ZIMBABWE'S AGRICULTURAL REVOLUTION REVISITED

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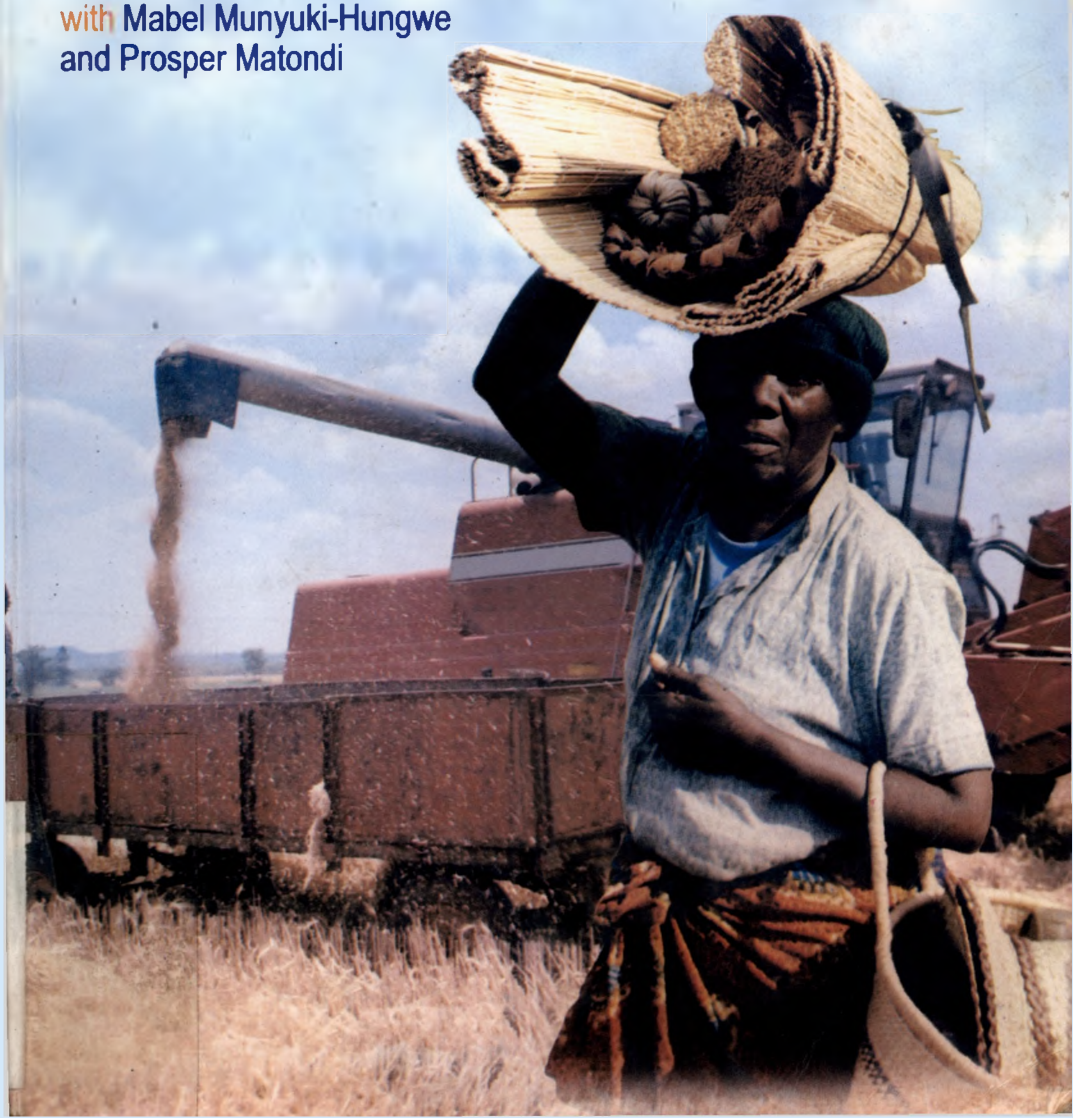

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Large-scale farmers benefited from Agricultural Finance Corporation loans for mechanization

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Agricultural finance: 1990–2004

Naison Zumbika

The first and second agricultural revolutions in Zimbabwe were made possible by a vibrant agricultural financing sector (Chimedza, 1994). In chapter 14, Chimedza reviewed the historical aspects of agricultural financing. Agricultural formal lending peaked in 1986 when the Agricultural Finance Corporation (AFC) extended roughly 100,000 loans to smallholders but after that the number of loans fell sharply. This coincided with an increase in maize, cotton and sunflower production and an improvement in beef marketing in the smallholder sector. However, the slump in the provision of finance called for a number of reforms in the Agricultural Finance Corporation and the broadening of agricultural finance to include rural savings mobilization. Such policy proposals are now even more relevant given the escalation in the demand for agricultural finance following the land reform programme. In the period between the 2000 and 2003, the government was still focusing on the land redistribution exercise and so little attention was given to the financing of the agricultural sector except for some intermittent and unstructured grants channelled by government through the Grain Marketing Board and Agricultural and Rural Development Authority for these institutions to secure some agricultural inputs for farmers in the years 2001, 2002 and 2003.

