Status of Agricultural and Rural Finance in Zimbabwe

July 2012

FinMark Trust

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<th>Description</th>
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<tbody>
<tr>
<td>ACL</td>
<td>African Century Leasing</td>
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<tr>
<td>AFC</td>
<td>Agricultural Finance Corporation</td>
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<tr>
<td>ARDA</td>
<td>Agricultural Rural Development Authority</td>
</tr>
<tr>
<td>ASPEF</td>
<td>Agricultural Sector Productivity Enhancement Facility</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
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<tr>
<td>AUSAID</td>
<td>Australian Agency for International Development</td>
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<tr>
<td>CABS</td>
<td>Central African Building Society</td>
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<tr>
<td>CBZ</td>
<td>CBZ Bank Limited (formerly Commercial Bank of Zimbabwe)</td>
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<tr>
<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<tr>
<td>COMEZ</td>
<td>Commodity Exchange Company of Zimbabwe</td>
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<tr>
<td>COTTCO</td>
<td>Cotton Company of Zimbabwe</td>
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<tr>
<td>DANIDA</td>
<td>Danish International Development Agency</td>
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<tr>
<td>DCA</td>
<td>Development Credit Authority Loan Guarantee Program</td>
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<tr>
<td>DFID</td>
<td>Department for International Development (UK Aid)</td>
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<tr>
<td>ESAP</td>
<td>Economic Structural Adjustment Programme</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation (part of the United Nations)</td>
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<td>Forex</td>
<td>Foreign Exchange</td>
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<tr>
<td>FTLFP</td>
<td>Fast Track Land Reform Programme</td>
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<td>GBP</td>
<td>Great Britain Pound</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GMAZ</td>
<td>Grain Millers’ Association of Zimbabwe</td>
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<td>GMB</td>
<td>Grain Marketing Board</td>
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<tr>
<td>GTZ</td>
<td>Deutsche Gesellschaft für Technische Zusammenarbeit (now GIZ)</td>
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<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
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<tr>
<td>IDBZ</td>
<td>Infrastructure Development Bank of Zimbabwe</td>
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<tr>
<td>IEEA</td>
<td>Indigenization and Economic Empowerment Act</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IRD</td>
<td>International Relief and Development</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>Libor</td>
<td>London Interbank Offered Rate</td>
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<tr>
<td>LSCS</td>
<td>Large Scale Commercial Sector</td>
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<td>LSF</td>
<td>Large Scale Farmers</td>
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<tr>
<td>MCBA</td>
<td>MCBA Bank Limited (formerly Merchant Bank of Central Africa)</td>
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<td>MFI</td>
<td>Micro Finance Institution</td>
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<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency (part of the World Bank)</td>
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<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprises</td>
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<tr>
<td>NACSCUZ</td>
<td>National Association of Credit and Savings Cooperatives of Zimbabwe</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>NSSA</td>
<td>National Social Security Authority</td>
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<td>POSB</td>
<td>People' Own Savings Bank</td>
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<tr>
<td>PSIP</td>
<td>Public Sector Investment Program</td>
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<tr>
<td>PTC</td>
<td>Posts and Telecommunications Corporation</td>
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<tr>
<td>RARP</td>
<td>Rural Agro-Dealers Restocking Programme</td>
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<tr>
<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
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<tr>
<td>ROSCA</td>
<td>Rotating Savings and Credit Associations</td>
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<tr>
<td>RTGS</td>
<td>Real Time Gross Settlement</td>
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<tr>
<td>SACCO</td>
<td>Savings and Credit Cooperative</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>SCB</td>
<td>Standard Chartered Bank</td>
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<tr>
<td>SEDCO</td>
<td>Small Enterprises Development Corporation</td>
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<td>SEEP</td>
<td>Small Enterprise Education and Promotion</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
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<tr>
<td>SNV</td>
<td>Stichting Nederlandse Vrijwilligers, SNV, Netherlands Development Organization</td>
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<tr>
<td>SSCS</td>
<td>Small Scale Commercial Sector</td>
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<td>SSF</td>
<td>Small Scale Farmers</td>
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<tr>
<td>TIMB</td>
<td>Tobacco Industry Marketing Board</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>USD</td>
<td>United States dollar</td>
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<tr>
<td>VS&amp;LG</td>
<td>Village Savings and Loans Group</td>
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<tr>
<td>ZAMFI</td>
<td>Zimbabwe Association of Microfinance Institutions</td>
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<tr>
<td>ZAR</td>
<td>South African Rand</td>
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<tr>
<td>ZAVEA</td>
<td>Zimbabwe AIDS Victim Empowerment Association</td>
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<tr>
<td>ZCFU</td>
<td>Zimbabwe Commercial Farmers' Union</td>
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<td>ZFU</td>
<td>Zimbabwe Farmers' Union</td>
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<tr>
<td>ZIMNAT</td>
<td>ZIMNAT Lion Insurance Company Limited</td>
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<tr>
<td>ZIMPOST</td>
<td>Zimbabwe Posts Private Limited</td>
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<tr>
<td>ZWD</td>
<td>Zimbabwe Dollar</td>
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Executive Summary

Africa is a predominantly rural and about 70 percent of its population lives in rural areas. Agriculture is the main source of income for most of its rural population. With about 70 percent of the poor living in rural areas and dependent on agriculture for food and income, agriculture is central to Africa’s development. Access to finance has the potential to play a key role in agricultural and rural development.

Zimbabwe has a rural population of about 8.3 million people (or about 65 percent of its total population) and agriculture is central to the rural economy. The economy and the agricultural sector have been through difficult times over the last decade following political volatility, government policies and the agricultural land reform programme, which saw the State take over almost all large-scale commercial farmland. These have seen agricultural production fall to about 50 percent of 2000 levels and poverty levels raise greatly. The land reform programme has benefited a relatively small number of mostly rural farmers (150,000-300,000), through access to more and better agricultural land. The economy and the agricultural sector have been slowly recovering since 2010.

The impact of recent economic history has seen domestic savings and inflows of foreign investment shrink. This has created an acute shortage of finances available to the financial sector which has pushed up interest rates and limited credit and other financial services to all but a few customers who can afford the services. Financial services to the agricultural sector and the rural economy have been marginalised in this process as they are perceived to be high risk.

The demand for agricultural and rural finance in Zimbabwe is large and diverse. Farmers, rural agro-dealers and rural enterprises, medium and large-scale buyers, processors and exporters as well as rural residents and local government offices have a wide range of needs for financial services to enable their operations to purchase commodities, make and receive payments, mitigate risk, raise working capital, purchase assets, manage cash flow, lease, access/deposit foreign currency, manage life events, etc. However, quantifying the scale of demand for finance in the rural economy is difficult because of the lack of research and generally only indicative information is available.

Cost of finance is high and credit is generally out of reach for small-scale farmers and mostly confined to large commercial agro-enterprises. The demand for insurance is limited as it is expensive and also because many small-scale farmers and rural enterprises have not been exposed to the service. Several contract farming companies and input suppliers do use some form of credit insurance to protect against the risk of farmer repayment default on input credit. Demand for transaction services has exploded with the introduction of mobile banking services introduced in the last year or so. Demand++ has been driven by the widely affordable costs of the service. With 77 percent of the population having mobile phones and some signal coverage in most rural areas, the potential of mobile banking is enormous. Demand for foreign exchange services is often overlooked, but information gathered for this report indicates that there is significant demand for this service from cross-border traders in agricultural produce, many of whom are likely to be producers themselves.
Zimbabwe’s banking sector comprises 26 operational banking institutions, 16 licensed asset management companies and 157 operating micro finance institutions. These are regulated by the Reserve Bank of Zimbabwe (RBZ) in terms of the Banking Act. Suppliers or facilitators of financial services include commercial banks, insurance companies, building societies, leasing companies, MFIs, contract farming companies, transaction service providers, informal suppliers, public sector institutions, and donors.

The supply of financial services has been significantly affected by the economic collapse. Many service providers lost their entire cash asset bases as a result of hyperinflation in 2007-2009, and many are struggling to recover from this in terms of the products they offer and scale of outreach. The shortage of funds in the market has limited the provision of services and made them generally expensive. However, as the economy revives, so does the financial sector and the provision of services.

Contract farming companies are a significant source of funding for the small-scale farming sector and have a knock-on effect on rural economies. Funds are often sourced offshore, especially by the large tobacco and cotton companies. Insurance and guarantee services show potential for reducing the risk of farmer default on input credit and are currently being offered on a limited basis.

Collateral available for credit purposes was significantly diminished as a result of the land reform programme which saw the State acquire almost all large-scale freehold commercial farmland. This has greatly affected the willingness of most commercial providers to provide services to many potential clients. Mobile banking services are proliferating throughout the country and this is making access to and the uptake of transaction services much more widely available, especially with the cost being relatively affordable. Other services such as savings, credit and insurance are being introduced.

Government involvement as a supplier of finance to the agricultural and rural sectors remains limited due to a lack of allocation of resources. Donors continue to be an important source of finance for rural development and for the development of the agricultural sector and there are several programmes to support these sectors.

One of the aims of financial inclusion is to create a match between ‘effective supply’ of services, as determined by the level of service access, and ‘effective demand’, as measured by actual usage of services. There are several factors which are influencing the gap between supply/access and demand/usage, some of which are diminishing the gap (enablers) and others which are increasing or maintaining the size of the gap (disablers).

Key enablers include: economic growth, Government’s policy priority for the rural and agricultural sectors, communication infrastructure development, increased numbers of banks, increased competition, new product design, and, in some respects, the land reform process.
Key disablers include: high costs of financial service delivery, branch network is still small, weak infrastructure, poor product design, lack of trust in the financial sector, lack of awareness of some products, lack of availability of land as acceptable collateral, very limited supplies of finance on the market, the agricultural and rural sectors are seen to be risky, banks do not target small customers, shortage of finance for longer-term financing and lending restrictions.

Access to finance for the rural and agricultural sectors can be improved by enhancing both demand and supply. Demand could be enhanced through greater awareness and understanding of some services, greater supplier focus on the profile, needs and resources of smaller customers, and meeting demands for foreign exchange services. Supply could be enhanced through addressing key national issues affecting the financial sector, the economy and law enforcement, thereby creating a conducive environment for investment. Exploring various insurance and guarantee services could enhance supply by some providers by reducing risk. Access could be enhanced by ensuring that the policies for rural and agricultural sector development include access to finance and by extending the financial services currently offered through mobile banking.
1. Background to the study

Access to financial services is an important contributor to enterprise productivity the world over. In sub-Saharan Africa, where most people still live in rural areas and agriculture is the mainstay of the rural economy, access to financial services of all kinds appears still to be poor. Yet relatively little is known about the demand for, supply of and effective level of access to rural and agricultural finance and about the policies, institutions and many other factors that determine them.

As part of its mission to ‘make financial markets work for the poor’ in southern Africa, FinMark Trust commissioned the Centre for Inclusive Banking in Africa to undertake a study to examine the current state of rural and agricultural finance in the region to enable the development of regional and country level policy frameworks and strategies that will significantly improve access to and the uptake of rural and agricultural finance. The specific objectives identified were:

- to conduct country- and regional-level assessments of the current state of agricultural and rural finance in southern Africa to identify areas of policy strengths that can be built on and areas of weakness that need to be addressed
- to identify international innovations and best practices in agricultural and rural finance that address these policy gaps and that are amenable to application in southern African circumstances
- to work with country policy-makers to develop overall policy frameworks and strategic approaches to address agricultural and rural finance challenges at country- and regional-level
- to assist implementation at country- and regional-level so as to achieve maximum impact in terms of inclusion
- to provide a benchmark for agricultural and rural finance in southern Africa and to develop a structure for long-term monitoring of progress, and
- to identify a small number of promising projects to assist.

Country-level assessments drawing mainly on secondary sources were carried out for Botswana, Malawi, Mozambique, South Africa, Zambia and Zimbabwe during 2011-12. This report records the findings and recommendations for Zimbabwe.

2. Objectives, ambit, methodology

The study aims to understand the nature, extent and causes of the challenges faced in improving the level of financial inclusion in Zimbabwe’s rural communities, ultimately, to derive a set of proposals for addressing these challenges. The nature and extent of the challenges are gauged by analysing and comparing the demand for and the supply of finance in the rural economy. In assessing the gap between demand and supply, attention is paid not only to the effectiveness of rural enterprises’ and households’ access to finance – or lack thereof – but also to the appropriateness and sustainability of the products and services offered in relation to their needs. Particular emphasis is given to agricultural finance, since farming is the dominant economic activity and generator of income and jobs in rural areas.
This is done without losing sight, on the one hand, of the importance of finance for other types of rural business and for rural households’ needs as consumers, and, on the other, of the growth of farming as an urban activity.

Insight into the causes of the challenges is gained by identifying the factors that have either enabled or disabled progress in the provision of financial services to farmers, other businesses and households. The proposals that conclude the report aim to extend the enablers and eliminate or ameliorate the disablers. Bearing in mind the different levels at which policy and practice operate, the enablers and disablers are identified as macro-, meso-, micro- or client-level phenomena.

This report covers the first phase of the research programme for Zimbabwe outlined in section 2. In the next phase, international innovations and best practices in rural and agricultural finance amenable to application in the context Zimbabwe will be identified. The objective of the last phase is to develop a country-specific policy framework and strategy that incorporates such practices, in collaboration with domestic policy makers and international expertise.

The data used for this study were obtained mainly from secondary sources. While few authoritative studies were found that describe and quantify the full range of demand for the various types of financial services by farmers, rural enterprises and large- and medium-scale agro-businesses, a number of recent studies did provide useful information on some financial services, primarily credit for the agricultural sector. The information available on rural financial services, in general, and on services other than credit in particular, is limited.
3. Introduction

Agriculture refers to the production of crops and the raising of livestock. The term ‘rural’, according to the Small Enterprise Education and Promotion (SEEP network), is defined as: “an area in which the primary economic activities are small-scale agriculture and livestock rearing, although it also includes small-scale trade, service, and manufacturing activities. It is also characterized, in relative terms, by geographic isolation, low population densities, poorly developed infrastructure, underdeveloped market for goods and services, and high poverty concentration”.¹ Thus, ‘agricultural finance’ refers to finance which is used for crop and livestock production, whereas ‘rural finance’ is a wider term, which includes finance for crop and livestock production in rural areas but which may also include finance that is used for rural-based trade, services and manufacturing, as well as finance for rural infrastructure development such as dams, roads, power, phone and health and education facilities.

Africa is predominantly rural with an estimated 70 percent of its population living in rural areas.² Bryceson (2000) has observed that the extent and severity of rural poverty are greater in rural areas than in urban areas, and this is the case in Africa with roughly 80 percent of the continent’s poor living in rural areas³. In 2001, about 47 percent of the population was living below the international poverty line. About 70 percent of those living on less than USD1 a day are located in rural areas, establishing poverty as a primarily rural phenomenon in the region.⁴

Agriculture is the backbone of Africa’s economy and accounts for about 20 percent of the continent’s GDP, about 60 percent of its labour force and 20 percent of the total merchandise exports, with many African countries relying heavily on the sector. The rural poor are especially dependent on agriculture for their livelihood with the sector being the main source of income for 90 percent of Africa’s rural populations.⁵

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Figure 1: Agriculture accounts for over 60 percent of employment in Africa

Because of the large size of Africa’s poor populations living in rural areas and their dependence on agriculture for food and income, enhancing agricultural performance and rural development are critical components for Africa’s development and for the attainment of the MDGs. However, many African countries have achieved little progress in agricultural and rural development and this is one of the main reasons why poverty is still a major problem in most of Africa. Various explanations have been provided for the poor performance of the rural sector, particularly the agricultural sector. Key among these is lack of or limited access to rural financial services, including financial exclusion challenges. Many analysts have noted the difficulty that poor farmers experience in financing seasonal input purchases for food grain production as a major problem (but not the only problem) constraining agricultural growth in many parts of sub-Saharan Africa (Gordon and Goodland, 2000; Govereh et al., 1999; Al-Hassan et al., 1999; Reardon et al., 1999; Poulton, 1998; Doward et al., 1998; Bryceson, 1999; Jayne et al., 1997; Scoones and Toulmin, 1999, Brinn et al., 1999).

Although it would be simplistic to suggest that improving access to finance alone will address all the challenges in agricultural and rural development in Africa, improving access to rural financial services would contribute significantly toward removing many of the constraints limiting agricultural and rural development.

In the Southern African region, the majority of people live in rural areas. For example, in 2005 Zimbabwe’s rural population was estimated to be 8.3 million out of a total population of about 11.3 million (or about 65 percent), compared to 66 percent in Zambia and Malawi, 43 percent in South Africa and 82 percent in Mozambique. As in other parts of Africa, most of Zimbabwe’s rural population is dependent on agriculture. In 2003, it was reported that the sector provided employment and income for 60-70 percent of the population, supplied 60

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7 http://www.nationmaster.com/graph/peo_rur_pop-people-rural-population
percent of the raw materials required by the industrial sector and contributed 40 percent of total export earnings.  

However, the country's economy, and the agricultural sector in particular, have been through a period of great volatility in the last decade which has seen a sharp decline in GDP and in commercial agricultural production.

**Figure 2:** Zimbabwe’s formal sector national real GDP Growth rates (percent) show the economy shrank (cumulatively) by about 64 percent between 1999 and 2008. Since 2009, GDP has recovered by about 22 percent.


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9 Tekere, Dr. M., Hurungo, J., Rusare, M. “WTO Agreement on Agriculture: The Implementation Experience - Developing Country Case Studies” Commodity Policy and Projections Service Commodities and Trade Division FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS, Rome, 2003, [http://www.fao.org/DOCREP/005/Y4632E/y4632e0y.htm#fnB114](http://www.fao.org/DOCREP/005/Y4632E/y4632e0y.htm#fnB114)

Much of the decline in GDP and commercial agricultural production is a result of the Government’s economic policies and the Fast Track Land Reform Programme (FTLRP) which has seen the State take over 7 million hectares of large scale commercial farmland\textsuperscript{11} and resettle over 160,000 families, of which 90 percent are small-scale farmers.\textsuperscript{12} This has resulted in a decline in commercial agricultural production and employment within the commercial agricultural sector. It has also significantly diminished the collateral base of the agricultural sector and the country as a whole, because land that banks formerly accepted as loan collateral cannot now be used due to the insecurity of tenure.

\textbf{Figure 4:} Land reform has seen the State take over almost all large scale commercial farmland. Figures below show farmland distribution in 1996 (left) and 2009 (right)\textsuperscript{13}


The World Bank estimates that agricultural output grew by 34 percent in 2010 and should have grown by 19 percent in 2011, mostly as a result of production of by small-holder farmers in the tobacco and cotton sector.\(^\text{15}\) The agricultural sector now accounts for 18 percent of Zimbabwe’s USD5.6 billion GDP (or about USD1 billion), compared to 28 percent in 1998\(^\text{16}\). However, current estimates of cereal production indicate that several crops that play a key role in food security are still below previous years’ output levels.\(^\text{17}\)

What has been the impact of these issues on the agricultural sector, on the rural economy and on rural people? The impacts of the declines in GDP and commercial agricultural

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16 http://www.nationsencyclopedia.com/economies/Africa/Zimbabwe-AGRICULTURE.html

productivity and the land reform have been mixed. The overall national picture is still one of poverty, e.g. the Zimbabwe 2003 Poverty Assessment Study Survey: Main Report which indicated that 72 percent of the population fell below the poverty line, and that the majority of these were rural people; in 2010, the per capita Gross National Income for Zimbabwe was in the World Bank’s lowest category (less than USD630), similar to Mozambique and Malawi; and the United Nations Human Development Index, an index of human well-being based on three key development criteria: health, education and income, ranks Zimbabwe very low, 173 out of 187 countries.

Whilst the land reform programme has had a strongly negative impact on commercial farming, it has provided significant benefits to many of the estimated 150,000-300,000, mostly rural, people who have been resettled under the programme. The numbers of people who have benefitted from the programme are small in terms of the overall rural population, but the livelihoods of these people have improved as a result of access to more and better land, some of which is being used for commercial purposes. A research study in Masvingo in 2010, for example, found that, on average, each household had invested more than USD2,000 (GBP1,200) on their land since they had settled on it - clearing land, building houses, farm equipment and digging wells. This investment has led to knock-on economic activity in surrounding areas, boosting the rural economy – although off a low base - and providing renewed employment. The same study reported that a large proportion of maize and cotton produced in the Masvingo area in recent years originated from newly resettled farmers and that small grain production went up by 163 percent, edible dry bean production by 282 percent and cotton by 13 percent – although again off a low base. This is a significant achievement in the context of the overall difficult economic conditions which still prevail. However, in most other parts of the country, these results have not been seen.

In addition, the land reform has created radical changes to the rural economy, breaking previously monopolistic commercial and state structures and resulting in new arrangements in economic relationships and in value chain operations. These changes have benefited some players in the rural economy and resulted in economic benefits being more widely distributed. There is also evidence of substantial investment in new businesses in and around the new resettlements, including shops, bottle stores, butcheries and transport operations, with resulting increased rural employment. This is remarkable since many rural businesses lost their cash assets during the hyper-inflationary time and many rural farmers lost livestock and farm household assets as they were sold to purchase food and other essential items. As the economy has stabilised following dollarization, the agricultural sector and the rural economy have been recovering slowly, but the underlying issues affecting economic growth remain problematic: namely political stability and economic policies conducive to investment.

National infrastructure, including rural infrastructure, has suffered under the economic downturn with the road and rail networks deteriorating, which together with increased transport costs, has made it more difficult for rural communities to access markets. Supplies of electricity, which have been erratic for more than a decade, have affected rural businesses that depend on power. Water and sanitation coverage are poor and HIV rates, which although declining, remain one of the highest in the world. These issues have affected the health and productivity of rural people.

The financial sector has also felt the impact of the economic turbulence. Government’s policies over the last decade have increased risks to investors, e.g. insecurity of land tenure, the Indigenization Act, Government’s selective law enforcement, radical market and economic policy changes, and reported high levels of corruption. These factors have contributed to an environment in which many local and foreign investors are unwilling to invest. Zimbabwe’s suspension from the IMF in 2003 has also meant that no concessional loans have been available since then from this source either. As mentioned earlier, any cash assets accumulated by the financial sector were wiped out during the hyper-inflationary times, the height of which was during 2007-2009 and there is still little money available to lend to the agricultural sector or for development of the rural economy, given the reluctance of external investors and donors to inject funds into the economy and the priority given to other sectors in Government’s allocation of fiscal resources.

Whilst domestic saving levels have recovered since 2007, they remain low, constraining the resources available to the financial sector.

Figure 7: Zimbabwe’s Gross Domestic Savings have diminished since about 2002/3.

Table 1: Compared to countries in the region, Zimbabwe had only USD1.4 billion in total bank deposits in January 2010, compared to far greater reserves in other regional countries.

