Agricultural credit under volatile macroeconomic conditions – Perspectives of Zimbabwean stakeholders

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DECLARATION

Submitted in partial fulfilment of the requirements for the degree of Masters, in the Graduate Programme in Development Studies, University of KwaZulu-Natal, Durban, South Africa.

I declare that this dissertation is my own unaided work. All citations, references and borrowed ideas have been duly acknowledged. It is being submitted for the degree of Masters in the Faculty of Humanities, Development and Social Science, University of KwaZulu-Natal, Durban, South Africa. None of the present work has been submitted previously for any degree or examination in any other University.

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Date

Abstract

According to the World Development Report 2008, if the world is committed to reducing poverty and achieving sustainable growth, it would unleash the powers of agriculture because the majority of the world's poor depend on agriculture for their livelihood. The financial sector can play an important role in supporting agriculture through the extension of agricultural credit. Literature shows that this can only be successfully achieved when financial institutions operate under stable macroeconomic conditions. This study explores the experience of giving agricultural credit under volatile macroeconomic conditions. It focuses on a case study of Zimbabwe, whose hyperinflationary levels reached over 3 000% in 2007 and a monthly rate of 79,6 billion percent in mid-November 2008. Findings from interviews with informants from stakeholder institutions in the agricultural sector revealed that the problem of agricultural credit in Zimbabwe was not only due to hyperinflation but also due to poor institutional capacity and dual agricultural policies. Some of these problems existed before hyperinflation. The paper argues that the future of agricultural credit in Zimbabwe is anchored on three pillars. The first is a stable macroeconomic environment. This involves bringing down hyperinflation, establishing land tenure security and other rights and improving rural infrastructure. The second is development of financial institutions and systems (building institutional capacity, building a culture of loan repayment and capitalisation through private partnership). Finally, the third is necessary political will.

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List of Acronyms

AFC	Agricultural Finance Corporation
AGRITEX	Agricultural Technical Extension Services
ARDA	Agricultural and Rural Development Authority
ASPEF	Agricultural Sector Productivity Enhancement Facility
BACOSSI	Basic Commodity Supply Side Intervention Facility
CAADP	Comprehensive African Agricultural Development Programme
Cottco	Cotton Company of Zimbabwe
CPI	Consumer Price Index
DFID	Department for International Development
ESAP	Economic Structural Adjustment Programme
FTLRP	Fast Track Land Reform Programme
GDP	Gross Domestic Product
GMB	Grain Marketing Board
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
MDC	Movement of Democratic Change
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
RBZ	Reserve Bank of Zimbabwe
STERP	Short Term Economic Recovery Programme
TIMB	Tobacco Industry and Marketing Board
UNDP	United Nations Development Programme
ZANU (PF)	Zimbabwe African National Union (Patriotic Front)
ZFU	Zimbabwe Farmers' Union

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Chapter One

1 Introduction

1.1 The Problem

This study explores the perspectives of Zimbabwean stakeholders regarding agricultural credit under volatile macroeconomic conditions. In the 1980s, Zimbabwe was considered the breadbasket of Southern Africa but the economic decline that Zimbabwe has experienced since 1997 has led to high unemployment and an increase in poverty. It had negative growth (Gross Domestic Product) and agriculture, the backbone of the country's economy performed well below its capacity since the introduction of the Fast Tract Land Reform Programme (FTLRP) in 2000. In February 2007, inflation reached hyperinflationary levels of approximately 1 000% according to the official rate but unofficial estimates put it at 3 000% (Doré *et al*. 2008). In mid-November 2008 hyperinflation was estimated to be at a monthly rate of 79,6 billion percent, making Zimbabwe the first country in the 21st Century to have such an inflation record and second to Hungary in the list of the highest inflation records in the world's history (Hanke and Kwok 2009). Given that agricultural credit is important in supporting agricultural activities in the country, this research explores how it was extended under such volatile macroeconomic conditions and reviews the main challenges that were experienced. The views of key stakeholders in the agricultural sector, namely, institutions that supplied credit and representative bodies of various groups of farmers, were sought and interpreted in light of literature regarding agricultural credit and hyperinflation.

1.2 Central Argument

International experience and research shows that a stable macroeconomic environment and the development of financial institutions are critical conditions in providing result-orientated agricultural credit in developing countries. A stable macroeconomic environment enjoys, amongst others, low inflation, property rights, enforceable credit rights that enable lending institutions to recover their money and

suitable conditions for investing in rural finance. Based on this international experience and field findings, three main arguments are advanced in this research.

First, this paper argues that the volatile macroeconomic conditions in Zimbabwe, which were characterised by hyperinflation, a crash in domestic demand, lack of land tenure security and poor rural infrastructure, were not favourable for extending credit. It is these obstacles that have to be addressed before addressing the issue of agricultural credit. The fast erosion of the value of the loans due to hyperinflation led farmers to scale-down their operations while the fixed interest rate of the loans meant that the credit was easy to repay since it lost value due to hyperinflation. The consequence was that lending institutions did not recover their costs and their asset base was eroded. The lack of land tenure security, due to the Government-led farm invasions, led private commercial banks to withdraw their financial services to rural areas. This latter point is an issue of the macroeconomic as well as macro/micro political environment that this paper considers as in urgent need of attention.

Second, while addressing these challenges may improve the macroeconomic environment, the development of public and private financial institutions is necessary to increase their viability as well as outreach to smallholder farmers in Zimbabwe. Findings showed that there were delays in the dispatching of subsidised government loans and reluctance from private commercial banks in advancing loans to smallholder farmers during the period under study. However, literature shows that such a problem existed even before hyperinflation. These kinds of challenges, it is argued, can be overcome through capacity building or institutional innovation of both private and public financial institutions and agencies that support agriculture.

Third, both improvement of the macroeconomic environment and the development of public and private financial institutions may not be possible if leaders in Zimbabwe do not demonstrate enough political will. This political will needs to prioritise agricultural development through the formulation of appropriate policies and a commitment to their full implementation.

In short, based on literature and field findings, this paper argues that the future of agricultural credit in the country depends on a stable macroeconomic environment,

development of financial institutions and systems and the determination of the country's leaders to formulate and implement policies that benefit the citizenry.

1.3 Relevance of the study

The Chinese word for 'crisis', represents both danger and opportunity. Applying this interpretation and accepting that the Zimbabwean crisis is not going to be the last one in the world, this study draws lessons for future use in the country and elsewhere, most notably in developing economies. In adopting the Chinese understanding of crisis, this study tries to identify both the challenges and opportunities that the Zimbabwean crisis presents in relation to development through agriculture. Zimbabwe can also take this opportunity to finally resolve the credit problems that were present even before the current volatile conditions.

In addition, the research feeds into the broader debate of poverty reduction and food security whereby agriculture is perceived to be the key instrument. This is especially relevant in developing economies like those in the Africa Sub-Saharan region where approximately 70% of the poor live in rural areas and depend on agriculture for their livelihoods (World Bank 2000). According to the 2008 World Development Report, if the world is committed to reducing poverty and achieving sustainable growth, the powers of agriculture should be unleashed because the majority of the world's poor depend on agriculture for their survival. There are already several success stories of agriculture contributing to poverty reduction and economic growth in the developing world. In countries such as Kenya, Chile and China, agriculture has also created good business opportunities such as high-value products for domestic markets and international markets (World Bank 2007). The revival of agricultural development in Zimbabwe, a country whose economy is largely agrarian, is important in ensuring economic growth and purging poverty.

The questions raised in this study intertwine with an already existing international debate regarding how agricultural development can be best achieved in terms of agricultural policies and financing systems in any given developing country or region. Debate exists of whether or not developing countries should prioritise either smallholder farming or large-scale commercial farming in order to maximise

productivity and ensure poverty reduction. There are antagonizing views regarding which of these two agricultural policy approaches developing countries should follow (Lipton 2005; Agriculture and Natural Resources Team and Thomson 2004). The question of how a particular agricultural policy should be funded is also relevant in the circles of agricultural development as it triggers the discussion regarding the types of institutions that should finance this high risk sector and how supplied credit should be recovered. By raising questions on the role of public and private financial institutions in lending credit, this study contributes to the debate of state-versus-market forces, such as interventionist and neoliberal policies, within the context of the structural approaches to development.

1.4 Structure of the Research

This work is divided into seven chapters. Chapter Two is the literature review and is divided into four parts. The first part highlights the importance of agriculture in development and poverty reduction. The second and third parts deal with subsidised credit and the development of financial institutions respectively, the two concepts derived from international experience regarding agricultural credit. The last part gives the definition, characteristics and cures of hyperinflation and then discusses the challenges and experiences regarding extending credit in hyperinflationary conditions.

Chapter Three outlines the methodology used in this study. It gives the rationale behind the use of a qualitative approach and a case study methodology in this research. This chapter also describes the sampling methods and the challenges encountered in the field. How the data was collected and analysed is also explained here. The last part picks out the issues arising from the study's limitations.

The fourth chapter presents the background of agricultural credit in Zimbabwe as well as the context in which the fieldwork took place. The background is divided into three main macroeconomic eras: the colonial era, the control regime (1980-1990) and the liberalization (1991-1996) eras. The context is characterised by a deepening macroeconomic crisis (1997-2008). This part describes the features of the volatile macroeconomic conditions and considers hyperinflation as the main dominating facet

of the economic crisis. It also presents the debate regarding agricultural activities during this period.

Chapter Five presents the findings and it spells out the perspectives of stakeholders in agriculture. It is divided into two main parts. Part one describes the profiles of the institutions from which the respondents were drawn. The second part discusses the emerging issues. Some issues that came up had to do with hyperinflation while others were related to credit in general and reflected problems that were carried over from the previous eras of the country's agricultural history.

The findings are analysed in Chapter Six. Specifically, the chapter discusses the future of agricultural credit in Zimbabwe as it interprets the findings in the light of the literature review. The last chapter summarises the issues covered in the study and concludes by making policy and further study recommendations.

Chapter Two

2 Agricultural Credit and Extending Credit under Hyperinflationary Conditions - Literature Review

This chapter explores the international experience regarding agricultural credit and then, drawing from experiences in other countries, further discusses what it might mean to extend credit under a hyperinflationary environment. Since this research is carried out in the field of development studies, the chapter begins by establishing the link between agriculture and development.

2.1 Agriculture as a Tool for Development and Poverty Reduction

Research has shown that an increase in agricultural productivity contributes to development (World Bank 2007; Lipton 2005; Haggblade 2007; Agriculture and Natural Resources Team and Thomson 2004). How this can be attained also depends on the system of agriculture in place and whether there is enough political desire to drive the process.

2.1.1 The link between agriculture and development

In developing economies that are largely agrarian and where the majority relies on agriculture for its livelihood, an increase in agricultural productivity is instrumental for economic growth and poverty reduction in general (World Bank 2007; Lipton 2005; Haggblade 2007). Agricultural development was the platform on which the industrial revolution occurred in eighteen century England and Europe. In the recently successful economies of China, India and Vietnam, agricultural development preceded the rise of industries (World Bank 2007) or structural transformation. Structural transformation is a process whereby agricultural resources of labour and capital are transferred to other sectors of the economy without reducing farm output and increasing food prices (Haggblade 2007).

Countries such as China, India and Ghana that have, through various ways, invested in agriculture, have managed to reduce poverty among their populations. It is estimated that growth due to agriculture in China has managed to reduce poverty by

3.5 times more than growth from other sectors of its economy (World Bank 2007). China heavily invested in agricultural research, complemented by rural investments. All this led to an increase in agricultural productivity that led to a high reduction level of rural poverty in the country (Haggblade 2007). The recent success of poverty reduction in Ghana is also largely attributed to the rural households' participation in increasing agricultural productivity (World Bank 2007).

Increased agricultural productivity reduces poverty through various factors. Since most of the poor live in the rural areas and rely on agriculture for their living, improved agricultural performance has a direct and relatively immediate impact on the income of the rural poor while also creating on-farm employment. Increased agricultural production makes food cheaper for both urban and rural poor, given that the population of people does not increase at a higher rate than the food supply. Improved performance in agriculture leads to growth and provides opportunities for business in the non-farm sector. While the economy gradually moves from being agrarian to an industrial one, it serves to stimulate structural transformation (Agriculture and Natural Resources Team and Thomson 2004).

Although agriculture is an important instrument for economic growth and poverty reduction, its potential is yet to be realised in Sub-Saharan Africa where 70% of the poor rely on agriculture for their livelihood. This is mainly due to the following setback factors: too slow of a growth in agricultural productivity to make a meaningful reduction in poverty; unfavourable macroeconomic conditions, strict price and trade policies; urban bias leading to poor investment in agriculture; and a decline in official development assistance to the agricultural sector (World Bank 2007).

2.1.2 Key ingredients for agricultural development

There is a general assumption that key ingredients for agricultural development includes farm technology (improved seed, fertiliser, research funding and extension services), functional markets (property rights, property standards and enforceable contracts), good infrastructure (farm-to-farm market roads, power lines ports, irrigation facilities) and institutions (Haggblade 2007). A good mixture of these ingredients, or rather, a good agricultural system that specifies who does what, with

what, is viewed as leading to development. This question was less controversial during the interventionist era of the 1960s and early 1980s as it was generally agreed that public development institutions were best placed to provide these services. The experience of Asia's green revolution tended to prop up this view but Africa's poor results again weakened this perspective. Neoliberal polices liberalised the agricultural sector, replacing the state's role with that of the market. However, this model did not prove successful either. The market failed to provide the key ingredients for agricultural development and this was, again, most evident in Africa. Given the recent changes of the open world market, the debate tends to focus on whether it is investment in smallholder farmers or large scale farmers that will make a strong impact on poverty reduction and economic growth (Agriculture and Natural Resources Team and Thomson 2004).

2.1.3 Large or smallholder farming system?

The pro-large farmer protagonists argue that recent global changes (e.g. non-sustainability of subsidies and agricultural resources, high technology required by economies of scale and continued urban bias) make it unrealistic to continue holding on to the conventional wisdom that expects smallholder farms to take the lead in reducing rural poverty (Maxwell 2004). However, sympathisers for smallholder farming argue that even though smallholder farmers, especially in Africa, may find it difficult to market their food produce globally, their domestic and regional markets are still worthwhile. For them, the phenomenon of rural poor diversifying their livelihoods by engaging in off-farm activities is largely due to the improved performance of the agricultural sector (Deininger and Binswanger 1999; Agriculture and Natural Resources Team and Thomson 2004). In terms of policy, this approach puts emphasis, not on whether smallholders succeed or not, but on how they should be made to succeed by reinforcing direct investment in agriculture and rural development and establishing institutions that would support smallholder farming.

