntary approach is likely to contribute to the building of local institutions.

A Policy of Group Lending

We are now in a position to make a final evaluation. Which of the three models is most appropriate for smallholder lending in Zimbabwe?

From the credit agency's point of view, and on economic grounds alone, the mandatory joint liability approach is indisputably the most effective. This becomes clear when total costs (administration plus default) are compared with total returns (repayments plus interest) (see Table 6.8.) Only in the AFC group lending scheme do annual payments by farmers begin to cover total annual costs. Under all schemes in Zimbabwe the capital stock available for lending is depleted each year. But in the AFC group scheme the annual loss is not severe (5%) especially in the light of alternative approaches.

Lending to individual smallholders in Zimbabwe, by contrast, is clearly not a viable proposition. The AFC individual scheme loses half (50%) of its capital stock each year! This startling fact refers only to a season within the normal range of climatic variability in Zimbabwe and excludes the exceptional season of disastrous drought. The conclusion is inescapable that the AFC individual lending scheme is a drain on the national treasury. There can be no justification for the present AFC policy of directing 99% of smallholder loans and 80% of smallholder loan money to individual farmers.

The remaining question is whether voluntary joint liability has anything to offer as a component of a credit policy. The method has patent economic shortcomings - - 37% annual capital depletion in Zimbabwe - - that derive from high overheads and low interest rates. There is no alternative but to make loans to groups rather than individuals and to charge farmers a market rate for borrowed money. In other words, the way to make a voluntary approach more viable is to adopt terms that resemble mandatory joint liability. The conclusion reached here is that both government and n.g.o.'s should review the terms of peasant sector lending and devise means to responsibly expand AFC group lending model.

At the same time, a concerted effort must be made to mitigate the serious external effects associated with mandatory joint liability. We have argued here that stringent credit terms can undermine organization-building at the local level. Farmer groups perform many important development functions -- diffusion of agricultural innovations, labor and draft mobilization, market access -- that should not be sacrificed for the administrative convenience of a central financial institution.

Instead, the AFC group lending scheme should be expanded slowly, with admission limited to groups of proven cohesiveness and skill. One reason that the AFC group lending scheme has performed well is because its first recruits were the cream of organized smallholders in Zimbabwe. All had received an apprenticeship in group awareness and credit use in the SH revolving fund scheme and many continue to receive managerial support. As all SH groups pass into AFC ranks, the opportunities to locate model clients will rapidly diminish. Farmers who lack group cohesion and who are not well versed about joint liability will not achieve a good repayment record. Training of staff and farmers in community organization, the legal implications of "joint and several" contracts, and financial management is presently the biggest obstacle to the expansion of the AFC group lending scheme.

Who, then, should do this training? The most experienced practitioners in promoting farmer groups are indigenous non-government organizations. The Silveira House Leadership center and the Savings Development Movement, among others, should be contracted to train a cadre of trainers from among the AFC staff. The training should aim to nurture a strong leadership within groups that is capable of honest and efficient loan administration. As much emphasis should be given to group philosophy as to the mechanics of money lending. A joint liability approach can ultimately flourish only if group members come to choose of their own accord to stand for one another. It takes only one farmer's dishonesty or one season of bad drought to shake the foundations of a group based on joint liability. The record established by the AFC group lending scheme is commendable, but without attention to the preparation of staff and clients, it may prove to be ephemeral.

As a complement to the expansion of group lending, AFC should suspend all lending on an individual liability basis. Instead, as an interim measure, and as a step in training, voluntary joint liability terms should be adopted. Loans to individuals should only be granted to farmers in groups who can demonstrate a shared purpose beyond a common desire for financial assistance. Training in the methods and advantages of collective production and marketing should be begun at this stage. The keystone to this approach is the condition that repayment by all group members is required before any individual is again eligible for credit. Together, these measures should be sufficient to raise the AFC repayment record appreciably and facilitate a gradual

Table 6.1 Zimbabwe, Sources of Seasonal Credit, by District

Percentage of Loans	Wedza	Gutu	Guruve	Overall
Government (AFC)	23%	40%	88%***	58%
Non-government organization	71%***	0%	5%	33%
Fertilizer companies	6%	0%	0%	2%
Trader/moneylender	0%	20%	0%	1%
Extended family	0%	40%	7%	6%