---


### Table 1: Bank Deposits in Selected Countries

<table>
<thead>
<tr>
<th>Date</th>
<th>Country</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>4th Quarter 2009</td>
<td>Botswana</td>
<td>5.6 billion</td>
</tr>
<tr>
<td>4th Quarter 2009</td>
<td>Tanzania</td>
<td>5.5 billion</td>
</tr>
<tr>
<td>4th Quarter 2009</td>
<td>Mozambique</td>
<td>3.6 billion</td>
</tr>
<tr>
<td>4th Quarter 2009</td>
<td>Zambia</td>
<td>2.7 billion</td>
</tr>
<tr>
<td>10 January 2010</td>
<td>Zimbabwe</td>
<td>1.4 billion</td>
</tr>
</tbody>
</table>

Total bank deposits have grown since 2010 and were reported to be USD1,521 million in December 2011.\(^{26}\)

Apart from the general lack of available capital, the agricultural sector has not attracted significant support from financial institutions because of high risk: land tenure insecurity and volatile Government policy. As mentioned earlier, the collateral base available for loan guarantees by banks to the agricultural sector has been significantly diminished. Because of this and the sector risk, banks have preferred to lend to established customers in safer sectors where collateral requirements can be met and which offer higher returns at lower risk.

In 2010, loans by commercial banks amounted to about USD646 million and focused primarily on manufacturing (22 percent or USD142 million), distribution (20 percent or USD129 million), agriculture (19 percent or USD123 million), services (15 percent or USD97 million), and other sectors (22 percent or USD142 million). Loans by commercial banks to the financial sector amounted to a minuscule USD13 million (2 percent) and include loans to MFIs.\(^{27}\) Despite the limited availability of finance, in 2010 the agricultural sector leveraged an estimated USD326 million in credit from banks; although 70 percent of this went to the tobacco and cotton sectors for contract farming and other activities, leaving just USD100 million in credit for the rest of the agricultural sectors.\(^{28}\)

The supply of formal capital remains low, and although there were some modest improvements in 2011, in the short- to medium-term it is unlikely that the risk factors inhibiting investor confidence, the small size of the collateral base available for loan purposes and the unavailability of finance will change significantly. This means that there is a need to focus on improving the efficiency of the use of the existing available funds. Notwithstanding this, it is clear that if the existing barriers were removed, the potential demand for finance is likely to be enormous.

### 4. Demand

This section discusses the demand for agricultural and rural finance in Zimbabwe.

#### 4.1. Overview


\(^{27}\) USAID, Zimbabwe Agricultural Sector Market Study, Weidemann Associates, June 2010, p 17

\(^{28}\) USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare: 2011
Demand for agricultural and rural finance is large and diverse as illustrated in the table below which gives an indication of the nature of demand in Zimbabwe.

**Table 2: Illustration of demand for rural and agricultural financial services**

<table>
<thead>
<tr>
<th>Those demanding financial services</th>
<th>Potential financial services needed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Farmers</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Small scale and large scale       | • Purchase of seasonal inputs: (fertilizer, seeds, labour, agro-chemical, etc.)  
                                   | • Purchase of fixed assets: tractors, implements, land improvements  
                                   | • Mitigate against risks through credit/insurance: crop, livestock, health, funeral, unemployment,  
                                   | • Working capital – short-term, seasonal  
                                   | • Investment capital – ploughs, tractors, wells, treadle pumps  
                                   | • Bridging finance to allow selling crops for optimal price  
                                   | • Cash flow management, income smoothing  
                                   | • Purchase of and payment for consumption goods & services: (food, education, health, clothing, transport, church tithes etc.)  
                                   | • Life events: lobola, death, family obligations  
                                   | • Money transfers (pensions, remittances from urban areas or abroad)  
                                   | • Receiving payments  
                                   | • Making payments  
                                   | • Leasing  
                                   | • Guarantees  
                                   | • Saving instruments  
                                   | • Forex facilities for cross-border trade |
| **Rural based agro-dealers and commodity handlers** |                                     |
| Agro-dealers:                     | • Purchase of inputs inventory  
                                   | • Purchase of crop outputs  
                                   | • Purchase of productive assets (trucks, trailers, weighing scales)  
                                   | • Working capital  
                                   | • Guarantees  
                                   | • Leasing  
                                   | • Insurance – asset, default  
                                   | • Cash flow management, income smoothing  
                                   | • Payment for services  
                                   | • Receiving of payments  
                                   | • Forex facilities for cross-border trade |
| Local commodity traders, processors, transporters | • Based in rural growth centres  
                                                      | • Based in rural towns  
                                                      | • Purchase of inventory  
                                                      | • Purchase of fixed assets  
                                                      | • Cash flow management income smoothing  
                                                      | • Money transfers – payments to farmers, rural commodity brokers, input suppliers, as well as receipts from purchasers, e.g. |
### Non-agricultural rural businesses:

- General dealer shops, supermarkets, beer outlets, entertainment clubs, services (artisans e.g. welders, repairers), hair salons, grinding mills, peanut butter processing, food vending vendors of fruits & second hand clothing, etc.

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of inventory</td>
</tr>
<tr>
<td>Purchase of fixed assets: trucks, equipment</td>
</tr>
<tr>
<td>Services of fixed/operational assets</td>
</tr>
<tr>
<td>Cash flow management, income smoothing</td>
</tr>
<tr>
<td>Payment for services</td>
</tr>
<tr>
<td>Receipt of payments</td>
</tr>
<tr>
<td>Money transfers</td>
</tr>
<tr>
<td>Fixed investments</td>
</tr>
<tr>
<td>Purchase of supplies</td>
</tr>
<tr>
<td>Insurance: risk management: fires, burglary,</td>
</tr>
</tbody>
</table>

### Resident rural professionals:

- Teachers, nurses, etc.
- Rural Council employees
- Rural business employees

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of and payment for consumption goods &amp; services: (food, education, health, clothing, transport, church tithes, etc.)</td>
</tr>
<tr>
<td>Life events: lobola, death, family obligations</td>
</tr>
<tr>
<td>Mitigating risks: health insurance, unemployment,</td>
</tr>
<tr>
<td>Money transfers (pensions, remittances from urban areas or abroad)</td>
</tr>
<tr>
<td>Cash flow management, income smoothing</td>
</tr>
<tr>
<td>Saving instruments</td>
</tr>
</tbody>
</table>

### Local government institutions

- District councils, etc.

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit for infrastructure development</td>
</tr>
<tr>
<td>Insurance: asset</td>
</tr>
<tr>
<td>Money transfers</td>
</tr>
<tr>
<td>Cash flow management, income smoothing</td>
</tr>
<tr>
<td>Saving instruments</td>
</tr>
<tr>
<td>Asset purchase</td>
</tr>
<tr>
<td>Payment for goods and services</td>
</tr>
<tr>
<td>Receipt of payments</td>
</tr>
</tbody>
</table>

Quantifying the scale of demand for finance in the rural economy is difficult because of the lack of research that has been done to enable estimates of potential demand for various types of financial services. More information is available on the agricultural sector as will be outlined below.

### 4.2. Farmers - Small and large scale farmers

This section explores demand amongst three key groups of farmers: A1 farmers - small scale; A2 farmers – plots of small, medium and large size; large scale commercial farmers, each of which is defined below.

Table 3, below, shows farmer groups in Zimbabwe and the associated land distribution patterns after the Fast Track Land Reform Programme (FTLRP). The three farming groups are categorized by scale of operation: i) smallholder, ii) small-medium, and iii) medium-large scale.
i. The smallholder sub-sector comprises communal, old resettlement and Model A1 farmers, constitutes 98 percent of the total farming population and occupies about 75 percent of the total agricultural land. Old Resettlement farmers have access to an average of 51ha and operate as a smallholder farming community. Model A1 refers to farmers who are resettled on a group basis, similar to the agrarian set-up in the communal areas and Old Resettlement areas. This group represents an extension of the communal area arrangements. The group mainly consists of former communal area farmers. Model A1 farmers operate as smallholder farmers with an average land holding of 40ha (Table 3). Average hectares range between 40 and 50 hectares depending on the source. The Communal Sector (CS) has remained as it was in 1980 and holds 16.4 million hectares of land. Communal area farms are estimated at approximately 1,100,000, each occupying on average 15ha. The subsector occupies about 49 percent of the agricultural land.

ii. The small-medium sector, including the Small Scale Commercial Sector (SSCS) and the small-medium scale model A2, constitutes about 2 percent of the total population and occupies about 7 percent of agricultural land. Model A2 farmers refer to those farmers who are settled on an individual basis and operate as commercial entities. Most land under the Model A2 is leased land, e.g. 99 year leases. Model A2 has 14,072 small to medium farmers and 1,500 medium to large scale farmers. Farmers in this group, numbering 15,572, have come from different sources, but largely constitute urban and rural elites as well as politicians (Moyo, 2004). The Small Scale Commercial sector has remained intact and holds 1.4 million hectares. By 1995, they numbered 8,000, with an average land holding of 175ha. The subsector owns about 4 percent of the agricultural land. Small-scale Commercial farmers and small-scale A2 farmers, combined, comprise 1.75 percent of the farmers in Zimbabwe.

iii. The medium-large-scale commercial sector, constitutes the remaining large-scale commercial farmers and the medium-large A2 farmers, makes up less than 1 percent (0.4 percent) of the total farming population and occupies about 10 percent of agricultural land. The Large Scale Commercial Sector (LSCS) consists of land owned by individual farm households and corporate estates owned by private companies, parastatals and churches. Individual farm households include large-scale commercial farmers, comprising the remaining white commercial farmers, black large-scale and the medium-scale A2 farmers who make up 0.4 percent of the farmers in Zimbabwe (Bvudzijena, 2009; Pazvakavambwa, 2009). In total they number 4,317 and occupy about 10 percent of the agricultural land (Table 3).

Table 3: Farmers’ categories, their distribution and average farm size after the Fast Track Land Reform Programme (FTLRP)

<table>
<thead>
<tr>
<th>Farm Class</th>
<th>Land Tenure</th>
<th>Farms/Household</th>
<th>Area</th>
</tr>
</thead>
</table>

21
<table>
<thead>
<tr>
<th>Category</th>
<th>Numbers</th>
<th>Percent of Total</th>
<th>Hectares (million)</th>
<th>Percent of Total</th>
<th>Farm sizes (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smallholder</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communal</td>
<td>1,100,000</td>
<td></td>
<td>16,400</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Old Resettlement</td>
<td>72,000</td>
<td>6.3</td>
<td>3.672</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>A1</td>
<td>141,656</td>
<td>12.2</td>
<td>5.700</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Sub total</td>
<td>1,313,656</td>
<td>98</td>
<td>25722</td>
<td>75.6</td>
<td>20</td>
</tr>
<tr>
<td>Small-Medium Scale Commercial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old SSCS</td>
<td>8,000</td>
<td>0.7</td>
<td>1.400</td>
<td>175</td>
<td></td>
</tr>
<tr>
<td>Small A2</td>
<td>14,072</td>
<td>1.1</td>
<td>1.000</td>
<td>71</td>
<td></td>
</tr>
<tr>
<td>Sub total</td>
<td>22,072</td>
<td>1.6</td>
<td>2.380</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>Medium-Large Scale Commercial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium-Large A2</td>
<td>1,500</td>
<td>0.1</td>
<td>0.900</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Black LSCS</td>
<td>1,440</td>
<td>0.1</td>
<td>0.900</td>
<td>625</td>
<td></td>
</tr>
<tr>
<td>White LSCS</td>
<td>1,377</td>
<td>0.1</td>
<td>1.200</td>
<td>871</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>4,317</td>
<td>0.3</td>
<td>3.000</td>
<td>695</td>
<td></td>
</tr>
<tr>
<td>Large Scale Commercial - Corporate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>657</td>
<td>0.1</td>
<td>1.000</td>
<td>1,522</td>
<td></td>
</tr>
<tr>
<td>Church</td>
<td>64</td>
<td>0.1</td>
<td>1.041</td>
<td>641</td>
<td></td>
</tr>
<tr>
<td>Parastatal</td>
<td>153</td>
<td>0.1</td>
<td>0.600</td>
<td>3,922</td>
<td></td>
</tr>
<tr>
<td>Sub total</td>
<td>874</td>
<td>0.1</td>
<td>1.641</td>
<td>4.9</td>
<td>1,878</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transitional</td>
<td>Unallocated</td>
<td>557</td>
<td>1.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,340,909</td>
<td>100</td>
<td>33.300</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Sukume (2009), Pazvakavambwa (2009), Bvudzinjena (2009)

As indicated earlier, the demand for financial services amongst these farmer groups is wide and includes: credit / guarantees for the purchase of inputs, fixed assets, consumption; insurance for farm and life cycle needs; working capital finance and bridging finance; transfers; foreign exchange; leasing; savings.

### 4.2.1 Short-term credit

The demand for financial services mostly revolves around the stages of crop production:
- before the start of the season, to purchase seeds and other inputs for distribution, often on credit
- in the middle of the season, fertilizers or pesticides are needed, often on credit
- at the end of the season, to cover transport, fuel and storage costs associated with collecting the product at harvest and to pay farmers, service implements.

The demand for credit by farmers is closely linked to the degree to which the producer is market oriented. They can be classified into three broad categories of farming households, namely, subsistence, semi-commercial and commercial, based on their production orientation, i.e. the extent to which the household strives to produce for own consumption and a marketable surplus. Mudimu (2003) estimated that 30-40 percent of the farming households in Communal Lands are subsistence farmers, 30-40 percent semi-commercial and 20 percent are commercial. The semi-commercial farming households strive to produce marketable surpluses of food crops and may grow cash crops earmarked for the markets to raise cash income. The commercial farmers are those farming households whose production of food crops is geared to producing a marketable surplus in addition to growing cash crops.
such as cotton, soya beans and tobacco. In some Communal Lands, commercial farming households grow cash crops mainly cotton, horticulture (tomatoes, bananas, leafy vegetables) and use the cash generated to purchase their food grain needs.

The scale of demand is uncertain as there is no comprehensive data available for agricultural credit. However, a study on the demand and use of agricultural finance by new farmers (A1 and A2), in which Mapfiza (2010) (quoted in Machethe et al 2011) reports that 45 percent of the A1 farmers interviewed, 65 percent of small-scale A2 farmers and 70-80 percent of the medium-scale farmers were interested in seeking agricultural loans if financial institutions began to offer credit. This suggests a strong, but unmet, demand for credit amongst small scale farmers. However, 35 percent of A1 farmers and 25 percent of A2 farmers expressed no interest in applying for agricultural loans due to fear of not being able to pay back.

A study in 2011\(^\text{29}\) indicates that commercial banks estimated the potential demand\(^\text{30}\) for credit in agricultural projects during 2010 was between USD437 million\(^\text{31}\) and USD549 million – although this may have involved some double-counting - of which the banks were able to supply only USD326 million in 2010, mainly to about 300,000-350,000 small-holder contract farmers of cotton and tobacco. These figures indicate a possible USD223 shortfall to the existing customer base. Table 3 above, however, indicates that the potential market for financial services to farms/households is 1.3 million farms/households, which also suggests that there is a large untapped market for credit and other financial services to the farming sector.

\(^{29}\) USAID, Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program. “Harare, 2011.

\(^{30}\) USAID, Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program. “Harare, 2011. “According to the banks’ assessment, they managed to supply $326 million credit to the agricultural sector for approved agricultural project proposals to the value of USD549 million.”

\(^{31}\) Even if 50 percent of the value of that shortfall is discounted for double counting of possible submission of the same projects to multiple banks for funding, the shortfall in bank credit supply remains substantial at $111 million.
Table 4: Commercial Banks’ Supply of Credit to Agricultural and Agribusiness Sector

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Agricultural Loan Book (% All loans)</th>
<th>Estimated Supply Shortfall</th>
<th>Credit Facilities by tenure</th>
<th>Loans Conditions Interest rate Min loan size</th>
<th>Target clientele</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agribank</strong></td>
<td>25 million (83%)</td>
<td>+2 million</td>
<td>$10mil. Facility 20mil MzSoy Credit</td>
<td>Tobac facility@24% plus 4% MzSySor Facility@8% plus 4% Full collateral asset cover reqd</td>
<td>A2 farmers only Tobacco, maize soybeans and Chibuku sorghum crops Only</td>
</tr>
<tr>
<td><strong>Standard Chartered</strong></td>
<td>&gt;50 million (45%)</td>
<td>+50 million</td>
<td>$20 million CGF 30 to 180 day loans 12 to18mths loan</td>
<td>8 to 12% loan: &gt;$1million SME loans &lt;$1m Full collateral cover</td>
<td>Focus is on a small set of top corporate clients with local and offshore assets</td>
</tr>
<tr>
<td><strong>CBZ</strong></td>
<td>150 million (35%)</td>
<td>+100 million</td>
<td>90day, 180day, 12 to 18months; Overdraft facility MF group facility $100 to $100,000</td>
<td>15% to 20% p.a Collateral assets Invoice financing For MF credit to traders, farmers, – group approach</td>
<td>No target client, no target enterprise, customized credit large corporate e.g. Surface, Seedco, A1 and A2 farmers Agro-firms, informal traders.</td>
</tr>
<tr>
<td><strong>Barclays Bank</strong></td>
<td>&gt;6 million (14%)</td>
<td>90 – 180 days</td>
<td>15% interest 30% collateral asset Bank Guarantee</td>
<td></td>
<td>Agro firms and established farmers with title deeds</td>
</tr>
<tr>
<td><strong>ZB Bank</strong></td>
<td>&gt;9 million (12.5%)</td>
<td>+10 million</td>
<td>Agri-credit of up to 12months, agro bill funded</td>
<td>23% p.a inclusive interest Collateral assets</td>
<td>A1 and A2 farmers. Floated agro bonds</td>
</tr>
<tr>
<td><strong>ZABG</strong></td>
<td>&lt;1 million (8%)</td>
<td>+5 Million</td>
<td>30 to 90 day facilities Overdraft facility</td>
<td>12% to 36% Bank guarantees</td>
<td>Small businesses Bank depositors</td>
</tr>
<tr>
<td><strong>Premier/ Ecobank</strong></td>
<td>&gt;3 million (17%)</td>
<td>+6 Million</td>
<td>30 to 90 day facilities Overdraft facilities</td>
<td>15% and E% to 20% Collateral assets</td>
<td>Established agri firms, long standing customers,</td>
</tr>
<tr>
<td><strong>NMB</strong></td>
<td>11million (17%)</td>
<td>+10 million</td>
<td>90 to 120days 30 days Overdraft Invoice financing</td>
<td>Loans - 28% to 60% Overdraft -24% $250000 firms Personal overdraft: $25000, Collateral and Bank guarantee</td>
<td>Farmers: Commercial A2 with collateral, horticulture Poultry/pigs/dairy seed houses, processors</td>
</tr>
<tr>
<td><strong>Metropolitan</strong></td>
<td>&gt;4 million (14%)</td>
<td>+5 Million</td>
<td>90 to 120 days Loan overdraft</td>
<td>24% to 38% Full collateral cover</td>
<td>A2 Tobacco, hort. farmers Established agro firms</td>
</tr>
<tr>
<td><strong>CABS Society</strong></td>
<td>&lt;5 million (8%)</td>
<td>+10 million</td>
<td>90 day to 120 day loans</td>
<td>20 % to 25% Collateral cover,</td>
<td>SME business operators, traders,</td>
</tr>
<tr>
<td><strong>FBC</strong></td>
<td>5 million (7%)</td>
<td>+5 Million</td>
<td>15% to 24%</td>
<td>26% plus, collateral or pay slip</td>
<td>Target formally employed, formally registered firms</td>
</tr>
<tr>
<td><strong>Stanbic</strong></td>
<td>6million (6%)</td>
<td>+14 million</td>
<td>90day to 180days Collateral</td>
<td>12%, 19 ERR Full collateral cover</td>
<td>Target large corporations e.g. Cottco, Olam, Reapers, A2</td>
</tr>
<tr>
<td><strong>Micro King-MFI</strong></td>
<td>&lt;1million (7%)</td>
<td>+1 Million</td>
<td>90 days – 12 mths,</td>
<td>25% to 35% $300 to $100000 Movable property Group lending approach</td>
<td>Informal grain traders, cross border traders, rural agro traders, horticultural farmers, Small processors and millers</td>
</tr>
<tr>
<td><strong>MBCA</strong></td>
<td>25 million (28%)</td>
<td>+10 million</td>
<td>90 day facility 12 to 18mth Overdraft</td>
<td>15% to 22% $100,000 to $200,000 Collateral assets, 15 working day processing time</td>
<td>Large corporate firms e.g. Northern tobacco, Natfoods, Delta, Produtrade, invoice financing, order financing</td>
</tr>
<tr>
<td><strong>Other banks TN, ABC</strong></td>
<td>47 million (22%)</td>
<td></td>
<td></td>
<td></td>
<td>A2 Commercial farmers with deeds, Agro firms,</td>
</tr>
<tr>
<td><strong>TOTAL SUMMARY</strong></td>
<td>326Million (100%)</td>
<td>223 million</td>
<td>Max: 18months</td>
<td>Interest rate: 12% - 60%</td>
<td>No focus on (i)Rural communal farmers (ii) Informal rural traders</td>
</tr>
</tbody>
</table>

Source: Fintrac, 2011. Interviews with Commercial Banks. RBZ Monetary Statement December, 2010
The importance of credit to the agricultural sector and for national and rural development is demonstrated by reports that the USD 326 million credit mentioned above helped generate in the region of USD2 billion worth of agricultural output.\(^{32}\)

Demand for MFI services increased exponentially in the early 1990s and most were not able to meet the demand. Zambuko Trust, for example, which like many MFIs supplied services to numerous small-scale entrepreneurs, smallholder farmers and women entrepreneurs, adopted a policy not to advertise its services in the press because it would not be able to satisfy the demand, relying instead on word of mouth referrals.

### 4.2.2 Savings

Savings are deposits that allow savers to keep money for future use, to meet unexpected expenses and to plan for future investments (Chigara, 2001). According to Chigara (2001), Africa’s poor have a strong demand for savings as evidenced by increased access to and use of savings services through credit union networks, village savings groups and other financial service providers which expanded in the period 1980 to 1990. He also notes that savings are generally more widely demanded than loans. In Zimbabwe, savings service providers include formal regulated institutions, such as commercial banks, the People’s Own Savings Bank (POSB) and informal, member-owned and managed institutions, such as rotating savings and credit associations (ROSCAs).

The culture of saving is very strong in Zimbabwe. Rural farming households and smallholder farmers use savings predominantly for agricultural inputs and to meet needs such as school fees, school uniforms, business working capital and loan repayments. Evidence from the saving activities (i.e. deposits and withdrawals) of rural saving clubs suggests that the demand is seasonal. The peak lending or borrowing season is October to January (mainly to finance agricultural inputs and school fees and uniforms) with loans becoming due from April to September (Chigara, 2001). December and January followed by April/May and August/September are months when there are least savings and/or highest withdrawals as households repay loans and use their savings to purchase agricultural inputs for the coming season.