2.1.4 The need for political will

International experience shows that without enough political will, a system or policy does not yield any positive results (Anseeuw 2010, cited in Padayachee 2010

[forthcoming]; Adesina 2007; Sender and Smith 1986). The successes in Asia came as a result of strong political resolve by various Asian governments (both democratic and autocratic ones) to revive their respective agricultural sectors. India, for instance, sternly resolved to attain food self-sufficiency after the United States government decided to use food aid as a tool of foreign policy (World Bank 2007). Some authors have described the Asian model as one that was state-driven and market-mediated and that had a sharp focus on smallholder farmers. In addition, it also provided room for the private sector to operate profitably (Djurfeldt and Jirstrom 2005).

According to Anseeuw's narration of the agricultural development policies of Kenya and Senegal, which epitomises the experiences of most countries in the Sub-Saharan Africa, many countries in the region have failed due to shortcomings in the creation and implementation of appropriate agricultural policies (Anseeuw, 2010 in Padayachee 2010 [forthcoming]). However, the respective policies that Kenya and Senegal have since established seems to suggest that state or public sector should play an important role in the economy (e.g. targeting disadvantaged smallholder farmers in marginalised areas) without hindering the roles of other private sector stakeholders.

According to Adesina (2007), there is poor formulation and implementation of agricultural policies in African countries because farmers are not organised into powerful groups that demand commitment to agricultural development from their political leaders. As a solution, the author suggests that the political cost of inaction on agriculture should be raised in order to change the political economy of agrarian reforms in Africa. According to Sender and Smith (1986, 133), this can be achieved through an organised working class, which, unfortunately has often been muffled by many post-Independence African governments in the guise of 'unity' or 'African socialism'.

The New Partnership for Africa's Development's (NEPAD) initiative brought African leaders together as they sought ways of reducing poverty and agreed that revitalizing agricultural development in the region was the way forward. As a follow-up, in 2005, the Comprehensive African Agricultural Development Programme (CAADP) of NEPAD called for a political commitment to ensure a 6% growth rate in agriculture (CAADP 2005, cited in Haggblade 2007).

2.2 Cheap Agricultural Credit to boost production

From the 1950s until the 1980s, there was a general consensus among finance policy makers that subsidised credit introduced through government intervention would bring about economic growth and distribution of income more equitably among the populations (Buttari 1995) in developing countries. This was also the period when most development policies were largely influenced by Keynesianism. Policy makers on agricultural finance adopted interventionist approaches to agricultural credit. Government intervention with cheap credit, which aimed at achieving economic efficiency, was justified on the grounds that private financial markets had failed, not only to fund the modernization of agriculture, but also failed to extend credit to poor people as they favoured the rich (Buttari 1995). The private or commercial lending institutions that existed tended to focus on large-scale farmers and ignored smallholder farmers as it was costly to process and manage unsecured small loans (Yaron 1992). It was then believed that the government could intervene to resolve the perceived market failure.

This phenomenon of promoting cheap credit to support agricultural and other real sector activities in the Third World has often been referred to as 'financial repression' Burkett (1987). Financial repression happens when states make laws that prevent the financial institutions from functioning at their full capacity. Such policies may include capital controls, credit ceilings, interest rate ceilings, high bank reserve requirements as well as government ownership of banks. According to Bond (1998), such policies were usually made by nations prejudiced by the dictates of national productive capital or that were influenced electorally by populist sentiments. He argues that in the colonial Rhodesia, financial repression led to overaccumulation of capital by the white minority, cementing the structures of an uneven economy. The Agricultural Finance Corporation (AFC) of Rhodesia for instance, mainly served to usher cheap credit to white farmers, a minority group. However, even though it is generally argued that financial repression interferes with efficient financial intermediation by reducing people's incentives to hold financial assets, economies such as Chile, Japan, South Korea, Taiwan, and China (Zahid 1995) have rapidly grew despite financial repression being fairly common in these countries. The justification of supply of

cheap credit was based on certain policy assumptions and it called for the creation of tools to implement this policy.

2.2.1 Policy assumptions

The subsidised or targeted credit approach was mainly based on the assumption that farmers needed cheap credit to stimulate them to produce the much needed national agricultural products through increased farm output (Klein et. al. 1999). Another main assumption was that smallholder farmers needed credit because they were too poor to save and that those who acquired additional income spent it on consumption or ceremonial sprees (Adams 1978) and had no interest in deposit facilities. Since they were perceived as incapable of using money profitably, it was assumed that poor farmers would need strict monitoring when given loans (Gonzalez-Vega 1993).

2.2.2 Policy implementation tools and challenges

The subsidised agricultural credit system was implemented by creating various structures such as the state-owned agricultural development banks and the use of low interest rates. The policy faced various challenges that led to poor implementation.

Since agriculture was already a risky sector for any financial intermediary to venture into, the specialization factor produced more negative than positive results. This further reduced opportunities for the development banks as potential non-farm customers, some of whom needed credit for income-generating activities, were excluded. It also meant that the banks' cash flows would be determined by seasons and these could at times be unreliable when it came to the repayment of the loans. High cash flow would only take place at the beginning of the rain season, when farmers needed credit (Seibel 2000).

The banks had little cash flow since deposit mobilization was not their priority and this reduced their chances of becoming financially viable. Efficiency for them included the quick release of volumes of loans, less scrutiny of repayment capacity and collateral, as well as the subsidizing of credit (Bourne and Graham 1984; Gonzalez-Vega and Graham 1995). Loan repayment and deposit mobilization were

not part of the mandate of these institutions, given the traditional assumption that rural people had neither the capacity nor will to save (Adams 1978).

Due to low interest rates, most of these banks could neither cover average operating costs nor protect the purchasing power of the borrowers' loan portfolio (Bourne and Graham 1984). To mitigate this, some of these banks tended to reduce the high cost of serving large numbers of small loans of smallholder farmers only (Seibel 2000). In addition, non-priority influential clientele lobbied and took advantage of the cheap loans and the intended beneficiaries lost out. In this way, cheap credit yielded unintended negative outcomes: the opposite of income redistribution.

Agricultural development banks were also vulnerable to political interference. Patronage found its way in as politicians gave loans to their supporters in the guise of 'helping the poor' or 'promoting development' (Buttari 1995).

In the long run, the policy of cheap agricultural credit could not remain financially viable since its institutions had to continuously depend on grants from governments or donors. As a result, most of them eventually became insolvent, required additional capitalizations and constantly changed names and managers in a bid to remain in business. Apart from the few success stories in the now-developed economies such as Taiwan, government-sponsored agricultural lending institutions in many developing countries have often experienced failure (World Bank, 2007). Francophone West Africa's state-owned agricultural banks, all of which operated on a supply-led basis, faced closure due to lack of external funding and internal deposit mobilization. Anglophone West African countries such as Ghana and The Gambia were no better but at least demonstrated some innovation by diversifying their portfolios. Unfortunately however, political interference, rent-seeking and loan repayment default thwarted their viability (Gonzalez-Vega and Graham 1995).

In critiquing this policy, Yaron and Charitonenko pointed out that the cheap agricultural credit approach was designed to treat the symptoms instead of the causes or the lack of access to rural finance. It simply tried to intervene and supply those missing financial services without addressing the reasons why there was a problem in the first place. Some of the root causes included high transaction costs, asymmetric

information, seasonability of demand in financial services and poor economic and financial policies (Yaron and Charitonenko 1999).

2.3 Development of Financial Institutions and Systems

While the Keynesian tradition dominated during the era of the subsidised credit, the development of financial institutions and systems approach to agricultural credit appeared at a time dominated by neoliberal policies.[1] In this system, the role of government in giving credit is minimised, if not discouraged, while the focus tends to be more on how financial institutions can become sustainable. Sustainability, impact and outreach to the poor are normally considered the primary goals of financial institutions and they are reached through innovative methods executed in a stable macroeconomic environment.

2.3.1 Goals of financial institutions: sustainability, outreach and impact

Success or performance of the financial institutions is measured by the level of their sustainability, outreach and impact on the poor. These concepts of sustainability, outreach and impact, have been adopted by microfinance (see Figure 1) whereby the three goals are only achievable if the institutions operate under favourable macroeconomic and socio-political environment. Sustainability is the financial self-sufficiency or the ability of the financial institution to provide durable services on a cost-recovering basis without depending on subsidies from donors (Klein *et al.* 1999).

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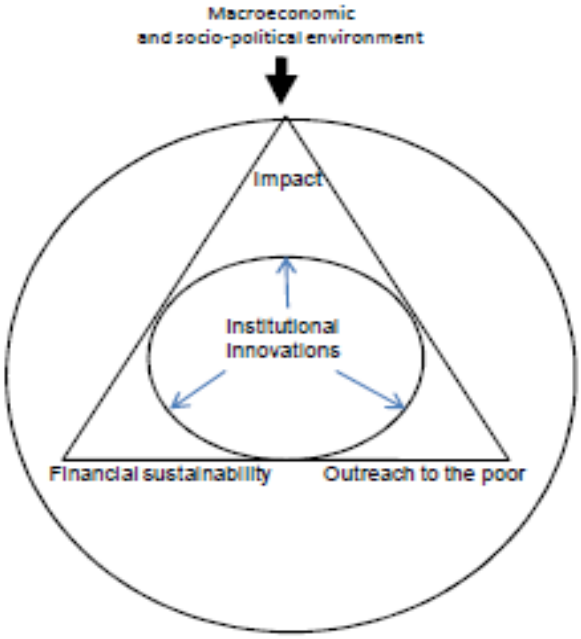
[1] Neoliberalism, or the Washington Consensus, emphasizes reducing the role of the state in the economy while the market plays a central role (Williamson 2000). Post-Washington Consensus added that the state had a role in building institutions that were fit to effectively participate in the market (Stiglitz 1998).Chang (2003) took the agenda of institutions further when he maintained that institutions mattered and that the market was just but one of the institutions created by the state, the latter of which was also an institution. For Chang, markets are based on institutions and it is these institutions that determine who can participate in the market, (i.e. the rules of the game). Some institutions determine legitimate objects of market exchange, while others define each agent's area, rights and obligations. Some institutions monitor the process of exchange such as fraud, others (namely politics), legitimate the operation of these institutions. The approach of development of financial institutions and systems, with its emphasis on institutional development, is not very much divorced from the environment in which it was born.

Sustainability is reached when the return on equity, or net of subsidies received, equals or exceeds the opportunity costs of the equity funds (Yaron and Charitonenko 1999). Outreach refers to the extent to which a financial institution extends high quality financial services to a large number of poor clients (breath of outreach) and the poorest (i.e. depth of outreach) (Klein *et al*. 1999; Zeller and Meyer 2002). Impact refers to the depth of the outreach but is usually difficult to measure. Innovations are the means through which financial institutions can attain the three goals.

Figure 1: Means, goals and context of finance institutions - *Adapted from Zeller and Meyer 2002.*



2.3.2 Means: Institutional Innovations

Studies by the International Food Policy Research Institute (IFPRI) on innovations in group-based banking in Bangladesh (specifically, the Grameen Bank), Malawi, Madagascar and Cameroon found three important things about innovation. These included savings arrangements, group approaches and demand-oriented financial services (Zeller and Sharma 1998).

Experience from the studied countries shows that savings arrangements are an important part of a sustainable financial program for the poor. That being the case, it

is necessary for products to be diversified in order to provide savings service to as many poor clients as possible. (Zeller and Sharma 1998). A study by Nguyen *et al*. (2002) conducted in Burkina Faso showed that providing savings services to assist poor households to smooth consumption might be a more effective way of helping the poor than giving them loans for specific purposes. This study showed that demand for financial services was shaped by gender and by economic opportunity. Semboja (2004), basing on apexes or second-tier banks or national development funds in Senegal and Tanzania, showed that no amount of credit could help the poor to find a way out of poverty if there was no economic opportunity. The author concluded that "It is infusion of credit into an atmosphere of economic opportunity that creates income, potential and prosperity," (Semboja 2004, 877).

Group approaches is the second lesson drawn from the IFPRI report (Zeller and Sharma 1998). Traditional banking systems prefer collateral in the form of mortgages on real property, which requires clear land titles and mortgage registration (Klein *et al*. 1999). While within traditional banking system the agent of a rural bank branch directly negotiates savings or credit agreements between the retail banking institution and the individual, in an innovative approach, a local institution negotiates between the bank and the individual. It also assumes the responsibilities of screening, monitoring and enforcing the repayment of loans, functions that would normally be constraining and expensive for the bank agent to carry out. Most schemes make members jointly liable for the repayment of loans and do not give subsequent loans unless full loan repayment is made (Zeller and Sharma 1998). The prospect of access to subsequent loans has proved to be one of the most powerful incentives to loan repayment. However, group lending demands that the groups be homogenous in composition, interests and objectives in order to reduce problems of moral hazard. Since most farmer groups in many countries do not meet these conditions, due to the long duration of agricultural loans and high costs of training, individual lending in agricultural finance is preferred to group lending (Klein *et al*. 1999).

The third lesson drawn from the IFPRI study was that demand-oriented financial services increased outreach to the poor. Lending services should only aim at increasing productivity but should also be diversified to include income-generating

activities while covering consumption needs such as health, education and social obligations (Zeller and Sharma 1998). Outreach can also be affected by the way the targeted clients perceive the costs and benefits offered by the institution. In Stanton's (2002) analysis of client demand and targeting efficiency of Mexican financial institutions, she found out that client perceptions could be affected by the way the product was designed. Complicated procedures increased transaction costs and then scared away the poor clients while the wealthy and non-targeted clients took advantage of the cheap loans (Stanton 2002). This consequently reduced outreach to the poor.

2.3.3 Context: Stable Macroeconomic and Socio-political Environment

A stable socio-political and macroeconomic environment is an essential prerequisite for the good performance of financial institutions and ensuring rural development and effective poverty reduction (International Fund for Agricultural Development [IFAD] 2004; Yaron and Benjamin 2002; Klein *et al*. 1999). Important features of a conducive environment include the following: "...macroeconomic stability; deregulated interest rates, exchanges rates and agricultural prices; and a legal system that protects property and land-use rights, the autonomy of financial institutions and regulatory authorities, and due legal process" (IFAD 2004, 18). Yaron and Benjamin (2002) maintained that governments' main role in supporting financial markets should be mostly indirect. This would entail creating a favourable policy environment and strengthening the legal and regulatory framework. Lack of such an environment yields negative results such as poor enforcement of contracts, which, in turn, increases uncertainty and reduces the expected returns to creditors (Yaron and Benjamin 2002).

Klein et al. (1999) considered that client trust and loyalty is fostered when a financial institution has an effective governance and management structure that protects it against political interference and distortions induced by government and donor interests. However, there is less agreement on the need and the extent to which governments should be involved in the direct provision of financial services when there is serious market failure. For instance, that state-owned agricultural development banks receive special privileges is regarded as creating unfair competition (Klein *et al*. 1999).