With over 130,000 A1 and A2 farmers and over 71,000 farming families in the old resettlement schemes and at least 2 million farming households in the communal areas, the demand for both working capital and financing of inputs is a challenge as government moves to resuscitate the agricultural sector. In the immediate situation, government seems to be inclined to support A2, indigenous large-scale and state parastatals to venture into large-scale agricultural projects through equipment recapitalization and infrastructural re-establishment. There is, however, a need to rethink the strategies for agricultural finance in view of the experiences of the first and second agricultural revolutions.

Chimedza focused on the successful Agricultural Finance Corporation smallholder credit scheme from 1980 to 1989. This chapter analyzes the changes in agricultural finance from 1990 to 2004. Special attention will be paid to government sources of agricultural finance that have been handled by government institutions and commercial banks. It is critical to examine the efficacy of agricultural finance disbursed through such commercial banks and at times through agro-processors. The chapter then examines the agricultural finance that originated from the private institutions and the conditions under which such financing can be made more efficient and sustainable. Lastly the chapter discusses the various policy options for financing agriculture, given that it is the finance available that will ultimately determine the success or failure of the land and agrarian reforms.

Background

Historically, large-scale commercial farmers were the major beneficiaries of most of the formal agricultural credit facilities in the agricultural sector. Formal financial institutions and successive colonial governments traditionally supported the predominantly white sector and neglected black rural led enterprises. This bias resulted in a highly skewed distribution pattern between the large-scale and smallholder farming sectors as smallholder farmers could not access formal credit facilities. After independence in 1980, the large-scale commercial farming sector still had preferential treatment with respect to access to credit from formal financial institutions, including commercial banks, agricultural cooperatives and other companies on the basis of collateralized land.

The availability of credit facilities enabled commercial farmers to mechanize and capitalize most of their operations such as irrigation development and other farm operations. As a result of mechanization in the large-scale commercial farming sector and also the added advantage of bonding of properties as loan collateral, the loan repayment rates were fairly high, ranging from 60 per cent in poor seasons to 95 per cent in good seasons (Zumbika, 2000).

During the economic structural adjustment programme period from 1991–1995 and in view of agricultural finance in the 1980s, there was a general disenchantment with supply-led, state funding of agriculture. Over Z$1.4 billion was advanced to the sector in 1996, rising to well in excess of Z$4 billion in 1999. In 1986 the number of Agricultural Finance Corporation loans to smallholders peaked at 100,000 and then declined sharply to 50,000 in 1990 and to 353 in 1998 (table 15.1). While there was an attempt at wholesale reform of the economy and its major institutions following the initiation of the economic structural adjustment programme, no attempt was made to reform the rural financial sector. The government continued to ensure a supply of inputs and subsidies to smallholder farmers. But this support inhibited the potential development of new market institutions and suppliers capable of serving small producers. Thus, demand-led market development was constrained.

In 1999 the Agricultural Finance Corporation was transformed into two entities, Agribank, a commercial bank, and a special fund, the Agricultural Development Assistance Fund. In 2000, the commercial activities of the corporation were transferred to Agribank, whilst the Agricultural Development

Table 15.1 Agricultural Finance Corporation loans to smallholder and commercial farmers 1990–2002

Year ended March	Smallholder loans		Loans to commercial farmers
	Number	Value (Z$'000)	Value (Z$'000)
1990	49,883	43,800	295,947
1991	35,609	34,700	349,373
1992	34,378	47,030	343,044
1993	20,979	56,350	447,003
1994	17,844	83,790	554,105
1995	13,190	114,855	635,183
1996	12,736	116,870	764,038
1997	22,077	215,414	669,300
1997*	5,869	121,305	641,100
1998	353	30,696	705,900
1999	496	35,000	749,100
2000	1,849	81,429	745,100
2001	1,421	10, 643	703,000

Source: AFC, *Agriculture and Economic Review* and internal documents.
Notes: * In 1997, AFC's financial year changed from April–March to January–December, hence there was an interim year of April–December.