### 4.2.3 Insurance

There are many risks associated with farming: Weather related: droughts, floods, hail, crop failure; socio-economic related: farmer input repayments, political, theft, business failure, death, medical; accident related: fire, etc.

Smallholder farmers, unlike their large scale commercial farmers, have limited exposure to and understanding of the costs and benefits of crop and weather insurance. Costs are seen to be high and therefore demand is weak amongst small scale farmers. Demand for this type of insurance is stronger amongst large scale commercial farmers.

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\(^{32}\) USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare, 2011
Potential demand for crop and weather insurance amongst smallholder farmers may also be stronger than actual demand because, apart from perceived high costs, insurance companies are still adjusting to the changes in the agricultural sector. Thus, the products they previously offered to large scale commercial farmers are not relevant to small scale farmers, and information about new markets to use for the design of new products is still lacking. Consequently new products are in the early stage of development. However, if stability returns, there could be growth in the availability of agricultural credit from commercial banks, it is expected that the demand for insurance will expand. Demand is also driven by the suppliers of agricultural finance who require farmers to be insured as a condition for loans. Anecdotal information suggests that crop insurance for medium-sized contract farming companies is in high demand and is boosting both contract farming and the demand for insurance.

Traditionally, large scale commercial horticulture and particularly tobacco farmers have taken out crop insurance to protect themselves from hail and fire losses. Demand from small scale farmers has been very limited in the past but, according to the Chief Executive of the Tobacco Industry Marketing Board (TIMB), this may be changing. Some small scale tobacco farmers in Zimbabwe are also now taking out hail insurance to cover crops and to attract contract farming companies which will finance their crop production. The current value of hail insurance premiums is related to the value of the tobacco crop. The estimated market value of the 2010/2011 tobacco crop is USD800- USD900 million which, at premiums of between 5 – 6 percent of crop value, will generate about USD40-54 million worth of hail insurance. The demand for insurance cover against hail, and other hazards, such as fire, is expected to increase.

Political risk reportedly adds 4-7 percent to the cost of finance\(^{33}\), and remains an obstacle to the availability of investment finance to the sector. Investors are wary of the possibility of losing their investments through insecurity of land tenure, lack of law enforcement, as well as the threat to investment from legislation such as the Indigenisation Act. Political risk insurance offers a way to mitigate such risks. There is some potential demand for political risk insurance by large scale farmers (and buyers and processors) as a way of reducing the cost of borrowing. An example of this type of insurance is the World Bank’s Multilateral Investment Guarantee Agency (MIGA)\(^ {34}\), which offers political risk insurance guarantees to private sector investors and lenders. This facility could provide a way to improve Zimbabwe’s high risk investment status through guaranteeing the protection of investments, thereby helping investors to access funding on improved financial terms.

Livestock insurance, mainly for cattle, is provided to cover losses that may be incurred due to disease outbreaks, theft and lightning. The demand for cattle insurance by small- and large-scale commercial farmers is increasing due to the incidence of theft and to support loan applications (Uzande, 2011, quoted in Machethe et al 2011).

\(^{33}\) Mr R Grau, Standard Chartered Bank, Interview on 31 January 2012
\(^{34}\) [http://www.miga.org/](http://www.miga.org/)
Demand amongst small-scale farmers is strong for funeral products and these are often provided through membership of informal insurers such as burial societies.

4.2.4 Longer term credit and leasing

There is little information on longer term credit demand, partly because banks currently do not offer such finance and partly because the government agencies that used to do this have not been lending for several years. However, the agricultural sector needs on-going investment in water supply infrastructure development (i.e. the construction of dams and irrigation) and road infrastructure, such as feeder roads to facilitate the marketing of agricultural produce. In addition, many farmers require credit for building barns, processing plants, and also for building infrastructure for livestock development. Many farms, especially larger farms, also often play a role in building educational and health facilities.

There is demand for leasing services as almost all farmers require longer-term options to finance machinery and equipment purchases, make farm improvements and invest in productive technologies and assets such as improved livestock progeny. Up until 2007, Zimbabwe used to have a relatively vibrant leasing sector with a significant number of commercial agricultural clients. Finance houses providing leasing services mainly focused on offering asset-based instruments in the form of hire purchase and lease hire advances to individuals, corporate business and large commercial farmers. Most of the leasing instruments were for plant and machinery, comprising tractors, combine harvesters, ploughs, agro-chemical sprayers, treadle pumps, maize shellers, etc. With the changes in the economy and in the agricultural sector, the leasing sector all but collapsed.

Currently, there are very few providers of lease finance. Commercial banks are not providing longer term finance, except to large-scale farmers and corporate farms as special lines of credit in the absence of lease and hire firms. Leasing is, however, reported to be beginning to re-emerge as a way to spread costs over a longer period, particularly for capital equipment purchases.

Whilst data on the demand for micro-leasing by small- and medium-scale farmers are hard to come by, there is information that is indicative of potential demand. Approximately 80 percent of current equipment sales are to A2 farmers, and could well be financed through micro-leasing, as an alternative.35

There is also potential demand for leasing crop storage facilities.

4.2.5 Transactions

Until recently, cash transmissions for rural people were difficult and costly, entailing travel to an urban area and transacting through a bank, building society, post office or commercial service such as Western Union, or using buses to courier the money for a fee. Mobile banking, which was introduced in 2011, is transforming the financial sector and is playing an

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important role in integrating financial services. The introduction of this technology has shed light on the demand for such services amongst small scale farmers and other rural populations. With a total population of an estimated 11.3 and an estimated 8-9 million mobile subscribers, about 70-80 percent of the population could have a mobile phone, and those with access are likely to be well in excess of this as people often share phones.

A number of mobile banking services have recently been established, including Econet Wireless’ EcoCash, CABS Bank’s Textacash, Kingdom Bank’s Cellcard, Tetrad’s eMali, Interfin Bank’s Cybercash, CBZ Bank’s Mobile Banking, ZB Bank’s E-wallet, Standard Bank’s Instant Money, TelOne, Net One and Cell2Cell. EcoCash currently has the largest customer base and widest coverage of agents and, in April 2012, had registered approximately 600,000 subscribers for its mobile banking service since it was launched at the end of September 2011.

The speed with which registration has occurred for this and other mobile banking services gives a very clear indication of the extent of latent demand for transactions services and suggests that the demand for this type of service has been inadequately met for many years. In its market feasibility study, Cell2Cell estimated the size of the market for transactions services for tobacco and cotton growers alone at about US$75 million in the first year. The proposed venture has received tentative support from the Tobacco Industry Marketing Board and the Zimbabwe Farmers’ Union (ZFU), the largest of the four farmers’ unions, which has a paid-up membership of 250,000 farmers, most of whom are rural smallholder farmers. ZFU membership is one indication of the magnitude of potential demand for mobile phone-based financial services amongst farmers.

Mobile banking services provide small- and large-scale farmers with a convenient way to do financial transactions such as settling bills, receiving payments (e.g. pensions, remittances from urban areas or abroad, payments from contract companies for crop sales, etc.), making purchases for inputs and groceries, etc. The service also enables contract farming companies to make electronic payments to large numbers of individual small-scale contract farmers, rather than transporting large amounts of cash into rural areas, which is costly and risky. Some tobacco auction floors have begun paying farmers using this method and some cotton companies have begun paying their farmers at the point of crop delivery or collection using mobile phone accounts. Some mobile service providers have the facility to ‘lock in’ money for specific purposes, e.g. purchase of a designated brand and amount of seed or fertiliser, and some contract farming companies are using this to provide inputs to contract farmers through rural-agro dealers, rather than procuring and distributing inputs themselves. This is having a positive effect on the rural economy through increasing the trade activity of rural businesses.

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38 L S M Kabweza, *Zimbabwe’s tele-density rises to 74.7%*, TechZim, 11 January 2012, http://www.techzim.co.zw/2012/01/zimbabwes-tele-density-rises-to-74-7/
Mobile banking services also offer considerable potential for savings products and there is some evidence to suggest that users are beginning to use this facility, although uptake has been slow given limited incomes and lingering distrust of the financial sector.

4.2.6 Foreign exchange

Foreign exchange services are needed by small-scale farmers who trade commodities with neighbouring counties: Malawi, South Africa, Zambia, Mozambique and Tanzania. In the 2009/10 season, informal cross border trade in Zimbabwe in maize (excluding maize meal) amounted to about 31,500 metric tonnes, about 90 percent from Zambia and almost all imports. At a price of between $300 and $400 a tonne, or an average of $350/tonne, this translates into $1.1 million in informal foreign transactions for maize alone. The scale of trade and that almost all of this is likely to be done in risky cash transactions indicates the significance of potential demand for foreign exchange services and the size of the potential market for service providers. The actual figure is certainly higher as it does not include informal cross-border foreign transactions for other agricultural commodities traded by small-scale farmers, nor for non-agricultural commodities.

4.3. Rural based agro-dealers, rural commodity buyers, transporters and other rural businesses

There is not a great deal of information available that is specific to the demand for financial services by rural based agro-dealers. However, this section will highlight key issues.

4.3.1 Short-term credit

Like most businesses, most rural based agro-dealers, including input suppliers, rural commodity buyers and transporters require credit for working capital to purchase inventory and manage cash flow. As with other businesses, rural businesses lost almost all of their cash assets during the hyperinflationary period and subsequent dollarization. The MFIs and informal sector money lenders who previously supplied credit were similarly affected and they, like many rural businesses, closed during this time. Since the stabilisation of the economy and business recovery, the demand for credit amongst this sector has grown again.

Because most rural businesses are small, small amounts of stock are purchased frequently and quick turn around and replenishment of stock is essential. Short-term credit is required for this purpose. Credit also allows agro-dealers to diversify stock to cater for different market segments and to be able to lower stock purchase prices through buying in bulk. Input suppliers, commodity buyers and transporters need credit on a seasonal basis, with input

41 USAID, Zimbabwe Agricultural Sector Market Study, Weidemann Associates, June 2010
suppliers requiring credit at the beginning of the season and commodity buyers who purchase crops and harvest transporters requiring credit at the end of the season.

Estimating the demand for micro-credit by rural SMEs (including agricultural SMEs) is difficult for a number of reasons. The principal sources of credit to rural and agricultural SMEs have been microfinance banks and microfinance institutions (Ngwenya and Ndlovu, 2003; Rusakaniko, 2007). As these microfinance institutions lost their financial assets during the hyper-inflation period (2007-2008) and the subsequent dollarization in early 2009, they were unable to lend. With the supply of micro-credit severely depressed, it is very difficult to estimate the demand from rural and agricultural SMEs. Furthermore, most of the information currently available on the demand for loans from SMEs relates to small enterprises in urban areas.

However, Klinkhamer (2009), in a study on the micro finance sector, has estimated the demand for credit by medium and small enterprises in rural areas to be $50 million. It is difficult to say how demand may have changed since then, but increases in costs suggest that demand is well in excess of this figure.\(^\text{42}\)

The numbers of farmers and traders involved in various types of agro-enterprises also gives an indication of the size of the potential demand for rural and agricultural financial services. See Table 5. If 20 percent of these enterprises required credit (as Klinkhamer’s study suggests) at an average loan size of $1,000, demand would be in the region of $75 million p.a. Both the percentage and the loan size for this estimate are likely to be conservative and demand is therefore likely to be much higher.

Table 5: Number of Small Enterprises Per Sub-Sector Commodity

<table>
<thead>
<tr>
<th>Name of enterprise</th>
<th>Number of small enterprises per sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize</td>
<td>116,422</td>
</tr>
<tr>
<td>Cotton</td>
<td>36,001</td>
</tr>
<tr>
<td>Vegetables</td>
<td>50,000</td>
</tr>
<tr>
<td>Bananas</td>
<td>7,000</td>
</tr>
<tr>
<td>Groundnuts</td>
<td>6,811</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>600</td>
</tr>
<tr>
<td>Tea</td>
<td>1,900</td>
</tr>
<tr>
<td>Forestry</td>
<td>10,663</td>
</tr>
<tr>
<td>Paprika</td>
<td>5,838</td>
</tr>
<tr>
<td>Cattle</td>
<td>14,631</td>
</tr>
<tr>
<td>Goats</td>
<td>6,999</td>
</tr>
<tr>
<td>Poultry</td>
<td>118,948</td>
</tr>
<tr>
<td>Pigs</td>
<td>2,996</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>378,809</strong></td>
</tr>
</tbody>
</table>

Source: Klinkhamer (2009)

The scale of demand for short-term credit is difficult to establish for rural agro-dealers because there appears to be no studies on this sector. However, if one assumes conservatively that each of the 1,200 wards in the country has two agro-dealers requiring stock of $15,000 per year (using Stichting Nederlandse Vrijwilligers, SNV, the Netherlands Development Organization) Rural Agro-Dealers Restocking Programme\(^{43}\) restocking value of $545,000 for 71 rural shops), potential demand would be in the region of $36 million annually.

4.3.2 Savings

Like other business, rural based agro-dealers and businesses require savings services to store their working capital in between sales and stock repurchase, and to make interest on it. There is little information on the savings needs of rural based agro-dealers, so it is difficult to estimate demand for this service.

4.3.3 Insurance

There is little awareness of and consequently little demand for insurance services amongst rural agro-dealers. In addition, like the banking sector, the insurance industry has not previously focused a great deal on rural clients and so there is not much information on demand available from the insurance sector. However, SNV’s Rural Agro-Dealer Restocking Programme (RARP)\(^{44}\) had a component of insurance for rural agro-dealers which gives


some insight into the insurance needs of this segment. SNV funded premiums on insurance policies (fire, theft, non-repayment to input supplier, money and recall, goods in transit) to cover agricultural inputs to be sold in agro-dealer stores. Working with three supply companies, insurance premiums to the value of $112 000 was paid for 659 agro-dealers in 2009. Training on risk management was also provided. As a result, the dealers were linked to wholesalers and received agricultural inputs worth over $9 million, which were in turn accessed by an estimated 113 800 farmers. It is not clear if the agro-dealers in SNV’s pilot continued the insurance after the pilot ended, but it nonetheless indicates the usefulness and benefits of insurance to agro-dealers and suggests the presence of broad latent demand for such services.

Rural businesses may also have need for insurance to cover other sorts of risks, such as business failure, death of a key person and public liability. However, demand is probably limited by perceived high cost, unsuitability of insurance products to rural markets and lack of awareness and understanding of insurance.

The insurance sector is still in the process of understanding the new socio-economic relationships in rural areas following the Fast Track Land Reform Programme (FTLRP) and it is possible that there will be a greater focus on rural clients in the future and that products will be designed specifically for this market.

In much the same way as insurance, credit guarantees offer a form of risk management and there could be demand for such a facility.

4.3.4 Longer term loans and Leasing

It is difficult to assess demand for this service with the lack of information. However, it is likely that most rural agro-dealers and rural businesses need loans to make improvements to premises, purchase vehicles and processing equipment, etc. Longer-term loans would be needed for this.

Most leasing companies do not focus on rural markets currently because of the shortage of finance and because other markets are more attractive.

4.3.5 Transactions

All businesses, including rural businesses, need to be able to do financial transactions. Banks offer transaction services in the form of cheques, ATMs, Real Time Gross Settlement (RTGS). The difficulty for rural businesses is cost and physical access: bank accounts are relatively expensive for many small rural businesses, banks are located mainly in urban areas and most do not target rural businesses as they are not as attractive as other more lucrative markets. So, cash is often used as a means of conducting transactions which makes quantifying demand difficult.
The introduction of mobile banking has enabled many rural dealers to conduct purchase transactions with rural customers more easily. Transactions can be done between accounts on customers’ and farmers’ phones, the phones (or other electronic mechanism) of rural business/agents and between rural business/agents and their suppliers who are linked to the service. Although it is difficult to quantify the numbers of rural business users using the services, demand is likely to be very strong as indicated by the uptake rates described in section 4.2.5. Demand is also enhanced by the easy availability of mobile services to rural businesses, as many are within range of mobile phone signals.

4.3.6 Foreign currency

As mentioned earlier\(^\text{45}\), the scale of informal cross-border trade to and from Zimbabwe suggests strong latent demand for foreign currency services. Much informal cross-border trade in agricultural commodities is done by rural commodity buyers and businesses that also require such services. Trade in non-agricultural items also occurs.

4.4 Medium and large scale agro-businesses – formal sector buyers, manufacturers, input suppliers, processors, exporters

4.4.1 Short-term credit

Medium and large scale agro-businesses, including companies which buy and process agricultural outputs, exporters and input suppliers such as seed and fertiliser companies require short-term credit to:

- purchase inputs for production
- pre-finance seeds, fertiliser and other inputs for farmers for the planting season
- provide mid-season agro-chemicals and additional inputs
- purchase crops and pay for transport, fuel and storage cost at the end of the season
- cover storage, processing costs, marketing and packaging, transport to final market, and to cover operational costs until payment is received from the end buyer, which is often 60-90 days after delivery

As mentioned earlier, a recent study\(^\text{46}\) on short-term credit indicates that commercial banks estimated the potential demand for credit in agricultural projects during 2010 at between $437 million\(^\text{47}\) and $549 million, and that they were only able to supply $326 million in 2010, mostly to tobacco and cotton contract farming companies. This implies that there was a substantial ($223 million) gap between supply and demand. The strength of potential demand for short-term credit amongst large commercial companies is confirmed by Standard Chartered Bank which reported that it could triple financing to its existing contract farming


\(^{46}\) USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare: 2011

\(^{47}\) Even if 50 percent of the value of that shortfall is discounted for double counting of possible submission of the same projects to multiple banks for funding, the shortfall in bank credit supply remains substantial at $111 million.
customers, if more funds – and more collateral against which to secure loans – were available. This does not reflect demand by large tobacco and cotton companies and exporters who also source finance from parent companies or from offshore suppliers.

4.4.2 Savings

As discussed earlier, the volumes of savings in Zimbabwe are very low. The main reason for this is that company and individual cash savings, accumulated over years, were wiped out through hyperinflation. As a result, companies started from a zero balance at the time of dollarization and have been unable to rebuild significant savings because of the lack of conducive economic conditions. Apart from the limited capacity to build up reserves, many companies lost millions of dollars of savings held in the formal banking system as a result of the appropriation of foreign currency accounts by the Reserve Bank of Zimbabwe in 2009 and this has created a lack of trust in banks holding savings. In addition, real interest rates on savings accounts are unattractive. As a result, there is limited use of the formal banking system for accumulating savings.

4.4.3 Insurance

Insurance is useful to medium and large commercial companies throughout the value chain as a means both of transforming passive assets into assets which can be actively used to access capital – for example, insured assets can be used as loan collateral by reducing the risk associated with farmer default (in the case of contract farming companies) – and of enabling input suppliers and agro-processors to manage risk. There is also some demand for insurance by contract farming companies, e.g. covering loss of crop value through drought, hail, theft and side-marketing, and there are some smallholder-specific insurance products on the market to address these risks, e.g. ZIMNAT Lion Insurance Company Limited is offering crop insurance to 2,000 contract farmers. However, the premiums (8 percent–15 percent) are often perceived to be high and one leading cotton company, which was offered drought insurance at 10 percent of the crop’s value, decided to take the risk rather than pay the cost.

Another aspect of insurance relates to credit guarantees. Input guarantee programs operate with a guarantor (contract company, a bank, government, or an NGO, etc.) who guarantees payment to suppliers for inputs advanced to farmers. The government, through AgriBank, used to offer input guarantees, but this facility is no longer available. Contract farming companies are interested in finding ways to obtain credit to supply inputs to small-scale contract farmers. However, most are unwilling to put up their own limited collateral resources to secure input credit unless farmers buy credit insurance or are covered by some form of credit guarantee. This suggests that there is likely to be interest in credit insurance and guarantee products if the terms and conditions are attractive.

48 Mr R Grau, Standard Chartered Bank, Interview on 31 January 2012
49 In December 2010, it was revealed that the Bank raided some US$83 million from the statutory reserves of local banks, US$80 million from mining firms and other exporters as well as US$20 million from the accounts of non-governmental organisations, http://www.4castresearch.com/banking-finance/treasury/2838-blame-it-on-me-gono.html
Some examples which illustrate the demand for credit guarantees include CBZ which offers a guarantee program to a fertilizer manufacturer to supply smallholder farmers, mostly for maize production. Farmers enter into an agreement with the bank, which includes collateral conditions, and access fertilizer on credit from the supplier. The bank, which has a memorandum of understanding with the supplier, guarantees payment in 270 days. At harvest, farmers repay the bank and the bank pays the supplier. If the farmer defaults, the bank claims the collateral. Another example is that some fertiliser and seed suppliers (Windmill, Quotum) supply inputs to farmers through contract farming companies, using bank guarantees. A third example is Standard Chartered Bank which has a Development Credit Authority arrangement with USAID, which provides guarantees to selected companies in the agricultural sector, including some involved in contract farming. The arrangement works on 50-50 risk participation between the bank and USAID.

These examples suggest substantial demand for credit guarantees for input supply. There are also similar guarantees, for example, for crop value. If the actual yield falls below a guaranteed yield, an indemnity is received equal to the difference in yield times a previously agreed upon price. Contract farming companies are also interested in covering the risk of side selling.

4.4.4 Longer-term credit and Leasing

There is not a great deal of information available on demand for longer-term credit, but manufacturers of inputs, such as fertiliser and agro-chemicals, as well as agro-processors need to make longer-term capital investments in the form of upgrading processing equipment and for premises maintenance and improvements. There is certainly a demand for medium/long term loans for this purpose and probably for the leasing of equipment, but it is difficult to quantify. It is likely that supply is a problem as banks are not currently offering long term credit, partly due to the fact that about 90 percent of their deposits are in volatile, short-term deposits.51

4.4.5 Transactions

Most formal sector businesses conduct transactions through bank-to-bank transfers or bank drafts with other formal sector businesses with bank accounts. However, until recently, many contract farming companies were transporting large amounts of cash to pay small-sale farmers as there was no other means of making transfers to farmers for crop purchases, as most do not have bank accounts. Mobile banking is now increasingly being used by buyers and processors who buy crops directly from small-scale farmers or rural-based commodity buyers. As mentioned earlier, tobacco and cotton contract companies are using mobile banking services to pay their small-sale farmers, thereby reducing both risk and cost. Contract farming companies are also using mobile banking services to provide input credit.

4.4.6 Foreign exchange

Foreign currency services are required by most formal sector buyers, manufacturers, processors and input suppliers as most need to import inputs and equipment for production. Exporters require such services as part of their sales operations and for transport to final market. These services are obtained from the formal banking sector.

4.5. Demand section summary

The demand for agricultural and rural finance is large and diverse. Farmers, rural agro-dealers and rural enterprises, small, medium and large-scale buyers, processors and exporters as well as rural residents and local government offices have a wide range of needs for financial services to enable their operations to purchase commodities, make and receive payments, mitigate risk, provide working capital, purchase assets, manage cash flow, finance leases, obtain foreign currency, manage life events, etc.