2.3.4 Case Studies

Banrural Bank of Guatemala is one institution that has managed to effectively combine financial and development goals by managing to remain financially sustainable while offering financial services to poor, rural, and agricultural clients (Trivelli 2007, cited in World Bank 2007). The bank, which mainly works outside Guatemala City, was created in 1997 after the closure of a poorly performing state-owned bank. Half its clients are women and it uses vernacular languages to communicate with its illiterate indigenous clients. About 70% is privately owned, while only 30% is owned by the state. The state provides no direct subsidies to Banrural. The 70% is shared among five types of stock, each represented in the board of directors. The bank has 10 board seats that are divided among the various stakeholders. The state has three seats. The rest of the seats are shared by various organisations which include unions, Non-Governmental Organisations (NGOs), microfinance organisations and former workers of the closed stated bank among others. This governance model has empowered the private stakeholders and balanced goals of financial sustainability and rural development. It is also sustainable because the board and equity makeup cannot be changed significantly over time. By adapting financial technologies to its clientele but without losing its identity as a bank, Barural mobilised its rural clients to deposit funds. By 2007 its profits were coming from a high volume of small transactions, mostly in rural areas. The bank also acts as a second-tier bank as it provides credit to more than 150 institutions. In this way, Barural managed to increase its outreach to the rural poor, an objective which the former state-owned bank of Guatemala failed to achieve (Trivelli 2007, cited in World Bank 2007).

BRI of Indonesia is one of the state-owned agricultural development banks that reformed successfully. The reform required attainment of operational autonomy and freedom from political interference and this was achieved through the establishment of appropriate legal and regulatory framework as well as effective internal control and external supervision, (Seibel 2000).

2.3.5 Summary and critique of the two approaches to agricultural credit

The two main approaches to agricultural credit include: 1) the policy of giving farmers cheap credit through development banks but without the worry of the loan repayment and sustainability of the concerned banks and, 2) the more recent policy of the development of finance which puts emphasis on the viability of financial institutions. Both approaches tend to assume extreme positions. The policy on cheap credit shows that credit is important for agricultural development but forgets that credit dries up if the supplying institution is not viable. The policy on development of financial institutions shows that viability of financial institution is critical but tends to diminish the importance of giving credit to the poor as focus is thrust on recovering loans. Since this approach encourages the poor to borrow in homogenous groups it becomes difficult for farmers since they are not usually homogenous, given that their crops, land sizes and terrain may differ (cf. 2.3.2). Many case studies carried out have shown that not all is smooth with regards to this new approach. That poor borrowers have to operate in groups has often led to conflict in the communities especially when some of the members failed to pay back the loans (Zeller and Sharma 1998, Bond 1998). On the overall, there is need to balance both approaches so that farmers are given credit but ways should also be sought to ensure that financiers remain sustainable.

2.4 Extending Credit under a Hyperinflationary Environment

What would it mean to give loans under hyperinflationary conditions? Some lessons can be drawn from international experience and theory regarding hyperinflation.

2.4.1 Definition, causes and cures for hyperinflation

Definition and Characteristics

Inflation is generally classified as a sustained increase in the cost of living and is usually thought of in terms of changes in Consumer Price Index (CPI) (Siklos 2000). While there is no precise definition of hyperinflation which is accepted everywhere, one definition that academics side with is that by Cagan (1956, cited in Siklos 2000). It considers hyperinflation as beginning when inflation exceeds 50% a month and

ending when it is less than 50% in every month during at least one year. Most economists refer to hyperinflation as that inflationary cycle without any tendency toward equilibrium, creating a vicious circle in which more and more inflation is triggered with each iteration of the cycle.

Several countries experienced hyperinflation in the 20th Century. In the 1920s, the list of countries that experienced hyperinflation included Austria, Germany, Hungary and Poland. China and Greece had it in the 1940s. In the 1980s, Bolivia (1984-85), Nicaragua (1988-89), Yugoslavia and Poland (1989) all experienced hyperinflation (Solimano 1990). More recent examples include Peru (1988-99), Brazil (in the early 1990s), Argentina (1999-2002) and currently, Zimbabwe (since 2007). In describing hyperinflation in Germany, Solimano stated that all the characteristic elements of hyperinflation were present:

> (1) a complete domestic demonetization and a shift of portfolios toward foreign currency; (2) an increase in the fiscal deficit (mostly because of the decreased real tax revenue arising from the fiscal lag), which in turn accelerated the expansion of domestic credit, fuelling inflation and generating an unstable inflationary process; (3) the destruction of the existing structure of wage contracts (the duration of contracts was drastically curtailed as a result of *de facto* pegging to the exchange rate); (4) a very rapid depreciation of the exchange rate; and (5) a decrease in the indices of physical production and in real wages, and an increase in unemployment. (Solimano 1990, 168-9)

Causes and Cure of Hyperinflation

Economists generally agree that inflation is basically a monetary phenomenon (Friedman 1992). Hyperinflation is caused by governments which, when they can no longer fund their deficits from tax revenue, resort to limitlessly and continuously borrowing from the central bank. If the central bank is weak in terms of firmness on monetary policy, the only option it usually has is that of printing money to fund the revenues of the fiscal authorities. This begets inflation and when it gathers speed, government wants to stay ahead of the inflation and of inflationary expectations so that it can continuously have its revenues funded. According to Siklos (2000), such a setup suggests a theoretical possibility that inflation can be explosive because past inflation leads to more future inflation as the central bank responds to the government's need to print money, its only source of revenues.

In his account of Bulgaria's two-month hyperinflation of 1997, Slavova (2003) subscribed to the argument that a government which takes over control of the monetary policy to fund its expenditures creates hyperinflation. Prior the hyperinflation, the Bulgarian government interfered on several occasions in direct monetary policymaking, which demonstrated that central bank independence was mere rhetoric. According to Slavova, all government interventions were not so much for exploiting potential Phillip's Curve trade-offs prior to elections, but for funding budget deficits both explicitly, in form of direct credits extended by the central bank, and implicitly, by encouraging state-owned banks to refinance loss-making state-owned enterprises. Bulgaria started to print money to finance budget deficits and give direct loans to the state budgets in December 1996. By January 1997 the inflation rate had risen to 49% and it reached 243% the following month (Slavova 2003).

According to some analysts, a combination of weak governments, civil disorder and unrest usually produces a conducive environment for hyperinflation to develop (Capie 1986, cited in Siklos 2000; Cooper and Kempf 2001). Specifically, Cooper and Kempf maintained that hyperinflation was a sign of a divided society. The authors viewed that hyperinflation was the manifestation of a tragedy of commons in a divided society with a weak central monetary authority or a decentralised monetary policy. In such a society, special interest groups can pressurise a weak central government to issue money to fund their own demands while neglecting the country's overall welfare. Lessons from Argentina show that either a currency board or dollarization can remove this bias (Cooper and Kempf 2001). Dollarization is a monetary system in which a country substitutes United States dollars for its own currency while it hands over control of its monetary policy to the United States. The term 'dollarization' is also a shorthand for the use of any type of foreign currency in transactions among residents (IMF 2009).

Economists generally accept that remedies for hyperinflation have to do with discipline in both fiscal and monetary policies. On the one hand, government needs to formulate and faithfully implement fiscal policies that respect a budget constraint without resorting to excessive monetary expansion. On the other hand, the monetary policy should be firm enough to resist financing the government's budget. However,

both these measures can only work if the public demonstrates confidence in these policies (Siklos 2000).

2.4.2 Extending credit

Some studies suggest that where there is hyperinflation, priority should be placed, not on improving credit extension and conditions, but rather on reducing the macroeconomic volatility (Dehesa *et al.* 2007). However, the answer to this question is interlinked with causes of hyperinflation, whereby some governments without any tax revenues resort to printing money to fund projects or budgets they perceive as important. According to Godoy and De Franco (1992), economic analysts associated this behaviour with populist governments of Latin America. For Ladman and Tinnermeier (1981), private transfers of concessionary loans for agricultural purposes are magnified when there is inflation and this encourages government to use them to gain patronage of borrowers, and conversely, for borrowers to pledge support to government. There are, therefore, two tendencies regarding extension of credit under hyperinflationary conditions: 1) focus on stabilization by analysts, and 2) focus on cheap credit by populist governments.

Focus on stabilization by analysts

A theoretical and cross-country empirical analysis regarding the factors leading to financial deepening by Dehesa *et al.* (2007) showed that a high rate of domestic credit to the private sector (measured as a percentage of GDP) was associated with stronger credit rights and lower inflation. These authors considered that the development of credit markets was, to a large extent, a direct reflection of financial deepening that led to the overall level of economic development. Since banks are more willing to extend credit to the private sector when they have appropriate tools to enforce the repayment of loans by seizing collateral or even gaining control of the bankrupt firm, (Townsend 1979), the issue of credit rights protection becomes an important determinant factor. The study by Dehesa *et al.* (2007) also showed that improvement of credit rights protection had little effects in an environment where inflation rate was increasing. This is mainly because inflation is expected to have a negative impact on financial deepening at least to the extent that it erodes the real value of outstanding financial

assets. Lack of macroeconomic stability triggers uncertainty about borrowers' ability to meet their obligations, while higher uncertainty ensures credit suppliers reallocate resources away from risky projects. In a hyperinflationary environment, borrowers can be denied credit even if they are willing to pay interest at above market rates, creating a credit-constrained equilibria. In conclusion, Dehesa *et al.* (2007) suggested that in a high inflationary environment, efforts should focus on controlling inflation and ensuring macroeconomic stability. Once these objectives are achieved, the focus of attention should shift to strengthening creditor rights and improving credit information management, which is viewed as eventually leading to development of credit market for economic development.

According to Fanelli (2003), when negative shocks reduce firms' net worth and consequently increase the probability of financial distress, creditors react by shifting their demand toward asset with short-term maturity. This enables them to easily monitor the behaviour of debtors in such uncertain environments. These observations by Fanelli (2003) were based on the Argentinean economic crisis.

Focus on cheap loans by populist governments

Ladman and Tinnermeier (1981) argued that agricultural credit programmes in developing countries could be used for political purposes even though they were said to promote economic development. According to them, credit programmes tempt politicians to exploit them because they are easy to establish and administer and are legitimate for economic objectives. In addition, the true use of the credit is difficult to see because money can be used in diverse ways that may not be easy to trace. Ladman and Tinnermeier developed five reasons to support their claim:

> First, governments typically control the formal market supply of agricultural credit through development banks and credit policies which force private sector lending to agriculture. Therefore, governments have the ability to influence strongly the distribution and allocation of credit. Second, concessionary interest rate policies, which are almost ubiquitous in LDC [Less Developing Countries], agricultural credit programs provide for an attractive income transfer to borrowers. Third, when governments permit long-term delinquency, a common condition in LDCs, the borrower receives a temporary income transfer for the period of the delinquency. If he never repays, it becomes a permanent transfer. Fourth, when inflation is present, the magnitude of the concessionary and

> delinquency transfers is magnified. Fifth, the advantages of obtaining these transfers are sufficiently attractive that they can be used by governments to gain patronage of borrowers and, conversely, by borrowers to pledge support to government. (Ladman and Tinnermeier 1981, 66)

The fourth reason mentioned by Ladman and Tinnermeier refer to a situation where there is inflation, namely that the loans transferred are increased in accordance with the demand schedule. Inflationary conditions increase the benefits of those who receive the transfers. The increased benefits or additional transfers also enhance the attractiveness of using credit for political objectives. The mere environment of cheap loans or concessionary transfers is conducive for grooming corruption as government officials can easily have part of the transfers for themselves directly or indirectly by lending to themselves or by receiving bribes from borrowers. With its control of the formal market supply of agricultural credit, a government can utilise such transfers to promote certain economic activity and/or to influence certain behaviour among the loan recipients. The bottom-line in all this is that the borrower gains income at the expense of the taxpayer or saver whose money is used to provide credit. Ladman and Tinnermeier (1981) applied this theoretical framework in a case study of Bolivia and concluded that in the political context of that country, large income transfers were made to a few influential farmers, a situation which strongly suggested that political factors were important in allocating credit intended for income distribution, development, and debilitation of financial institutions.

Bolivia's former President Suazo addressing George Jackson Eder, crystallises the key issues of the debate regarding what has to be traded off between propelling economic development agenda even if it leads to hyperinflation and, maintaining a low inflation even when it means a rise in unemployment. He wrote, "You have given us stabilization, but at the price of economic development" (Eder 1968, cited in Godoy and De Franco 1992, 618). According to Godoy and De Franco (1992), when Bolivia experienced hyperinflation from 1982-5, years later after the former President's remark, agriculture prospered during that period of macroeconomic volatility because the demand for food shot up due to increased government spending and larger public employment, following two decades of non-democratic rule, whereby workers' demands were usually suppressed. The response of government led

to larger fiscal deficits, greater demand for food and to lower real wages. In 1983, Bolivia experienced drought conditions and this reduced food supply and the situation became worse when smallholders withdrew perishable foods from the (hyper)inflationary world, causing yet another rise in food prices. A Computable General Equilibrium model built by the Ministry of Planning of Bolivia indicated that expansionary fiscal policies benefited smallholders as every 2% increase in public expenditure increased real rural income by 0.4%. However, the hyperinflationary period did not experience a significant rise in terms of agricultural productivity. When hyperinflation ended, the momentary prosperity of agriculture also ended as stabilization removed incentives such as subsidised credit and transport that helped agriculture. According to Godoy and De Franco (1992), some people believed that stabilization negatively affected the development of agriculture in Bolivia. However, the authors maintained that the populist policy of 'cheap food' for the people should have been backed by improvement of agricultural technology after stabilization.

Basing on Sachs' analysis of social conflict of populist policies in Latin America, Godoy and De Franco (1992) argued that the success of agriculture in Bolivia during the period of hyperinflation was temporary, given the typical pattern of such policies in the region. According to Sachs (1989), policies in Chile, Peru, Brazil and Argentina, worked well but only for a short time. A study of these countries showed that at first, real wages, non-tradable production, and Gross National Product (GNP) improved and the real exchange rate appreciated. However, the growth failed abruptly after about one year, leaving these countries battling with serious distortions. Governments subsequently faced shortage of hard currency to fund their programmes. They resorted to printing money and this led to hyperinflation (Sachs 1989; Godoy and De Franco 1992).

2.5 Issues raised and their relevance to the problem

Three main issues have been raised in the literature surveyed in this chapter. First, in the developing countries, Sub-Saharan Africa in particular, agriculture is considered essential for development. About 70% of the people in the region of Sub-Saharan Africa (Zimbabwe included), depend on agriculture for their livelihood. It is,

therefore, important for governments of these countries to formulate and seriously implement progressive agricultural policies and propel development in the region.

Second, the financial sector can contribute to agriculture through agricultural credit but findings from literature show that there was once an emphasis on extending cheap credit to farmers without much attention on repayment and viability of the supplier institutions. Later on, there was an inverse tendency of emphasizing repayment and viability of the financial institutions while little attention was given to the extension of credit. As we pointed out earlier on (see 2.3.5), both approaches tend to go to extremes. There is need to strike a balance.

