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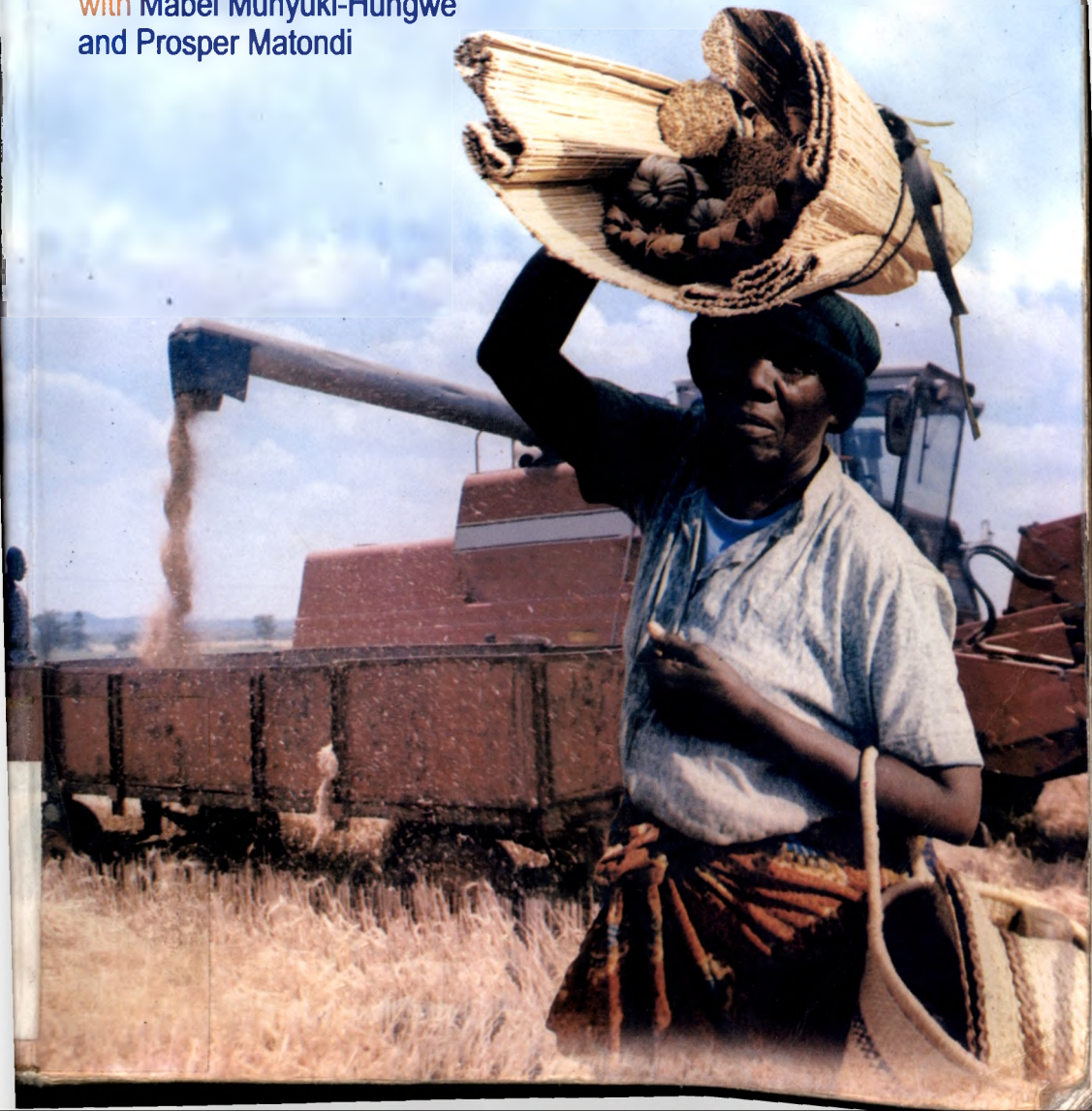

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Savings clubs accounted for a large increase in savings in rural communities in the 1980s

14

Rural financial markets: historical overview 1924–1991

Ruvimbo Chimedza

In the period 1980 to 1991, Zimbabwe's commercial farming sector was serviced by a highly developed and regulated financial system. In contrast, the less developed rural sector was inadequately serviced by a poor formal financial system consisting of the Agricultural Finance Corporation (AFC) credit scheme and building societies, or had to depend on informal financial institutions. Table 14.1 shows that only 16.5 per cent of all building society outlets were located in communal lands where 70 per cent of the country's total population resided. The distribution of commercial banks also followed a similar pattern. Only 14 out of a total of 69 branches, sub-branches and agencies of Barclays Bank, for example, were in rural areas.