The nature of demand for agricultural and rural finance changed greatly as a result of the land reform programme in 2000 which saw commercial agricultural output drop precipitously and the numbers of large-scale commercial farmers drop to a fraction of the pre-2000 level. Whilst large scale commercial agriculture has declined, the commercial output of some small scale farmers who benefited from land reform has risen through access to more and better land.

Because of the limited supply of credit and its prohibitive cost, due to the shortage of funds for on-lending, much demand goes unmet. The importance of credit to the agricultural sector is enormous and food security, health and employment/livelihoods in agriculture and the broader economy, are heavily dependent on the outputs that the sector produces. This is highlighted by the report which notes that from the $326 million credit advanced to the sector in 2010, an estimated $2 billion worth of agricultural output was produced. The demand for credit by rural enterprises and traders is also growing as the economy revives. Their need is mostly for short-term credit to make small inventory purchases with a quick turnaround time and for purchase of crops at the end of the season. The demand for credit by rural agro-dealers could be in the region of $36-$75 million. However, longer term credit is also in demand.

Short-term credit is needed by medium and large scale agro-businesses for input purchase, transport, storage and marketing, but constraints in the supply of funds for on-lending mean that much of the demand goes unmet.

Zimbabweans have a strong culture of saving and many rural people participate in some form of saving activities. Small-scale farmers draw on savings mostly at the beginning of the season to finance the purchase of seeds and fertiliser and to pay school fees. Rural enterprises require savings services to store money safely and productively in between purchasing stock and selling it. However there is little information on the scale of demand. Businesses’ demand for savings is limited by a lack of trust in the financial sector.
Demand for crop insurance is limited as many small-scale farmers have little understanding and awareness of insurance, and large-scale farmers who were the largest market for agricultural insurance prior to the land reform programme, no longer demand the service as most have lost their farms. In addition, the lack of weather indexed crop data makes designing crop insurance difficult and increases the cost of cover, making insurance products less attractive. However, the demand for such products could be stimulated: many contract farming companies require some form of insurance to cover the risk of farmer repayment default, and, as farmers want credit, they are often willing to pay for insurance, either directly or through the companies to whom they are contracted, in order to secure input credit.

The demand for crop insurance by large contract companies is also limited due to the perception that premiums are high and the lack of awareness by some farmers and rural enterprises of how insurance works.

There is also demand for credit guarantee/insurance products that cover the risk of farmers’ not repaying input credit. Several contract farming companies and input suppliers are using such products currently.

Political risk adds an estimated 4-7 percent to the cost of finance although there are products available to cover this risk, e.g. from the World Bank’s Multilateral Investment Guarantee Agency (MIGA). This could be a way to reduce the cost of finance in Zimbabwe. SNV’s Rural Agro-Dealer Restocking Programme (RARP) gives a good indication of the potential demand for insurance by agro-dealers. It demonstrates the value that even a small amount of insurance can add to turnover by rural stores and suggests demand which can be sustained after donor funding ends.

Leasing finance is in demand by farmers and rural enterprises for acquiring and upgrading machinery and livestock, but availability is limited due to the lack of longer-term funds for on-lending and because many leasing companies are no longer operating. However, the industry is beginning to show signs of reviving.

The demand for transactions services has been demonstrated with the introduction of mobile banking services. Almost a million subscribers have registered for cell phone-based transactions services with various providers in the year since the service was first introduced. These services are affordable for many small-scale farmers, rural businesses and rural people and the reach of the service, as measured by access to a mobile signal, and the fact that about 77 percent of the population has a mobile phone, is extensive in rural areas. Mobile banking is likely to provide great competition to MFIs for some types of financial services.

The demand for foreign exchange services is often overlooked, but information gathered for this report indicates that there is significant demand for this service from cross-border traders in agricultural produce.
5. Supply

5.1. Overview

The Zimbabwe banking sector comprises the Reserve Bank of Zimbabwe (RBZ) which has overall supervision of the sector, discount houses, commercial banks, merchant banks, finance houses, building societies, the People’s Own Savings Bank (POSB), asset management companies, microfinance institutions and money transfer agencies. All financial institutions, including MFIs, must be registered and licensed to operate under the Banking Act [Chapter 24:20]. Under this Act, the Reserve Bank of Zimbabwe (RBZ) is the regulatory authority and supervises the operations of all financial institutions, except Savings and Credit Cooperatives (SACCOs), which are supervised by the Ministry of Cooperatives.

As at January 2012, Zimbabwe’s banking sector comprised 26 operational banking institutions, 16 licensed Asset Management Companies and 157 operating microfinance institutions.

Table 6: Overview of Zimbabwe’s banking sector, January 2012

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>17</td>
</tr>
<tr>
<td>Merchant Banks</td>
<td>4</td>
</tr>
<tr>
<td>Finance Houses</td>
<td>0</td>
</tr>
<tr>
<td>Discount Houses</td>
<td>0</td>
</tr>
<tr>
<td>Building Societies</td>
<td>4</td>
</tr>
<tr>
<td>Saving Banks</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Commercial Banks</strong></td>
<td>26</td>
</tr>
<tr>
<td>Asset Management Companies</td>
<td>16</td>
</tr>
<tr>
<td>Micro-finance Institutions (MFI)</td>
<td>157</td>
</tr>
</tbody>
</table>

Source: RBZ Monetary Policy Statement (January 2012)

Of the seventeen commercial banks, four have some degree of state ownership and the others are wholly private owned. Four of the privately owned commercial banks are multinational banks with a majority of foreign ownership. The latter face the prospect of losing their majority foreign ownership as a result of the new Indigenization and Economic Empowerment Act [No. 14 of 2007] that requires them to indigenize 51 percent of their shareholdings.52

Total bank deposits have been increasing quite rapidly since dollarization and stood at about $3.3 billion in November 2011, up from $1.4 billion when dollarization began in 2009 and $2.5 billion at the end of 2010 (RBZ 2011). This is a promising sign of recovery of investor confidence in the financial sector.

52 USAID, *Zimbabwe Agricultural Sector Market Study*, Weidemann Associates, June 2010
Figure 8: Total bank deposits held by Zimbabwean banks (USD millions) increased at an average monthly rate of USD88.4 million (about 4%) during 2011. (Year on year inflation was 4.9% at December 201153.)

USD mill

![Graph showing total bank deposits held by Zimbabwean banks from October 2010 to November 2011.](image)

Source: RBZ Monetary Policy Statement (January 2012)

Deposits in the banking sector continue to be of a short-term, volatile nature (almost 90 percent of deposits relate to salary payments), making it difficult for banks to provide the longer-term financing needed for infrastructure development, leasing and recapitalisation and expansion projects without creating a serious funding mismatch. A further indication of the inability of banks to finance the country’s infrastructure needs is that in April 2010 the total money supply was about $1.7 billion, against the $10 billion estimated to be required to rehabilitate Zimbabwe’s dilapidated infrastructure.54

The agricultural sector competes with other sectors in the economy for credit and in December 2011 accounted for only 16.32 percent of loans and advances, despite being the backbone of the economy. In addition to the limited supply of finance, the small relative percentage available to the agricultural sector is mainly due to the additional risk associated with the agricultural sector, arising chiefly from the lack of collateral/tenure security and poor enforcement of agricultural contract agreements.

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54 USAID, Zimbabwe Agricultural Sector Market Study, Weidemann Associates, June 2010
Figure 9: In December 2011, agriculture accounted for only 16.2 percent of total loans and advances by banks

5.2. Suppliers of financial services

Local real interest rates are affected by local inflation which in 2010/11 was around 5 percent per annum. Interest data in this section should be read with this in mind.

5.2.1 Private sector organisations

5.2.1.1 Commercial Banks

Commercial bank financial services usually include: loans (personal, business, mortgage), savings, transfers (ATMs, electronic bank transfers, card transactions, internet transfers), foreign currency exchange and financial advice/management, amongst others.

Prior to 1980, commercial banks and finance houses were active suppliers of agricultural finance, but exclusively to large-scale commercial farmers. In general, commercial banks (mainly Standard Chartered Banks and Barclays Bank) financed seasonal working capital using overdraft facilities and provided medium-term finance for capital expenditure, such as dams and irrigation systems. The finance houses, linked to many commercial banks, provided lease finance for farmers to acquire operational assets, such as tractors, combine harvesters, etc. Banks continue to offer savings and transfer financial services but generally to formal sector players in the agricultural sector and rural economy, such as large-scale commercial farmers, contract companies, agro-processors, trading companies, some larger rural enterprises, etc.

While prior to 1980, and until the 1990s, the commercial banks provided some agricultural finance, they were more focused on financing the needs of sectors other than agriculture, such as household durables, manufacturing inputs, raw materials, distribution of goods. In the 1990s, the banks increased their credit to commercial agriculture mainly through special
credit lines to the tobacco, cotton and horticulture industries (buyers and processors), as they were the major foreign-exchange earning commodities. At this time, agricultural finance was offered mainly to large-scale commercial farmers and company-owned or corporate estates such as those growing sugar cane, tea and coffee and wildlife producers. Loans were secured through title deeds and repaid through stop order payments. Banks also supplied trade finance to agro-processors buying grain (wheat, maize), groundnuts and soya beans for processing into local consumer products, e.g. maize meal, breakfast cereals, vegetable oils animal feed, etc. In addition, commercial banks also provided loans to the parastatal marketing boards to finance their working capital requirements.

After the land reform programme began, commercial banks were not willing to provide credit to A1, A2 and even large-scale farmers because of the lack of secure collateral and risks associated with insecure tenure and selective law enforcement. Banks did not accept the 99-year leases given to the new land occupants by Government as these were not secure and were non-transferable (Sukume, 2009), making the arrangements unsuitable for collateral purposes.

Over the past decade, the banking sector has seen some turbulent times and is slowly recovering from the devastating macro-economic situation the country went through in the period 2000 to 2009, particularly in the hyperinflation years of 2007 to 2009 which curtailed normal financial services through the banking system. Banks were forced to cut staff and close branches, including many branches outside the main urban areas. The introduction of the multi-currency regime and abandoning of the Zimbabwe dollar (ZWD) brought a stop to the decline, but wiped out all cash deposits held in Zimbabwe dollars by the banking system.

Since 2010, there has been steady, though subdued, recovery in the financial sector, and currently, the Reserve Bank considers the state of the banking sector to be mostly healthy, stable and generally compliant with the provisions of the Banking Act. For example, according to the Governor of the Reserve Bank’s 1st Quarter Monetary Statement for 2012, as at 31 December 2011, 20 out of 25 of the operating banking institutions (excluding the People’s Own Savings Bank) were in compliance with the prescribed minimum capital requirements, while all the 16 asset management companies were compliant. MFI’s are exempt from minimum capital requirements.

An important issue currently facing the banking and financial sectors, and affecting finance to the agricultural sector and rural economy, is liquidity. The local money market has been experiencing liquidity problems for several seasons and more so in the past season which saw the Reserve Bank of Zimbabwe take unprecedented steps to address the matter in the first quarter of 2012. A key reason for this is low investment inflows particularly foreign investment inflows, the inability of local banks to access offshore funds, and the unwillingness of local banks with offshore reserves to bring in capital into Zimbabwe due to perceived risk, e.g. new Indigenization and Economic Empowerment Act (IEEA) [No. 14 of 2007] which requires banks with foreign shareholding to indigenize 51 percent of their shares.

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The liquidity problem has seen the Reserve Bank of Zimbabwe (RBZ), worried about the stability of the domestic financial sector, criticise some local commercial banks for conservatively limiting lending to below 65 percent of depositors’ funds, despite severe liquidity problems in the broader economy, e.g. Barclays (33.90 percent), Standard Chartered (50.72 percent) and Stanbic (35.23 percent), (RBZ, 2011). The average loans: deposits ratio of 0.68 is lower than the minimum of 0.70 set by the RBZ (RBZ Midterm Monetary Statement, 2010 and 2011). Although 70 percent is the international norm, international banks do not have the same risk exposure from the high percentage of short-term deposits as local banks. Generally short term deposits make up less than 40 per cent of total deposits for banks elsewhere. Foreign banks in Zimbabwe have the additional risk of possibly losing majority shareholding arising from the IEEA. This could lead to a loss of control of the business as well as to significant depositor withdrawals. This is likely to be an important reason for these banks having low loans-to-deposit ratios.

**Figure 10:** The loans to deposit ratio amongst banks has risen recently and now exceeds the 0.70 required by the RBZ

To mitigate liquidity constraints, particularly as they affected agriculture, in 2010 a number of banks issued publicly floated bills to raise capital for onward lending to the agricultural sectors. In June 2010, ZB Capital, a subsidiary of ZB Financial Holdings entered the market with a 360-day agro-bill of US$7.0 million for onward lending to farmers for the 2010-2011 agricultural season. The bill had an interest rate of 10 percent per annum, but real interest was in the region of 5 percent due to inflation being 4.9%. In October 2010, AgriBank and FBC Bank Limited floated 360-day Tobacco Bills to raise US$30 million to finance 2010-2011 tobacco production. In November 2010, ZB Financial Holdings made a public floatation of debt securities though its Summer Agro Bill to raise US$30 million to finance a lending facility for farmers for the 2010-2011 agricultural season, to be implemented by its agribusiness division.

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56 USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare: 2011
Liquidity constraints have affected the size of most banks’ agricultural loan books and curtailed credit to the sector. Services have also been limited because the banking sector and other financial service providers have, up until recently, focussed on serving large-scale commercial farmers. Banks have had little history of working with small-scale farmers and do not, on the whole, have a good understanding of this market, nor do they have the structures to work with the small-scale segment, e.g. most banks are urban-based and their structures are suited to dealing with a few large customers rather than numerous small customers. Consequently, their financial products are not designed to suit this sector. Some banks and other financial service providers, e.g. insurance companies, are redesigning products for the small-scale farmer segment, but with the overall risk of the sector being high and more lucrative business available in more secure sectors, there is limited incentive for banks to focus on this market, unless it includes higher risk premiums and greater collateral security.

Banks often actively discourage business from small businesses, including small-scale farmers and rural traders, by putting up barriers to eliminate small businesses, e.g. some commercial banks establish minimum loan sizes of $1 million or have high loan application fees.

Banks, therefore, currently focus their short-term credit facilities mainly on less risky players in the agricultural value chain such as large milling companies, stock feed manufacturers, contract farming companies, fertilizer companies, seed companies and large agribusiness companies in the cotton, tobacco seed sectors, as these customers are lower risk and have the required collateral. Once the credit requirements of these players have been met, there is very little left of the pool of available funds for lending to smaller players in the agricultural sector.

Table 7 summarises the supply of credit to the agricultural and agribusiness sectors.

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Table 7: CBZ, Standard Chartered Bank, MBCA and AgriBank are the leading commercial bank suppliers of credit to the agricultural and agribusiness sector

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Agricultural Loan Book (% All loans)</th>
<th>Estimated Supply Shortfall</th>
<th>Credit Facilities by tenure</th>
<th>Loans Conditions</th>
<th>Interest rate Min loan size</th>
<th>Target clientele</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBZ</td>
<td>150 million (35%)</td>
<td>+100 million</td>
<td>90day, 180day; 12 to 18months; Overdraft facility</td>
<td>15% to 20% p.a</td>
<td>No target client, no target enterprise, customized credit large corporate e.g. Surface, Seedco, A1 and A2 farmers Agro-firms, informal traders.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>MF group facility $100 to $100,000</td>
<td>Collateral assets, farmers, – group approach</td>
<td>Full collateral cover</td>
<td></td>
</tr>
<tr>
<td>Standard Chartered</td>
<td>&gt;50 million (45%)</td>
<td>+50 million</td>
<td>$20 million CGF 30 to 180 day loans 12 to18mths loan</td>
<td>8 to 12% loan: &gt;$1million SME loans &lt;$1m</td>
<td>Focus is on a small set of top corporate clients with local and offshore assets</td>
<td></td>
</tr>
<tr>
<td>MBCA</td>
<td>25 million (28%)</td>
<td>+10 million</td>
<td>90 day facility 12 to 18mth Overdraft</td>
<td>15% to 22% $100,000 to $200,000</td>
<td>Large corporate firms e.g. Northern tobacco, Natfoods, Delta, Produtrade, invoice financing, order financing</td>
<td></td>
</tr>
<tr>
<td>Agribank</td>
<td>25 million (83%)</td>
<td>+2 million</td>
<td>$10mil. Facility 20mil MzSoy Credit</td>
<td>ToBac facility@24% plus 4% MzSySor Facility@8% plus 4% Full collateral asset cover reqd</td>
<td>A2 farmers only Tobacco, maize soybeans and Chibuku sorghum crops Only</td>
<td></td>
</tr>
<tr>
<td>NMB</td>
<td>11 million (17%)</td>
<td>+10 million</td>
<td>90 to 120days 30 days Overdraft Invoice financing</td>
<td>Loans - 28% to 60% Overdraft -24% $250000 firms Personal overdraft: $25000, Collateral and Bank guarantee</td>
<td>Farmers: Commercial A2 with collateral, horticulture Poultry/pigs/dairy seed houses, processors</td>
<td></td>
</tr>
<tr>
<td>ZB Bank</td>
<td>&gt;9 million (12.5%)</td>
<td>+10 million</td>
<td>Agri-credit of up to 12months, agro bill funded</td>
<td>23% p.a inclusive interest Collateral assets</td>
<td>A1 and A2 farmers. Floated agro bonds</td>
<td></td>
</tr>
<tr>
<td>Stanbic</td>
<td>6million (6%)</td>
<td>+14 million</td>
<td>90day to 180days Collateral</td>
<td>12%, 19 ERR Full collateral cover</td>
<td>Target large corporations e.g. Cottco, Olam, Reapers, A2</td>
<td></td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>&gt;6 million (14%)</td>
<td>+2 million</td>
<td>90 – 180 days Overdraft</td>
<td>15% interest 30% collateral asset Bank Guarantee</td>
<td>Agro firms and established farmers with title deeds</td>
<td></td>
</tr>
<tr>
<td>Premier/ Ecobank</td>
<td>&gt;3 million (17%)</td>
<td>+6 Million</td>
<td>30 to 90 day facilities Overdraft facilities</td>
<td>15% and E% to 20% Collateral assets</td>
<td>Established agri firms, long standing customers,</td>
<td></td>
</tr>
<tr>
<td>CABS Society</td>
<td>&lt;5 million (8%)</td>
<td>+10 million</td>
<td>90 day to 120 day loans</td>
<td>20 % to 25% Collateral cover,</td>
<td>SME business operators, traders,</td>
<td></td>
</tr>
<tr>
<td>FBC</td>
<td>5 million (7%)</td>
<td>+5 Million</td>
<td>15% to 24% 26% plus, collateral or pay slip</td>
<td>24% to 38% Full collateral cover</td>
<td>Target formally employed, formally registered firms</td>
<td></td>
</tr>
<tr>
<td>Metropolitan</td>
<td>&gt;4 million (14%)</td>
<td>+5 Million</td>
<td>90 to 120 days Loan over draft</td>
<td>12% to 36% Bank guarantees</td>
<td>A2 Tobacco, hort. farmers Established agro firms</td>
<td></td>
</tr>
<tr>
<td>ZABG</td>
<td>&lt;1 million (8%)</td>
<td>+5 Million</td>
<td>30 to 90 day facilities Overdraft facility</td>
<td>12% to 36% Bank guarantees</td>
<td>Small businesses Bank depositors</td>
<td></td>
</tr>
<tr>
<td>Micro King-MFI</td>
<td>&lt;1million (7%)</td>
<td>+1 Million</td>
<td>90 days – 12 mths, Loan overdraft</td>
<td>25% to 35% $300 to $100000 Movable property Group lending approach</td>
<td>Informal grain traders, cross border traders, rural agro traders, horticultural farmers, Small processors and millers</td>
<td></td>
</tr>
<tr>
<td>Other banks TN, ABC</td>
<td>47 million (22%)</td>
<td></td>
<td></td>
<td>223 million (40% short)</td>
<td>A2 Commercial farmers with deeds, Agro firms,</td>
<td></td>
</tr>
<tr>
<td>TOTAL SUMMARY</td>
<td>326Million (100%)</td>
<td></td>
<td></td>
<td>Max: 18months</td>
<td>No focus on (i) Rural communal farmers (ii) Informal rural traders</td>
<td></td>
</tr>
</tbody>
</table>

Source: Interviews with Commercial Banks. RBZ Monetary Statement December, 2010

Interest rates for borrowing are prohibitive and only affordable to higher income clients: 10 to 15 per cent on credit from offshore sources (generally only offered to large and established customers), and 16 to above 20 per cent from local banks using scarce local funds. Credit to the agricultural sector has limited value to the majority of small farmers as it is mostly short-term, from 30 to 90 days. This type of credit is suitable for short-term financing needs such as trading and processing, but not for most annual crop farming which has a cycle of at least 8 - 9 months from planting to harvesting and marketing. Neither is it suitable for crops such as tea, coffee, sugar and tobacco which require much longer financing periods, nor for rural infrastructure development, expansion projects, etc. Increasingly, however, banks are offering 90 to 180 day credit facilities, but generally only for highly collateralized farmers and agribusinesses. Very limited finance is available up to 270 days. The high cost of finance puts bank finance out of the reach of most small-scale farmers and rural enterprises which operate on small profit margins and the short-term of most finance excludes some parts of agricultural value chains.

**Table 8: Samples of how bank-sourced financing works through the value chains of maize, cotton and export horticulture.**

### Maize financing

<table>
<thead>
<tr>
<th>a. Inputs</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local manufactures – seed, fertilizer, chemicals</td>
<td>Credit from seed multipliers, parent companies and some equity investment. Finance from local banks, regional banks, and offshore facilities and also buy-on-credit terms from their external input suppliers.</td>
</tr>
<tr>
<td>Importers</td>
<td>Regional/international finance with securities/bank guarantees</td>
</tr>
<tr>
<td>Wholesalers &amp; agro-dealers</td>
<td>Credit from local input suppliers at 20 per cent or more</td>
</tr>
<tr>
<td>Contract companies</td>
<td>Credit through parent companies for input supply, short term credit at 15-20 per cent from local banks, bank guarantees, limited self-financing</td>
</tr>
</tbody>
</table>

| b. Equipment suppliers | Credit at 20 percent or more offered to farmers by manufacturers with bank guarantees and collateral requirements |
| c. Farmers | From contract companies - very limited/high rates 20-30 percent. Some self-financing from selling assets, renting land, diaspora |

<table>
<thead>
<tr>
<th>d. Trade &amp; Processing</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assemblers (on sell to traders)</td>
<td>Self-financed mostly, limited credit by traders</td>
</tr>
<tr>
<td>Traders (on sell to merchants)</td>
<td>Self-financed</td>
</tr>
<tr>
<td>Merchants</td>
<td>Local banks at below 15 per cent because of volumes for larger merchants</td>
</tr>
<tr>
<td>Processors</td>
<td>Local banks below 15 per cent (generally 30-60 days)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>e. Retail</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesalers and supermarkets</td>
<td>Cash or supplier credit</td>
</tr>
</tbody>
</table>

### Cotton financing

<table>
<thead>
<tr>
<th>Comments</th>
</tr>
</thead>
</table>

---


a. Inputs

<table>
<thead>
<tr>
<th>Cotton seed company</th>
<th>Cash, short term credit from local banks at 13 per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton companies</td>
<td>Pay cash for seed from cotton company, get 270 days credit from fertilizer companies with bank guarantees and limited credit from seed suppliers</td>
</tr>
<tr>
<td>Fertilizer companies</td>
<td>Finance from local banks, regional banks, and offshore facilities and also buy-on-credit terms from their external input suppliers.</td>
</tr>
</tbody>
</table>

b. Equipment suppliers

Cash from purchases by farmers. Ginners provide some credit to farmers up to 12 months. Suppliers use local banks for short-term loans and overdrafts at 20 per cent.

c. Farmers

Inputs credit from ginners at a 20 per cent, limited self-financing.

d. Trade & Processing

Ginners Credit from regional banks (11 per cent, offshore parent companies, and local banks (15 per cent), also own financing.