Third, the chapter has discussed what it may mean for a country to extend credit under hyperinflationary conditions. Under hyperinflationary conditions, analysts prioritise stabilization as opposed to credit extension. However, populist governments have historically tended to focus on extending cheap loans, in the name of economic development, to their interest groups for political purposes. Studies of Latin American countries that went through economic crises demonstrated that the fruits of such development initiatives do not last long and that without stabilization, agricultural credit cannot bring about a lasting economic development.

In a nutshell: the chapter has established that only through well-functioning financial institutions operating under a stable macroeconomic environment can extension of agricultural credit lead to development. Given the high levels of hyperinflation that Zimbabwe had between 2007 and 2008, its economy could not, by any way, be described as stable. What would it mean to extend credit under such an environment and how developed were its financial institutions?

Chapter Three

3 Case Study Methodology

While the literature review has sought to bring out international experience regarding agricultural credit in general and in a hyperinflationary context, this study seeks to narrow down the focus and concentrate on Zimbabwe's experience of hyperinflation between 2007 and 2008. The researcher employed a qualitative case study methodology to gather and analyse the data used in this study and tried as much as possible to adhere to the requirements of the tradition of this methodology.

3.1 Choice of study approach and methodology

After considering both quantitative and qualitative approaches, this researcher found qualitative methodology more suitable to use since the aim was to explore the many factors that impacted on agricultural credit under the volatile macroeconomic environment in the country. While a quantitative research study deals with few variables but many cases, a qualitative research uses few cases but many variables (Ragin 1994). Creswell (1998) described a qualitative research as that which employs distinct methodological traditions of research in order to explore a social or human problem. For him, a qualitative researcher builds a complex and holistic picture of the unit of analysis, a process which involves analyzing words, reporting detailed views of informants and conducting interviews in a natural setting. As required by a qualitative approach, the researcher carried out this research, not as an 'expert' who passes judgment on participants, but as an active learner who could tell the story from the participant's view (Creswell 1998, 18). In this research informants are the experts of the issue under inquiry. Most informants felt at ease and confident to share their views after this researcher clarified their role in the research.

Though a qualitative study can be carried out using other designs or methodologies such as ethnographic method and grounded theory, the researcher considered a case study design as best suitable since it afforded one to reach a profound understanding of the issue under analysis. It demands extensive gathering of material from multiple sources of information in order to provide an in-depth picture of the unit of analysis

Creswell (1998). It was with this understanding that this researcher focused only on one country. The choice of Zimbabwe was mainly because it was the only country in the region (of Sub-Saharan Africa) that was experiencing hyperinflationary conditions at the time of study. This outstanding characteristic of Zimbabwe makes this paper a unique case study (Creswell 1998). The fieldwork involved collecting information from various key stakeholders from the agricultural sector in order to establish what it meant to extend credit under volatile macroeconomic conditions mainly characterised by hyperinflation. However, it was not always easy to get access to stakeholder institutions, which, in turn, were to provide this researcher with key informants.

3.2 Sampling and the challenges encountered

The study was initially designed to tackle the research problem by exploring the experience of the Agricultural Development Bank of Zimbabwe (Agribank) only. However, the researcher received no response to the request for permission, despite several follow-ups with Agribank for more than three months. Seeking views of key-stakeholder institutions in the agricultural sector of Zimbabwe successfully became the way forward. The headquarters of most of the various institutions that were identified as key-stakeholders were located in Harare, the capital city of Zimbabwe which resulted in the fieldwork being conducted in this region.

The institutions approached were located within the Central Business District and in the outskirts of the city of Harare. While the researcher might have anticipated possible key stakeholder institutions for participation in the research, the snowball sampling method, a strategy that helps to identify key-informants with rich information through the help of people who know them (Miles and Huberman 1994), proved to dominate as respondents referred the researcher from one institution to another. Generally, many of the institutions that were approached showed readiness to participate in the research. Only a few were difficult to penetrate due to gatekeepers but some prior research which afforded the researcher to know who to ask for from the onset proved helpful. A total of eleven institutions participated in the research as they provided key-informants (see Appendix 1).

At most of these institutions, the researcher was referred to a key informant after briefly explaining the objectives of the research. After the interviews, most of the respondents willingly suggested other possible respondents that they considered knowledgeable. Except for two interviews, one of which was held in December 2008 and the other in March 2009, the rest of the interviews were done in the month of June 2009, a time when most people considered the time of hyperinflation as over.

3.3 Data Collection Techniques

According to Mikkelsen (1995), data collected in a case study should lead to an in-depth understanding of the object under study. To arrive at this, the study employed several data collection techniques, namely, semi-structured interviews, fieldwork notes, observations during the fieldwork (Yin 1994) and a group interview with smallholder farmers. All the respondents willingly agreed to participate when they understood that it was solely for academic purposes. However, one respondent refused to sign a consent form even though he did not hesitate to participate. The sole reason he gave was that signing such a form would require too much protocol and formalities that might have delayed the interview. Two interviewees explicitly requested to remain anonymous in the final report.

Most of the information acquired from the study was from semi-structured interviews with key informants. This interview technique proved useful because it allowed respondents to elaborate their fixed choice answers (Pawson 1996). The semi-structured interviews were recorded on audio-tape with respondents' consent. Audio recording ensured accuracy in the write-up of the report since some information could have been missed during note taking. In addition, it gave the researcher the opportunity to establish eye-contact with the respondent, instead of being grossly engaged in note-taking which would have disturbed the relaxed mood of interviews.

The data sourced was meant to answer the central question: what has been the experience of stakeholders regarding the supply and demand of agricultural credit under current macroeconomic conditions? To guide the interview, several sub-questions were formulated and asked, depending on the type of respondent (see Appendix 2). In terms of content, respondents were more willing to share their

experiences and views than the documents of their institutions, especially where figures were involved. However, this did not constitute a huge problem since the main interest in the study was to establish their views as knowledgeable people who belonged to institutions that played a key role in supporting agricultural activities in the country.

3.4 Data Analysis

This researcher used two main topical questions to analyse and discuss the data collected in the field: 1) what themes emerged from gathering information about agricultural credit? These questions helped the researcher to identify and group the information for discussion. 2) How can one interpret these themes in the light of the broad debate regarding agricultural credit and hyperinflation and what lessons can be drawn (Lincoln and Guba 1985) from the Zimbabwean case?

The analysis process began soon after fieldwork by arranging field notes and transcribing interviews recorded on audio tape. A content analysis was made of the transcribed material and the notes collected in the field. The interview question guide, whose formulation was based on the conceptual frameworks of agricultural credit and a hyperinflationary environment discussed in the previous chapter, also served as a guide in grouping the information and identifying emerging themes. In this report, coded references are made to acknowledge or credit both specific views/opinions and direct quotes of respective respondents. In the referencing system, each respondent is replaced with a code letter and the date when he/she was interviewed (e.g. H, 03/06/09). These codes are included on the list of the respondents (see Appendix 1). Information that could not fit into the identified themes led the researcher to revisit the literature review in order to find ways of reporting it without changing its context.

The researcher then interpreted the categorised themes in the light of the reviewed literature. This entailed picking out the issues that the researcher considered most critical and seeing if findings from international experience could inform the study at hand or vice versa. The objective of the analysis process was, according to the case study tradition, to arrive at lessons learnt from the respondents' experiences.

3.5 Issues arising from the limitations of the study

The researcher did not manage to interview a few stakeholders that could have added further information to the study. The Reserve Bank of Zimbabwe (RBZ) is one important stakeholder absent in the list of the institutions successfully approached. Additionally The Commercial Farmers Union has supported large scale commercial farmers in a significant way but had no one made themselves available for interview during the period of fieldwork. However, the Zimbabwe Farmers' Union that appears in the list also represents commercial farmers but at a general level.

A gender analysis of the profile of the respondents shows that there is sharp imbalance. All the respondents from the institutions were male, except for three women who formed part of the group interview. It might be too early or even inaccurate to judge from this single scenario that women are poorly represented in these organizations unless a specific gender-based study is made to interrogate the question further. However, it is a cause for concern that in all the eleven institutions visited, the snowball method landed this researcher on male key informants only. The limitation arising from this is that women views regarding their experience of credit under hyperinflation may be poorly represented even though research shows that about 40% of the households in the rural areas are female-headed (AGRITEX 2002, cited in Horrel and Krishnan 2007).

The politically polarised environment in which the research was carried out might not have been conducive for getting optimum responses from some of the respondents. Some respondents requested anonymity when they considered their opinions to be politically sensitive. It could be the case that some might not have fully expressed their views if they considered them dissenting.

This preceding issue of the context in which the research took place establishes a link with the next chapter, which provides a background and macroeconomic context of agricultural credit. This helps to assess the findings in their proper context.

Chapter Four

4 Background and Context of Agricultural Credit in Zimbabwe

From the colonial times (1890-1979) to the post-independence period (1980 to the present), the fall and rise of the agricultural sector in Zimbabwe has been determined by land ownership and control (Ndlela and Robinson 2007). The period between the 1997 and 2008 is that of the deepening economic crisis. This is the context in which agricultural credit is discussed in this paper, but special attention is made on the period of hyperinflation (2007-2008).

4.1 Background

4.1.1 Colonial Era

The colonial era lasted from 1890-1980).[2] Key periods regarding various policies established during this period are summarised on appendix 3. The colonial era created a dualistic system of agriculture. Under this system, a minority group of white settlers occupied vast and fertile lands and enjoyed various forms of farming support. The vast majority of Africans were pushed to a small percentage of less productive land and no support was generally given to them (Ndlela and Robinson 2007). This setup meant that only white farmers could be large scale commercial farmers and Africans (blacks) constituted the bulk of smallholder farmers. The colonial regime created several discriminatory policies that disadvantaged the black majority. The Land Apportionment Act of 1930 led to the forceful removal of the majority blacks from arable land to arid rural areas that were then referred to as “Reserves” or “Tribal Trust Lands” (now known as Communal Areas), creating room for white farmers to occupy massive farming areas (Bond 1998). The Native Land Husbandry Act of 1951 was

[2] Different colonial regimes controlled the country at various given times. The colonial regimes of Zimbabwe can be outlined as follows: The British South Africa Company (1890-1923), Southern Rhodesia self-government under white minority (1923-1953), Federal of Northern and Southern Rhodesia and Nyasaland (1953-1963) and Unilateral Declaration of Independence of Rhodesian regime (1965-1979) (see Ndlela and Robinson 2007).

enacted to perpetuate this discriminatory policy. The Act sought to replace communal land owned by traditional chiefs with more productive black farmers in the name of land conservation and reducing overcrowding of peasant lands (Bond 1998). In reality, the colonial government wanted "to substitute an African agrarian bourgeoisie and proletariat for the peasantry," (Arrighi 1973, 362).

Agricultural support policies during the colonial era clearly favoured the white farmers. As far back as 1908, the country's Department of Agriculture was reorganised to give technical support to while farmers. In 1912, a Land Bank was created to provide credit facilities to white farmers so that they could purchase farms, livestock and farm equipment. No loans were extended to African (black) farmers on the grounds that they did not have any collateral (Ndlela and Robinson 2007). However, small loan schemes for blacks were started but they never brought any significant change given the discriminatory structures in place which deprived blacks of any financial muscles. Some of these include the housing credit scheme supported by the Plewman Commission, which failed due to "a combination of volatile liquidity and limited buying power" (Bond 1998, 75). The African Loan and Development Company founded in 1961, even though meant to benefit the disadvantaged blacks, had interest rates that were higher than were available to white farm borrowers (Whitsun Foundation, 1980). Silveira House, a Catholic Mission, started a rural savings club movement for homogenous groups (e.g. church members or same village) but was never fully executed, "in no small part because the concomitant imposition of market rationality was not feasible under the circumstances", (Bond 1998).

In 1971, under the interventionist policies of the Unilateral Declaration of Independence of Rhodesia (UDI), the Land bank was transformed into Agricultural Finance Corporation (AFC), which also continued to provide heavy loans to white commercial farmers. Due to the sanctions that it was facing from the international community, the UDI government adopted import substitution policies to ensure food self-sufficiency. In order to achieve this, it invested in the white farmers whom it heavily funded through AFC and commercial banks. AFC's mandate excluded provision of service to the communal areas (the then Tribal Trust Lands). A slight

change only came in 1978 when AFC started extending credit to few African farmers that had purchased small scale commercial farms in the African Purchase Areas. This decision came as a result of the political changes that were taking place in the country at that time, notably, the political settlement.[3] Commercial banks also offered supply-led services to agriculture but solely to the white minority, which had collateral security (Doré *et al*. 2008).

4.1.2 Control Regime (1980-1990)

Under the leadership of Robert Mugabe, the ZANU (PF) Government that took over as majority rule at independence in 1980 pursued socioeconomic development and redistributive objectives that gave rise to a large public sector and increased Government spending on health, education and welfare programmes. Zimbabwe's average growth in the 1980s was 4.3% per annum and its economy had its own moments of boom (due to political and social factors) and recession (on account of climatic conditions) (Doré *et al*. 2008).

In the agricultural sector, the new Government started a land redistribution scheme. It bought farms from white farmers and resettled black smallholder farmers in what became known as Resettlement Areas. However, Government discontinued the land acquisition programme in 1985 (Ndlela and Robinson 2007). According to Jenkins (1997), by leaving the issue of redistribution to a later stage, the post-independence populist Government sidelined black empowerment. This means that in terms of structures, dualism in agriculture was basically maintained. Because there were no structural changes made, it was therefore, not surprising that the AFC project of funding smallholder farmers did not come to fruition. As Bond (1998, 320) put it, the AFC programme was simply not geared to the existing realities facing small farmers: unpredictable markets for small farmer products; barriers and bottlenecks in input

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[3] The political unrest that had mounted within the country, coupled with sanctions levelled again Smith's government of Unilateral Declaration of Independence (UDI) of Rhodesia by the International community and political pressure from South Africa, Britain and the United States, led the Rhodesian to reach an internal settlement with less radical nationalists.

provision, product marketing and distribution, transport and communications; drought; and all manner of other non-economic factors". Government also extended credit facilities through AFC and extension services (through Agricultural Technical Extension Services [AGRITEX]) to the smallholder farmers. Like the previous colonial regime, Government pursued a policy of import substitution and food self-sufficiency.

Since the smallholder farmers in both communal and resettlement areas had no collateral security and posed a risk in terms of high administrative costs, owing to their big numbers but small transactions, Government stepped in to guarantee the losses and costs of AFC (Poulton *et al* 2002). Of the estimated 850 000 smallholder farmers, only about 70 000 received AFC loans by 1984 (Bond 1998) and about 77 000 smallholder farmer households received the loans by 1986 (Poulton *et al*. 2002). Repayment of these loans was low due to problems with poor management and poor supervision of lending as well as poor harvest yields (Poulton *et al*. 2002). Due to a backlog of hybrid maize varieties, expanded access to credit, higher guaranteed Government maize prices, and marketing subsidies, smallholder farmers managed to double maize production during 1980-86 (Eicher 1995). However, the belief among many smallholder farmers in the early years of independence that credit was a right instead of a commercial contract that needed to be honoured led to delinquency and default (Poulton *et al* 2002). The smallholder farmers overtook commercial farmers in providing national food security as they contributed about 90% of the country's maize and small grain production. In the 1989/90 cropping season, there was a sharp decrease in the number of loans. Only about 44 000 smallholder farmer households, compared to the 77 000 of 1986 received loans form AFC (Poulton *et al*. 2002, 47). Besides the repayment problem that AFC was facing, Government was also finding it difficult to capitalise this financial institution since it had too many competing needs Education and health sectors also needed funding. It also carried the burden of servicing external debts. These debts had accumulated in the early years of independence in the hopes that organizations and donor countries that had pledged, just before independence, to help the country, would keep their promises (Jenkins 1997).