The formal financial institutions supporting rural areas consisted of the Agricultural Finance Corporation, the Cold Storage Commission and commercial banks. The Agricultural Finance Corporation was a public lending institution servicing communal, resettlement, small-scale and large-scale commercial farmers. The Cold Storage Commission, a beef marketing parastatal, provided loans to all types of farmers for livestock development. Commercial banks provided agricultural loans only to large-scale commercial farmers. Due to the inadequacy of formal finance in rural areas, a large proportion of financial intermediation took place informally. The bulk of the informal financial institutions were designed to either mobilize savings, advance loans or both.

Until independence in 1980, most communal households requiring any type of formal financial intermediation had to travel to urban centres for their transactions. Furthermore, the types of available services were primarily restricted to deposits and withdrawals. Little credit was available to the bulk of households. At independence the dominant philosophy was that rural households could not save because they were poor and they were caught up in the vicious circle of poverty. This view was used to justify cheap credit to households through the Agricultural Finance Corporation and the very limited provision of institutions to mobilize rural savings.

Pre-independence rural financial markets

Successive colonial governments and financial institutions supported large-scale commercial farmers and neglected the majority of the rural people – the communal farmers and their families. In 1924, the Land Bank was established to assist large-scale commercial farmers to acquire more land. In the 1930s, the government initiated the financing of irrigation plot holders in the small-scale commercial farming sector, previously known as African purchase areas. In 1956, the facility was extended to dryland commercial farmers. Based on the experience gained on the use of credit and satisfactory loan repayments, the government increased the provision of loans to small-scale commercial farmers through the establishment of the Agricultural Loan Fund in 1964. At the same time a private agency, the African Loan Development Company Limited, established in 1961, extended loans to both indigenous businessmen and small-scale commercial farmers. Subsequently the agency was restructured into a non-profit-making trust whose lending activities were limited to farmers in the small-scale commercial farming sector. This trust was later absorbed by the Agricultural Finance Corporation in 1978.

Agricultural service cooperatives were vehicles through which loan funds or financial services were made available to farmers. Some of the cooperative unions were affiliated with the Central Association of Cooperative Unions which was established by government in 1972 in order to represent cooperative interests at national and international levels.

The Agricultural Finance Corporation was the successor to the Land and Agricultural Bank of Southern Rhodesia which was established in 1924. Until 1945 when the Land Bank started extending loans to small-scale commercial

Table 14.1 Zimbabwe: distribution of financial institutions: 1990

Name	Total outlets	Rural outlets	% Rural
Central African Building Society	72	11	15
Founders	29	1	3
Beverley Building Society	52	14	30
Barclays Bank	69	14	30
Standard Chartered	71	28	39
Zimbank	46	8	17
Bank of Credit & Commerce	14	5	36
Total	548	209	38

Source: Obtained from personal and telephone interviews with managers or the institutions at head offices in Harare, Zimbabwe.

farmers, its activities were confined to the large-scale commercial farming sector. Until 8 February 1979, the Agricultural Finance Corporation was precluded from giving loans to farmers in communal lands (then the tribal trust lands).

From 1945 to 1968 the Land and Agricultural Bank granted medium-term and long-term loans to small-scale commercial farmers. After 1968 lending to small-scale commercial farmers was taken over by the Agricultural Loan Fund. The African Loan Fund, an arm of the then Ministry of Internal Affairs, was another institution that extended loans to small-scale commercial farmers. It made considerable use of cooperatives in an attempt to make credit available to farmers in the communal areas.

Post-independence rural financial institutions

Although the small farm credit scheme was introduced in 1978, it was designed initially to allow the Agricultural Finance Corporation to assist small-scale commercial farmers with seasonal loans. In July 1979, due to the changing political environment, the government accepted the Agricultural Finance Corporation's proposal to become involved in lending to farmers in what was then called the tribal trust lands. During that year, the first Agricultural Finance Corporation portfolio of 2,846 loans amounting to Z$478,000 were granted to these farmers. The programme was expanded in the 1980/81 season with 18,000 loans amounting to Z$4.8 million. Loans extended under this scheme were granted by government and managed by the Agricultural Finance Corporation. Similarly, lending to small-scale commercial farmers was expanding; from 1,545 loans in 1979/80 the number had increased to 3,930 in 1981/82 (AFC, 1980 and 1982).