Spinners Get short term credit from ginners (60 days), some buyers pay cash, also some external financing.

Extractors Local banks 90 days at 11-15 percent, some offshore finance through parent companies.

e. Retail

Wholesalers and supermarkets Supplier financing.

Export Horticulture

<table>
<thead>
<tr>
<th>a. Inputs</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed companies</td>
<td>Credit from local banks, investors, offshore facilities and suppliers of fertilizers and chemicals.</td>
</tr>
<tr>
<td>Fertilizer companies</td>
<td>Finance from local banks, regional banks and offshore facilities and buy-on-credit terms from their external input suppliers</td>
</tr>
<tr>
<td>Agro-dealers</td>
<td>Credit for some, those that sell on consignment receive commission and do not need credit</td>
</tr>
</tbody>
</table>

b. Equipment suppliers

Credit from export companies, input manufacturers, also banks (30-90 days at 20-30 percent), delayed payments to suppliers, large scale farmers’ (LSF) access up to 1 year loans (20-30 percent) from local banks, as well as offshore finance, some self-financing.

c. Farmers

(30-90 days at 20-30 percent), delayed payments to suppliers, large scale farmers’ (LSF) access up to 1 year loans (20-30 percent) from local banks, as well as offshore finance, some self-financing.

d. Trade & Processing

Exporters Mostly offshore credit, some investors, limited from local banks

e. Retail

Wholesalers and supermarkets Takes place outside of Zimbabwe

Several banks have been involved in offering services to SMEs, including some rural SMEs. Barclays Bank established a Small Business Unit to provide financial services, including training and business advisory services to SMEs in 1998. This initiative was supported by the World Bank with a SWEDECORP guarantee covering 40 percent of loan defaults and a
matching US dollar credit line from HIVOS acted as guarantee. The scheme provided start-up capital, funds for working capital, business management skills training and business advisory services to the SMEs qualifying for funding. The Small Business Unit scheme was absorbed into the main line of Barclays Bank services at the expiry of World Bank support in 2006. It is not clear if these types of services are still being offered.

The Commercial Bank of Zimbabwe (CBZ) has also been a major player in micro-finance for SMEs, including rural SMEs. It started offering micro-finance services to SMEs in 1996, and also disbursed funds made available by NGOs and donors, such as DFID, to micro-finance groups. In 2005, its clients for micro-finance were close to 3000 enterprises. Currently, CBZ offers individual and group lending products. Its microfinance loans range from US$200 to US$1000 and its SME loans range from US$1,000 to US$20,000. Interest charges usually range from 24 – 45 percent per annum, but higher rates have been recorded (15 – 45 percent per month). More reputable clients are charged lower interest rates. CBZ has developed micro-finance products that include micro-insurance, micro-leasing and low-income housing finance.

ZB Bank, in partnership with Moonlight Funeral Assurance, has established a Destinations Travel Loan Facility for SMEs operated by members of the Cross Border Travels Association. The Association was formed by individuals operating SMEs involved in buying and selling goods in SADC countries, but mainly in South Africa. Members of the association can borrow up to US$5 000 depending on the nature of their enterprises.

The geographical area served by banks was also affected by the economic turbulence. Prior to 2000, commercial banks had a combined branch network of 251 in the major cities and provincial urban areas while the rural branch network was only 20 branches (Nyandoro, 2004). However, there was a large decline in branches country-wide as banks scaled down their operations, especially Standard Chartered Bank and Barclays Bank, due to the loss of their client base as a result of changes in farmer populations arising from the land reform programme. The banks further reduced branch networks as they downsized in response to the unstable macroeconomic environment, with much of the reduction in rural and provincial towns. This has made access to bank services more difficult for rural businesses and populations.

5.2.1.2 Microfinance Institutions

Microfinance Institutions (MFIs) typically offer the following financial services: credit, savings, insurance and transfer services. Formalised Microfinance Institutions (MFIs) became a significant feature of Zimbabwe’s financial services sector in the early 1990 and they grew very rapidly in the period 1990 to 2000 in response to the exponential increase in the number of micro-enterprises requiring micro-finance services and the lack of provision of services to this market by the large scale financial sector. According to Ngwenya and Ndlovu (2003) the majority of the MFIs, 90 percent, were established between the period 1995 and 1999. The

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62 Klinkhamer, Madeleine, Microfinance Sector Recovery Study, SNV, 2009
Increase in the number of micro-enterprises is attributed to loss of jobs and increase in cost of living as a result of the IMF’s Economic Structural Adjustment Programme (ESAP) of the late 1980s. Those affected resorted to micro-enterprise activity to sustain their livelihood. The increase in the number of MFIs led to the establishment of the Zimbabwe Association of Microfinance Institutions (ZAMFI), in 1997, to provide a forum for MFIs to discuss and address common issues facing the micro-finance sector.

All MFIs are required to register under the Moneylending and Rates of Interest Act [Chapter 14.14]. According to the Reserve Bank 1st Quarterly Monetary Statement of 2012, there were 157 registered MFIs as at 31st December 2011 compared to the 1,700 registered in 2003. The reduction in numbers is ascribed to the unstable macro-economic environment, particularly the hyper-inflationary environment which affected viability, especially in the period 2006 to 2009 (Macheka, 2010).

In the early 1990s, microenterprise development programmes were promoted and supported by donors (DFID, CIDA, AUSAID, GTZ and USAID) and donor-funded development partners as part of poverty alleviation strategies (Mayoux and Lacoste, 2002). The increase in funding for micro-enterprises stimulated the supply of micro-enterprise financial services by commercial banks and non-banking organizations. This led to an increase in the number of MFIs that offered financial services as well as being conduits for donor support to micro-enterprises. As reported by Ngwenya and Ndlovu (2003), the key fund providers for MFIs in Zimbabwe have been donors, providing at least 55 percent of the funds, government/donor collaboration (estimated 40 percent) and the private sector providing the balance. Table 9 shows funding provided by various donors in support of micro-enterprises.

Table 9: Donor funding support for MFIs in Zimbabwe, 1997

<table>
<thead>
<tr>
<th>Organization Providing the funds</th>
<th>Microfinance receiving funding</th>
<th>Institution</th>
<th>Funding Received (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUSAID</td>
<td>Zambuko Trust</td>
<td>1 600 000</td>
<td></td>
</tr>
<tr>
<td>DFID</td>
<td>Commercial Bank of Zimbabwe</td>
<td>2 232 000</td>
<td></td>
</tr>
<tr>
<td>CIDA - Canadian International Development Agency</td>
<td>General</td>
<td>2 600 000</td>
<td></td>
</tr>
<tr>
<td>GTZ</td>
<td>General</td>
<td>1 500 000</td>
<td></td>
</tr>
<tr>
<td>USAID</td>
<td>Zambuko Trust &amp; Phakama Development Company</td>
<td>1 509 000</td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td>Zimbabwe Women’s Finance Trust</td>
<td>504 000</td>
<td></td>
</tr>
<tr>
<td>Konrad Adenauer Foundation</td>
<td>Self-Help Development Foundation</td>
<td>250 000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>15 195 000</td>
<td></td>
</tr>
</tbody>
</table>


Microfinance institutions lost nearly all of their loan portfolios during the hyperinflation period and the subsequent dollarization, which saw them stop lending towards the end of the hyperinflation period or immediately after dollarization. Virtually no lending took place in the latter part of 2008, when inflation was so rapid that there were not enough Zimbabwe dollars
available to operate. During the hyperinflationary times, loans and repayments were eventually made in physical assets as this was the only way to retain financial value. Some MFIs returned to monetary lending as early as March 2009 but many did not.\textsuperscript{63}

Funds borrowed by some MFIs from commercial banks were collateralized by the value of their fixed assets. Bank loans to MFIs during mid-2009 were scarce, typically available for periods of only 30 days with interest rates between 6 and 100 per cent per month, which was not in compliance with the Moneylending and Rates of Interest Act which stipulates Libor + 6 per cent\textsuperscript{64}. MFI lending to customers was also for 30 days terms with interest rates from 15 to 20 per cent per month. Currently, funds from commercial banks are available to some MFIs for terms of up to 90 days, with most interest rates in the range of 15 to 20 percent per annum. MFIs on-lend these funds to their customers at interest rates from about 6 to 15 percent per month, with a few lending at a rate of 20 per cent per month\textsuperscript{65} or even as much as 45 per cent.

Market share in the MFI sector tends to be dominated by a few MFIs: in 2009, 80 per cent of the market share in terms of the value of loan portfolios was in the hands of eight MFIs, the largest players being Micro-King and CBZ. Both have links to a parent commercial bank, which (as of 2009) lent to them at rates at 25–30 percent per annum. These MFIs on-lent to their clients at interest rates of about 6 percent per month. This may be higher now due to the shortage of funds in the financial sector.

Table 10 gives in indication of the services provided by MFIs in Zimbabwe in 2010.

\textit{Table 10: Some of the major MFIs operating in Zimbabwe in 2010}

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Microking</th>
<th>Fidelity Microfinance</th>
<th>Tetrad-Multridge</th>
<th>Zambuko Trust</th>
<th>Yambukayi Trust</th>
<th>Pundutso</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>5.5 per cent/mth</td>
<td>6.5 per cent/mth compound</td>
<td>30 percent flat for 3 months</td>
<td>35 per cent/mth</td>
<td>25 percent accumulative; 10 per cent fixed</td>
<td>10 percent/mth flat fee</td>
</tr>
<tr>
<td>Application Fee</td>
<td>US$5</td>
<td>US$5</td>
<td>US$5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration fee</td>
<td>5 percent</td>
<td>5 per cent payable up-front</td>
<td>5 percent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Min loan size</td>
<td>US$140</td>
<td>US$500</td>
<td>US$1500</td>
<td>US$100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Max loan size</td>
<td>US$5000</td>
<td>US$10000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Max loan Term</td>
<td>6 months</td>
<td>3 months</td>
<td>60 days</td>
<td>2 months</td>
<td>30 days</td>
<td>1 month</td>
</tr>
<tr>
<td>Compulsory Savings</td>
<td>US$20/acc</td>
<td>Forced savings US$20/account</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products</td>
<td>WC, OF, CL</td>
<td>WC, CL</td>
<td>WC, BF, OF</td>
<td>WC, OF</td>
<td>WC, CL</td>
<td>WC, OF</td>
</tr>
</tbody>
</table>

\begin{flushright}
\textsuperscript{63} USAID, Zimbabwe Agricultural Sector Market Study, Weidemann Associates, June 2010
\textsuperscript{64} Klinkhamer, Madeleine, Microfinance Sector Recovery Study, SNV, 2009
\textsuperscript{65} USAID, Zimbabwe Agricultural Sector Market Study, Weidemann Associates, June 2010
\end{flushright}
Security

<table>
<thead>
<tr>
<th>Security</th>
<th>household / business assets, guarantor, immovable property</th>
<th>business assets, guarantor title deeds</th>
<th>strictly cession of shares or related investments</th>
<th>household assets, business assets, guarantor title deeds</th>
<th>business assets, guarantor, title deeds</th>
<th>guarantor, movable assets, security at least 150 per cent of value of loan</th>
</tr>
</thead>
</table>

Disbursements

<table>
<thead>
<tr>
<th>Disbursements</th>
<th>Electronically in account transfer into account, cash payments transfer into account</th>
</tr>
</thead>
</table>


Most MFIs serve salaried clients in urban areas and very few support agricultural production or agribusinesses and the reach into rural areas is minimal\(^66\). The main reason for this is that profitability for MFIs, to a large extent, relies on having a large market in a limited location. As rural populations are dispersed, it is costly to serve rural clients. However, some MFIs have focused on small-scale entrepreneurs, smallholder farmers and particularly women entrepreneurs as their main target markets (Macheka, 2010) and have a degree of rural involvement. Other MFIs reach rural areas through urban traders who supply inputs to farmers or purchase farm output.

Ngwenya and Ndlovu (2003) argue that on average, MFIs in Zimbabwe have not been either profitable or efficient. The average loan sizes of most MFIs are too small to allow for the economies of scale that are required to deliver financial sustainability. It is also argued that the continued existence and operations of many MFIs, despite posting losses, is in part due to heavily subsidized funds from donors and/or government.

The future of MFIs is likely to see pressure from recently introduced mobile banking services which are beginning to offer transaction, savings, loans and insurance services. This could see MFIs struggling to compete as mobile technology greatly reduces the cost of some financial services.

According to Rusheche (2010), MicroKing has a competitive edge on other MFIs, as it has lower interest rates, at 5.5 percent per month. It also has a higher maximum loan term at 6 months. Table 11 shows MicroKing Finance’s loan book size, the number of active clients, portfolio risk and average loan size. The data include both rural and urban sectors.

**Table 11: MicroKing portfolio statistics, 2009-2010**

<table>
<thead>
<tr>
<th>Item</th>
<th>June 2009</th>
<th>Dec 2009</th>
<th>June 2010</th>
<th>Dec 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of active clients</td>
<td>2,693</td>
<td>4,662</td>
<td>10,112</td>
<td>15,100</td>
</tr>
</tbody>
</table>

\(^66\) USAID, *Zimbabwe Agricultural Sector Market Study*, Weidemann Associates, June 2010
Prior to the macro-economic meltdown, MicroKing collaborated with several NGOs:

- CARE Zimbabwe, to work with 450 district Business Management Organisations offering group lending services
- SNV Netherlands Development Organisation, to build the capacity of rural credit and savings associations
- Mercy Corps, to provide microfinance for the purchase of treadle pumps and inputs for 250 farmers growing cash crops
- Zimbabwe AIDS Victim Empowerment Association (ZAVEA), to provide affordable finance for members' business operations and agricultural production.

Apart from MicroKing and CBZ, Zambuko Trust has been, and remains, one of the largest MFIs. It has 7 regional offices in Harare, Bulawayo, Gweru, Mutare, Masvingo, Gokwe and Chinhoyi and close to 20 branches across these regions. This reflects its policy of decentralisation. However, it does not have any rural branches, although it does serve some rural clients who are able to access its regional offices. Three quarters of Zambuko Trust's clients are women.

5.2.1.3 Contract farming companies

As in several other countries in the region, the largest source of finance for agricultural production comes from buyers of agricultural products, especially companies which purchase tobacco and cotton. These companies often provide finance all along the value chain (Pazvakavambwa, 2009; Sukume, 2009). For example, in the 2011/12 season, cotton ginters provided USD 50 million to small scale cotton farmers for inputs, while banks supplied USD 25 million of credit to suppliers of inputs. In contrast, for the 2011/12 maize crop, Government and donors provided USD 60 million worth of subsidized or free inputs to small scale farmers, whilst USD 29 million of credit was made available to farmers (large and small scale) by input suppliers and USD 50 million of the cost of production was self-financed by farmers (small and large scale)\(^6\)

Value chain finance covers input supply, production, processing, storage, marketing, and consumption (Fries and Akin, 2004). Table 12 illustrates the elements of value chain finance demand and supply.

**Table 12: Value chain finance demand and supply**

<table>
<thead>
<tr>
<th>Supply of Financial Services by Financial Institutions</th>
<th>Services By Chain Value Actors</th>
<th>Supply of Financial Services by Value Chain Actors</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Equipment leasing</th>
<th>Medium and Long term credit</th>
<th>Insurance production/Weather risk management</th>
<th>Medium/large scale exporters, buyers and processors</th>
<th>Pre-export trade finance</th>
<th>Provision of warehouse receipts for use as collateral</th>
<th>Outgrower schemes/contract farming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short and medium-term credit (including receipt based financing)</td>
<td>Insurance price risk management</td>
<td>Local traders, processors</td>
<td>Producer association</td>
<td>Producers</td>
<td>Input Suppliers</td>
<td></td>
</tr>
</tbody>
</table>

Source: KMP (2007)

The central column in the table indicates the value chain actors who produce, transform or move product from input suppliers and farmers at the bottom, to those that sell the product to the final consumer at the top. On the left of the central column are the services provided by financial institutions and, on the right, those provided by value chain actors through embedded financial services.

In Zimbabwe, value chain financing arrangements have been in use in agriculture for some years but grew after the Fast Track Agrarian Land Reform Program of 2000. This was driven by two key issues as identified by Pazvakavambwa (2009):

i) Severe foreign currency shortages which encouraged private players to seek strategies that would give them access to the scarce resource. This saw a number of non-agriculture related companies going into contract farming for the cultivation of export crops.

ii) Large agro-processing firms also went into contract farming as a way of securing raw materials. The land reform program interrupted the supply of raw materials to processors as their traditional suppliers, large scale commercial farmers, were no longer producing. Contract farming and outgrower schemes were a means of maintaining supplies.

According to Sukune (2009), from the mid-1990s contract farming increasingly took the form of outgrower schemes due to the growing importance of horticulture. The horticultural sector had been the fastest growing sector in the economy, averaging a 30 per cent increase in production per year, but after the land reform program horticultural marketing companies had to re-strategize as they lost a significant source of their previous suppliers, large-scale commercial farmers. Firms resorted to outgrower schemes with the new resettled farmers.

The largest players in contract farming in Zimbabwe are tobacco and cotton companies and these dominate the demand for agricultural credit. Production of the 2009/2010 tobacco crop was estimated to require about $160 million in finance to produce and the cotton crop approximately $46 million. About 70 percent of the tobacco was estimated to have been marketed through contract grower arrangements, suggesting that about $112 million in
producer finance would have been supplied by tobacco buyers, whilst nearly all the cotton crop’s production requirements were expected to have been financed by buyers. \(^{68}\)

Currently, the financing of contract farming is almost entirely dependent on large-scale contracting firms including processors, exporters and traders, which raise their own investment and working capital. International finance, for companies that can access this source e.g. through independent international lines of credit or through international parent companies, is available typically at interest rates of between 10 and 14 per cent p.a.. One company is able to secure finance at a rate as low as 8.5 per cent p.a. and on-lend to its contract farmers at the same rate\(^{69}\). Local finance is generally available but at higher rates of between 15 and 20 per cent p.a., due to supply constraints. The extra cost impacts negatively on competitiveness however, and local finance is therefore not the preferred source.

Companies in the tobacco and cotton sectors are required by law to source finance from overseas to purchase the crop, although they are permitted to raise funding for pre-financing the production of the crop from local sources. Some contract companies also use equity and retained earnings to finance their operations whilst others receive some form of donor funding, as support for small-scale farmers, including contract farmers, is currently a donor programming priority.

Although tobacco and cotton are the main contract farming crops, the model has been widely used in the production of horticultural crops, tea, sorghum, barley, coffee, maize, paprika, beans, beef and poultry production. In the 2011/12 season there were about 45 contract farming companies operating, with an estimated total number of contract famers of 330,000 farming an estimated 630,000 hectares of land\(^{70}\). If credit requirements averaged about $160/hectare, as suggested by Fintrac for maize\(^{71}\), the supply of production credit to small-scale contract farmers through contract farming companies could be in the region of $100 million. This gives an indication of the role that contract farming companies play in supplying finance to the small-scale sector, and that they are suppliers of significant amounts of finance. The knock-on benefits to the rural economy from this form of finance have not been studied and are difficult to estimate, but are clearly not insignificant.

Similarly, the Cotton Company of Zimbabwe (Cottco) has been a major provider of value chain finance. It has a division which operates a cotton Input Credit Scheme for cotton growers. It was introduced in the cropping season of 1992/1993 because of the declining volume of credit offered to cotton growers from the formal financial institutions (mainly by the Agricultural Finance Corporation) and the generally high costs of inputs. Cottco’s input scheme was designed to provide for farmers affected by lack of credit. The scheme offers short-term loans to registered cotton growers who are organized into groups for purchasing seed, agricultural chemicals, fertiliser and spraying equipment. These loans are recovered

\(^{68}\) USAID, *Zimbabwe Agricultural Sector Market Study*, Weidemann Associates, June 2010  
\(^{71}\) USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare: 2011
from the proceeds of the harvested crop sold through the company. The Input Credit Scheme was funded on a revolving basis from loan repayments with the original funds having been obtained from the World Bank. Incremental funding requirements are met from net profits and interdivisional borrowings at market interest rates. The company has since registered under the Lending and Interest Rates Act, which allows a company to provide credit but not to accept deposits.

Several other companies joined Cottco in the 2009/10 agricultural season in advancing input finance to cotton growers, who are largely communal and A1 farmers. In the 2010/11 season, several international companies, the majority from China, also came into the market to provide input finance.

According to the Reserve Bank, of the US$1.5 billion of approved short-term trade finance facilities in 2010, US$613.2 million went to the agriculture sector largely to meet funding requirements by tobacco and cotton merchants for the purchase of tobacco and cotton during the 2010 marketing seasons (RBZ, 2011).

A new development in 2011 is value chain financing for the production of food grains (maize and wheat) by the grain processing firms arranged through the Grain Millers’ Association of Zimbabwe (GMAZ). The Association entered into an agreement with the Zimbabwe Commercial Farmers’ Union (ZCFU) for the planting of 30 000 ha of wheat under a scheme called the Private Sector Winter Wheat Production Support Initiative. Through this initiative, the GMAZ hoped to secure up to 120 000 tonnes of wheat grain or approximately one third of the millers’ requirement of 365 000 tonnes per annum from small producers. Under the arrangement, GMAZ was to mobilize the required financial resources to allow its members to buy the wheat produced, with other companies supplying the fertiliser, seed, power, insurance and irrigation equipment needed.

5.2.1.4 Building Societies

Building societies offer the largest range of products of the non-bank financial institutions, with a broad range of savings, loan, transactions and investment products. They captured the largest share of deposits in Zimbabwe in 1998, 1999 and 2000, exceeding both commercial banks and the POSB. However, in 2010 banks held approximately USD 2.1 billion compared to USD 144 million held by building societies and USD 38 million held by the POSB. Traditionally, building societies lend for residential and commercial mortgages, purchase treasury bills, place funds in the money market and finance low-income housing projects. There were four building societies operational at year-end 2007, CABS, CBZ Building Society (which took over Beverly Building Society), FBC Building Society (formerly Zimbabwe Building Society) and ZB Building Society (formerly Intermarket Building Society).