In an assessment related to this era, Jenkins (2007) concluded that for Government, spending on social service was easier than embarking on a more demanding but critical task of restructuring the pattern of ownership in the economy. According to her, this approach led to future economic problems by generating large deficits, which needed to be financed, with either inflationary or crowding-out effects (or both), and with external debt implications. In a way, adoption of neoliberal policies became inevitable.

4.1.3 Liberalization (1991-1996)

This era saw Government shifting from the UDI colonial regime policies of import substitution that it had inherited at independence and tried to manage during the 1980s to neoliberal policies of economic liberalization (Doré *et al*. 2008). The Economic Structural Adjustment Programme (ESAP) in Zimbabwe, which led to the imposition of tariffs on manufacturing inputs, trade liberalization exposed manufacturing companies to foreign competition and this decreased productivity. Privatization and fees for social services in the area of health and education were introduced and there was a decline in wages and employment. Money supply went up 35% from mid 1990 to mid 1991 due to speculation. After the lifting of key price controls in early 1991, inflation broke national records to reach more than 30% (Bond 1998). Bank economists blamed it on price controls: they "did more to add to inflation and distortion of relative prices than it helped business viability. This approach also puts into question the credibility of the whole programme [ESAP] in the eyes of the general public and market participants," (*Zimbank Review*, Third Quarter 1991). The general impact of these neoliberal policies was a weakened economy characterised by "deindustrializing, with foreign competition increasing dramatically," (Carmody and Taylor 2007, cited in Lee 2009, 6). This macroeconomic environment also affected the agricultural sector and financial services to the smallholder farmers in particular.

The number of communal farmer households that received loans from AFC had reduced to about 30 000 by 1990 and dropped to about 16 000 by 1996. In comparison with large scale commercial farmers, the majority of whom were white (even though a few blacks had purchased large farms after independence), the value of the loans of the 30 000 smallholder farmers was only 1/7 that of the value of loans

to 1 100 commercial farmers (Eicher 1995; Poulton *et al* 2002). However, of these 30 000, 80% were still found to be in arrears in 1990 (Chimedza 1994, cited in Poulton *et al* 2002). In an effort to adopt more commercial methods, AFC, with the help of the World Bank tried in vain to employ the group lending approaches, following microfinance success stories (Bond 1998). Rural savings clubs and contract farming schemes could barely replace the AFC loans that the smallholder farmers used to receive from AFC. Some of the factors that made it difficult for smallholder farmers to repay included the high interest rates and tight monetary rules that were a result of ESAP, the drought of 1992 and the high cost of fertiliser after it was liberalised. AFC also faced the problem of interference as politicians instructed it to waive off the non-repaid loans (Poulton *et al* 2002). According to Bond (1998), AFC fell into the trap of the common flawed assumption by the traditional approach to rural finance, namely that farmers need credit to stimulate them to produce. AFC was later to be privatised in 1999.

The story of the Cotton Marketing Board and cotton smallholder farmers during the period of liberalization appears to be a successful one. In 1992, the Cotton Board started an input credit scheme to help smallholder farmers. While by 1994 there were already 40 000 farmers benefiting from the scheme, the number increased to 55 000 by 1999 under Cottco (Cotton Company of Zimbabwe, formerly Cotton Marketing Board). The repayment rate was as high as 98% (Poulton *et al* 2002), almost a total contrast to the experience at the parastatal AFC. Nonetheless, the majority of the smallholder farmers remained without access to credit if one considers that there were an estimate of 850 000 households of smallholder farmers.

4.2 Context of volatile macroeconomic conditions (1997-2008)

The authors of a UNDP Zimbabwe discussion document, Doré *et al*. (2008), described the period between 1997 and 2008 as that of a deepening economic crisis. Several characteristics characterise this volatility but hyperinflation has been the main feature. The agricultural sector experienced negative growth and literature does not indicate any real improvement in terms of extension of credit to farmers.

4.2.1 Aspects of volatility

The basic structural transformation of the national economy came in 1997 when Zimbabwe experienced an economic crisis that became worse after the post-2000 events. Doré *et al* (2008) referred to this as the moment that defined a fundamental rupture with the country's previous growth patterns. There are several events that contributed to the volatility of the economy. The crush of the Zimbabwean dollar on Friday, 14 November 1997 was one major factor. That day has since been referred to as the "Black Friday". This was followed by the unbudgeted issuing of large sums of money (about Z$4.5 billion) to war veterans, leading to a budget deficit and inflation (Lee 2009). From 1998 to 2003, Zimbabwean soldiers fought a war in the Democratic Republic of Congo with an estimated cost rate of USD$1 Million per day. The fall of commercial agriculture after 2000, following the Fast Track Land Reform Programme (FTLRP) led to the decline in supply of domestic inputs and the national economy as a whole. Controversy surrounded the land reform programme implemented by Government in view of equitable agricultural development. Government also reversed liberalization policies and reintroduced interventionist policies, with the intention of promoting private sector performance by providing cheap bank finance at negative interest rates. However, not much progress was made since private sector also faced difficulties, for instance, lack of foreign exchange, fuel and power (Doré *et al*. 2008). Unemployment in the formal sector is now at 90% and infrastructure has generally deteriorated. The country is now bankrupt. Its foreign debt has continued to grow and in April 2009, the Governor of the Reserve Bank of Zimbabwe (RBZ) admitted to having stolen money from foreign currency accounts of individuals and organizations to cover Government shortfalls (Lee 2009).

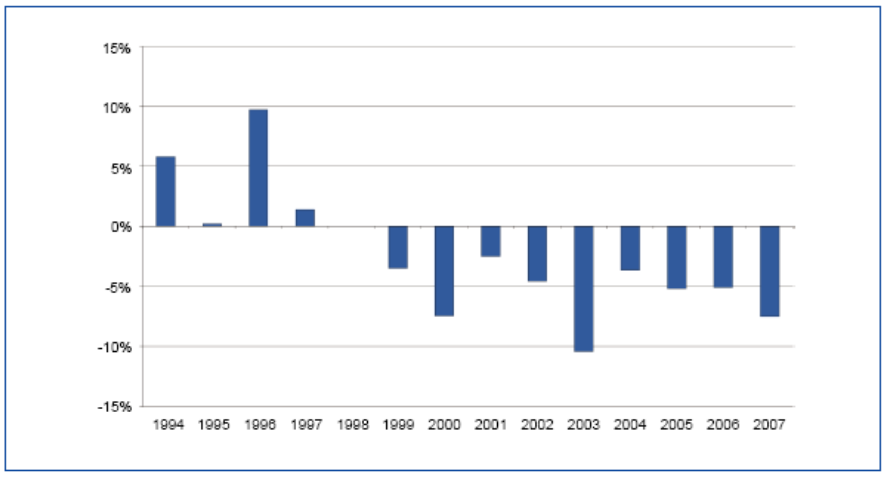
4.2.2 Gross Domestic Product, Hyperinflation and Stabilisation

Hyperinflation, the hallmark of Zimbabwe's economic collapse (Hanke 2008), followed a continuous decline in productivity in the country. The initial contraction of the economy was largely associated with chaotic seizure of commercial farms, the backbone of the economy, but other factors have also contributed in recent years. According to Coorey *et al* (2007), these factors included:

> (i) high and accelerating inflation; (ii) price distortions due to extensive controls and regulation, particularly relating to the exchange rate which is fixed by the Reserve Bank of Zimbabwe (RBZ) at a highly overvalued rate; (iii) the collapse of investor confidence due to unpredictable policies and lack of respect for property rights, particularly in agriculture and mining; and (iv) minimal external financing because of poor relations with creditors and donors and deteriorating economic and social conditions. (p. 4)

As shown in Figure 2 (below), the economy shrunk in 1995 but has not recovered since the collapse in 1997. A period of negative growth started in 1999 and in 2003 the economy reached a negative growth of 10%. The 2007 growth rate of about -7% showed no signs of immediate recovery, (Doré *et al*. 2008). The real GDP is estimated to have declined by about 30% between 1999 and 2007 (Coorey *et al* 2007).

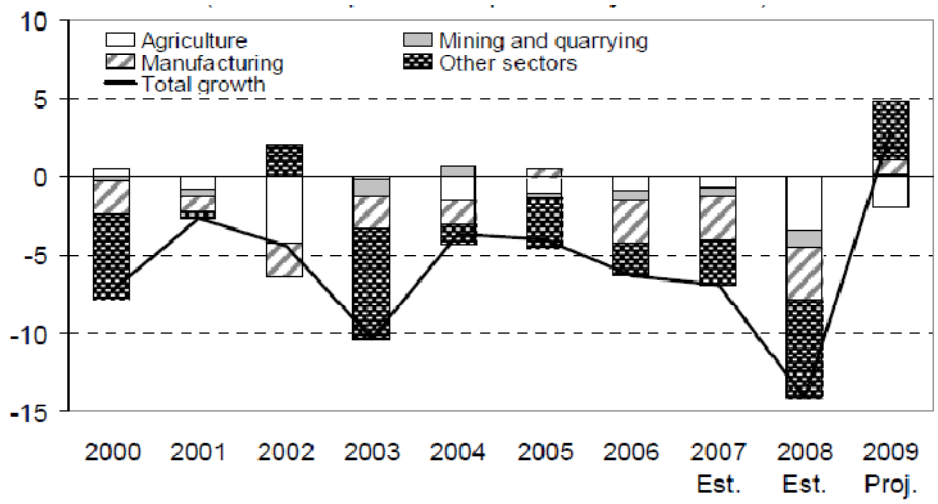
Figure 2 GDP growth rates 1994-2007 - (at 1990 prices)



Note: The figure for 2007 is estimated
Source: Central Statistical Office

The deepest decline was experienced in 2008 when GDP reached close to -15%, while a slowdown of the decline is projected for 2009 (see Figure 3). Despite the expected recovery of some sectors, agriculture was not expected to experience positive growth in 2009.

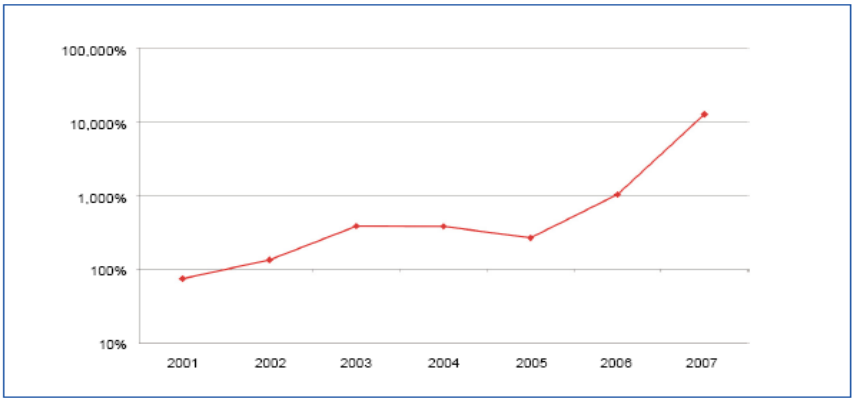
Figure 3 Growth by sector (2000-2008) and projection for 2009



Sources: Zimbabwean authorities and IMF staff estimates, (cited in IMF 2009).

While production and growth declined, money-supply increased as the RBZ printed money that flooded the market and resulted in hyperinflation. According to the official records of the Central Statistical office (see Figure 4), inflation reached hyperinflationary levels of over 1 000% in February 2007 (Doré *et al*. 2008). Coorey *et al* (2007) cautioned that the official CPI in Zimbabwe was likely to substantially understate inflation and that many in the private sector believed that the true rate of annual inflation was closer to 3,000% in February 2007. In mid-November 2008 monthly rate of inflation was estimated at 79,6 billion percent (see Figure 5), making Zimbabwe the first country in the 21st Century to have such an inflation record and second to Hungary in the list of the highest inflation records in the world's history (Hanke and Kwok 2009).

Figure 4 Zimbabwe's CPI inflation, annual average, 2001-2007



Source: Central Statistics Office in Doré *et al*. 2008.

Figure 5 Zimbabwe's hyperinflation: March 2007 to Mid-November 2008

Date	Month-over-month inflation rate (%)	Year-over-year inflation rate (%)
March 2007	50.54	2,200.20
April 2007	100.70	3,713.90
May 2007	55.40	4,530.00
June 2007	86.20	7,251.10
July 2007	31.60	7,634.80
August 2007	11.80	6,592.80
September 2007	38.70	7,982.10
October 2007	135.62	14,840.65
November 2007	131.42	26,470.78
December 2007	240.06	66,212.30
January 2008	120.83	100,580.16
February 2008	125.86	164,900.29
March 2008	281.29	417,823.13
April 2008	212.54	650,599.00
May 2008	433.40	2,233,713.43
June 2008	839.30	11,268,758.90
July 2008	2,600.24	231,150,888.87
August 2008	3,190.00	9,690,000,000.00
September 2008	12,400.00	471,000,000,000.00
October 2008	690,000,000.00	3,840,000,000,000,000,000.00
14 November 2008	79,600,000,000.00	89,700,000,000,000,000,000.00

Source: Hanke and Kwok 2009

According to Munoz (2007), inflation was fuelled by rapid money growth due to the Quasi-fiscal activities of the RBZ since 2004. From her analysis, Munoz realised that the inflation of Zimbabwe was caused more by Quasi-fiscal activity by the bank than the normally presumed government budget deficits. The Quasi-fiscal activities of the central bank were carried out outside the budget and without adequate provisions for their financing (Munoz 2007). These activities supported concessionary funding mechanisms. Some of these mechanisms included Agricultural Sector Productivity

Enhancement Facility (ASPEF), the Basic Commodity Supply Side Intervention Facility (BACOSSI facility) and the Agricultural Mechanisation Programme (Malaba 2008). Figure 6 is an example of some of the many bearers' cheques that the RBZ printed.

Figure 6 Zimbabwean bearer's cheques

Source: anonymous.