Assistance Fund was created as a special service the smallholder farming sector. The splitting of the Agricultural Finance Corporation into these two entities failed to develop a sustainable rural financial system, despite the liberalization of the input markets and the monetization and commercialization of smallholder production which had created a new and vibrant demand for credit. While the Agricultural Finance Corporation had committed itself to expanding its network in rural areas, it did not devote adequate attention to loan recovery and the creditworthiness of borrowers.

Although the traditional banking requirement of demanding collateral from borrowers cannot be applied to the smallholder farming sector due to the general absence of tangible assets, there is great potential for financial institutions to mobilize savings which can be used as a form of collateral. The fact that even at its peak in the mid-1980s, the corporation could only cover less than 10 per cent of the rural population, possibly indicated a high average propensity to save in rural areas – what else would explain the fact that production was sustained despite the reduction of resources to and from formal sources to this sector?

The advantages of mobilizing rural savings are simple and varied. These savings could strengthen financial intermediaries and reduce dependence on government and donors and, more importantly, such financial independence would induce financial institutions to be more responsive to the local market. An insidious effect of the reliance on outside funds is often a tendency to weaken enforcement procedures in the pursuit of default cases which were always transferred to government under the government guarantee schemes of the Agricultural Finance Corporation. This reinforced bad business practices and made borrowers more reluctant to repay or to comply with the terms of their loans.

The rural credit market

The rural credit market in Zimbabwe has a dual structure in which formal and informal finance exist side by side. Since 2000, two distinct farming sectors have emerged in Zimbabwe. Firstly, the smallholder farming sector comprising the communal, resettlement and new A1 schemes – this category of farmers required short-term credit for inputs like chemicals, fertilizers and working capital and, to a lesser extent, medium-term loans for machinery such as tractors, ploughs and irrigation development. Secondly, the large-scale commercial sector comprising small-scale commercial farmers, new A2 scheme farmers and remaining large-scale commercial farms (owned by blacks and whites) – this sector required both short-term loans for inputs and working capital, and medium-term and long-term loans for farm machinery.

The purposes of loans for rural households provided by the Agricultural Development Assistance Fund to smallholders were mainly for agricultural production and were usually seasonal. Most agricultural loans have been short-term production loans (Nagarajan *et al.*, 1999). These were largely available from the Agricultural Finance Corporation and in most cases such loans were based on a past track record of good loan repayments by the farmers since clients could not provide conventional collateral security. Large-scale commercial farmers could secure short-term, medium-term and long-term loans from the corporation using their farms as collateral security. Most of these farmers were also able to secure short-term loans from agribusiness departments of commercial banks using the security of their farms and even some medium-term loans from leasing companies such as Leasing Company of Zimbabwe, UDC and Scotfin for farm machinery on the security of the machinery itself and, in some cases, their farms as well.

Government funding through key agricultural ministries

In the context of the fast track land reform programme backed by domestic resources, government sought to finance most of the agricultural activities in the smallholder sector. The government also sought loans from Iran, Egypt, Malaysia and China for the purchase of equipment such as tractors and combine harvesters and appealed to the commercial sector (banking and agro-processing firms) to play a more active role in financing farmers.

The largest government initiative was through the crop pack input programme disbursed through the Grain Marketing Board and the Agricultural and Rural Development Authority. The Grain Marketing Board crop input scheme was geared towards support for food grain production to ensure food security through the provision of seed, fertilizers and herbicides. The inputs were provided in the form of a low interest (20 per cent) loan repayable using a stop-order on grain deliveries to the Grain Marketing Board.

Through the Agricultural and Rural Development Authority, government embarked on programmes to rehabilitate the livestock sector through the provision of finance for cattle restocking (breeding and feeding schemes). In 2001 this was done through the Livestock Development Trust which was later incorporated into the Department of Livestock. Such public livestock support schemes were introduced to cater for livestock restocking for the smallholder and resettled farmers through provision of funds to acquire heifers. Under the scheme the Livestock Development Trust was allocated Z$450 million and the Agricultural and Rural Development Authority was allocated Z$400 million for disbursement to selected applicants. Depending on farm size, A2 farmers were eligible for up to 15 heifers while communal and A1 farmers could apply for two or three. A total of 6,090 farmers benefited from the schemes acquiring 14,531 cattle worth Z$619 million. Government then assisted the Cold Storage Company to access relatively affordable finance from the Reserve Bank of Zimbabwe for breeding and fattening in 2004. At least Z$10 billion was obtained for this purpose and was being accessed by the farmers in both communal, A1 and A2 schemes. The Farmers' Development Trust was also financed for the production of tobacco and paprika in specialized schemes geared towards farmer training.