73 Reserve Bank of Zimbabwe, January 2011, Monetary Policy,
74 Klinkhamer, Madeleine, Microfinance Sector Recovery Study, SNV, 2009
Building societies’ capacity to offer long-term financing for mortgages has been affected by the shortage of available long-term finance in the market. As a result, the mortgage market has shrunk greatly, as indicated by the numbers of mortgages approved between 2004-2006, which numbered just 6,315 (Klinkhamer, 2009). Although there is little information on the activities of building societies in rural areas, some mortgage finance would be used for the purchase or construction of rural buildings; however this is likely to be small given that rural clients have not been the main target market for building societies and also because of the very limited scale of mortgage operations in the country. Building societies could, however, play a larger role in developing buildings in the rural areas if money market conditions changed and more long-term finance became available.

5.2.1.5 Insurance companies and guarantee providers

Historically, the insurance industry has been relatively robust in Zimbabwe – with many short-term and re-insurance players and many product types available. There is a fundamentally sound legal framework, the Insurance Act, which is currently under review to improve its regulatory structures.

There are close to 40 insurance players in the market of whom 33 are members of the Insurance Council of Zimbabwe. There are four dominant players. A good number of the firms remain inactive due to liquidity and capitalization constraints, and several have ceased to operate. The industry has been severely affected by the unstable economic and political situation which has significantly constrained the value of insurance cover that they have been able to provide, product types available and the supply of and demand for products. According to the Insurance Industry Council, the excessive risk factors and the weak enforcement of the rule of law generally, and of commercial law specifically, have curtailed business activities and slowed down investment in the sector.

Large-scale and small-scale farmers, contract companies and rural enterprises at large have various insurance needs including cover for: crops, drought, livestock, health, funeral, unemployment, fixed and movable assets, repayment default, side marketing (i.e. sale of crops to buyers other than the contract company), political risk, fire, theft, etc. The supply of insurance to the agricultural sector and to rural areas is limited for several reasons in addition to those mentioned above: insurance companies have been mainly urban focused; there is limited awareness and understanding of insurance as well as limited ability to pay for insurance products by small rural enterprises and small-scale farmers. There is also a lack of collateral needed to obtain certain types of insurance: some insurance companies offer repayment guarantees to companies supplying inputs to farmers, but farmers are often required to put up collateral to secure these types of deals with contract companies and many are not able to meet the collateral requirement.

As the economy and the agriculture sector revive, the insurance industry is also reviving and there is increasing competition to supply agricultural insurance products. Clients of particular

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Klinkhamer, Madeleine, *Microfinance Sector Recovery Study*, SNV, 2009
interest are tobacco producers, merchants and processors as well as those in the cotton trade. These crops as well as others are prone to droughts, hail and floods and there are products available to cover these risks. However, the cost is prohibitive to many farmers (with drought insurance premiums of about 10 per cent of the expected value of the crop), even for the large cotton company referred to earlier, which decided to bear the risks itself, rather than pay such a high premium.

Micro crop insurance is available to cover crop loss from lack of germination or flowering and dry spells. Premiums offered by Zimnat for this cover are between 8 and 15 per cent of the insured value. These charges are higher than they could be because of the lack of actuarial information, such as weather indexed crop data, to design products. There is growing interest amongst insurance companies in providing weather indexed insurance products to small-scale farmers to enable them to access seasonal input credit from contract farming companies, who would otherwise not be willing to offer credit due to farmers not being able to repay in the event of crop failure.

Some insurance companies are also offering livestock insurance at 5-7 per cent premiums to cover disease and death risk. Livestock insurance could help to overcome some of the obstacles to using animals as collateral to access credit.

CBZ and InterFin Bank, in association with InterFin Insurance, are offering farm insurance that covers a variety of farmers’ insurance requirements with respect to: crop field-to-market, livestock, electrical and irrigation equipment, farm buildings and contents, motor (including farm implements) personal accident and goods-in-transit. The targeted clients are tobacco farmers.

At the input supplier level, Jupiter Insurance, in collaboration with a Colonnade Reinsurance, is offering insurance to input suppliers who supply inputs on credit to farmers to insure repayment. The insurance, which is currently offered at a 5 percent premium of the value of the inputs, follows the group product model, whereby several farmers are covered and held accountable through a single policy. Such arrangements are managed by farmer representative organizations such as the Zimbabwe Farmers Union (ZFU) and the Zimbabwe Commercial Farmers Union (ZFCU). Collateral is required from farmers to cover the potential loss to input companies in the event of repayment default by farmers.76

A form of insurance is available from several service providers in the form of input guarantees, which ensure repayment in the event of default by small-scale-farmers who have received inputs in advance on credit. The premium for such insurance is about 5 percent of the value of the inputs. Providers who offer such guarantees include some contract companies, banks and NGOs. The government, through AgriBank, used to offer input guarantees, but this facility is no longer available. CBZ offers a guarantee program to a fertilizer manufacturer to supply smallholder farmers, mostly for maize production. Quton, the only cottonseed supplier in Zimbabwe and part of the Seed Co group, supplies seed on a cash basis or payment terms supported by a bank guarantee. In addition, major fertilizer

companies sell fertilizer on credit of up to 270 days when supported by a bank guarantee for collateral, which unfortunately few communal cotton farmers can access, but which ginners can and use to offer to their out-growers.  

Many contract farming companies are unwilling to provide collateral to secure input credit for their contract farmers unless there is some form of credit guarantee or insurance to cover loss or default. Standard Chartered Bank has an existing Development Credit Authority arrangement with USAID, which provides guarantees to selected companies in the agricultural sector, including some involved in contract farming. The arrangement works on 50–50 risk participation between the bank and USAID. Most of the actual risk, however, is passed on to the contract company through collateral requirements. USAID invested $20 million in the credit guarantee through which $49 million worth of credit was created for corporate agribusiness in one calendar year.

NGOs and donor agencies, such as FAO, also offer guarantee programs through which 50 per cent of the value of the credit advanced by suppliers to agro-dealers participating in the NGO input-supply program is guaranteed. Guarantees for input credit and for crop purchasing show potential to enhance access to credit for small growers for inputs and for crop purchases. However, a lack of collateral limits their application and the scale on which this mechanism can currently be used.

Opportunities exist for new and existing companies to invest in providing services as the agriculture sector grows, with an expected increase in the demand for agricultural insurance for crops, agricultural assets and equipment by A1 farmers, and particularly, contract farming companies and smallholder farmers venturing into tobacco and horticulture production. The establishment of the Commodity Exchange Company of Zimbabwe (COMEZ) and the associated warehouse receipt system presents business opportunities for the insurance industry. However, the expansion of insurance to the small-scale and communal farmer sub-sector in the short/medium term requires further market research and product development.

5.2.1.6 Leasing companies

Before 2000, there was a vibrant leasing sector in Zimbabwe that included UDC Holdings Limited, Scotfin Limited, Fincor Finance Corporation Limited, and the Leasing Company of Zimbabwe. Leasing companies had a significant number of commercial agricultural clients. Leasing products now available to the agricultural sector are generally confined to hire-purchase types of arrangements, rather than straight leasing of equipment which operated when large-scale commercial farming was prevalent. Very little, if any, of this form of leasing takes place currently.

Like other players in the financial sector, leasing companies have been through difficult times due to the economically turbulent environment, and the number of leasing institutions and

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78 USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare: 2011
the supply of products are now more limited. As the sector recovers, hire purchase forms of leasing are beginning to re-emerge as a way to spread expenditure for purchases, particularly capital investments, over longer periods of time. Leasing does not necessarily reduce the cost of finance, but it provides a means to overcome collateral constraints for purchase because ownership of the asset remains with the leasing company until the lease period is completed\textsuperscript{79}.

Currently, African Century Leasing (ACL) appears to be the only financial institution that has leasing products that are designed to explicitly benefit small-scale farmers producing through nucleus estates. In this case, the prime lessee is usually the agro-processing company but ACL has recently launched a leasing product for contract arrangements. The equipment itself constitutes the collateral and can be repossessed upon default. Such leasing is subject to bank terms and interest rates and often requires a 50 percent down-payment.

There are a few equipment suppliers that offer leasing-type arrangements to farmers. It is difficult to quantify the supply of finance for equipment sales to the agricultural sector, but a recent study\textsuperscript{80} estimates that in the 2010/11 season approximately 80 percent of equipment sales for maize production was to A2 farmers and the balance to large commercial farmers and large estates, whilst almost all equipment sales to soya farmers were to large-scale farmers. Credit provided by suppliers of farm equipment for maize production in 2010/11 was estimated to be US$6 million, whilst equipment suppliers to soya farmers financed US$1.95 million in sales to farmers, or 12.5 per cent of the estimated total sales of US$15.6 million.

Equipment sales would normally be financed over two or more years, but neither equipment companies or banks are presently willing to offer credit to farmers, small or large. Generally, farmers make a down-payment (about 50 percent) and pay the balance off using their own reserves or by borrowing from local banks at an interest rate of 20 percent or more for a term of up to 120 days. Usually a bank guarantee is required, unless there is an established relationship with the buyer, with the full cost of the guarantee passed on to the buyer. Credit provided by suppliers of farm equipment for maize production in 2010/11 was estimated to be US$6 million.\textsuperscript{81}

5.2.1.7 Transaction Service providers

Money transfer service providers include the global operators Western Union and MoneyGram. Some branches of commercial banks and the People’s Own Savings Bank act as agents for Western Union and MoneyGram services. National transfer operators include Gematto and Chitoro Ltd. Gematto is a mobile online based service operating in partnership with NetOne, a mobile service provider. The services offered by these money transfer operators are exclusively for receiving remittances from abroad. They are not generally for transferring money to rural households because the banking infrastructure does not allow for

this. The People’s Own Saving Bank has branches that provide agency services for money transfer operators and is increasingly being used due to its nation-wide presence. However, this strategic advantage is hampered by a lack of institutional capacity and resources and appropriate ICT, as well as by frequent electricity outages which disrupt services.

Although commercial banks are not large players in the remittance market, they offer basic money transfer services through bank-to-bank transfers or bank drafts. These services are, however, mostly for urban based clients because of the challenges mentioned above.

Urban family members remitting money to family members in rural areas use the services of buses travelling to their rural homes. Money is handed to bus drivers who deliver it to recipients who would have been notified earlier. These services are outside the formal sector, but in the absence of formal sector services they have been used for a considerable time to get money to the rural areas and are based on trust. Recently introduced mobile banking services which offer transmission facilities are likely to overtake this type of service.

A number of mobile banking services have recently been established including, as mentioned earlier: Econet Wireless’ EcoCash, CABS Bank’s Textacash, Kingdom Bank’s Cellcard, Tetrad’s eMali, Interfin Bank’s Cybercash, CBZ Bank’s Mobile Banking, ZB Bank’s E-wallet, Standard Bank’s Instant Money, TelOne, Net One and Cell2Cell. EcoCash currently has the largest customer base and widest coverage of agents and, in April 2012, had registered approximately 600,000 subscribers for its mobile banking service since it was launched at the end of September 2011. Some providers offer savings and insurance products as well as transaction facilities.

The figure below illustrates the network coverage of one service provider and demonstrates the potential reach of rural mobile banking. As can be seen, many of the most productive agricultural zones are in signal range enabling farmers and rural enterprises to access mobile banking services.

Figure 11: EcoCash has wide network coverage, much of which covers the most productive agro-ecological zones in the country.

The services are transforming the way in which transactions are done in the agricultural sector and in the rural areas. Farmers and rural enterprises can use their mobile phones to
make payments to utility providers, make purchases from designated agents, e.g. purchase inputs from rural stores, send and receive money from urban and rural areas and withdraw cash. Contract farming companies and tobacco auction floors are using the technology to make payments for crops received from small-scale farmers and to send credit to contract farmers for input purchase, offering a facility whereby the credit can be ‘locked’ to ensure that only designated items can be purchased, e.g. a particular brand and amount of fertiliser. This is having a positive effect on local rural economies through increasing the trading activities of rural businesses.

5.2.1.8 Other suppliers of financial services

Farmer self-financing

Some small-scale farmers self-finance their crop production, through selling assets.82 They rarely have ‘retained earnings’ as, at current yields, their businesses usually do not generate a surplus that can be set aside for input purchase for the following season. In addition, few farmers currently have access to savings accounts and cash tends to be spent, although mobile banking may provide a savings mechanism in the future.

Many farmers also receive remittances from relatives in town or outside Zimbabwe. A recent report83, based on interviews with 350 Zimbabwean migrants, that analyzed remittance flows from South Africa to Zimbabwe, found that 91 per cent of Zimbabwean migrants in South Africa send money home regularly and that the average amount remitted was almost a third of their monthly income. With an estimated figure of 1.5 – 2 million Zimbabweans who have emigrated to South Africa over the past decade, the report estimates that ZAR 5.1-6.8 billion ($700-850 million) was remitted in 2011. In 2006, diaspora remittances accounted for 7.2% of GDP (USD 361 million)84, making remittances one of the most important sources of foreign currency inflows for Zimbabwe.

Remittances are an important source of finance for many small-scale farmers and for many rural households and enterprises.

Savings and Credit Cooperative Societies (SACCOs) and ROSCAs

There are a number of informal self-help groups at local community level that offer financial services in the form of savings and credit facilities to rural-based enterprises and smallholder farmers (Rastopoulos and Lacoste, 2002), as well as to urban dwellers. The most widespread of these are Rotating Savings and Credit Associations (ROSCAs) and Savings and Credit Cooperative Societies (SACCOs). Both provide savings mobilisation and credit provision services to members, with SACCOs being more formalised and ROSCAs not being

83 von Burgsdorf, David, “Strangling the Lifeline – An analysis of remittance flows from South Africa to Zimbabwe”, An analysis of remittance flows from South Africa to Zimbabwe, PASSOP, April 2012
formally registered. SACCOs are the second largest category of financial service providers to low-income households, after micro-lenders. The Cooperative Societies Act of 1990 governs the set-up and operation of SACCOs and cooperative societies in general. SACCOs also do not fall under a financial supervisory entity, but under the Ministry of Youth Development, Employment Creation and Cooperatives. Registered SACCOs are allowed to mobilize savings from members.

Formalised saving clubs and credit unions have operated in Zimbabwe since the 1970s and have played an important role in serving the savings and credit needs of rural and urban communities. SACCOs are localised by common communities, rural or urban, employees who work for the same employer or some other common criteria. For instance, the Masvingo Teachers Association Savings and Credit Society reached some 10,000 clients around 2005. Of the total number of SACCOs in Zimbabwe at about this time, 35 per cent were employee-based, 23 percent enterprise-based, 19 percent agriculture-based and the remaining 23 percent were both enterprise- and agriculture-based (Chigara and Mutesasira, 2001). Credit is provided against collateral, which is the savings that the member has accumulated with the SACCO concerned. An umbrella body of savings clubs and credit unions, the National Association of Credit and Savings Cooperatives (NACSCUZ) was registered in 1986 starting with 200 members.

Table 13 gives the number and distribution of SACCOs in 2006 and shows country-wide distribution.

**Table 13: Distribution of SACCOs per province in 2006, before hyperinflation. By the end of 2008, the number had declined to almost zero.**

<table>
<thead>
<tr>
<th>Province</th>
<th>Functional</th>
<th>Non-functional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harare</td>
<td>21</td>
<td>15</td>
<td>36</td>
</tr>
<tr>
<td>Mashonaland East</td>
<td>31</td>
<td>22</td>
<td>53</td>
</tr>
<tr>
<td>Mashonaland West</td>
<td>10</td>
<td>7</td>
<td>17</td>
</tr>
<tr>
<td>Mashonaland Central</td>
<td>16</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>Manicaland</td>
<td>7</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Matabeleland North</td>
<td>13</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Matabeleland South</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Masvingo</td>
<td>15</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Midlands</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>123</strong></td>
<td><strong>85</strong></td>
<td><strong>208</strong></td>
</tr>
</tbody>
</table>


---

It is estimated, as at December 2010, the membership of NACSUZ was around 150 of which only 60 percent was considered to be functional. The decline in SACCOs was mainly due to the shortage of capital which affected lending capacity. During the hyperinflationary period, most people did not have surplus money to contribute and rather invested in nominally appreciating physical assets. Since the main funding base for SACCOs was member’s savings, flow of savings reduced as members either stopped saving or withdrew their savings and utilised them before they devalued through inflation. The total savings mobilized by NACSCUZ members went down from an estimated US$13 million in 2003 to US$2.9 million in 2004. The outstanding loan balance went down from US$9.7 million to US$1.6 million over the same period.

It is difficult to estimate the current scale of supply of credit and savings services through SACCOs as there are no recent studies available to suggest how SACCOs have fared since dollarization. However, the 2003 figure of US$13 million suggests that SACCOs did play a significant role in providing services to rural and urban communities at that point and are likely to be reviving as the overall economy recovers.

Table 14 below shows that SACCOs in almost all areas provided financial services to MSMEs, including rural MSMEs, in 2006 and thus played a role in supporting the rural economy. As the analysis above suggests, though this may be smaller at present, it can be expected to grow.

**Table 14: Supply of Financial Services Targeted to MSMEs (2006)**

<table>
<thead>
<tr>
<th>Region / City</th>
<th>Bank &amp; Building Society</th>
<th>NGO-MFI types</th>
<th>SACCO</th>
<th>Moneylender</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harare</td>
<td>5</td>
<td>23</td>
<td>36</td>
<td>95</td>
<td>159</td>
</tr>
<tr>
<td>Bulawayo</td>
<td>2</td>
<td></td>
<td>38</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Mashonaland East</td>
<td></td>
<td>53</td>
<td></td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Mashonaland West</td>
<td></td>
<td>17</td>
<td>3</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Mashonaland Central</td>
<td></td>
<td>27</td>
<td>1</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Manicaland</td>
<td></td>
<td>12</td>
<td>7</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Matebeleland North</td>
<td></td>
<td>22</td>
<td></td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Matebeleland South</td>
<td></td>
<td>8</td>
<td></td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Midlands</td>
<td></td>
<td>2</td>
<td>25</td>
<td>19</td>
<td>46</td>
</tr>
<tr>
<td>Masvingo</td>
<td></td>
<td>8</td>
<td>18</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5</strong></td>
<td><strong>27</strong></td>
<td><strong>208</strong></td>
<td><strong>181</strong></td>
<td><strong>421</strong></td>
</tr>
</tbody>
</table>

Source: RBZ 2006

The members of less formalised ROSCAs include vendors operating informal businesses at a given locality or those operating small enterprises such as hair salons or groups of friends. Members of ROSCAs save either regularly or when they can and withdraw what they require

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86 Klinkhamer, Madeleine, *Microfinance Sector Recovery Study*, SNV, 2009

87 In Klinkhamer, Madeleine, *Microfinance Sector Recovery Study*, SNV, 2009
to finance their needs when their turn comes round, e.g. finance for a small enterprise venture, or purchase agricultural inputs at the start of the rainy season. Only members have access to the loans, as their savings are used as collateral and the amount which members can borrow is governed by a code of conduct designed by members. An example quoted in the Rastopoulos and Lacoste study (2002) is the Yamuranayi Pachedu self-help association in Hurungwe Communal Area in Mashonaland West Province. The association which is not registered has a limit of 24 members. Each member has to contribute $25 per month which is paid at a monthly meeting of members. The $600 raised is available for lending out to members on a rotational basis. The whole amount has to be borrowed by three of the members at 10 percent per month and the amount borrowed is repayable at end of three months. In addition to the income raised from the interest on loans, the association raises income from penalty fees, e.g. non-attendance, lateness, not utilising the service, etc.

ROSCAs are often the precursors of more formalized SACCOs (Rastopoulos and Lacoste, 2002). They provide their members with access to credit collateralized by their own savings. Since, they are not registered and the savings or loans do not flow through the formal banking channels, no statistical information on the number of ROSCAs or the amounts of savings mobilized could be traced.

Other informal sector providers

Before hyperinflation and dollarization, many informal savings and credit groups existed, begun by NGOs. These groups collected savings from members of the group and then used that money to extend credit to group members. These loans carried high monthly interest rates and were mostly administered by volunteers. Many of these groups generated very high returns on their savings for their members. Although there is limited recently information on these, it is likely that these groups are functioning again to cater for the needs of rural populations.

Support Institutions

There are various support organisations that represent members’ interests and that in various ways facilitate access to finance for their members. A summary of these and of their key activities relating to access to finance is provided below.

ZAMFI

The Zimbabwe Association of Micro Finance Institutions (ZAMFI) is the apex body for the MFI sector in Zimbabwe. It provides advocacy and capacity building services for/to its members and is a conduit for donors to engage the MFI sector. As at November 2010, ZAMFI had 48 members – NGOs, credit unions, SACCOs, downscaled commercial banks, etc. It is estimated that in 2011 ZAMFI members made up around 80 percent of the MFI market players (Machethe, et al, 2011).

The Zimbabwe Farmers Union (ZFU)
The Zimbabwe Farmers Union is the largest farmers' union in Zimbabwe and in January 2010 had about 250,000 farmer members, mainly from the Communal Lands and A1 farming areas. ZFU has been lobbying the government to provide substantial financial support to the farming sector by capacitating institutions involved in funding for farming. For the 2010/11 season, ZFU negotiated with seed houses and fertilizer companies to supply farmers across the country with inputs through a credit facility. Specifically, ZFU successfully negotiated with Windmill, a fertilizer distribution company, for a scheme in which its members could access fertilizer and seed during the month of October 2010 by paying only 25 percent of the value of the inputs up-front and repaying the balance in five-monthly installments.

The Zimbabwe Commercial Farmers Union (ZCFU)

The Zimbabwe Commercial Farmers Union (ZCFU) is a registered farmers' union, started to represent 'indigenous' commercial farmers who entered the business of commercial farming after independence in 1980. The Zimbabwe Commercial Farmers Union (ZCFU) has always been at the forefront of lobbying for improved and dedicated credit lines for its 15,000 members. It played an important role in negotiating an input credit facility worth $30 million for distributing inputs to its members for the 2010/11 agricultural season and in negotiating with a local fertilizer manufacturer for a loan facility for 5 000 tonnes of fertilizer. The ZCFU also played a pivotal role in negotiating with fertilizer companies and banks for the supply of inputs and working capital for the 2011 winter wheat season.

The Commercial Farmers' Union (CFU)

The Commercial Farmers' Union has a membership of about 400 white, 'non-indigenous' farmers actively engaged in farming as well as close to 1,500 non-active farmers who lost their farms in the land reform programme. The ZCFU has remained active, seeking support for its members on all issues affecting agriculture. The Union has been successful in obtaining finance for its members through liaison with commercial banks and, in the past, with the Reserve Bank.

5.2.2 Public financing

5.2.2.1 Overview

Prior to 1980, the then Agricultural Finance Corporation (AFC) financed much of both the seasonal working capital and medium- and long-term capital expenditure of the agricultural sector. Farmers were able to choose their credit provider but often sourced short-term finance from commercial banks and AFC, with the latter being the source for much medium-to long-term finance because the interest rates it charged were lower and its repayment terms more flexible.