The Central Association of Cooperative Unions, which was functional in large-scale commercial areas in the 1970s, became active in the smallholder sector in 1981. Its major function was to facilitate the supply of agricultural inputs to its members, who were primarily communal land farmers, and to facilitate marketing. Although the Central Association of Cooperative Unions was not a financial institution, it played a financial mediating role with respect to the marketing of produce and acquisition of agricultural inputs on behalf of smallholder farmers.

The land resettlement programme which was launched at independence to redistribute land to the landless and those from overpopulated areas was supported by a separate loan fund. The funds were mostly mobilized from government revenue and contributions to land reform by the British government. The three resettlement models, A, B and C, had credit schemes. Model B schemes which were collective cooperatives were initially provided with settlement grants and later with loan funds. In 1981/82, the first loans valued at Z$ 0. 5 million were granted to settlers. In 1983/84, 19,874 loans valued at Z$ 10.6 million were advanced to settlers (AFC, 1982 and 1984).

In 1983 the Agricultural Finance Corporation extended credit to married women, provided the corporation was satisfied that they were farmers. In 1984, the Agricultural Finance Corporation adopted a policy to provide eligible farmers with short-term loans that included a consumption component. But the loan funds available under the resettlement credit scheme could not meet farmers' needs. This was particularly true of the model B collective cooperative schemes which operated large-scale commercial farms along the same lines as the privately-owned farms. They required large amounts of capital which were not available under the resettlement credit scheme. Because of inadequate capital and other factors, most model B schemes did not succeed.

Some members of model B cooperatives recognized lack of finance as a serious handicap in operating their farming enterprises on commercial lines. They felt that in order to succeed without such special schemes as cooperative development banks, they had to break into the broader formal financial markets and borrow money at commercial interest rates, based on the viability of their enterprises. To facilitate this process, a group of cooperatives from model B resettlement schemes came together in 1988 and started a specialist scheme called the collective self-finance scheme. This was registered as a welfare organization designed to alleviate the lack of access to finance by cooperatives. The collective self-finance scheme was basically a guarantee scheme, formulated and controlled by collective cooperatives which sought to use bank finance for their development. The scheme relied on donors for guarantee funds and administration costs. Zimbank's small business service division, which was established to promote rural development and provide finance to cooperatives, administered the loan scheme. The advantages of the collective self-finance scheme were twofold. The scheme helped to lower the threshold of bank financing for cooperatives. In addition, it overcame the bank's reluctance to deal with cooperatives.

Another source of rural finance after Independence was the Small Enterprises Development Corporation which provided finance to support the development of small industrial and commercial ventures, with emphasis on those in rural areas. The Small Enterprises Development Corporation provided for rural, commercial and industrial projects at 11 per cent subsidy over market rates of interest.

Until 1979 when the Agricultural Finance Corporation started lending to farmers in communal areas, most credit needs of this group were met by non-governmental or church organizations. The bulk of the rural population started their own informal loans and savings schemes. Non-governmental and church organizations, including Silveira House, the Savings Development Movement, input suppliers, such as Windmill Fertilizer Company and Agricultural Chemicals, and the Association of Women's Clubs were very active in these initiatives. Savings clubs driven by members constituted the single largest organiza-

tional form used by smallholders in mobilizing rural savings. These clubs came under a number of umbrella organizations such as the Savings Development Movement (which later became the Self-Help Development Foundation), the Association of Women's Clubs and input suppliers. Savings clubs affiliated with the Self-Help Development Foundation had been in operation since the early 1960s, when a priest involved in development work initiated their formation. Since then these clubs, which were strictly voluntary groups of predominantly women members, had become an important feature of Zimbabwe. One of the major objectives of most savings clubs was to accumulate savings for the purchase of agricultural inputs.

Savings clubs were set up with the long-term objective of converting them into credit unions. In the initial stages, the clubs confined themselves to saving money in order to establish a base for lending. However, when they attempted to introduce lending they encountered problems, the most serious of which was their inability to administer a loan scheme because they had not developed the managerial capacity for this aspect of financial intermediation. In the light of these problems, an agreement was reached to limit the savings clubs to the mobilization of savings. After this decision was taken, there were concerted efforts to expand membership. Table 14.2 displays the growth in savings club membership between 1970 and 1991.