The irrigation rehabilitation fund was administered by the Ministry of Lands, Agriculture and Rural Resettlement through the Agricultural and Rural Development Authority with technical assistance from the departments of agricultural engineering and research and extension. The interest rate on the irrigation rehabilitation fund was 20 per cent with a repayment period of 3–5 years. In 2002 about Z$1.1 billion was disbursed to 323 applicants for the rehabilitation of 7,751 hectares (Manzungu, 2003).

In July 2003, the government mandated the Agricultural Bank of Zimbabwe (Agribank) which was then a commercial bank and converted itself to the Agricultural Development Bank of Zimbabwe or the Land Bank, wholly owned by government. The main objective and mandate was to provide agricultural credit facilities to all the farmers in the post land reform era. The government ensured that this conversion was done in the shortest possible time. To this end, the Reserve Bank provided Z$60 billion in the 2003/04 agricultural planting season. The money was aimed at providing agricultural credit facilities to farmers, particularly newly resettled farmers, to ensure that they brought the land they were offered by government to its full production potential. The Z$60 billion credit facility was aimed at helping farmers produce enough food crops and to regain national food self-sufficiency. Most of the funds were channelled to maize growing areas.

The drier regions of the country like Masvingo and the Matabeleland provinces, which normally do not do well with maize, were also supported with the same facility to grow some small grains such as rapoko, millet and sorghum which are the mainstay of these regions. This Z$60 billion loan facility was given as short-term loans payable at the end of the season after farmers had marketed their crops. This facility was given at a concessionary rate of interest of 15 per cent per annum.

The most significant injection of funds into the agricultural sector came in January 2004 when the government, through its public sector investment programme, announced in the national budget of 2004 that Z$150 billion would be made available for farmers' credit facilities through Agribank for the 2004/05 planting season. The money was to be received in three tranches, starting with Z$50 billion as credit to farmers for the 2003/04 cropping programmes. This was followed in April 2004 with a further Z$50 billion for the winter wheat programme and Z$50 billion for the 2004 summer cropping programme. The money for the winter wheat programme was also meant for farmers' working capital requirements such as labour costs, electricity, fuel, and repairs and maintenance costs.

In April 2004, the government also made some Z$150 billion available through the Grain Marketing Board for farmers to secure inputs and chemicals for the winter wheat programme. As a way of complementing government efforts in raising funds for farmers, Agribank itself used Z$10 billion in August 2004 from its loan repayments from farmers to help farmers finance their summer cropping programmes.

In August 2004, the government pledged to support tobacco farmers to enable them to produce a substantial volume of the crop in the 2004 planting season. A total of Z$406 billion was raised by government to support the tobacco crop and this facility was availed to farmers through various institutions as follows:

- Z$179 billion was channelled to farmers through Agribank to support tobacco farmers with their working capital requirements;

- Z$157 billion was channelled through the Tobacco Industry Marketing Board to assist tobacco farmers with inputs and chemicals;
- Z$50 billion was channelled through the Commercial Bank of Zimbabwe to assist tobacco farmers with their working capital requirements; and
- Z$20 billion was made available through Sybank to assist tobacco farmers with their working capital requirements.

The government, through the Reserve Bank of Zimbabwe, raised a further Z$600 billion to support farmers' summer crop programmes for the 2004/05 season. Out of the Z$600 billion loan facility, Agribank received a total of Z$110 billion. The money was used for the livestock resuscitation programme (Z$50 billion) to help farmers buy additional livestock. The facility was given as a medium-term loan facility, payable over a period of five years at an interest rate of 50 per cent per annum. Part of the money (Z$50 billion) was used by Agribank to extend credit facilities to farmers for rehabilitation of their irrigation schemes. This facility was offered as a medium-term loan facility, payable over a period of five years at 50 per cent rate of interest per annum. The remaining Z$10 billion was extended to farmers as working capital for summer crops, particularly maize, and this was given as short-term loans payable at the end of the season when farmers marketed their crop. This facility was given at a rate of interest of 50 per cent per annum as well. The remaining portion of this Z$600 billion facility, $490 billion, was all channelled through the Grain Marketing Board to provide agricultural inputs to farmers for the maize crop.

Agribank then used the Reserve Bank of Zimbabwe's productive sector facility to extend capital development loans to farmers for the purchase of farm machinery and equipment. A total of Z$45 billion was extended to farmers during the 2004 farming season. Therefore the Reserve Bank made available Z$1.6 trillion through the various agricultural schemes which was about Z$774 billion above government finance. Table 15.2 shows a summary of funds channelled by the government to the agricultural sector through Agribank.