*** p = <.001

Table 6.2 Zimbabwe, Loans Granted by the Agricultural Finance Corporation, 1979-1984

Year	Large Scale Commercial	Small Scale Commercial	Communal Land	Resettlement
1979/80	No. 2233 (34%) \$ 75.6m (98%)	No. 4348 (66%) \$ 1.6m (2%)		-
1980/81	No. 2526 (11%) \$ 86.9m (92%)	No. 3333 (14%) \$ 3.1m (3%)	No. 18,000 (75%) \$ 4.8m (5%)	-
1981/82	No. 2103 (6%) \$ 88.8m (86%)	No. 3650 (10%) \$ 4.2m (4%)	No. 30,150 (82%) \$ 10.1m (10%)	No. 926 (2%) \$ 0.4m (0.5%)
1982/83	No. 1745 (4%) \$ 87.2m (73%)	No. 2929 (6%) \$ 4.4m (4%)	No. 38,912 (81%) \$ 13.2m (12%)	No. 4173 (9%) \$ 1.5m (1%)
1983/84	No. 1332 (2%) \$ 102.2 m (73%)	No. 2539 (4%) \$ 5.9m (4%)	No. 50,036 (69%) \$ 23.4m (17%)	No. 18,277 (25%) \$ 8.5m (6%)

Source: personal communication, A.C. Nyengerai, Deputy General Manager (Farm Operations) AFC.

Table 6.3 Zimbabwe, Use of Seasonal Credit by Peasant Farmers, by District

Percentage of Households	Wedza	Gutu	Guruve	Overall
<u>Have a Loan</u> (1)	19%	3%	31%***	18%
Have loan for 2 consecutive seasons (2)	10% (53%)	2% (66%)	28% (90%)	13% (72%)
<u>Want a Loan in Future</u>	48%	46%	57%	50%
Have a Loan	88%	100%	98%	90%***
Have No Loan	41%	44%	39%	41%
<u>Don't Want a Loan in Future</u>	52%	54%	43%	50%
Reason Given: (n=280)				
Fear Debt				38%
Prefer Cash				14%
Too old/too sick				13%
Expect drought				12%
No land/poor land				10%
Lack knowledge				8%
Other				5%

1. Gutu and Guruve 1981/82; Wedza 1982/83

2. Gutu and Guruve 1981/82-1982/83; Wedza 1982/83-1983/84

*** p = <.001

Table 6.4 Use of Savings for Input Purchases

Percentage of Households	Wedza	Gutu	Guruve	Overall
<u>Use Own Cash to Purchase Inputs</u>	92%	82%	83%	86%
Have a Loan	86%	60%	86%	84%
Have No Loan	93%	83%	82%	87%
<u>Do Not Purchase Inputs</u>	5%	18%	7%	10%
<u>Sources of Cash</u>				
Sale of agricultural produce	49%	44%	70%	50%
Remissions from town	41%	33%	12%	29%
Local wage labor	19%	24%	26%	21%
Other	26%	15%	12%	18%

Table 6.5 Total Expenditure on Inputs, Credit Users and Non-Users

Amount per Household (Z\$)	Wedza	Gutu	Guruve
<u>Credit Users</u>			
Average Amount of Loan ¹	\$126	\$117	\$218
Average Amount of Cash	<u>83</u>	<u>204</u>	<u>264</u>
Total Expenditure on Inputs	209	321	482
<u>Non-Credit Users</u>			
Average Amount of Loan ¹	0	0	0
Average Amount of Cash	<u>50</u>	<u>44</u>	<u>69</u>
Total Expenditure on Inputs	50	44	69

1. excluding interest on loan and transport of crop to market.