The approach of savings clubs towards development is based on the principle of thrift through regular savings. Rotating savings and credit associations are another important institution in the informal rural financial sector. These small informal groups had a longer history, going back as far as the 1950s or even earlier. Historically, rotating savings and credit associations operated in both urban and rural areas. Again, women made up the bulk of the membership. In rural areas, funds mobilized through them enabled households to purchase agricultural inputs and household requirements, such as utensils, to pay school fees, provide school uniforms, books and required stationery, and to invest in items that required a relatively large capital outlay. They also forced members to voluntarily mobilize savings in an endeavour to meet their deposit obligations.

Silveira House, a Catholic association located just outside Harare, introduced input package programmes for poor farmers in the communal areas in 1969 through a loan scheme on a group approach. The scheme provided credit for inputs and extension services, and also facilitated marketing. The credit scheme required that farmers contributed 50 per cent of input requirements for an acre of maize. In essence, the scheme was designed to assist farmers meet their subsistence staple requirements. From 1980, farmers or groups that had been successful in using the one-acre support were weaned off and recommended for loans from the Agricultural Finance Corporation. These were the first groups to receive loans under the Agricultural Finance Corporation's small

farm group-lending scheme. This initiative did not produce favourable results because the scheme disregarded some of the conditions upon which the Silveira House credit scheme was based, including preparation and training of group members and individual responsibility for receipt and repayment of loans. Most groups disintegrated because of repayment problems. In the 1980s and early 1990s, Silveira House, which has a well-equipped training centre, shifted its efforts to the promotion of credit unions.

Various other informal groups mushroomed but in essence their main objectives were the same. Some input supply companies such as Windmill and Agricura promoted savings clubs for members who purchased inputs from them.

The growth of Zimbabwe's informal financial sector was restricted during the liberation war. After independence in 1980, this sector expanded rapidly in response to the growing needs of rural households. With the growth of communal agriculture, the demand for financial intermediation increased. The informal financial sector expanded spontaneously, in line with government's expressed desire to extend commercial banks and building societies services into rural areas.

Table 14.2 Historical development of savings clubs

Year	No.of clubs	Membership
1970	30	200
1972	202	7,000
1976	501	20,000
1980	200	4,000
1981	400	8,000
1981	1,500	30,000
1982	3,000	60,000
1983	5,000	125,000
1984	5,500	140,000
1986	6,500	162,000
1988	7,800	195,000
1991	8,000	200,000

Source: Self-help Development Foundation information pamphlet. This is a non-governmental organization which promotes and aids savings clubs in Zimbabwe. It replaced the Savings Development Movement which was established when savings clubs first started in the 1960s.

Performance of rural finance institutions: 1980–1991

The Agricultural Finance Corporation

Before 1991, the Agricultural Finance Corporation was the largest source of agricultural credit and the only formal source of institutional credit to communal and resettlement areas. By March 1985, its share of short-term credit was 42 per cent compared with a 35 per cent share for the five commercial banks (AFC, 1990) (see table 14.3).

As a parastatal, the Agricultural Finance Corporation was dependent on government for its resources. Thus it had both economic and social obligations to farmers. Social obligations were discharged by lending at 13 per cent between 1981 and 1991, while the rate of inflation was 15 per cent or more per year. This resulted in the corporation incurring huge losses. According to the Agricultural Finance Corporation income statement, the corporation was losing Z$0.16 on each Zimbabwean dollar lent to communal land farmers and Z$0.26 on each Zimbabwean dollar lent through the resettlement credit scheme, while lending to large-scale commercial farmers yielded Z$0.07 profit on each Zimbabwean dollar lent in the 1989/90 season (AFC, 1990).

Short-term credit constituted the corporation's largest lending category for all groups of farmers, including large-scale commercial farmers. In the category of communal land farmers, 91 per cent of loans granted went to short-term lending in 1989/90. In the large-scale commercial farming sector, 61 per cent of the loans went to short-term loans and the rest was for medium-term and long-term loans. Although in 1989 only 590 short-term loans were granted to commercial farmers (compared to 39,911 for communal land farmers), the value of these commercial loans was Z$102.32 million compared to Z$30.85 million for communal farmers (AFC, 1990). In short, even though large-scale

Table 14.3 Source of short-term credit for agriculture 1980–85 (percentages)

Year ended	AFC	Commercial	Coops	Total	(in Z$000)
1980	38	34	28	100	(164,075)
1981	34	30	36	100	(179,871)
1982	37	35	28	100	(228,711)
1983	41	32	28	100	(304,236)
1984	43	32	25	100	(333,161)
1985 (31 March)	42	35	23	100	(412,567)

Source: Slangen (1989)

commercial farmers constituted only 3 per cent of the total Agricultural Finance Corporation loan recipients, they accounted for 85 per cent of financial resources granted during the 1990/91 season (AFC, 1991). This was the pattern from 1980 when the corporation started advancing loans to communal lands, through to the season's lending in 1991 (see table 14.4).