The Z$494 billion loans extended to the agricultural sector through Agribank did not include the Z$227 billion of the tobacco facility. The money was channelled through the Tobacco Industry Marketing Board, Commercial Bank of Zimbabwe and Sybank to support the tobacco inputs scheme. In addition, Z$490 billion was given to Grain Marketing Board to support the maize crop and Z$150 billion for the wheat inputs scheme. Table 15.3 is a summary of additional funds into the agricultural sector in the 2004 season.

Government channelled a total of Z$2.09 trillion into the agricultural sector through credit facilities to farmers in 2004. This excluded finance from commercial banks and private companies that provided various types of financial resources. Agribank was provided with Z$150 billion through the public

Table 15.2 Government financial support to farmers through Agribank for the 2004 farming season (Z$)

Month	Amount received (Z$)	No. of beneficiaries	Purpose
January	50 billion	7,971	To provide top-up loans for maize and small grains.
March	50 billion	2,348	For the winter wheat programme
July	25 billion	2,370	For summer crops
August	25 billion	1,723	For summer crops
September	10 billion	310	From Agribank's loan repayments and given out for support of the summer crops
October	79 billion	3,758	For tobacco crop working capital requirements
	10 billion	310	For maize crop working capital requirements
November	50 billion	356	For supporting livestock programme
	50 billion	141	For irrigation development
December	100 billion	1,648	Additional tobacco working capital funds
	45 billion	642	Productive sector facilities
Total funds	495 billion	21,577	

Table 15.3: Government support to the agricultural sector through Tobacco Industry Marketing Board, Grain Marketing Board and commercial banks in 2004

Month	Amount (Z$)	Institution handling the facility	Purpose
April	150 billion	GMB	Winter wheat programme inputs
November	227 billion	TIMB, CBZ, Sybank	Tobacco programme support
November	490 billion	GMB	Maize crop inputs support
December	729 billion	All commercial banks	Agricultural loans through RBZ productive sector facility

Key: GMB = Grain Marketing Board; TIMB = Tobacco Industry Marketing Board; CBZ = Commercial Bank of Zimbabwe; RBZ = Reserve Bank of Zimbabwe

*The figure of Z$729 billion above excludes Z$45 billion granted by Agribank through the Public Sector Fund as well.

Table 15.4: Government agricultural financial support to farmers through Agribank for the 2005/07 farming season (Z$)

Purpose	Amount
Working capital for current tobacco crop	Z$20 billion
Working capital for harvesting and marketing current maize crop	Z$60 billion
Livestock Programme support	Z$30 billion
Farm equipment and machinery support	Z$20 billion
Irrigation development support	Z$20 billion
Total	Z$150 billion

sector investment programme for 2005 to support farmers with credit facilities for various seasonal agricultural programmes as indicated in table 15.4.

To ensure that Agribank was well placed to service all farmers with agricultural credit facilities in an efficient manner, the government provided Z$14.3 billion to Agribank as institutional support to strengthen its operational organs. Of the total amount, Z$9.8 billion was used to purchase motor vehicles for field loan officers to ease transport problems in reaching out to all farmers. In a decentralized strategy, the bank used Z$3.0 billion for staff housing and Z$1.5 billion for office accommodation in the provinces. This has given the bank a strong presence in all provinces in Zimbabwe.

Despite all efforts at re-engineering Agribank, the tendency of loan defaulting has emerged as a serious issue which could compromise the bank in delivering on its mandate. For example as at 31 December 2004, only Z$55 billion had been realized as loan repayments by the bank against a total figure of Z$142 billion granted earlier which was all due and payable by 31 December 2004. In this respect, provincial management, assisted by the debt recoveries department and the bank's legal department, have been under pressure to pursue loan defaulters to ensure that all the outstanding debts were paid to the bank to enable the establishment of a revolving loan structure in the agricultural sector.

Reserve Bank of Zimbabwe and agro-bills

In 2002, the government mooted the idea of agro-bills to recapitalize the agricultural sector following the fast track land reform programme. A total of Z$7.2 billion was raised against a target set Z$60 billion. The Standard Chartered and Barclays banks raised Z$5 billion (Mukwezera and Manzungu, 2003). Syfrets Corporate and Merchant Bank (Sybank) was appointed as the lead issuing authority for agro-bills and agri-bonds. The sum raised was inadequate to meet farmers' requirements and the strategy adopted was to mobilize more resources through further issues. Later on, they proved popular because of a 75 per cent return on investment. Consequently, a flotation of agro-bills in 2003 was oversubscribed, raising Z$5 billion when the target had been Z$2 billion. The interest rate on the 2003 bills was 75 per cent, a rate considered rather punitive for farming which contributed to the low uptake. Agro-bills have become an important source of fund-raising for institutions such as agricultural parastatals. Most investors feel that they provide a favourable rate of return on their investment.