At independence in 1980 and throughout the 1980s, Government re-oriented the AFC to provide services to the smallholder sector. A Smallholder Credit Scheme guaranteed by the government was instituted with the AFC responsible for administering the scheme. A group lending approach was adopted.
Following the fast track land reform programme of 2000 to the end of 2008, the Government, the Reserve Bank of Zimbabwe (RBZ) through its quasi-fiscal activities, Farmer Contracting Agencies and NGOs became the main suppliers of agricultural and rural finance to rural smallholder farmers, A1, A2 and the now predominantly black large-scale farmers (Pazvakavambwa, 2009).

The Ministry of Agriculture provided agricultural credit in the form of direct input support to farmers, under the administration of its parastatals and departments (Govere et al., 2009). The Grain Marketing Board (GMB) administered a scheme that distributed seasonal inputs; the Livestock Development Trust (LDT) focused on Heifer Support; the District Development Fund (DDF) administered tillage support; Agricultural Rural Development Authority (ARDA) administered the Irrigation Rehabilitation Support Facility and the Ministry, with the support of the Army, and administered the Maguta and Champion Farmer Input Support Scheme. The Winter Crops Inputs Loan Scheme, which was mainly for wheat production, was supported by the Ministry of Agriculture with funding received from either Ministry of Finance or Reserve Bank of Zimbabwe. The Ministry procured inputs which were distributed to farmers through GMB and ARDA.

Starting in 2005, the Reserve Bank of Zimbabwe (RBZ) administered the Agricultural Sector Productivity Enhancement Facility (ASPEF) and the Farm Equipment and Mechanization Support Programme. This was targeted at A2 farmers, who were no longer eligible for direct input support. The ASPEF provided various financing facilities for agricultural production through AgriBank and other financial institutions (Govere et al., 2009). The financing schemes included the Tobacco Seedlings and Land Preparation Facility, Maize and Sorghum Support Facility, Wheat Purchase Facility, the Soya bean Production Facility and the National Agricultural Mechanization Programme, amongst others.

Since January 2009, the Ministry of Finance directed the Reserve Bank to stop operating its quasi-fiscal activities in providing financial support to the agriculture sector. The Reserve Bank was tasked instead with the responsibility to coordinate measures to restore and enhance the level of participation by commercial banks and other financial institutions in lending to farmers, for both short-term and medium-term agricultural finance (Ministry of Finance, 2009). The intention was to see commercial banks and MFIs become the main source of agricultural finance, drawing from the deposits by the general public, with Government retaining responsibility for funding schemes targeting input support to smallholder farmers in communal and resettlement areas. However, the constraints to the finance sector and money supply arising from perceived high country risk and resulting shortage of investment inflows into the country, along with a history of low rates of farmer repayment and the high perceived risk of lending to the agricultural sector, have limited the success of these plans.

5.2.2.2 Agricultural Bank of Zimbabwe

The Agricultural Development Bank of Zimbabwe (AgriBank) is 100 percent owned by the Government of Zimbabwe and the shareholding structure is 50 percent Ministry of Finance, 20 percent RBZ, 20 percent ARDA and 10 percent Bankers. The Bank has over the years undergone several recapitalizations. The role of AgriBank is to develop the agricultural sector, enhance agricultural productivity and contribute to the country’s economic growth.
Agriculture and 50 percent Ministry of Finance. Historically, the bank was established in 1924 as the Land and Agricultural Bank to cater for the needs of commercial farmers. In 1971 the Land and Agricultural Bank and the Agricultural Assistance Board were amalgamated into the Agriculture Finance Corporation (AFC) through an act of Parliament. The AFC was mandated to supply credit to large-scale, small-scale farmers and agro-processing operators.

In 1996, the AFC was incorporated as the Agricultural Bank of Zimbabwe (AgriBank) and was subsequently given a banking licence in June 1999. The Bank began operations on 10 January 2000 and established branches offering treasury and retail banking services. In 2003, the government changed the bank into an agricultural development bank with the aim of aligning it with the resolutions of the Agrarian Land Reform Programme. AgriBank became the main source of formal finance for A1 and A2 farmers as well as established commercial farmers.

The main purpose of AgriBank is to finance agricultural production activities and to bring banking services to rural communities. In the past AgriBank was the main source of farm purchase and development finance for the agriculture sector with its medium to long term financing facilities. It also acted as the development bank for a variety of donor funded development projects targeted at the smallholder community and brought banking services to unbanked rural communities through its services to rural dealerships and retailers.

In the period 2002 to 2008 AgriBank was the main conduit for agricultural finance to the agricultural sector. It disbursed, together with other banks, ASPEF funds and managed the government’s Public Sector Investment Program (PSIP) funding. The PSIP funds were only available to small-scale farmers. They were guaranteed by government without requirement for collateral. About 50 percent of those who accessed the funding did not repay the loans that they received, however, resulting in massive bad debts.

AgriBank has been struggling to source funds for its capitalization largely because of its ownership structure, which is unattractive to external investors and but also because of the high rate of farmer default, the lack of contract enforcement and Government’s inability or unwillingness to allocate resources to the bank, e.g. in 2007/08 season AgriBank received less than a third of funding it had requested from Government.

The table below outlines the scale of planted crop area supported by AgriBank loans.

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88 AgriBank is on the sanctions list and is therefore not able to benefit from USA financial facilities.

Table 15: AgriBank provided credit for 20,325 ha of smallholder and 103,500 ha of commercial crop production in the 2009/10 season

<table>
<thead>
<tr>
<th>Crop/Client</th>
<th>Smallholder</th>
<th>Commercial Farmers (large scale &amp; A2)</th>
<th>Co-ops and Agro-dealers(^91)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
<td>5,000 ha</td>
<td>15,000 ha</td>
<td>One co-op with 316 input/shops outlets.</td>
</tr>
<tr>
<td>Maize</td>
<td>10,000 ha</td>
<td>32,000 ha</td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>3,000 ha</td>
<td>30,000 ha</td>
<td></td>
</tr>
<tr>
<td>Sugar beans</td>
<td>-</td>
<td>3,500 ha</td>
<td></td>
</tr>
<tr>
<td>Soya beans</td>
<td>-</td>
<td>23,000 ha</td>
<td></td>
</tr>
<tr>
<td>Sugar cane</td>
<td>2,325 ha</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>20,325 ha</strong></td>
<td><strong>103,500 ha</strong></td>
<td></td>
</tr>
</tbody>
</table>

In 2009/2010 AgriBank it had a net loss of close to US$1.5 million, and its under-capitalization resulted in a halt to its loans and input guarantees. Following this, in December 2010, AgriBank and ZB Bank Ltd went to the market offering 360-day bonds to raise USD10 million and USD 30 million respectively to finance tobacco production for the 2010/11 season. The money raised by these two banks was to be channelled towards mobilising financial support for tobacco farmers for growing, curing and transporting the crop to the auction floors at harvest time.

Despite the challenges resulting from lack of funding, AgriBank is now re-growing its client base and, if circumstances were different, it would be well placed to again serve the needs of the agricultural sector and play a key role in rural development, given its wide network of 60 branches, the largest network of all Zimbabwean banks.

5.2.2.3 The Infrastructure Development Bank of Zimbabwe (IDBZ)

The Infrastructure Development Bank of Zimbabwe (IDBZ), formerly the Zimbabwe Development Bank (ZDB), was re-launched by the Zimbabwe Government on 31 August 2005, as a vehicle for the mobilisation of infrastructure development in Zimbabwe, with finance from both domestic and international sources. IDBZ's mandate is to mobilize financial and technical resources of appropriate duration and cost for public and private institutions involved in infrastructure development to facilitate investment in infrastructure. Its long-term products include equity, bonds and guarantees, long-term loans and project finance. Short-term products offered include trade finance, lease finance, working capital, personal loans and treasury services.

5.2.2.4 People's Own Savings Bank (POSB)

\(^90\) PriceWaterHouseCoopers, "Zimbabwe Agricultural Sector Assessment", Zimbabwe Multi Donor Trust Fund Agricultural Studies: TF 092993, September 2010

\(^91\) Each AgriBank branch has its own agro-dealers/retailers that it supports that are not shown in the table.
The People’s Own Savings Bank (POSB) origins can be traced back to the establishment of the postal services in January 1905. It operated as the Post Office Savings Bank, as part of the then Posts and Telecommunications Corporation (PTC). It offered savings services within the post office branches located throughout suburban areas in almost all cities, rural towns and growth centres. In April 2001, the former Post Office Savings Bank was transformed into the commercialised People’s Own Savings Bank by an Act of Parliament, replacing the Post Office Savings Bank. The Act established the bank as a fully-fledged corporate entity and widened the scope of its powers to enable it to undertake the following:

- carry out the business of a savings bank, that is to say, the acceptance of deposits…..
- provide banking and financial services for the people of Zimbabwe…
- encourage savings…
- grant loans and advances…

It remains wholly owned by the government.

The POSB targets the Zimbabwean mass savings market. It has nation-wide coverage, with 185 branches located in all major cities, growth points, district centres. As a result of its wide rural network and low minimum savings balances, the POSB’s clientele has always been broad ranging and includes individuals receiving salaries, saving clubs, rural enterprises and small-scale farmers. It accepts savings deposits, much of which are invested in government securities to provide domestic funding for the public sector.

The POSB suffered enormous declines in deposits during the economic meltdown that the country went through from 2000 to 2009 (Klinkhamer, 2009). The traditional market of the POSB - rural low income clients - was particularly hard hit as clients withdrew their savings to buy physical assets to try to protect themselves from losses caused by hyper-inflation. And the bank is still struggling to recover.

**Table 16: POSB Deposit and Loan Balances in the Early 2000s (in Euros)**

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>315.6 m</td>
<td>45.85 m</td>
<td>21.36 m</td>
<td>-</td>
</tr>
<tr>
<td>Loans</td>
<td>249.52 m</td>
<td>48.47 m</td>
<td>3.08 m</td>
<td>2.25 m</td>
</tr>
</tbody>
</table>


In a move to diversify its services, from December 2010, POSB extended its services to include consumer loans. The loans are repayable over a period of six months at 20 percent per annum. Amounts loaned can be of up to 250 percent of an individual’s gross salary with the requirement that the individual’s salary has to pass through a POSB account. The POSB charges lower interest rates on consumer loans than other banks in order to attract business, and has developed a niche market in wholesaling funds to microfinance service providers.

5.2.2.5 Small Enterprises Development Corporation (SEDCO)

SEDCO is a state enterprise that was established under an Act of Parliament in 1983 with its main objectives being (i) to promote and facilitate the development of commerce and
industry in Zimbabwe’s rural areas, (ii) to create employment and income generation for people living in the economically depressed areas and (iii) to create more wealth through increased productivity in the small enterprise sector.

It is operated by the Ministry of Small and Medium Enterprises and Cooperative Development and is the disbursing arm of the Ministry. Services provided include: credit, training and extension advisory services to the small enterprise sector. SEDCO relies largely on national budgetary allocations as the source of funding it lends out to SMEs, including rural SMEs. It also sources funding from the National Social Security Authority (NSSA) as well as loans from POSB and commercial banks of which CBZ is the main source. SEDCO provided loans ranging from US$100 to US$10,000 to clients ranging from home-based enterprises, vendors wanting finance to buy stock, retail shops to small/medium manufacturing ventures. Unfortunately, loans have not been well managed and SEDCO has suffered high default rates.

As experienced by other financial sector institutions, SEDCO lost its cash reserves as a result of hyperinflation and was left with no cash when dollarization took place. Given its reliance on the national budget, funding for SEDCO remains precarious. For example, in the 2011 Budget, SEDCO was not allocated any resources for onward lending to SMEs, making it difficult for the corporation to fulfill its strategic priorities.

5.2.2.6 Agriculture and Rural Development Authority (ARDA)

ARDA is responsible for production of strategic crops and development of strategic areas that provide opportunities for rural communities. It is well endowed with land and irrigation infrastructure; however, it has not performed well due to a combination of factors including inadequate funding and other operational challenges. There are efforts underway in ARDA to build strategic partnerships that bring in technology, capital and management capabilities to exploit the huge potential that exists on its estates. For example there is already a partnership with a bio-energy company covering more than 80,000 ha of irrigated land in south eastern part of the country. It is estimated that within two years the project would be producing ethanol equivalent to 30 per cent of the country’s fuel needs and bringing employment to some rural communities.

5.2.3 NGOs and Donor support

Several donor-funded programmes provide grants and loans to the rural and agricultural sectors. Most are targeted at developing the capacity of project beneficiaries to access agricultural inputs, providing rural traders with funding to procure inputs for onward selling to farmers and procurement of farmers’ produce. These donor-supported projects have played an important role in the evolution of rural financial infrastructure and services while strengthening the capacity of the rural population to access financial services since the early years of independence. Most projects started by providing agricultural input support in the form of grants and loans to rural households and farmers to enhance their livelihoods and household food security. Others were started to support informal savings and loans clubs or as a way of extending the reach of savings and loans club models (Rastopoulos and
Lacoste, 2001). Over time, some of the projects led to the establishment of the formalized microfinance institutions described earlier.

Highlighted below are some financial services-related initiatives by donors and NGOs that have supported the agricultural and rural sectors.

5.2.3.1 Agritrade Revolving Fund (USAID)

Agritrade is a $10 million revolving credit facility serving the agricultural sector which aims at promoting rural commodity trade. Local financial institutions, CABS, Trust Bank, and MicroKing Finance established the facility with 50 percent of the funds coming from USAID. Agritrade assists hundreds of small and medium-size agribusinesses involved in communal agriculture, resulting in millions of dollars of new investment. Agritrade loans range from $1,000 to $200,000. As of January 2012, Agritrade had disbursed more than $3.5 million in loans to 499 borrowers.92

International Relief and Development (IRD), the implementer, has identified two types of borrower under the facility, namely (a) rural traders and (b) agro-merchants. Rural traders operate at the ward level, buying directly from farmers, and the facility is designed to assist traders to purchase produce from smallholders for quick onward selling. Most traders have low levels of collateral which enables them to access only moderate levels of loan funding. Agro-merchants usually operate from Harare and purchase produce from multiple consolidators in many districts/provinces. They have medium to high collateral and are better able to access larger loans. IRD have designed a specific facility for each type of borrowers.

The facility includes the Agritrade 1 facility which provides for an on-lending facility to banks, the size of which is a function of the performance of both the bank and the facility. Banks are required at least to match the funding provided by the facility. Initially, loans are small ($6,000), but increase to an average of $12,000 and $18,000 in the second and third loan cycles, respectively. An Agritrade 2 facility differs in scale from the first facility. It provides a facility to be leveraged by banks up to a total of $6 million. The loan amounts are larger than Agritrade 1 to suit the scale of operation of the companies to which advances are made.

The intention is to create new and sustainable commercial relationships between banks and rural traders and agro-merchants through encouraging banks to continue providing services to clients after they have successfully repaid loans three times.

5.2.3.2 Development Credit Authority Loan Guarantee Program (USAID)

Since 2009, Standard Chartered Bank (SCB) has had a five-year Development Credit Authority Loan Guarantee Program (DCA) arrangement with USAID to offer loan guarantees to selected contract farming companies. The arrangement works on 50:50 risk participation between the bank and USAID. USAID invested $20 million into a revolving credit guarantee facility through which $49 million worth of credit was created for corporate agribusiness in

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one calendar year.\textsuperscript{93} As at January 2011, almost US$35 million of the guarantee facility had been utilized through lending to firms with corporate estates or projects implementing smallholder out-grower schemes for tea, coffee or horticulture.

\textbf{5.2.3.3 Rural Agro-dealer Re-stocking programme (RARP)}\textsuperscript{94}

SNV, FAO, DANIDA and HELP Germany initiated an insurance programme to improve rural agricultural input stock through the Rural Agro-dealer Re-stocking Programme (RARP). The initiative was designed to encourage wholesalers to place agricultural inputs as consignment stock in rural stores through the provision of donor-funded insurance and agro-dealer training. The programme, now in its third phase, seeks to address the collapse of agro-input supply chains which seriously affected small-scale farmers in rural areas who did not have access to the right agro-inputs locally at competitive prices and at the right time. The programme looked for ways to re-establish rural input value chains. Recognising that neither agro-input suppliers nor rural traders had the capacity to address the issue, the programme focused on providing insurance to input suppliers and training rural dealers.

Through a relatively small investment (a total amount of US$112,000) in insurance of financial risks, a total 659 agro-dealers were linked to three wholesalers to receive agricultural inputs. The total cost of insuring the three companies, each with four policies (fire, fidelity, money recall, goods in transit), for a total stock value of US$545,000 was US$12,532 for a six month period, or 2.8\% of the value of the inputs. This resulted in the restocking of 71 rural shops in three provinces by March 31, 2010. The agro-dealers distributed inputs worth over $9 million through voucher and cash sales and an estimated 113,800 farmers accessed inputs in this way.

This pilot was so successful that a second phase was initiated in October 2010 with the objective of enhancing access to agro-inputs by rural farmers through reviving the link between rural agro-dealers and wholesalers, and secondly through the establishment of a revolving credit facility for the agricultural value chain players. DANIDA contributed $4.58 million towards the revolving fund and $1.1 million for capacity building. FAO provided $125,000 for agro-dealer training and HELP (Germany) contributed about $100,000 for insurance for the programme.

\textbf{5.2.3.4 Donor support for capital for MFIs}

Kupfuma Ishungu, supported by CARE, is an example of NGO-supported microfinance programs. It was initiated by CARE through its support for community savings and loans clubs for disadvantaged remote rural areas. Kupfuma Ishungu is modelled on the Internal Savings and Lending model or Village Savings and Loans Groups (VS&LGs). The model offers savings and loans services to self-selected groups based in a village. The VS&LGs

\textsuperscript{93} USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare: 2011

are considered to be effective distribution channels for financial services as varied as loans, savings, money transfers and insurance. The community-based initiatives spearheaded by CARE International focus on providing financial services to low-income markets. They are serving approximately 25,000 clients, including 15,000 directly by CARE and some 10,000 by others who are following the CARE example.

Donors have also provided funding to registered MFIs as capital for onward lending to their clients. For example, between 2000 and 2005 USAID provided financial services to 70,021 households through support to Zambuko Trust and MicroKing Finance.

5.2.3.5 The Zimbabwe Agricultural Development Trust (ZADT)

ZADT was registered in 2010 to hold and administer revolving funds, provided by several NGOs, for supporting smallholder farmers in market-driven approaches to sustainable agricultural development. DANIDA spearheaded the establishment of the Trust’s fund to provide a credit facility that is market-driven as opposed to government initiated and subsidized schemes, which were not being effective. The Trust fund provides long-term and sustainable funding to small-scale farmers instead of the short-term financing which is commonly provided by NGO projects, some of which are short-term, humanitarian livelihood projects. The Trust seeks to promote agricultural recovery by advancing loans to farmers, repayable at the time of crop sale. The revolving fund received approximately $4 million as start-up funds from donors in 2010. It is also understood that donors will seek approval for a further capital injection of around US$8 million for 2011 and 2012 for continuation of the program. The fund will be managed by commercial lending institutions.

5.3 Supply Section Summary

The supply of financial services was greatly affected by the recent (post-2008) economic downturn that affected all aspects of life in Zimbabwe. The hyperinflationary period, from 2007-2009, was especially difficult for the financial sector and most formal sector (private and public) and informal sector providers struggled to survive. If organisations managed to continue operating, it was often with greatly scaled back services in terms of product range, volumes and geographical presence. Whilst the economy and the financial sector are reviving it is at a slow pace, mainly because deep underlying problems remain, namely: political uncertainty, economic policies that do not create a conducive operating environment for business or for investor confidence, lack of trust in the financial sector, the unavailability of much former commercial farming land for collateral to secure credit.

As a result, investment is limited from both domestic and foreign sources. The shortage of funds, in addition to the high risk associated with Zimbabwe in general and the agricultural sector in particular, has resulted in high interest rates for borrowing. Rates are prohibitive for all but the most profitable farmers and commercial enterprises, rural and urban, and most small-scale farmers and rural enterprises are unable to afford such market-related credit as they operate on very small profit margins. In addition, what limited finance available is almost all short-term, making it suitable for some parts of the agricultural value chain but not for others, e.g. storage, processing and export trading, nor for leasing, farm expansion projects
or for rural infrastructure development. In addition, banks do not, on the whole, prioritise the agricultural sector or rural enterprise as they have more profitable, less risky and more collateralised clients to supply.

Most MFIs are still struggling to recover from the loss of their cash assets during the hyper inflationary period, as are other financial institutions, formal and informal. With the sector reviving slowly, mobile banking will be both a challenge and an opportunity: banks that embrace it are likely to revive more strongly, but those that do not are likely to concede market share and lose out on the potential for growth in rural areas.

Contract farming companies are a significant source of non-bank, value chain funding for the small-scale farming sector, with a substantial knock-on effect for the rural economy. Funds for financing small growers are often sourced offshore, especially in the instance of the large tobacco and cotton companies.

Insurance and guarantee products to cover the risk of farmer repayment default on credit provided by input suppliers and contract companies are important in stimulating the supply of credit. Several contract farming companies and input suppliers have been incentivised to engage with small-sale farmers in this way. New ways are needed to increase the collateral base, e.g. using livestock or peri-urban dwellings as collateral. Some contract farming companies use their established relationships with farmers with good performance and repayment histories as a means to overcome the lack of collateral; substituting good track record for collateral.

Farmers and rural small entrepreneurs often self-finance their farming or enterprise operations through selling their assets, belonging to SACCOs or ROSCAs or receiving remittances from relatives living in urban areas or outside of the country.

Mobile banking services are proliferating and much of the country is covered by network signal, enabling many rural populations to access transaction services as well as other financial services being offered by providers. As competition grows, the cost of services will fall and this is likely to create increased competition for financial institutions that rely largely on traditional methods of access, particularly MFIs. Mobile banking services are revolutionising access to financial services by rural communities and are being increasingly used by contract farming companies to distribute input credit and to make payments to farmers for crop purchase.

Donors continue to be an important source of finance for rural development and for the development of the agricultural sector. Several programmes being operated in conjunction with the private sector are leveraging significant credit for farmers and rural enterprises, as well as facilitating the building of new relationships between financial service providers and rural and agricultural communities.

Post dollarization, government involvement as a supplier of finance to the agricultural and rural sectors remains limited due to shortage of resources. Should this change, many government institutions have the structures to provide services again, as many have good
reach to rural areas. However, institutional capacity building will be required to make the operation of these structures sustainable.
6. Access to and Inclusion in Agricultural & Rural Financial services

The aim of financial inclusion is to raise the levels of both the supply and the demand for financial services progressively towards total voluntary inclusion, at least for the adult population. This section looks, on the one hand, at factors that have, in recent years acted to increase the supply of and/or the demand for financial services in rural areas – referred to as ‘enablers’ of financial inclusion – and, on the other, at those that have acted to constrain the supply of and/or the demand for financial services in these areas – referred to as ‘disablers’.