Disparities in resource distribution and therefore agricultural enterprises did not only occur among the various farming groups but also along regional lines. The most productive agricultural provinces tended to get the larger share of loan funds. Out of the eight provinces of Zimbabwe, Mashonaland West and Mashonaland Central accounted for 57 per cent of Agricultural Finance Corporation loans (AFC, 1991).

The Agricultural Finance Corporation increased the number of loans granted from 23,859 in 1980/81 to a peak of 95,269 in 1985/86 but the number declined to 36,742 in 1991/91 (AFC, 1991). Most of the decline occurred in communal and resettlement areas where loans fell from 91,392 in 1985/86 to 34,848 in 1990/91 (AFC, 1991). During the same period, 1986/87 to 1990/91, the number of communal, resettlement and small-scale commercial farmers in arrears increased dramatically. By January 1990, 80 per cent of communal land farmers were in arrears, forcing the Agricultural Finance Corporation to seize property (agricultural and non-agricultural) from defaulters for auctioning.

Two major explanations account for the poor repayment performance and these were adverse weather conditions and dissatisfaction with the management of the stop-order repayment system. These factors caused hardships during poor harvest and delayed payments for marketed produce.

The number of loans to large-scale commercial farmers increased from 900 in 1988/89 to 1,133 in 1990/91. This growth in loan demand coincided with many large-scale farmers diversifying into enterprises such as horticulture, fruit production and wildlife ranching. In addition, the World Bank supported export-incentive schemes and made foreign currency available for farmers to import farm equipment and vehicles leading to intensification of large-scale commercial farming. By the 1989 season, the Agricultural Finance Corporation had began to diversify its lending operations. During the 1989/90 season, small farmers for the first time secured loans for the production of crops such as tobacco, coffee, sugar and tea. Credit facilities were extended to livestock fattening, breeding and stocking. In an effort to reach more farmers in communal lands and resettlement areas, the corporation launched its group-lending pilot programme in 1989/90. During its first year of operation, the programme granted loans to 34 groups with a total membership of 1,020 farmers. Under the scheme, the Agricultural Finance Corporation lent to groups at 10 per cent interest rate per annum and the group in turn lent to its individual members. The groups ensured the recovery of loans. The 10 per cent rate under the scheme was 3 per cent lower than the corporation's usual lending rate. By lending to

groups, the Agricultural Finance Corporation aimed to reduce transaction costs and risk. By shifting the responsibility of dealing with individual farmers, in other words, establishing their eligibility for loans through information gathering, ensuring repayment and documenting all relevant information, the Agricultural Finance Corporation reduced transaction costs by a margin to cover the 3 per cent reduction in the lending rate.

Common reasons given for smallholder farmers' reluctance to use institutional credit were that farmers had sufficient liquidity given their planned expenditure or that they did not believe expected returns were high enough to warrant borrowing, taking account of available technology and risk, or that transaction costs involved in taking out a loan were too high (Bhatt, 1989). According to the Agricultural Finance Corporation, the decline in loan demand by farmers at the end of the 1980s could be attributed to decreasing returns due to relatively static producer prices, erratic weather conditions and infrastructural inadequacies, all of which had affected the farmers' ability to repay loans (AFC, 1990). The low numbers of recipients could also have been due to some applications being turned down because they did not meet the strict criteria. Table 14.5 reports the number of applications received and the number of loans and their values granted by sector during the 1988/89 season. For all four groups of

Table 14.4 Zimbabwe: number and value of Agricultural Finance Corporation loans by type of farmer, 1980/81–1990/91