The restoration of fiscal discipline and introduction of stable monetary policies were considered to be some of the measures that Zimbabwe could take in order to stabilise its economy (Coorey *et al* 2007; Munoz 2007). According to Hanke (2008), since the source of Zimbabwe's hyperinflation was the RBZ's unlimited financing of Government spending, the solution lay in the central bank stopping to print money and immediately adopting a different monetary system, given that it had no ability, *de facto*, to resist Government's demands for cash. According to some IMF analysts, while better governance and a comprehensive structural reform (e.g. property rights, land and agriculture reform) might help to achieve a sustained growth, a general

stabilization process consisting several essential elements needed to be urgently set off:

> (i) a transfer of all quasi-fiscal activities to the government budget; (ii) strong fiscal adjustment, including newly-absorbed QFAs [Quasi-fiscal activities]; (iii) exchange rate unification and full liberalization of the exchange regime for current international payments and transfers; (iv) liberalization of price controls and imposition of hard budget constraints on public enterprises; and (v) a strong monetary anchor. (Coorey *et al* 2007, 14).

When the inflation rose to about 79.6 billion percent in mid-November 2008, people simply refused to use the Zimbabwean dollar and hyperinflation came to an abrupt halt (Hanke 2009). The abrupt halt of the hyperinflation was also triggered by the intervention of the Reserve Bank of Zimbabwe, which priced the country's economy via the Old Mutual rate whose share price movements had, according to Gono, the Bank's governor, no relationship with economic fundamentals and actual corporate performance of Old Mutual itself (Gono 2008). The Reserve Bank ordered the Zimbabwe Stock Exchange to close down and this led to the death of the local currency and dollarization of the economy. By January 2009 inflation had fallen to -2.3% and was estimated at -1.0 in May 2009, according to the official inflation statistics (Hanke 2009). The demise of the Zimbabwean dollar also coincided with the political negotiations and changes that were taking place, (cf. 4.2.4).

4.2.3 Debate regarding poor agricultural performance

Agriculture, which, like other sectors, has been experiencing negative growth throughout the crisis period (see Figure 3), has been subject to debate, especially regarding the consequences following the implementation of the Fast Track Land Reform Programme (FTLRP) and how a way forward can be forged. Land seized from white farmers in a highly politicized and controversial environment, was sub-divided into numerous small-scale farms (up to about 6 hectares in size) occupied by A1 model farmers and larger-scale farms occupied by A2 model farmers. Researchers show concern about agricultural productivity, which continued to decline despite the volumes of concessionary loans ushered to the new farmers.

While they generally agree that there was need for land reform in Zimbabwe, researchers tend to differ regarding the FTLRP and how it was implemented. Ndlela and Robinson (2007) argued that had President Robert Mugabe accepted and implemented a land reform programme proposed earlier on in 1998 at a meeting that brought together wide cross-section stakeholders, the land reform programme could have taken a better route than it did.

However, Moyo and Yeros (2009) argued that the FTLRP managed to overcome the dualism that had characterised the agricultural system and that research showed that about 70% of the acquired land directly benefited 140 000 poor households mainly from rural areas and some from urban areas. The rest benefited about 18 000 new small- to medium-scale capitalists with an average of 100 hectares, while the remaining large scale farms have been down-sized from an average of 2 000 hectares to an average of 700 hectares. In a different study, Scoones (2008) argued, from his research in the Masvingo Province, that some of the A1 farmers demonstrated great potential because of what they managed to achieve despite little credit and hyperinflation.

In critique of some terms of reference issued by the World Bank on Zimbabwe, Moyo, Scoones and Cousins (2009) pointed out that it was incorrect for the Bank to refer to the time before the FTLRP as the golden era of agriculture in Zimbabwe. They argued that the beef industry was constantly working at a loss and food was sometimes imported into the country. Regarding the land issue in Zimbabwe, the authors suggested a forward-looking approach but underlined the fact that the reform marked the end of extreme dualism in the country's agricultural sector.

During the period of macroeconomic instability, credit for farmers never went well. While the Government-driven land reform programme was understood to have given birth to a new breed of farmers, financial institutions perceived them as too risky to extend financial services. Commercial banks gradually withdrew their outreach in rural areas citing several challenges such as lack of collateral in the absence of legal title to land (RBZ 2007). Meanwhile, AFC had been privatised in 1999 and operated as Agribank and farmers had remained without any committed financier. In realization of this gap, Government repossessed Agribank and converted it into an

agricultural development bank to fund agriculture, especially the new farmers. However, Agribank faced viability constrains due to lack of capitalization and a consideration of it entering into partnership with development-oriented private organization was suggested as way forward (Malaba 2008).

In their assessment of various financial services extended by Government for the agricultural sector, Mukwereza and Manzungu (2003) noted that Government was involved in too many types of financial activities and this compromised its effectiveness. They also observed that Government put too much focus on short-term loans while it neglected infrastructural development. In addition, it did not interrogate enough why private sector was not providing short-term loans. The authors also observed that poor institutional capacity was the greatest threat to the sustainability of the financing system. Some of the Government agencies that the authors studied showed that they operated without any framework and then found it difficult to administer the funds they received from Government. One other hurdle that they identified regarded, not only the inadequacy of the loans, but also the delays in providing them. However, Mukwereza and Manzungu (2003) considered the stabilization of the economy as paramount for the revival of the agricultural sector.

Using econometrical methods to evaluate the impact of credit availability on communal and commercial sector maize output in Zimbabwe, Musuna and Muchapondwa (2008) found out that communal sector maize production did not respond to credit incentives. For the authors, the findings imply that an increase in concessionary provision of credit that started in 2004 did not make any difference. In addition, the study also revealed that communal sector maize output was not affected by the area under cultivation. This implied that adding more land to the sector would not bring any increased production. The evaluation showed that the sector responded to rainfall and hence: investment in the construction of dams and supplementary irrigation would be important to make the communal areas more productive. Since the commercial agricultural sector proved to positively respond to credit availability, more investment should be made in this sector in order to improve agricultural productivity.

4.2.4 Signs of recovery, a beginning of a new era?

The forming of the Government of National Unity through the September 15, 2008 Global Political Agreement (following hotly contested March 2008 parliamentary and presidential elections in which many lives were lost due to political violence) resulted in Zimbabwe adopting policies that have helped the economy to show some signs of recovery. However, whether this marked the beginning of the end of the crisis era may be too early to tell. The new but fragile Government of National Unity has since started taking measures to stabilise the economy by ending the Quasi-fiscal activities of the central bank and introducing dollarization through a multicurrency system. In May 2009, Zimbabwe had a monthly inflation rate as low as -1.0% and in June it rose to 0.6% (*The Zimbabwe Independent*, 23 July 2009). It also removed unsustainable price controls, initiated cash budgeting and reopened the stock market. The Unity Government also authored a recovery document entitled Short Term Emergency Recovery Programme (STERP), which reinforced support for equitable land redistribution and the importance of food security and self reliance (Lee 2009). However, Robertson (*The Zimbabwe Times*, 1, April 2009) observed that instead of restoring the collateral value of its land in order to get credit for its own recovery, Zimbabwe, as reflected in STERP, was only focusing on mobilizing external funding amounting to US8.4 billion to bankroll the recovery. Whether this can be said to be the start of a new era for the Zimbabwean economy, time will tell.

While the aim of this chapter has been to provide the background to agricultural credit in Zimbabwe as well as describe the context in which this research was carried out, the following chapter presents the main findings.

5 Findings - Perspective of Stakeholders

Findings revealed that some of the problems regarding agricultural credit in Zimbabwe were not necessarily related to hyperinflation. Government loans and inputs schemes took too long to be disbursed, a problem which existed even before hyperinflation. Repayment favoured the borrower since inflation eroded the value of the loans borrowed at fixed interest rates. There was high shortage of inputs as local producers did not find their business viable due to price control of agricultural products. In addition, a shortage of foreign currency in the country made it difficult to import the shortfall. Most institutions approached in the research could not fulfil their mandates due to the harsh economic environment.

5.1 Profiles and operations of stakeholders

The range of respondents belonged to various agricultural stakeholders whose operations are critical to the success of agriculture in the country. They included finance, commodity and inputs supplier institutions and a farmers' organization.

5.1.1 Financial Institutions

Agricultural Development Bank of Zimbabwe (Agribank)

Agribank started operating as private commercial bank after inheriting AFC assets and liabilities in 1999, following Government's failure to fund AFC's operations. The then new bank invested in improving the technology of the broad network of branches it inherited from AFC so as to provide competitive banking services to farmers, its intended customers. However, it lacked skills to compete with established commercial banks and could not, therefore, manage to mobilise adequate deposits to run its operations. In October 2003, Government reclaimed ownership of Agribank and though the latter continued trading with the same name, its official name became the Agricultural Development Bank of Zimbabwe. Agribank continued operating as a commercial bank but with a specific responsibility for agricultural development. Its mandate entailed funding agriculture in all short, medium and long-term facets. It meant mobilising deposits and creating partnerships with private and public sectors for the development of agriculture. There was a speculation that the bank would

develop a fresh crop of viable and sustainable indigenous commercial farmers, most of whom had benefited from the FTLRP (D, 12/08).

Part of the reason that AFC converted into a commercial bank was that Government was finding it difficult to fund this institution. The same problem resurfaced after 2003, when the bank had, once again, become state-owned. Agricultural development activities are carried out at a subsidised rate of interest and anything outside the market has to be funded by someone other than the institution itself. The deposits that the institution mobilised could not fund agriculture because they were at a higher cost than farmers were willing to take. Since 2003, funding was basically provided by the Reserve Bank through its Quasi-fiscal activities (D, 12/08).

ZB Bank

ZB Bank, which used to be known as Zimbank, is one of the two commercial banks that the researcher approached. It is 100% owned by ZB Financial Holdings, a holding company of a group of companies that provide commercial and merchant banking and other financial services. ZB bank has an agribusiness unit meant to provide the agricultural sector with certain financial services such as infrastructural developments, working capital, capital expenditure and Agricultural Sector Productivity Enhancement Facility (ASPEF) facilities. In 2008, ZB Bank and Agribank were included in the list of institutions that were put under sanctions by the United States (US) Government. These sanctions prohibit U.S. persons from conducting financial or commercial transactions with these banks and other listed entities. When ZB was listed under sanctions, most of its clients withdrew their accounts and this reduced the deposits. It mainly relied on ASPEF funds from the RBZ. However, the shift to the use of foreign currency meant that ZB Bank could no longer receive concessionary loans from the central bank, leaving it with little to lend farmers (F, 02/06/09).

Commercial Bank of Zimbabwe (CBZ)

The Commercial Bank of Zimbabwe's Agribusiness Unit, whose headquarters is located at Westgate in Harare, is the second bank the researcher sourced information

from. The bank was once known as the Bank of Credit and Commerce or Dual Bank until the mid 1990s when it diversified lending into all sectors of the economy, one of which was the Agribusiness Unit. This unit consists of 20 staff members, 18 of which are housed at Westgate in Harare and the remaining two are each posted in Chinhoyi and Karoi, the busiest agricultural centres (G, 03/06/09).

5.1.2 Government Commodity and other Support Service Institutions

Grain Marketing Board and the Tobacco Industry and Marketing Board

During the period of hyperinflation, Government-owned commodity institutions such as the Grain Marketing Board (GMB) and the Tobacco Industry and Marketing Board (TIMB) also ran Government supported farming inputs schemes. These parastatals distributed fertilisers, seeds and chemicals while Agribank catered for the cash loans. Loan repayment by the farmers were expected after the harvests (H, 04/06/09; J, 08/06/09).

Agricultural and Rural Development Authority (ARDA)

The Agricultural and Rural Development Authority (ARDA) is a parastatal whose mandate is to produce for the nation. It is there to make sure that the nation has food self-sufficiency in terms of grains and livestock products. In addition, it supports smallholder farmers by providing them with technical extension assistance and helping them to identify sources of finance from donors. It also runs donor-funded dairy development programmes for the smallholder farmers. The institution offers tillage, planting and marketing services to farmers settled in the surrounding areas of its estates. ARDA also assists farmers that are organised in groups to prepare bankable project proposals for financing so that they can access assistance from Agribank and seed companies (N, 08/06/09).

Agricultural, Rural and Technical Extension services (AGRITEX)

The Agricultural, Rural and Technical Services (AGRITEX) is a department in the Ministry of Agriculture whose core function is to offer extension services to farmers through training. Its structures include a head office in Harare, provincial and district

offices and frontline staff or extension workers in the communal and resettlement areas. The majority of the farmers they assist are communal, A1 and A2 farmers. AGRITEX trains the farmers in the use of farming technology and it also advises them on how and where to get credit (Q, 09/06/09).

5.1.3 Inputs Supplier Institutions

Seed companies: Pannar and SeedCo

Pannar Seed, is a company providing seed production, research, development and marketing. It is located in Ruwa, about 20km east of Harare. Pannar operates internationally and its headquarters are in Greytown, South Africa. Maize seed is its main product but it also produces sunflower, sorghum, soya beans and sugarcane seeds, amongst others. Pannar Seed sells its products to the farming community of Zimbabwe through national customers that are spread across the country. It contracts commercial farmers to produce the seeds for the farming community in general (K, 10/06/09).

Seed Co-operative Company of Zimbabwe (SeedCo) is located in Harare and has a long history of producing seeds dating back to the 1940s and 1950s. This seed company is a leader in the sector and is now found in other African countries. It is self-financed and produces maize and other grain seeds for the country and other countries in the region. SeedCo contracts commercial farmers from Mashonaland West region to grow seeds. Like the Pannar Seed Company, SeedCo provides farmers with fertilisers, chemicals and foundation seeds and then deducts its inputs costs when farmers sell their produce. For distribution within the country, SeedCo has depots spread out across the country. They are found in Bulawayo, Gweru, Masvingo, Mutare, Rusape, Bindura, Karoi, Chegutu and Chipinge. These distribution points sell the seeds to wholesalers who, in turn, sell them to retailers. The seed is delivered to these depots for free in order to maintain a low cost of the seed product (L, 15/06/09).

Windmill Private Company

Windmill is a private fertiliser company that started in 1947. Its core business is to manufacture and distribute fertilisers and to formulate and distribute chemicals. The

private company, whose head offices and two plants are based in Harare, also produces products for animal health and livestock. Cereal, tobacco, cotton, soya beans, tea and potato fertilisers are some of Windmill's products. In addition, it distributes Ammonium Nitrate, Calcium Ammonium Nitrate and Urea. Windmill has its own network of stockists across the country for distributing its products to farmers. There are also traders who buy for resale and farmers that buy directly from Windmill. The GMB depots, Farm and City and Red Star all of which have branch networks are some of the outlets for Windmill products. The company has a tradition of availing credit facilities for their products to farmers who meet their criteria. However, during hyperinflation, it availed no credit facilities and resorted to strict cash transactions (M, 23/06/09).

5.1.4 Farmers

The Zimbabwe Farmers' Union (ZFU) comprises of farmers from all groups in Zimbabwe, namely, large and small commercial, A2, A1, communal and resettlement farmers. However, most of the members of the union are from communal areas. The union is structured according to levels ranging from national, provincial, district, area to ward levels. The mission of the Zimbabwe Farmers' Union is to promote and advance farmers' interests and welfare. It does this through representation, networking, information dissemination, capacity building, formation of commercially viable enterprises and mobilisation of resources and members. Other services provided by the union include lobbying Government for conducive agricultural policies and negotiating on behalf of farmers for better producer and input prices (R, 03/06/09).