Table 6.6 Use of Savings, Individual and Group Farmers, 1981/82

Percentage of Households	Individual	Group	Type of Farmer Group			
			Type A	Type B	Type C	Type D
Use Own Cash to Purchase Inputs	84%	90%	85%	93%	81%	98%*
Do Not Purchase Inputs	15%	4%***	3%	11%	0%	0%
Engage in Regular Saving	28%	15%**	n.r.	n.r.	n.r.	n.r.
Save Alone	28%	38%				
Save with Others	0%	13%*				
Amount per Household (Z\$)						
Amount Cash Used ¹	\$110	\$119	\$98	\$80	\$178	\$134

Notes: 1. 1981/82 season
n.r. = not reported because subsample size too small for valid comparison (Wedza only, n=86.)

*** p = .001

* p = .05

Table 6.7 Use of Seasonal Credit, Individual and Group Farmers

	Individual	Group	Type of Farmer Group			
			Type A	Type B	Type C	Type D
Percentage of Households (n= 464)						
<u>Have a Loan</u>	7%	32% ^{***}	26%	21%	38%	46%
Have a Loan for two Consecutive Seasons	5%	17% ^{**}	21%	11%	23% ^{***}	17%
<u>Want a Loan</u>	40%	62% ^{***}	56%	48%	71%	81%
Percentage of Loans (n=82)						
<u>Source of Loan</u>						
Government (AFC)	76% ^{**}	52%	78% ^{***}	44%	67% ^{***}	36%
N.g.o.	0%	42% ^{**}	0%	56% ^{***}	23%	64% ^{***}
Company	6%	2%	0%	0%	5%	0%
Other	18%	5%	22%	0%	5%	0%

*** P = .001

** P = .01

Table 6.8

Current Loan Recoveries, Individual and Group Lending, 1980-1983

AREA	1980-81			1981-82			1982-83		
	AFC Indiv.	SH Group	AFC Group	AFC Indiv.	SH Group	AFC Group	AFC Indiv.	SH Group	AFC Group
Mangwende	55%	74%	95% ^e	87%	86%	84%	36%	19%	8%
Goromonzi ^a	25% ^b	78%	94%	48%	77%	97%	28%	23%	16%
Mhondoro	n.d.	71% ^d	79%	71%	51%	64%	36%	20%	5%
Ngezi/Sanyati	66% ^c	59%	80%	30%	48%	36%	18%	8%	2%
Overall	53%	72%	92%	54%	71%	78%	28%	18%	9%

Notes: n.d. no data available

a includes Chinamhora, Chikwaka, Msana, Seki

b Msana only

c Sanyati only

d Mhondoro Central only

e at December 31, 1981

Sources: Agricultural Finance Corporation, Statements of Loan Account (at Sept. 30.)

Silveira House, Loan Repayments Summary (at September 30.)

Table 6.9 Total Annual Costs, Individual and Group Lending Schemes

	AFC Individual	SH Group	AFC Group
<u>Terms</u>	Individual Liability	Voluntary Group Liability	Mandatory Group Liability
<u>Costs</u>			
Administration (per farmer, 1983)	11%	12%	1%
Default (normal seasons, 1980-82)	46%	28%	15%
<u>Total Cost, annual</u>	56%	40%	16%
<u>Interest</u>			
Interest charged	13%	5%	13%
Interest recovered (on repayments)	6%	3%	11%
<u>Capital Depletion, annual</u> (in nominal terms, net of inflation)	50%	37%	5%

transition to a more demanding joint liability structure.

Conclusion

We have shown in this paper that farmers organizations in Zimbabwe's communal areas contribute to the mobilization of agricultural finance. On one hand, group organization helps to aggregate the supply of savings from small rural households and direct it to production. On the other, groups help farmers to aggregate demand for credit and open up channels of access to financial services. Finally, we have demonstrated the cost effectiveness of group lending and argued for the expansion of these approaches as a matter of policy.

In the formulation of any agricultural policy, the preferences and initiatives of the producers must be respected. Over the short term, institutional rules to mold farmer behavior may be enforced in the absence of support from below. In the long term, however, farmers must devise rules and impose them on themselves if permanent rural institutions are to be built with a capacity for sustained development. The experience of Zimbabwe shows that rural savings can be mobilized and loan capital recovered when active, popular organizations are encouraged to grow in the countryside.

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