Year ended March	Large-scale No. granted	Large-scale Value Z$m	Small-scale No. granted	Small-scale Value Z$m	Resettlement No. granted	Resettlement Value Z$m	Communal No. granted	Communal Value Z$m	Grand total No. granted	Grand total Value Z$m
1980/81	2,526	86.9	3,333	3.7	-	-	18,000	4.2	23,859	94.8
1981/82	2,103	88.8	3,649	4.6	911	0.5	30,150	10.1	36,813	104.0
1982/83	1,645	88.7	2,953	4.5	4,154	1.5	38,912	13.2	49,664	107.9
1983/84	1,400	110.2	3,052	8.1	19,874	10.6	50,036	23.4	74,362	152.3
1984/85	1,484	110.3	2,744	8.7	19,926	10.7	65,793	32.0	89,947	161.9
1985/86	1,308	114.0	2,569	11.5	13,866	8.5	77,384	38.9	95,269	171.9
1986/87	1,007	94.9	1,910	9.6	11,800	8.6	77,384	60.0	92,101	173.1
1987/88	990	111.2	1,542	6.8	11,217	9.0	69,885	49.4	83,634	176.4
1988/89	900	117.4	1,140	5.3	7,022	5.9	57,679	41.3	66,741	169.9
1989/90	969	136.3	844	4.5	5,193	5.9	73,846	33.4	50,852	180.1
1990/91	1,133	195.1	761	3.6	4,658	4.7	30,190	26.4	36,742	229.8

Source: AFC annual reports

farmers, at least 40 per cent of the applications were turned down, demonstrating the high demand for loans and the Agricultural Finance Corporation's inability to cope. On the other hand, it could also have been due to high application failure rates based on unfavourable past experiences such as defaulting.

Informal finance

Table 14.5 reveals that the supply of credit from the Agricultural Finance Corporation in the 1988/89 season did not meet demand, thus necessitating some form of credit rationing. In fact, less than 10 per cent of communal land farmers received Agricultural Finance Corporation loans in 1986 when the institution reached its peak in terms of the number of loans granted (AFC, 1986). In 1990/91, the figure was less than 5 per cent of the total communal land farmers (AFC, 1991). Commercial farmers had alternative sources of institutional credit, the most important of which were commercial banks, input suppliers or companies and cooperatives but this was not the case with smallholder farmers. Most communal and resettlement area farmers could not access these sources of credit because they lacked collateral and were considered risky borrowers. They had to resort to personal savings, assistance from non-governmental organizations or informal markets for their credit needs.

In the 1980s, informal credit played an important role in smallholder agricultural production. In 1985, for instance, 80 per cent of the fertilizer purchased by communal farmers was with the help of loans, yet it is estimated by fertilizer companies that 60 per cent of 1985's fertilizer sales were financed through formal credit, implying 20 per cent of purchases was financed through informal sources. In 1989 formal credit financed fertilizer sales figures had dropped down to 40 per cent indicating an even larger proportion of informal credit usage. During the same period, Agricultural Finance Corporation advances to communal and resettlement farmers had fallen by 50 per cent. What all this indicates is that smallholder farmers responded to the decline in Agricultural Finance Corporation lending by turning to informal credit, personal savings and urban to rural remittances.

Financial intermediation by formal non-governmental organizations frequently involves the provision of concessional loans or grants, in special circumstances, to target groups or areas. These operations are often designed to assist special groups to overcome specific hurdles to development or as disaster recovery assistance. For example, soon after independence groups such as the Catholic Social Services Department set up credit schemes in a number of areas to help farmers whose agricultural activities had been disrupted by the liberation war. In other cases, credit schemes were established to assist the most disadvantaged groups in drought-stricken areas. Such initiatives varied widely but the important point is that they helped fill a gap in financial inter

mediation. However, as the 1980s came to a close such emergency initiatives by non-governmental organizations were declining because most of them were designed to assist war victims immediately after independence.

After independence, Zimbabwe's informal financial sector grew extensively reflecting the lack of development and responses in the formal financial sector. However, the informal sector had some efficiency limitations. Some of the major factors contributing to this inefficient use of informal services included the lack of legal status in personal transactions, the lack of infrastructure for communication and limited physical mobility. Despite these constraints, the informal financial sector serviced a large number of people in a responsive manner because of social trust within the groups that participated. The flexibility, rapidity and ease of informal transactions made them suitable for meeting the needs of low-income rural people whose financial requirements were usually urgent. These were characteristics in the operations of savings clubs, rotating savings credit associations and money lenders. A number of studies in developing countries have concluded that flexibility, rapidity and ease of transactions are key to the effectiveness of informal financial markets (Adams *et al.*, 1984; Meyer, 1993; Moller, 1987). The heterogeneity and often the urgency of financial needs require services that respond to their demands swiftly and in a variety of ways. These features are absent from operations of formal financial institutions, making it difficult and sometimes irrelevant for low-income rural households to access available financial services.