The bills were intended for working capital and were to be repaid in 270 days. Mukwezera and Manzungu (2003) identified a number of problems with the agro-bills. Firstly they were launched late – well into the cropping season – which limited their impact on production. Secondly, although they carried government guarantee, one government-owned bank required applicants to provide additional surety to secure a commitment from borrowers to repay. This was claimed to result in higher repayment rates. Thirdly, one agro-processing company received Z$4 billion out of the Z$7 billion that was on offer because of lack of effective regulations to guide the disbursement process. Across all sectors, 32,375 farmers were reported to have benefited from agro-bills through banks and agro-processors. Most beneficiaries were from Manicaland and the three Mashonaland provinces. Few farmers from the Midlands and even fewer from Masvingo and Matabeleland benefited because the money was repayable in nine months. This timeframe was too short for cattle ranching which requires a long gestation period for maturing and marketing of herd.

In addition to the direct government finance assistance schemes described, government undertook a number of initiatives through the Reserve Bank of Zimbabwe which were targeted at various sectors of the agricultural industry. Farmers and agricultural firms could access funds through the Reserve Bank of Zimbabwe revolving fund, a general incentive scheme targeted at the productive and export sectors of the economy. Under the scheme producers could access funds at concessionary interest rates set at 15 per cent and 5 per cent for the productive and export sectors respectively, with loans being channelled through agro-processors or commercial banks. The funds were meant for working capital purposes (not long-term investments) and were repayable in 180 days. Agriculture accounted for about 40 per cent of total use.

In August 2002, the Reserve Bank of Zimbabwe provided a Z$1 billion facility through Agribank for the production of tobacco seedlings at an interest rate of 25 per cent. The Tobacco Industry Marketing Board administered the scheme. The cumulative use of the fund was much less than expected as funds were released late for seedbed establishment resulting in only Z$150 million of allocated money being used. The board estimated that 3,500 to 3,700 hectares were put under tobacco seedbeds through the initiative. After further negotiation the Reserve Bank of Zimbabwe agreed to release about Z$500 million under the scheme for tobacco growing inputs for the 2002/03 season. In addition to this amount, the Reserve Bank of Zimbabwe provided tobacco inputs dedicated funds of Z$39 billion for the 2002/03 season.

Private sector funding: commercial banks and agro-processors

Most funding earmarked for agro-processors was from agro-bills, notwithstanding that the agro-bills were intended to augment planned financing arrangements. Amongst agro-processors that assisted new farmers were FSI Agricom, Cottco, Dairiboard Zimbabwe Limited, Agricultural and Rural Development Authority, Irvine's, Seed Co, Ingwebu Breweries and Delta Corporation (Chibuku Breweries). Delta's Chibuku Breweries financed farmers in the production of sorghum and maize whilst the National Breweries supported farmers producing barley. The FSI Agricom and Consolidated Farming Investments scheme offered financial and management support to farmers producing a range of crops and products the companies need for their businesses such as cotton, beef, maize, sorghum and piggery projects as well.

Each agro-processor drew up a contract with its farmers. The contracts differed with a number of them quoting different producer prices of maize, a controlled commodity. A total of Z$11 billion was provided by commercial banks to agro-processors. Disbursement of money through agro-processors was considered to be a prudent risk-management strategy in addition to reducing transaction costs. Agro-processors have a strong presence on the ground and are informed of the potential for different enterprises in various parts of the country. Agro-processing companies provide extension services, monitor farmers and assist with produce marketing. Such strategies can result in higher repayment rates.

Commodity organizations increasingly play a significant role in financing the production of particular crops they use in their businesses. Such organizations included Cottco, Cotpro,[173] and Cargill which financed farmers to produce cotton throughout the country and such credit lines are being offered to all categories of smallholder and commercial farmers. Cargill signed a deal with CFX Merchant Bank Limited to allocate Z$150 million to farmers for the production of cotton.[174] Paprika Zimbabwe (Private) Limited financed large-scale commercial, medium-scale commercial (A2s) and smallholder farmers to produce paprika, while Duke Food and Spice Company (Private) Limited financed farmers to produce chillies which the company processes for export. Reapers

[173] Cotpro was eventually bought out by Cottco. It used to serve mostly the market needs of the large-scale commercial farmers whose land was acquired by the government.

[174] *Business Herald*, 6 January 2003.

(Private) Limited financed both large-scale and smallholder farmers to produce groundnuts which the company processes for export.