A few A1 farmers (three male and two females) who participated in this research by way of group interview were from Macheke area. These were allocated a farm that used to belong to a white commercial farmer. However, the interview was carried out in Harare at tobacco auction floors where the farmers had come to market their tobacco produce. An A2 farmer who was a key informant in this research runs a farm in Bindura but works in Harare for one of the agricultural parastatals presented above.

5.2 Emerging Issues

5.2.1 Small and large farmers important for increased productivity

The research sought to find out which, among the various groups of farmers did the respondents consider as most important in the sector and what assistance would they need. Respondents generally agreed that both smallholder (Communal, Resettlement and A1) and large (commercial and A2) farmers were all important for increasing agricultural productivity in the country and hence should all be extended appropriate support. While the smallholder sector was noted for its immense contribution in ensuring food security in the past and its present potential, commercial farming was considered important for export purposes and forward linkages. However, respondents emphasised the need for giving financial support to the often-forgotten smallholder farmers. According to one respondent (N, 08/06/09), contribution by the smallholder farmers went unnoticed because their produce usually remained at household level and did not reflect in the GDP. He mentioned that about 70% of the country's livestock was in the hands of the smallholder farmers and that was not usually reflected in the GDP. Even so, banks were not seen as making enough effort:

> *"Mabhengi, dai akaedzawo kuwana nzira yokubatsira ma-smallholder farmers pane kuti varegerwe vakadaro vachinetseka vari vega"* [Banks should try to find ways of accommodating smallholder farmers so that they can support them, instead of leaving them to struggle on their own]. (H, 04/06/09)

In order to ensure that farmers gave their best in agriculture, some respondents indicated that there was need for change in policy and mentality. The economist at the Zimbabwe Farmers' Union (R, 03/06/09) pointed out that besides providing inputs in good time and efficient extension and marketing services, focus should also be on a policy shift from extensive to intensive use of land. According to him, emphasis should be put on increasing, not the area under production, but productivity. An agronomist at Pannar (K, 10/06/09) raised the need for leaders to stop politicizing the agricultural sector and show more results. He regretted that some people acquired large farms from white farmers but were not making full use of them. The interviewee from Pannar also stated that the agricultural sector needed a paradigm shift whereby it is considered agriculture to be a legitimate business farmers could invest in.

According to him, Government should also help this to happen just as it helped turn mini-buses into a proper taxi business, replacing the Peugeot 404 in the 1980s. A key informant from Agribank believed that if Government invested in infrastructure, improving irrigation facilities and dams, this would automatically change the mindset of smallholder farmers. With irrigation facilities at their disposal, smallholder farmers will automatically produce, not only for consumption, but also for commercial purposes (D, 12/08).

5.2.2 Reduced lending activities by private credit suppliers

The macroeconomic conditions discouraged service suppliers from availing loan facilities. According to the SeedCo sales manager, hyperinflation and credit cannot coexist:

> Normally, offering credit means that the supplier has to find value in giving credit. Since inflation means [that] things are losing value, the supplier becomes even more exposed to loss of value. You can't talk of credit in such [hyperinflationary] times since the two things [credit and hyperinflation] run parallel. (L, 15/06/09)

The Windmill fertiliser company stopped providing credit facilities to farmers during the period of hyperinflation and settled for cash transactions only. The company's marketing manager summarised it this way:

> We stopped extending credit facilities because we operated in an unhealthy macroeconomic environment. Prices were constantly changing and banks no longer administered loans in a normal way. The ever-increasing high interest rates set by the central bank and the high exchange rates that prevailed also discouraged us from providing the credit facilities to our customers. (M, 23/06/09)

In commercial banks, reduced agricultural lending was not necessarily due to hyperinflationary factors but to the fact that after Government's land reform programme, farm land collateral value dropped to zero. Potential borrowers in the rural areas could not qualify for credit since they mainly relied on the land. Commercial banks gradually reduced their outreach in rural areas since most of the new landowners did not have the alternative collateral of urban property or farm

equipment that the banks required (D, 12/08). That the land lost collateral power was also echoed by the ZB Bank relationship manager in the Agribusiness Unit:

> Due to acquisition of farms by Government, farms were no longer a tangible security that banks could depend on since it would be difficult to sell the farm in the event of a default. Properties in town could be sold in the event of default. (F, 02/06/09)

5.2.3 Government loans

Findings showed that Government was the main funder of agricultural loans during the crisis period. It engaged in various programmes such as Agricultural Sector Productivity Enhancement Facility (ASPEF) and inputs credit schemes. Regarding inputs credit schemes, parastatals such as the GMB and the TIMB received funding from Government, sourced farm inputs from suppliers and provided farmers with these inputs with the view of recovering the credit at harvest time. While ASPEF was targeted at large farmers, smallholder farmers were provided for through a scheme called the Public Sector Investment Programme.

ASPEF was the principal mechanism for funding agriculture in the country since 2003. This facility was provided by the Reserve Bank through its Quasi-fiscal activities and was accessed by all the banks (D, 12/08). For the Commercial Bank of Zimbabwe, 90% of its agricultural loans came from ASPEF while only 10% came from deposits (G, 03/06/09).

Among those that managed to access ASPEF funds were A2 and commercial farmers, agro processors, seed houses and commodity companies and brokers, most of which had immovable property in towns that served as collateral. The large size of farms of A2 and commercial farmers attracted low administrative costs. Dealing with such a class of farmers meant less paper work to process large loans and less transport costs in the monitoring phases. Besides low administrative costs, the banks preferred to deal with A2 and commercial farmers because of the low risks involved since their farming methods, which included irrigation schemes, were superior to those of smallholder farmers that solely relied on rainfall (F, 02/06/09; G, 03/06/09).

At the Commercial Bank of Zimbabwe, smallholder farmers were only offered loans if they were into horticulture (G, 03/06/09). The only way ZB Bank dealt with smallholder farmers was when they joined contract grower schemes by companies, for instance, the Cotton Company of Zimbabwe (Cottco). These would normally approach the banks, acquire money, purchase inputs and then further lend them to smallholder farmers (F, 02/03/09). The numerous smallholder farmers were not extended loans by the commercial banks due to the high administrative costs and risks involved (F, 02/06/09; G, 03/06/09).

Under ASPEF, there were some medium term loans for small livestock production. The facility also offered other lines of credit to enable farmers to access service from particular service providers. Some of these included the supply of diesel from the National Oil Company of Zimbabwe, tillage by Agricultural and the Rural Development Authority (ARDA), the District Development Fund and other private companies that could rent out tractors. Irrigation rehabilitation and farm mechanisation were other available credit lines provided by the Reserve Bank. These were also negatively affected by hyperinflation (R, 03/06/09).

Although ASPEF was not a development but an agricultural productivity enhancement fund, it ended up being used for developmental purposes. The farmers that had acquired land through FTLRP had no basic infrastructure for productivity. Big farms were divided into smaller farms and some people received parts that had no production infrastructure aside from their land. The ASPEF ended up serving as capital, not for production, but for developing the land itself. According an informant from Agribank, ASPEF wrongly assumed that there was productivity. “You can’t enhance where there is nothing” (D, 12/08).

Since smallholder farmers were not covered by ASPEF, Government funded them through the Public Sector Investment Programme. Only Agribank, among all the banks, has access to this facility. The Public Sector Investment Programme was an old intervention that Government used to have with AFC. In essence it would “write a cheque” to the inputs supplier institution in order to fund farmers. However these did not benefit much from the facility since Government did not have enough money (D, 12/08).

5.2.4 Delays in the dispatching of Government Loans and inputs

In a group interview, one smallholder farmer had this to say:

> The rain season is not a family car that can wait for you to put on your shoes. It doesn't wait for you to source inputs. Once it sets off, that's it, no matter what (T, 23/06/09).

Delays by Government in dispatching loans was not a new phenomenon (D, 12/08) but it made things worse during hyperinflation (R, 03/06/09; Q, 09/06/09). In order to access ASPEF funds, farmers had to file applications with the banks. The banks went through their own processes of assessing the viability of the projects of farmers and this entailed visiting the farms. The banks would then forward the applications to the RBZ for approval. This approval could take about three months. By the time the farmer received the money, it had lost value. The farmer failed to purchase the inputs since prices were rising on an almost hourly basis. Some of the banks received a lot of top-up requests from farmers who needed to meet their original needs. Nonetheless, the banks could not afford to raise these shortfalls (F, 02/06/09; Q, 09/06/09; R, 03/06/09). According to the Agribank key informant, this behaviour by Government was not news:

> The funding problems that AFC experienced in the early 1980s still show themselves today after Government has, repossessed Agribank. In 2007, Government allocated funding for livestock at national level. The money could have funded the purchase of at least 1000 herd of cattle had it been dispatched in time. However, it could hardly fund 10 cattle by the time the money reached the bank. The delay in delivering the allocation by Government gave a chance for inflation to erode the value of the funding. (D, 12/08)

According to the economist of the Zimbabwe Farmers' Union, these delays affected, not only the farming planning, but also the national statistics. A farmer could apply for support to work on 20 hectares but when the money came, it only sufficed for two hectares due to erosion by hyperinflation. The records of those running ASPEF would, for instance, show that a total of 2000 hectares were sponsored, while in reality, only a tenth of that figure was finally sponsored. In such a situation, farmers found it difficult to plan. In most cases, they scaled down their operations in order to match the reduced value of the loans (R, 03/06/09).

The Head of Planning and Business Department of ARDA bemoaned the slow manner in which Government funds were dispatched. He said that it was no secret that disbursement from Government took a long time to be effected. He narrated that in January 2008, Government allocated ZW$1.8 trillion to the ARDA farmer programme of dairy development. At the time of allocation, this amount was enough to cover for the whole year as planned. It was intended to complete the construction of three smallholder rural dairies, to purchase vehicles and support the year's operations, which included visiting and training of farmers. When the money was disbursed in March, ARDA could not even buy one vehicle using that money. Government was approached for supplementary budget but it had nothing to give. According to this respondent, this project collapsed because of hyperinflation but was made worse due to delay by Government (N, 08/06/09).

Farmer respondents complained about delays in payment, which made it impossible for them to purchase inputs for the seasons that followed (S, 10/03/09; T, 23/06/09). The GMB, as the monopoly buyer and exporter of grain, was very slow to pay the farmers. This negatively impacted on farmers given the high rate at which the local currency depreciated (R, 03/06/09). It also fuelled side-marketing as farmers avoided the official grain buyer and sold their produce to private buyers who never supplied them with inputs in the first place (T, 23/06/09). Due to its culture of delay, some banks hesitated giving loans that were meant to be recovered by the GMB by way of stop orders (G, 03/06/09). The operations manager of the GMB also confirmed that farmers were not happy with what they were paid by the GMB, alluding to the experience that by the time the money reached their hands, inflation would have eroded it (J, 08/06/09).

5.2.5 High rate of loan recovery

Regarding the level of loan repayment, most respondents pointed out that repayment was not a problem during the time of hyperinflation. When it came to repayment of loans, the hyperinflationary conditions favoured the farmer more than the credit supplier since the borrowed money rapidly lost value. Due to this, there was a high demand for lending (F, 02/06/09; G, 03/06/09).

Without much hesitance, informants from the two commercial banks estimated that there was about 100% loan recovery rate (F, 02/06/09); G, 03/06/09). Agribank, whose clients inherited from AFC were notorious for non-repayment of loans, estimated a 99.99% repayment rate on ASPEF loans. The economist at the Zimbabwe Farmers' Union, also a farmer, wondered whether banks were making any profit out of credit extension since repayment was too easy. For him, "you could easily payback using money from your back pocket and this was no miracle since the value of money changed by morning and evening" (R, 03/06/09).

However, exceptional cases of problematic repayments occurred when there were poor harvests due to droughts (J, 08/06/09). In the case of some of the diary projects for smallholder farmers facilitated by ARDA, the farmers failed to repay because they could not access their cash from the banks. In other words, they had money in their banks but they could not withdraw it due to the limited cash withdrawals imposed by the central bank. Although this crisis stemmed from the banks it could still be traced back to hyperinflation related problems (N, 08/06/09).

Fixed rates also helped farmers to effortlessly repay but did little to support the viability of credit institutions. Traditionally, bank loans are issued on compound rate. However, both ASPEF and the Public Sector Investment Programme had a fixed interest rate of 25% per annum, even when monthly inflation was above 300%. This interest rate was much lower than the Reserve Bank's overnight accommodation rate of 40 000%. Agribank, which managed the two facilities, could not grow much from such interest rates which were well below the hyperinflationary rate. The difference between 25% and 40 000% represented the bank's capital erosion. Put differently, Agribank was unable to grow by a factor of 39 975%. This made the bank unprofitable and unsustainable, hence dependent on either Government or the Reserve Bank for its funding activities. The bank failed to meet the 2008 capital requirements of USD12.5 million for commercial banks. It also failed to pay its foreign creditors for the banking system (D, 12/08), even though the loan repayment rate reached 99.99%.

A case of an A2 farmer that the researcher interviewed shows how easy it was for the borrower to repay. This farmer received tobacco inputs priced at ZW$60 600.00 in

October 2008. While hyperinflation in the country was, at that time, estimated to have reached the quintillion percent mark, the farmer still managed to get inputs pegged at a rate as low as 11.87%. In March 2009, when the researcher interviewed the farmer, the farmer owed his financier only ZW$67,795.48 (see Table 1**)**. By that time, a trip by a commuter taxi cost ZW$3 trillion, which was then equated to USD0.50 or R5.00. One could literally repay this loan at cost equivalent to that of commuter taxi fare and still remain with some change.

Table 1. An inputs credit account of a tobacco farmer

Name of Farmer	H				
Farm Number					
Financier	T.I.M.B				
Approved	500,000.00				
Balance	67,795.48				
Date	Document No.	Description	Debits	Credits	Balance
16/09/2008	IPO-016332	Bactac	54,000.00		54,000.00
16/09/2008	IPO-046128	Monocrotophos	4,000.00		58,000.00
01/10/2008	IPO-046174	Copper Oxychloride	2,600.00		60,600.00
09/03/2009	Interest		7,195.48		67,795.48
Grower owes financier - Balance					67,795.48

An inputs administration officer of TIMB indicated that while it was easy for the farmers to repay the loans, the eroded value of the repaid loans sent a bad signal for the season that followed:

> The one who borrows has no problem in repaying but the problem is passed on to us who extend the credit. We cannot restock in preparation for the next cycle of credit using the money that we get from the repayment. (H, 04/06/09)

This high rate of repayment was neither an indication of improvement in terms of loan repayment (especially in the case of Agribank clients) nor increase in productivity. It was only a sign of the hyperinflationary environment in the country. The farmers, most of whom were either civil servants or self-employed, could easily pay back the ASPEF loans from their salaries six or less months after borrowing. This means that with hyperinflation, farmers did not really need to produce in order to repay the loans. There was discordance between the funds ploughed into agriculture and productivity (D, 12/08). There were reports of farmers who diverted loans to lucrative activities such as parallel markets in order to source foreign currency. Such farmers could

manage to repay the loans barely two months after borrowing (10/03/09). As the informant from Agribank put it, “inflation, not productivity, took care of repayment of farm loans” (D, 12/08).