Table 14.5 Agricultural Finance Corporation loans: applications and percentage granted, 1988/89

Type of farmer	Number of applications received	Number granted	Percentage granted	Value granted
Commercial	1,451	821	57	114,834,964
[illegible]	1,832	1,112	[illegible]	[illegible]
Communal	96,730	57,527	59	36,456,871
[illegible]	16,211	6,883	42	[illegible]
TOTAL	116,224	66,343		162,436,958

Source: AFC annual report, 1990

Rotating savings and credit associations

Rotating savings and credit associations have been servicing smallholders for a considerable length of time. One of their shortcomings, however, has been lack of emphasis on productive activities that could lead to income-generation. Members were required to deposit agreed amounts at regular intervals for disbursement to individuals on a rotational basis. Management of the clubs was based on trust or good knowledge about members.

It is difficult to estimate the total number of rotating savings and credit associations that were operating in rural areas because they often operated autonomously and did not necessarily register or affiliate themselves with a central body. In a survey conducted in Manicaland province, it was found that some associations suspended their operations or were phased out during poor harvests when crop sales could not support their activities (Chimedza, 1991).

Savings clubs

Zimbabwe had the largest number of savings clubs of any country in Africa in the 1980s. About 8,000 clubs were affiliated with the Self-help Development Foundation, formerly known as the Savings Development Movement. Several thousands were affiliated with input suppliers while a smaller number were part of the Association of Women's Clubs, church groups and some non-governmental organizations' activities. It is estimated that during the 1980s more than 10 per cent of rural households had at least one member in a savings club. Table 14.6 illustrates the relative importance of some of the informal credit and savings groups. In 1985 it was estimated that over 30 per cent of rural households belonged to informal farmers' groups which were involved mainly with acquisition of inputs and offered limited financial services to their members.

Table 14.6 shows that savings clubs dominated the rural informal financial sector. The marginal propensity of rural households to save has often been underestimated. (Adams and Singh, 1972; Alamgir, 1975). Operations of some savings clubs in Zimbabwe provide evidence contrary to this. Data on 919 of the 8,000 clubs affiliated with the Self-Help Development Foundation showed that average savings per club were Z$ 1,014.55 per year in the 1980s. There were wide variations in individual clubs' savings capacity. From the sample, minimum club savings recorded were Z$10 and maximum were Z$15,000 with a standard deviation of 806.52. Since the average club had a membership of 25, the average per capita savings were Z$41.00.

Unlike rotating savings and credit associations, savings clubs placed a great deal of emphasis on income-generation which was deemed essential for the sustainability of savings institutions. To ensure a continuous inflow of funds, they engaged in diversified income-earning activities such as the sales of vegetables, poultry products and small rural enterprises such as baking, dressmaking, and so on. The bulk of their savings were used to purchase seasonal inputs,

books and uniforms, and to pay for school fees.

With experience, some of the savings clubs became more sophisticated being involved in big projects generating relatively large sums of money. A study carried out by Veronica Brand (1987) for the Self-help Development Foundation came up with the results shown in table 14.7. A characteristic of savings clubs that separated them from rotating savings and credit associations was their link with the formal financial sector through deposits of mobilized savings. Members mobilized and pooled savings then deposited them with building societies, the Post Office Savings Bank and commercial banks. Based on data from 919 savings clubs which had completed and returned questionnaires to the Self-help Development Foundation by August 1991, table 14.8 displays the financial institutions used by savings clubs for cash deposits. The two main building societies, CABS and Beverley, were dominant.

Due to the near absence of formal financial institutions in rural areas, most of the mobilized rural savings ended up in urban financial institutions which reinvested them in non-rural sectors. Because the formal institutions only offered deposit and withdrawal facilities to rural people, they had no way of channelling funds back into rural areas. Investments in financial assets were limited to paid up permanent shares in building societies. Furthermore, the interest rates on deposits which ranged from 7.7 per cent on savings deposits to 11.25 per cent on paid up permanent shares were not very attractive especially in relation to the 10 to 13 per cent interest rate on agricultural loans from the Agricultural Finance Corporation and the rate of inflation which was estimated at around 17 per cent in 1991. However, the rate of interest on deposits seemed not to be an important determinant in an individual's decision to save because interest accrued to the clubs, not to individuals. The key determinant seemed to be the opportunity to be involved in group efforts at raising standards of living by mobilizing savings for the purchase of agricultural inputs.