Changes in the supply of credit

Since the land reform programme in 2000, there has been a noticeable change in the number of suppliers of rural credit with a growth in the number of such institutions. Their conduct has also changed to reflect the reality on the ground. For example, there has been an increase in the number of institutions providing credit in kind to smallholders growing cotton. These institutions include Cottco, FSI Agricom, Cargill, and the Farmers World. However, government remains the single largest direct retailer of agricultural credit. The estimated value of inputs for 2001 was Z$15.5 billion and most of this was from the fiscus. There is little evidence though to suggest that this is sustainable, given that the policy foundations of this input distribution system were extremely weak. By their nature, input loans addressed short-term production problems. The new generation of resettled small-scale and medium-scale farmers will require more medium-term and long-term credit to finance investments in irrigation and farm mechanization.

An analysis of financing agriculture in Zimbabwe reveals that government rural financial institutions are often inefficient and unsustainable. Outreach is severely truncated by the lack of financial resources at key institutions such as Agribank and the Agricultural Development Assistance Fund. Several unresolved issues constrain the development of a sustainable rural credit market in Zimbabwe, for instance, there is an apparent trade-off between sustainability, as measured by the institutions' ability to generate profits, and outreach defined as the ability to reach out to the poor. With the minimal success of group lending in Zimbabwe, the element of transaction costs in rural finance has remained unattended to, and pay-off scales have tended to be loaded against small loans. Cursory evidence suggests that repayment rates are higher where loan size – and with it profitability – is higher.

Lessons from experience

In 1968 David Penny offered a significant pointer that is relevant to the direction that Zimbabwe must take to create successful rural financial institutions. Penny notes that 'most farmers do not have to be bribed with cheap credit to adopt profitable innovations if there is a satisfactory market for additional output'. The agricultural finance policies adopted to date in Zimbabwe have been ineffectual and inefficient, and have failed to promote growth and equity. However, the three-fold growth of the Agricultural Development Assistance Fund demonstrated that financial services can be extended to rural farmers at relatively lower costs and more sustainably than was previously deemed possible. It also demonstrates that when a crop is profitable and farmers have an assured market, they do not need to be 'bribed' through interest subsidies. In fact it shows that farmers can repay loans at real rates of interest. There are four key issues that face the financing of agriculture in Zimbabwe outlined as follows:

1 Risks and administrative costs

The funding by government through its institutions proved to be an unsatisfactory method of financing the agricultural sector and the new farmers for the following reasons:

- Distributing agricultural inputs to the new farmers proved problematic for the Agricultural and Rural Development Authority and Grain Marketing Board as they were overwhelmed by the numbers of farmers. To satisfy a large percentage of these farmers by giving them the required quantities of agricultural inputs, the institutions had to devote all their energies to this exercise and abandon their core functions for which they were established. The result was that the institutions failed to deliver on their core functions as well as on the input distribution side and this is borne out by well-documented criticism of these two institutions in the period 2001–2003 as they were expected to carry out this complex mission. It is not surprising therefore that there were no meaningful loan repayments realized by these two institutions from the inputs they distributed to farmers in that period. The sheer volume of new farmers who secured inputs through these institutions overwhelmed them to the extent that the logistical demands of the exercise proved way beyond the capacity of the Grain Marketing Board and the Agricultural Rural Development Authority at the time. This proved to government that such a method of financing agricultural development was not only fraught with numerous logistical problems but was also inefficient and, above all, not sustainable.

There is also a general belief in most financial institutions that farming is a risky venture which is susceptible to dry spells. Most financial institutions extend credit to farmers sparingly after considering the farm establishment, for example, whether there is irrigation and also whether farmers are growing high value cash crops. For commercial banks, the farmer's experience and a good bank track record also have significant influence on whether or not to extend credit to a farmer. Commercial banks are reluctant to engage in micro-financing due to the perceived risk and high administration costs associated with that market segment, hence a meaningful level of loans has not been extended by commercial banks to smallholder farmers so far.

2 Poor mobilization of agricultural resources through savings

Perhaps the biggest failure of the present rural financial system was its founding assumption that poor people were too poor to save and required cheap credit (Chimedza, 1994; Zumbika, 2000). This seriously undermined the ownership and sustainability of the institutions serving the rural community. Reliance on public funding not only exposed such institutions to political manipulation but also subjected them to severe budgetary constraints in the event of macro-economic decline as Zimbabwe has experienced in the post land reform period. Furthermore, economic reform induced fiscal containment virtually eliminated subsidies and significantly reduced other government subventions leading to the practical drying up of credit as the trends from 2000 showed.