In the absence of a widely accepted convention about the measurement of access, the level of uptake is usually used to represent the level of access or inclusion, although the level of uptake will almost always be lower than the actual level of access, given the presence of an unknown degree of self-exclusion. The data referred to below assumes uptake to be a proxy for inclusion. It is beyond the scope of this report to try to determine the size of the gap that actually exists.

The analysis is structured at four levels: client, micro, meso and macro, defined as follows:

1. client level: individual rural households and enterprises
2. micro level: financial service providers, formal and informal, that offer services to clients
3. meso level: financial systems, (financial) infrastructure (including support services such as financial IT, auditing and credit bureaux) and generic products and services,
4. macro level: the legislative, policy (including broad macroeconomic variables such as trade and foreign exchange regimes) and regulatory frameworks.

The focus for each level is the question: what makes it easier or more possible to access financial services, and, conversely, what makes it difficult or impossible to do so?
Figure 12: illustrates the relationship between the macro, meso and micro level influencers on access and inclusion.

**Client level:** At this level we have all those who live and work in the rural areas and all the players in the agricultural value chain. These include: small- and large-scale farmers, rural based agro-dealers and commodity handlers, rural based commodity traders, processors, transporters, medium and large scale agro-businesses in the agricultural value chain (formal sector buyers, manufacturers, processors, exporters, etc.) and formal and informal rural enterprises that use agricultural or derived products as inputs (e.g. general dealers, supermarkets food grinding mills, peanut butter processors, food vendors and even beer outlets, entertainment clubs, wood carvers and hair salons using agriculturally-based dyes, etc.).

**Micro level:** At this level we have the retail financial service providers, formal and informal, that offer services to such clients. These include: banks, insurance companies, leasing companies, mobile banking providers, MFIs, building societies, SACCOS and ROSCAs and moneylenders. It could also include government institutions and NGOs, if they are involved in retailing finance activities.

**Meso level:** This level includes the financial systems (cheque clearing, inter-bank lending, etc.), infrastructure (including support services such as financial IT, auditing and credit bureaux) and generic products and services, such as loans/credit, savings, transmission, insurance, foreign currency, financial advice/administration, etc., some of which may be offered by providers other than banks.
**Macro level:** This includes the overall legislative, policy (including broad macroeconomic variables such as trade and foreign exchange regimes) and regulatory frameworks within which the financial sector operates. For Zimbabwe this would include, amongst others, the Banking Act, the Indigenization and Economic Empowerment Act, the Fast Track Land Reform Programme, government policies relating to the development of and resource allocation to the agricultural sector and rural economy and macro-economic policy, including monetary and fiscal policy. Key players at this level are the Ministry of Finance, the Reserve Bank of Zimbabwe, Parliament, etc.

Clearly, the macro level has an overarching role, and therefore exerts much influence on lower levels. However, all levels are in a dynamic relationship, with each affecting what takes place at other levels. An interesting example of the lower levels affecting the macro level was during hyperinflationary times which saw the Reserve Bank changing the currency used in the country to United States dollars. This was driven by pressure from lower levels when it became clear that continued use of the Zimbabwe dollar was making financial systems and services unworkable.

In 2011, FinScope conducted a Consumer Survey in Zimbabwe which measured levels of financial inclusion, described access to financial services and identified barriers to usage of services. This was the first survey of its kind to be undertaken in the country and its results provide useful insights into rural and agricultural finance.

The survey found that 38% of Zimbabweans are formally served and that 40% are excluded from both formal and informal products/services, relying mainly on family and friends (see diagram below).

**Figure 13:** The Zimbabwe Consumer Survey showed that 38% of Zimbabweans are formally served whilst 40% are excluded from both formal and informal products/services

Financial exclusion was especially high in rural areas, where the informal sector plays a key role in increasing inclusion. In addition, the survey found that many formally served adults...
also use informal services, indicating formal sector supply gaps and informal sector supply complementarities.

Drivers of financial inclusion are different for the various sub-sectors: in the banking industry, the key driver is transactional products; in the formal non-bank sub-sector, the key drivers are insurance and savings services, whilst for informal sub-sector, the key drivers are savings, insurance and credit facilities.

The ‘Landscape of Access’ diagram below illustrates the degree to which individuals (aged 18 years and older) have/use financial products and services. The diagram depicts, on its five axes, the percentage of adults that have or use the following products/services: transactional, savings, credit, insurance and remittance.

The diagram below illustrates that access is largely driven by savings products, particularly in urban areas. The products/services which show the highest degree of exclusion are: credit and, to a lesser degree, remittances, especially in rural areas and for formal mechanisms.

**Figure 14: The Zimbabwe Consumer Survey showed that financial inclusion is greatest for savings and least for credit, especially in rural areas**
5.1 Enablers

**Figure 15:** There are numerous factors which have increased both supply and demand and may have lessened the gap between effective supply/access and effective demand/usage

5.1.1 Demand Enablers

Although the limitations on quantification are significant, it appears from the analysis of section 3 that the demand for financial services is high throughout the agricultural value chain: the report notes that the known demand for credit from large-scale commercial farmers, contract companies and processors from local banks significantly outstrips supply. The discussion below highlights some of the key factors that are helping to bring about an increase in the demand for financial services:

a) *Land reform.* The land reform programme in Zimbabwe has resulted in massive transfer of agricultural land to about 150,000-300,000 previously disadvantaged people. This has resulted in increased production of crops by this sector, including key export crops such as tobacco and cotton. This has in turn increased the demand for financial services by the smallholder farmers involved in contract farming.

b) *Economic growth.* The economy has been recovering slowly and, with this, the demand for financial services, as incomes have risen amongst rural entrepreneurs and agricultural value chain players.

c) *Government policy priority for rural areas and agriculture.* In addition, government has focused strongly on rural area development and small-scale farmers in setting its policy priorities and allocating resources and this is likely to continue under the current and future governments. An illustration is the agricultural financing for smallholder farmers that has been provided through state subsidized input schemes. However, while this may enhance rural development and the demand for financial services not supplied by government, such as money transmission, it may also have a negative impact on the demand for loans from private and NGO sector sources.

d) *Re-establishment of economic relationships.* The land reform programme disrupted established relationships in the rural economy and throughout the agricultural value chain. Economic relationships are slowly beginning to re-emerge, although in new forms, and this is also having a positive impact on the demand for financial services.
Sometimes the rebuilding of relationships has been assisted by donor programmes, e.g. SNVs Rural Agro-dealers Restocking Programme.

e) Diaspora remittances. As mentioned earlier in this report, diaspora remittances play a large role in foreign currency inflows into Zimbabwe. This is likely to remain and will continue to drive the demand for transaction services.

f) Communication infrastructure development. Access to communication infrastructure, particularly for mobile phones, in rural Zimbabwe has improved in recent years, especially as more competition has developed in the sector. The expansion of network coverage and the recent introduction of mobile banking services have been transforming the way in which the financial sector works, as well as redefining relationships between financial sector actors and their customer bases. The availability of such services has already seen a huge increase in demand for transactions services and is likely to also affect the demand for other services, such as credit, savings and insurance.

g) Increased awareness and understanding of financial services. There are institutions engaged in activities that enhance demand for financial services through providing education, business training and financial literacy for rural people, partly through training in how to run voluntary savings and credit groups. This has mainly been performed by NGOs in Zimbabwe (e.g. Zambuko Trust). Donor-supported projects have played a significant role in the evolution of the rural financial infrastructure and services while strengthening the capacity of rural clients to access financial services.

h) Electricity infrastructure. Improved access to electricity in the rural areas of Zimbabwe, through the Rural Electrification Program, has not only made it possible to use mobile phones for financial transactions but has also enabled rural entrepreneurs to establish micro and small enterprises, which it would not have been possible to operate without electricity. This can be expected to have increased the demand for rural finance.

i) Donor support. Much donor support, e.g. several USAID programmes, is focused on developing the agricultural sector and the rural economy. This has seen more money being spent in these sectors which has had a positive effect on stimulating economic activity and demand for financial services.

j) Lower transaction costs and greater convenience. For some services, particularly mobile banking, more affordable costs and the convenience of these services have been key drivers of demand for these services.
5.1.2 Supply Enablers

Financial institutions and the supply of financial services have been greatly affected by the economic collapse. However, the sector is reviving and supply of services is beginning to increase. The discussion below highlights some of the key factors that are helping to bring about an increase in the supply of financial services:

a) *Increased reach to rural areas.* In January 2007, the central bank published a Financial Inclusion Framework with the main objective of promoting financial inclusion by ensuring access to financial services by marginalized communities. The objectives were to be achieved by expanding the outreach of development financial institutions such as the People’s Own Savings Bank (POSB), ZIMPOST, and AgriBank whilst microfinance services would be enhanced through the establishment of microfinance banks. These developments will have promoted the supply of rural finance, together with branches’ reopening outside urban areas, as financial service suppliers’ businesses revive.

b) *Increased numbers of banks.* Zimbabwe’s financial sector underwent a number of changes as a result of the post-hyperinflation economic reforms. One of the impacts, together with the overall economic recovery, was an increase in the number of commercial banks, due to the liberalization of the regulating laws. This enabled a number of indigenous Zimbabweans to apply for and obtain licences to operate commercial banks and effectively increased the supply of financial services.

c) *Increased competition and new product design.* The increase in the numbers of banks has also boosted competition among commercial banks and led to the introduction of new banking products and services such as e-banking and in-store services. In addition, with the revival of the economy, institutions that are re-emerging are doing so into a very different economic and financial landscape, which has forced them to redesign many products and generally adapt to new market conditions. Both these factors have led to an increase in the depth and sophistication of the financial sector.

d) *Land title.* Although resettled farmers do not have full title to the land, they can use it as collateral for loans with some suppliers of credit, particularly government, and some NGOs and contract farming agencies.

e) *Growth of the informal sector.* The informal sector has grown enormously as a result of the formal economy collapse. With the revival of the economy and the general business environment, there are new opportunities for suppliers to provide both the informal and formal sectors with financial services.
5.2 Disablers

**Figure 16:** There are numerous factors which have constrained the growth of supply and/or of demand and which may have widened the gap between effective supply/access and effective demand/usage

5.2.1 Demand Disablers

The demand for financial services was negatively affected by the economic collapse that extended over much of the first decade of the twenty first century. Whilst the economy is now reviving slowly, there are many issues that constrain the demand for financial services. These are highlighted below:

a) *Infrastructure.* Most rural and agricultural areas have poor road, power and communications infrastructure, which makes it difficult for many rural households to access financial services.

b) *Product design.* The products of many financial services providers are not always aligned with the new markets which are emerging as the economy and the financial sector revive. The land reform programme saw the traditional markets which many financial institutions focused on in the past, e.g. large-scale commercial farmers, all but disappear. New markets have emerged, but many institutions do not yet understand the market well and are still adjusting to the new market environment, e.g. the insurance industry. As a result, product design may not meet demand requirements.

c) *Lack of trust in the financial sector.* The policies of the Reserve Bank, which saw company and the public’s savings wiped out during the hyper-inflationary period and the appropriation of private foreign currency accounts by the central bank, have left a lingering distrust of the financial sector. As a result, many individuals, companies and the informal sector are still reluctant to use financial services.

d) *Lack of awareness of products.* There is a lack of awareness and understanding of some financial products, e.g. insurance products, amongst new segments of the market, such as small-scale farmers. This acts as a dampener on demand.

e) *Land tenure.* Demand is also limited by land tenure insecurity. Land that was formerly used to secure collateral has been taken over by the State and is no longer
acceptable as collateral to many banks, due to unclear security and transferability of tenure. This has shrunk effective demand for many financial services. For example, AgriBank which received $30 million in state funds for agricultural lending to commercial and A2 farmers, reports challenges in attracting these groups of farmers with requisite collateral cover or bank guarantees.95

f) Market distortions from free inputs. The demand for credit amongst small-scale farmers and rural traders has been negatively affected by free input distribution programmes operated by government and donors. For example, over $73 million was spent providing inputs to more than 700,000 households in 2009/2010.96

g) Internet based services. Many customers either do not have access to the internet or are not computer literate. The demand for internet-based services may be limited by these factors.

5.2.2 Supply Disablers

Recent economic history in Zimbabwe has had a negative impact on the supply of financial services. The discussion below highlights some of the key issues which constrain supply.

a) Liquidity. Liquidity is limited because local and foreign investors do not find Zimbabwe an attractive country in which to invest, due to volatile government policy, insecurity of land and asset ownership due to the Indigenization and Economic Empowerment Act. In 2010, there was only about $1.708 billion circulating in the economy compared to an estimated US$10 billion required. The overall lack of liquidity since dollarization has limited the capacity of the financial sector to make loans to all sectors, including the agricultural sector

b) Cost. The cost of financial services, especially for credit and insurance, is high, as the cost of finance is high, mainly due to Zimbabwe’s high country risk profile which is reckoned to add 4-7 percent to the cost of offshore borrowing97. Interest rates on loans are increased further by the shortage of funds flowing into the domestic market due to the lack of local and foreign investor confidence and high risk aversion. The high cost of finance puts bank finance out of the reach of most small-scale farmers and rural enterprises, which operate on small profit margins. Inflation also increases nominal interest rates: Zimbabwe’s inflation rate has fluctuated at between 4 and 6 per cent p.a. since the hyperinflationary period ended (see Figure 17 below).

*Figure 17: Zimbabwe’s Annual Headline Inflation (%) Year on Year*

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95 USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare: 2011
96 USAID, “Demand and Supply of Short-term Credit for Zimbabwe’s Smallholder Agricultural Commodity Value Chains.” Fintrac Inc. and IRD, Zim-AIED Program, Harare: 2011
97 Mr R Grau, Standard Chartered Bank, Zimbabwe, Interview on 31 January 2012
c) Agriculture is seen as a risky sector. The agricultural sector is seen to be a risky sector in which to invest. Banks have more attractive markets for their limited finance. Over and above the general shortage of liquidity, the supply of credit to the farming sector, in particular, is therefore limited.

d) Fewer providers. The economic turbulence saw the collapse of many financial service providers, or a great reduction in the scale of their services. For example, the Agricultural Finance Corporation (AFC), which operated in rural areas, offering credit to farmers, stopped providing services. Although the financial sector is recovering slowly, there are not the same numbers of service providers as there were in the past. This weakens the supply of financial services.

e) Small customers are not attractive. In addition, banks prioritise large, well-established customers over small customers, as the former have been their traditional market and banks’ organisational structures are not generally designed to work with numerous small customers. Also, commercial banks and other financial intermediaries are subject to various lending restrictions and face mandatory interest rate ceilings on loanable funds at levels below market-clearing rates. Where this is the case, commercial banks choose to allocate the limited available credit to a few large borrowers in order to reduce the transactions costs and added risks of smaller loans. These ceilings have led to a reduction in service provision to smallholder farmers and other small-scale borrowers. There is little incentive for banks to change this pattern of lending, as long as the shortage of liquidity persists.

f) Little supply of long term finance. With 90 percent of savings in short term deposits, banks, insurance and leasing companies are not able to offer longer term finance products, e.g. for infrastructure development, leasing and recapitalisation and expansion projects.

f) Shrinkage of branch networks. Many financial service providers closed branches, especially outside the main urban areas. This negatively affected the outreach of services to rural areas. Although some institutions have begun opening rural
branches again, it has been slow and, as a result, many rural communities remain far from financial services, which are therefore inaccessible.

h) **Collateral.** Whilst some institutions accept newly resettled farmers’ leases as collateral for credit, many, including many banks and insurance companies, do not. This limits the supply of services which usually require collateral, e.g. loans and guarantees, from these providers In addition, the tenure of most small farmers in rural areas is dependent on traditional, communal title, which most banks do not accept for collateral purposes. This makes it difficult for smallholders operating under traditional tenure to borrow from banks.

i) **Infrastructure.** Although more than half of the population in Zimbabwe has access to mobile phone-based financial services, this is skewed in favour of urban dwellers. Network coverage is still patchy and non-existent in many remote rural areas which makes accessing mobile and internet banking and other electronic based products difficult for many rural communities. In addition, although the national rural electrification program has improved electricity infrastructure in most rural areas, many areas remain without power supplies. Where rural areas do have supply, it is generally very unreliable. This limits the supply of financial services to rural areas.

j) **Donor fatigue.** Many donors who used to support the financial sector, in particular MFIs, have less funds available for their programmes due to the global financial crisis and the world-wide economic downturn.
7. Recommendations for national- or local-level action

The key to unlocking the potential of the financial sector to enhance the supply of and demand for financial service lies at the macro level, in the political, legislative and regulatory environments. Central to this is a resolution of the political impasse which is at the root of issues affecting the financial sector, the economy, law enforcement and the nation as a whole. Resolution of these macro issues is essential for creating an environment conducive to business growth, for restoring investor confidence and for opening the door to substantial inflows of investment.

7.1. Enhancing Demand

a) Infrastructure. Addressing the issues of infrastructure, particularly road and power, is the responsibility of government and, as such, primarily need allocations from fiscal resources. Government and the private sector could also look at ways to play their roles more effectively, e.g. government in providing an enabling economic and business environment that attracts foreign investors to develop infrastructure, and local-level private sector becoming involved in mobilising and contributing funds to local infrastructure development. Communications infrastructure is being extended by many mobile phone providers and this is having a positive impact on access to mobile-based financial services.

b) Product design. With the radical changes in the economy, business and social relationships and in mobile technology in recent years, some financial service providers’ products have not kept pace with current market developments. Products need to be adapted to new market conditions to ensure that they are relevant, price attractive and delivered in ways that will attract customers.

c) Lack of trust in the financial sector. This issue continues to affect the financial sector. The new Minister of Finance has brought in some measures to hold the Reserve Bank of Zimbabwe and commercial banks more accountable. However, the legal and regulatory framework needs to be more comprehensive to ensure investor deposits are protected and implementation needs to be carried out with rigorous law enforcement. These measures could help to restore confidence.

d) Lack of awareness of products. Many rural enterprises and small-scale farmers remain unaware of, and/or do not understand, some financial services, especially insurance. Insurance has the capacity to provide access to credit, and efforts to design appropriately-featured and right-priced products for these target markets could provide a way to enhance financial services from suppliers who are risk averse. Market research to better understand demand and more awareness raising and education around insurance and other financial services could be done amongst target markets to increase demand, possibly through collaboration between service providers and donor programmes.

e) Land tenure. Access to freehold land is important as collateral for accessing financial services such as loans and some types of insurance. Land tenure remains a politically sensitive issue, however, and can really only be resolved through political processes.
However, what could help greatly would be to facilitate the rental occupation of land without risking forgoing traditional ‘ownership’ rights. This would set up a win-win both for smallholders who were serious about farming for the market and wanted to have access to more land as well as for traditional ‘owners’, who would derive rental income without losing their right to tenure.

f) Market distortions from free inputs. Whilst there is a place for subsidised and free inputs, especially for the most vulnerable households, this needs to be controlled to avoid impacts that result in market distortion.

g) Internet based services. Although mobile signal is expanding throughout the country, many remain without access. This is likely to change as mobile service providers reach more areas. Consumer education around how to use the internet is needed to stimulate demand for web-based services.

7.2. Enhancing Supply

a) Liquidity. At the root of the liquidity challenge is investor confidence. Government plays a central role in restoring investor confidence to encourage investment inflows. Policies and laws that are rigorously enforced are needed to better protect investor interests including security of bank deposits, property, shareholding.

b) Cost. The cost of loans could be reduced by reducing the risk investors perceive in investing in Zimbabwe and in the agriculture sector. Government’s role in addressing this has been highlighted above. This could stimulate local investor confidence, improve liquidity and bring down interest rates on local finance. Another way to encourage investment inflow, and thereby reduce interest rates, could be to cover risk at country level. This could reduce or eliminate the additional 4-7 per cent paid on interest rates on offshore finance. Such a facility is available through the World Bank’s Multilateral Investment Guarantee Agency (MIGA). This facility provides political risk insurance guarantees to private sector investors and lenders. It could provide a way to reduce Zimbabwe’s high risk investment status through guaranteeing the protection of investments, thereby encouraging investment inflows to the financial and other sectors, as well as reducing the cost of finance.

c) Risk. Increasing the supply of services to the agricultural sector depends on reducing risk and increasing the attractiveness of the sector to investors. Security of land tenure and law enforcement by state agencies is important to achieve this, and Government’s role in this is central. Weather indexed crop insurance could also enable the reduction of investment risk in the agricultural sector. A major stumbling block for some financial service providers is the risk associated with financing ventures in the rural and agricultural sectors. Some financial institutions and international agencies offer credit guarantees or insurance to cover risk, e.g. relating to farmer default on input supply credit. This has often proved successful where it has been applied, e.g. in the SNV’s Rural Agro-Dealer Restocking Programme (RARP), and there should be scope for widening the application of such instruments to reduce risk.
d) Fewer providers, fewer branches. The number of financial service providers and their geographical spread of operations could be increased through stronger economic and business environments. Enabling policies are important for this and responsibility for creating enabling national economic and business environments is the role of government. Assisting mobile and branchless banking service providers to develop financial services that can be offered through cell phones, retail stores, petrol chains, and so on, could expand and speed up the provision of such services. For this, regulation needs to adapt rapidly – but still prudently – to advances in technology. Kenya provides a useful example to emulate.

e) Small customers are not attractive. Formal sector financial service providers in Zimbabwe, like others in the region, have often been focussed on large customers as these have been their traditional customer base. Although incentives to find new markets may be currently lacking because of the shortage of liquidity, many financial institutions are not attuned to providing services to smaller customers. Enhancing the capacity of service providers in this respect could be useful to enable them to prepare to enter the new markets that now exist, e.g. this report has highlighted the potential demand for foreign currency services from the informal sector.

f) Little supply of long term finance. The supply of term finance to enable financial service providers to offer longer term finance e.g. for infrastructure development, leasing and recapitalisation and expansion projects, hinges on increasing the trust and confidence of investors to make longer term investments. Ways to address investor confidence have been covered above.

g) Collateral. Unlocking the potential of collateral tied up in land is a complex issue as it is linked to sensitive political issues and historical tenure systems. Realising the full collateral potential of land hinges on land being held on freehold title and able to be sold. However, this is unlikely to be an option because rural land has historically been held on traditional tenure and the current political sensitivities around rural land. Government and the agricultural sector could look at alternative ways to allow land to be accepted as collateral, e.g. some acceptable form of leasehold. Some insurance companies are also exploring ways to use livestock as collateral.

h) Infrastructure. The lack of road, power and communications infrastructure also acts as a supply constraint. Suggestions for enhancing infrastructure have been made earlier.

i) Donor fatigue. Donors could be encouraged to fund the financial sector in Zimbabwe if the international community and the Government of Zimbabwe had a more cordial relationship. This could encourage more donor funds to flow into the country. The financial sector could also make itself more attractive to donors by offering products that are better aligned to the market and by offering more services to the financially excluded, the traditional focus of many donors.
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