According to provincial extension reports, savings clubs accounted for a large increase in the purchase of fertilizer in the early 1980s. Fertilizer purchases for a sample of 635 savings club farmers rose from 17,574 tonnes to 35,625 tonnes between 1980 and 1982 (Cropping statistics, AGRITEX, Rusape, 1980–1982). The increase in fertilizer purchases among saving clubs was due to a number of factors, including concessional prices for bulk deliveries. Bulk purchasing and delivery also ensured that the club members used their savings for their major purpose – the purchase of agricultural inputs.

Policy issues

There is now agreement that formal, semi-formal and informal financial institutions play complementary roles in development. Their efficiency could be improved by strengthening links through greater collaboration. For example,

Table 14.6 The informal financial sector: types of groups

Type of farmer	Primary purpose	No. of groups	Members	% Rural households
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Silveira House	Credit	567	59,535	7.4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Agricura	Inputs for cash/credit	n/a	n/a	n/a

Source: IFAD, General Identification Mission in Zimbabwe.

Table 14.7 Distribution of savings clubs by level of savings, 1986 and 1987

Level of savings (Z$)	[illegible]		March' 87	
	No.	%	No.	%
< 200	60	35.1	101	50.8
200 – 399.99	38	22.2	61	30.7
400 – 599.99	17	9.9	19	9.5
600 – 799.99	19	11.1	8	4.0
800 – 999.99	8	4.7	2	1.0
1 000 – 1,199.99	10	5.8	2	1.08
1 400 – 1,599.99	4	2.3	–	–
Above 1, 600.00	9	5.3	1	0.5
Total	171	99.99	199	100

Mean = 541.63 – $277.27
Median = 305.00 – $195.00
Standard deviation = 618.00 – $318.00
Maximum = $4,000.00 – $2,897.08

Source: Brand, 1987.

formal institutions could offer programmes in financial management. On the other hand, semi-formal institutions, including training institutions such as universities, could assist formal institutions by making available valuable information about clients or potential clients.

Semi-formal institutions, which comprise self-help promoting institutions such as saving clubs, governmental and non-governmental or private voluntary organizations, could facilitate the productive use of resources and contribute to rural development. The challenge is to expand the array of services which formal institutions offer in the smallholder farming sectors. They should allow savings mobilized in rural areas to be reinvested there.

Like most developing countries, cheap production credit has reached a small proportion of the smallholder farming population. In fact, when formal lending was at its peak in 1986, only 10 per cent of smallholders received loans from the Agricultural Finance Corporation. In addition, the Agricultural Finance Corporation experienced problems in loan recovery and escalating lending costs. An important policy question that arises is whether subsidized lending to small farmers through parastatal agencies can be expanded in view of these problems. A number of issues have to be addressed. The repayment system needs to

Table 14.8 Banking institutions used by savings clubs in 1991

Financial institution	No. of clubs	Percentage
Central African Building Society	468	50.9
Beverley Building Society	260	28.3
Founders Building Society	20	2.2
Standard Chartered Bank	51	5.6
Barclays Bank	4	0.4
Zimbank	0	0.0
Bank of Credit and Commerce	7	0.2
Post Office Savings Bank	42	4.6
None	67	7.3
Total	919	99.1

Source: Survey conducted by the Self-help Development Foundation, Harare, Zimbabwe.

be revised. Farmers report that the stop-order system needs to be reorganized to allow them to stagger deductions from their crop sales. In the event that farmers make their deliveries to the marketing institutions at different points in time, it is important to ensure that the first payment deducts the minimum because it comes at a point when most households are facing cash flow problems.

Lending arrangements linked to specific crops and specific enterprises provide little flexibility to farmers. Farmers have limited options to channel these limited resources to the most profitable uses. Repayment problems could be eased if farmers were allowed to use loans for the most profitable uses. This would make it easier for people to repay their loans.

Using the group-lending scheme, the Agricultural Finance Corporation experienced reduced lending costs. By adopting group lending a financial institution can shift transaction costs, including risk, from the lending institution to the borrower. The scheme needs to be streamlined to reduce overall costs, including the costs that have been shifted to borrowers. For example, the paper work could be simplified and the approval time could be reduced through decentralized decision making.

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