3 Tenure security and legal framework

The debate over the security of land tenure continues currently because most farmers do not have title to their land, particularly in communal, resettlement, A1 and A2 schemes. Commercial banks are reluctant to extend loans to these farmers because they lack adequate and acceptable forms of collateral. Commercial banks are used to lending against conventional collateral. Therefore it is not surprising that in the absence of an intervening policy by government there will be very little flow of loan funds from commercial banks to the communal, resettlement, A1 and A2 farmers who currently do not hold any title or leasehold on their properties. In an effort to minimize the risk of default on loans granted, most financial institutions prefer to finance farmers with collateral security or those with irrigation systems which minimize crop failures due to drought. It is therefore imperative that government devises policies to encourage financial institutions to extend credit to the newly resettled A1 and A2 farmers as well as to communal and old resettlement farmers.

To enforce loan contracts, the communal tenurial system is another unresolved constraint. The tenurial system gives an individual a secure and normally inheritable right to property but does not offer permanent property rights which may reduce investment incentives. Due to perceived and severe moral hazard problems, private sector institutions have been reluctant to service rural markets in the absence of collateral and a legal and regulatory framework. This, combined with interest rate ceilings, lack of innovation in product design and a singular reliance on external rather than internal sources of funds for lending, has been responsible for low recovery rates. Institutional foundations for financial markets in rural areas are lacking. Lenders need a system that provides formal procedures for claims against property and enforcement of financial contracts. It is possible that 'titling and registering land; reforming the law of secured transactions, such as legally acceptable forms of collateral; establishing legal registries and expanding the scope for private operation; lowering the costs of registration and foreclosure; drafting specific, clear and limited homestead provisions; and removing interest rate ceilings' (Yaron *et al.*, 1998: 152) may be necessary.

4 Lack of coordination amongst financing institutions

While there appears to be an impressive directory of both public and private financial institutions and organizations offering different types of agricultural credit to farmers in Zimbabwe, there is no coordination in their operations, leading to an uneven distribution of credit, a duplication of activities and sometimes conflicting approaches. For example, one bank may be siphoning savings to the urban areas, while at the same time a development institution is struggling to raise capital to give to the same clientele. An ideal system in that case would be an integrated savings–credit system with linkages wherever possible. The lack of coordination among the different institutions and organizations currently offering credit to farmers has resulted in unfairness in the distribution of credit to farmers in some cases. For example, cases abound where powerful individuals who have access to inputs through the Grain Marketing Board input scheme manage to secure similar inputs through the Agricultural and Rural Development Authority input scheme, the Farmer Development Trust and possibly even secure credit from Agribank. In such cases it is possible for some farmers to end up obtaining and stocking enough inputs to see them through the next three to four years while other poor farmers are desperately trying to raise enough inputs for the current season.

The financing of the agricultural sector requires resources on a sustainable basis which have to be mobilized from multiple sources. However, it is the management of these resources which is usually problematic. Problems such as unequal resource allocation, verification of resource use and repayments of loans, require strong and effective management in institutions which allows for better coordination of resources among financing institutions and effectively facilitates production.

Conclusion

At both macro and sectoral levels, government economic policies have not created an environment or incentives to encourage the development of a viable rural financial market. For example, input and output prices have been controlled, decontrolled and recontrolled. The government has sought to directly control input distribution in the country and despite regular adverse weather occurrences, government has not actively developed irrigation infrastructure, evidenced by the national farm irrigation fund being allocated only Z$10 million in the 2002 budget which was way below the requirements for resuscitating the irrigation system in the new resettled areas.

There is a huge demand for agricultural finance and most new farms being established lack access to adequate funds. Small-scale farms have been particularly disadvantaged because agricultural finances were reduced during the economic structural adjustment period and the demand for both short-term and long-term finance has grown since 2000. At first commercial banks did not play an active part as the country was overwhelmed by the conflicts over land reform and broader political issues. Government's resolve to proceed with the land reform programme created an untenable situation with regard to agricultural financing. Most funding was then channelled through commercial banks and other funding organizations that in the past have tended to regard smallholders as a high risk group. However, there remained a certain level of cautiousness among commercial banks who were sceptical of the land reform programme. The absence of regulatory requirements which would allow commercial banks to carry out micro-financing operations led to calls for policy reforms. Restructuring the Reserve Bank of Zimbabwe and establishing new banking procedures, which include the regulatory requirements of micro-financing operations by commercial banks, were ways of improving the environment. However, these measures alone were not enough as there is need for a focused agricultural policy framework and regulatory environment.

The public development financing institutions, such as the Agricultural Development Assistance Fund, were dogged by under-capitalization which left the institutions unable to provide adequate loans to farmers. While a number of public organizations, private banks and private companies availed credit to farmers in one form or the other, lack of coordination of the operations resulted in an unfair and uneven distribution of credit to farmers in some cases.

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