5.2.6 Shortage of inputs

One of the issues that stood out from the experience of the interviewees was the shortage of inputs. When farmers got money, prices went up. In response to that, Government tried to control prices. As a result, private inputs suppliers could manage to recover their costs. This forced them to scale down their production. Demand grew and some inputs ended up being sold at black market. Corruption loomed under these circumstances.

While banks could have managed to provide the loans, there was a time when the inputs could not be found in the market (F, 02/06/09; 03/06/09). According to the respondents from the seeds and fertiliser institutions, hyperinflation and price control of their products were some of the factors that made their business unviable (K, 10/06/09; L 15/06/09; M, 23/06/09).

In its operations, SeedCo contracted farmers to grow its products and for that, it supplied the contract farmers with all the necessary inputs. They would then deduct the input costs when the farmers delivered the produce for sale. Government put price control on agricultural products, including the seed maize. Due to hyperinflation, SeedCo could not manage to recover the input costs. In addition, Government did not frequently review the controlled price of maize seed so that it matched the rate at which inflation rose. According to the SeedCo sales manager, the cost recovery was almost zero. This made it difficult for the company to source new inputs for the seasons that followed. The money it got from the farmers’ repayments could not suffice to purchase foreign currency which it needed for importing some of the inputs (L 15/06/09).

The controlled and uncompetitive seed price fuelled breaching of contract between SeedCo and the seed growers as the latter diverted the produce to commodity suppliers of mealie-meal who offered competitive prices (L 15/06/09). The experience

by SeedCo is echoed by other private inputs suppliers. An agronomist at Pannar Seed Company believed that the biggest constrain in this sector was that Government controlled the price of the maize seed and yet other inputs such as fuel needed to produce the seed remained uncontrolled. In this way, seed production became an unprofitable enterprise because inputs costs could not be recovered and the seed company reduced its production. While Government put the national seed requirement at about 40 000 tonnes, only about 12 000 tonnes were produced by all seed houses in the country in 2008. The shortfall was augmented through imports. The agronomist acknowledged that other factors such as drought and the underutilization of farms acquired under FTLRP could also have contributed to the shortage of the seed product (K, 10/06/09). Before hyperinflation, Windmill used to push about 280 000 tonnes of fertiliser into the market. In the time of hyperinflation, this figure dropped down to an average of 35 000. Like SeedCo, due to lack of foreign currency Windmill could not afford importing some of the raw material and finished products it needed. According to the Windmill sales manager, while Government tried to supply inputs it also crowded out Windmill stockists (M, 23/06/09).

The Government-owned ARDA had to battle with shortages of fuel and spare parts for tractors it hired out to till for smallholder farmers. Affordable fuel was in short supply and unaffordable fuel could be sourced from the black market. The head of a department of ARDA said that in most cases, they "had to rely *nemakorokoza* [on black market] in order to make ends meet" (N, 08/06/09).

Since supply of inputs was low, demand became high and the few but available inputs were, in some occasions, sold at black market. Such an environment led to a lot of irregularities and corrupt practices. Smallholder farmers who participated in the research indicated that they endured a lot from this anomaly. Some were unfortunate to have spent fortunes on 'maize seed' from the black market, only to realise at the time of planting that it was fake (S, 10/03/09). According to the group of A1 farmers, political affiliation also mattered:

> The distribution of Government inputs in our resettlement area was very much politicised. *Kwedu mbeu yanga ichitori nyaya yezvenyika. Waitofanira kuratidza kuti uri wemusangano kuti uwane chisamba chembeu.* [You had to be

> a member of the ruling party for you to be able to get a pocket of maize seed]. (T, 23/06/09)
>
> Those who had money and good connections with big chefs [political leaders] swept away all the inputs in the market at cheap prices and then them sold to us on the black market at very high prices. (T, 23/06/09)
>
> At one time, I bought bags of fertiliser from the black market at triple the official price, only to lose them to the police when I failed to produce a purchase receipt.] (T, 23/06/09)

5.2.7 Coping strategies

According the fieldwork responses, institutions used various methods to militate against hyperinflation. In order to reduce loss of value of inputs, SeedCo introduced an inflation-fighting scheme which ensured that it got valuable repayment while farmers also got a form of capital for their operations. It did this by advancing inputs to the farmer but converted the value of the inputs into seed equivalent units. However, this strategy had legal complications since it naturally invited the use of foreign currency in determining the equivalent unit (L, 15/06/09). The Commercial Bank of Zimbabwe introduced a global facility whereby it allowed its farmer-clients to overdraw their accounts so that they could speedily secure farming inputs, reducing the delay by the RBZ (G, 03/06/09). Both commercial banks reduced the lending periods for the working capital so that they coincided with the production cycle, which would vary from one to four months, depending on the product in question. This helped them to recover the loans before they had lost much value (F, 02/06/09; G, 03/06/09). According to the informant from Zimbabwe Farmers Union, farmers could have opted for projects such as poultry, which offered quick returns (R, 03/06/09). For the administration officer at Tobacco Industry and Marketing Board, it was high time that black farmers learnt something from the practice of the white commercial farmers and bought their inputs well in advance (H, 04/06/09).

Even though Government only introduced the use of foreign currency towards the end of 2008, some respondents claimed that, despite the illegality, the use of foreign currency in local transactions started long before. By dollarization, Government was only legalizing what was already a common practice in the society, for “Government systems are always slower than the people on the ground” (N, 08/06/09).

5.2.8 Ineffectiveness of stakeholders

Most of the respondents held the view that their various institutions could not manage to fulfil their mandates during the time of hyperinflation. As a development bank, Agribank failed to fulfil its development mandate as Government continually failed to capitalise it. This implies that the majority of farmers remained without support (D, 08/12). Due to hyperinflation and inadequate capitalization from Government, ARDA failed to achieve its goal of ensuring adequate food security in the country. It failed to effectively engage in commercial agricultural production and supporting of rural development:

> We failed the nation. In a nutshell, we, as an arm of Government and Government itself included, failed the nation. Had we not, then we would not have been importing food from South Africa. (N, 08/06/09)

Besides hyperinflation, the operations manager of the GMB blamed it on climatic conditions: "We were not able to meet our targets as there was drought" (J, 08/06/09).

A close look at the findings also shows that the problem of agricultural credit in Zimbabwe has symptoms that go beyond hyperinflationary causes. The problem of delays by Government institutions, for instance, was there before hyperinflation. That financial institutions were reluctant to extend credit to new farmers was not necessarily due to hyperinflation. Instead, it had mainly to do with how the issue of land reform was handled. In other words, the problem regarding agricultural credit in Zimbabwe existed before hyperinflation and awaits Zimbabwe even after the stabilisation of the economy.

Chapter Five

6 Analysis - Future of agricultural credit in Zimbabwe

The discussion emerging out of this research can be likened to a football game which needs, not only a good turf on the playing field and good rules regulated by referees, but also well-trained players. While the playing field, the game rules and referees all represent the macroeconomic environment, the credit institutions and the farmers are the players of the game. A bad game can be due to a poor playing field, bad refereeing or incompetent players. In the case of Zimbabwe, both the macroeconomic environment (playing field) and the credit institutions (players) need improvement. This claim is made on the basis of insights from the literature reviewed and findings in this research.

Results from fieldwork indicated that operations of key stakeholders in the agricultural sector were ineffective under hyperinflationary conditions. This calls for political leaders to demonstrate commitment to improve the economic situation in the country. It entails elimination of hyperinflation and creation of conditions that encourage extension of financial services to the poor in rural areas. Since the history of agricultural credit shows that there was a culture of non-repayment and a general reluctance to extend credit to the poor, it is necessary to shift mentality on the part of both the borrower and the supplier in order to make credit accessible to the poor in a sustainable way. This, in turn, calls for the need for development of financial institutions.

6.1 Stable macroeconomic environment for better financial services

The findings showed that regardless of effort, the key stakeholders in agriculture approached during this study were not effective due to the harsh macroeconomic environment characterised by hyperinflation (see 5.2.8). Literature on the development of financial institutions (see 2.3) suggests that a stable macroeconomic and socio-political environment is important for the smooth operation of financial institutions. According to Yaron and Benjamin (2002), it is the duty of government to see that such an environment is created since the lack of it creates uncertainty and

reduces the expected returns to credit suppliers (see 2.3.3). In this regard, hyperinflation, the number one enemy of macroeconomic stability in Zimbabwe, needs to be eliminated first before one can talk of any other aspect that reinforces macroeconomic stability and the extension of agricultural credit.

6.1.1 Hyperinflation

For a country that is experiencing hyperinflation, the challenges encountered regarding the demand and supply of credit in Zimbabwe are not surprising since they mirror the main characteristics of hyperinflation discussed in Chapter Two (see 2.4.1). That the money printed by the central bank rapidly lost value and people ended up using foreign currency whenever possible even though it was considered illegal (see 5.2.7) was a clear sign of hyperinflation. While hyperinflation is also characterised by a decrease in physical production (Solimano 1990), Government's resort to control prices of agricultural products without constantly reviewing them according to the rising inflation also exacerbated the shortage of inputs and fuelled corruption as some suppliers avoided the formal market and sold their products on the black market (see 5.2.6). The high rate of repayment of the heavily subsidised loans was very misleading since it was not necessarily related to high productivity but to hyperinflation (see 5.2.5). That hyperinflation negatively affected national statistics because the loans issued could not meet the needs for which they were intended due to the fast erosion of their value is also valid because productivity never increased despite the subsidies. The coping strategies that stakeholders in this research adopted neither removed hyperinflation nor brought about overall success in the agricultural sector (see 5.2.7). As the adjective clearly portrays, these were only strategies for *coping with* and not *eliminating* the hyperinflation. The duty to cure the hyperinflationary environment, which economists say has to do with discipline in both fiscal and monetary policies (see 2.4.1), ultimately lies with government.

Findings in this research also establish some similarities with experiences regarding the political economy of agricultural credit discussed in the literature review. In some cases farmers had to demonstrate their party affiliation in order to access loans or input (see 5.2.6). This indicated a degree of politicization and patronage. Ladman and Tinnermeier (1981) referred to this when they argued that agricultural loans for

economic development can be used for political purposes and that these loans are increased when there is inflation (see 2.4.2). This also led to corruption as some Government officials (chefs) diverted the subsidies to themselves (see 5.2.6). In line with the theoretical framework of Ladman and Tinnermeier, this was inevitable because an environment of cheap loans is conducive for grooming corruption (see 2.4.2). Using subsidies for seeking patronage, a characteristic of a populist government, was not a new thing for the ZANU (PF) Government. As discussed earlier on, in the 1980s Government concentrated on running subsidised programmes (in sectors of education, health and agriculture) but sidelined the more challenging structural changes such as land reform. The subsidy programmes were economically unsustainable (see 4.1.2). According to Sachs (1989) (see 2.4.2), such programmes of populist governments are short-lived – they bloom for a while and then blow up because they are not sustainable. Referring to Zimbabwe, Jenkins (1997) argued that credit to the rural farmers in the 1980s was enough to win votes for the populist ZANU (PF) Government, without the need of changing the structures that determined rural poverty. That some farmers had to demonstrate loyalty to the ruling party in order to benefit under some of the Government input credit schemes says volumes about how loans and inputs might have been used for political patronage.

As discussed already, the hyperinflation has decreased since the Government of National Unity came to power (see 4.2.4). Stabilization measures in line with the traditional measures of curing hyperinflation (see 2.4.1 and 4.2.2), namely through commitment to fiscal and monetary discipline, are still being employed. By adopting the use of a multicurrency system it meant that the central bank stopped printing money to fund its Quasi-fiscal activities that fuelled hyperinflation. Though the respondents in this research tended to consider hyperinflation as a thing of the past, the definition of hyperinflation by Cagan (1956, cited in Siklos 2000) only considers hyperinflation to end when it is less than 50% in every month during at least one year (see 2.4.1). By this definition, Zimbabwe is still experiencing hyperinflation. Nonetheless, that people already speak of hyperinflation as a thing of the past indicates a thread of confidence in the economy.

6.1.2 Land tenure and credit rights protection

A recurrent issue raised by the respondents was that banks were hesitant to give loans to the farmers who acquired land through the recent land reform programmes because most of these farmers did not have any collateral security (see 5.2.2). Though this happened when Zimbabwe was already in the period of a deepening economic crisis, it had not yet experienced hyperinflation. According to Townsend (1979), it is only when there are appropriate mechanisms to enforce the repayment of loans by seizing collateral that banks can be confident to give loans (see 2.4.2). Given this position, the behaviour of the financial institutions in Zimbabwe after the land reform was, therefore, not unusual. In their study, Dehesa *et al.* (2007) showed that in the absence of clear credit rights protection and low inflation, banks are unwilling to give credit (see 2.4.2). Since Zimbabwe has so far managed to contain the hyperinflation, it continues to struggle to develop land tenure laws that encourage banks to go into credit business with farmers. It does not really matter whether they are land title deeds or leases but that the type of tenure adopted is respected and enforced. The incident of the governor of the central bank stealing money from accounts of individuals and private organizations (see 4.2.1) and is not even questioned by police speaks volumes about how unsuitable the environment has become for the proper functioning of financial institutions. The elements of a conducive macroeconomic environment for the financial institutions discussed in Chapter Two (see 2.3.3) also apply to Zimbabwe: deregulated interest rates; exchange rates and agricultural policies; legal system that protects property rights and land-use rights; autonomy of financial institutions and regulatory authorities and due legal process.

6.1.3 Improving rural infrastructure

While findings from this research show that both smallholder and large farmers should be given appropriate opportunities to increase agricultural productivity (5.2.1), the infrastructure in the communal and resettlement areas where smallholder farmers live is very poor. The history of the agricultural sector of Zimbabwe is characterised by dualism whereby formerly white-owned large commercial farm areas were more developed than communal areas. The large commercial farmers had access to the rail, roads and irrigation facilities (4.1.1). These facilities made it easier for the white

farmers to go into commercial agriculture. The communal areas continue to establish a great contrast. They basically have no infrastructure and this makes it difficult for them to access normal services. They are poorly communicated since most areas do not have proper roads. Some of the areas receive poor rainfall and yet there are neither irrigation facilities nor dams. The lack of infrastructure discourages financial institutions from investing in such areas. This dualism was not by accident but design and has generally remained like that to date. Elimination of dualistic structures in the agricultural sector does not only mean land redistribution, but also developing communal lands by building roads, bridges, dams, irrigation facilities etc. As one of the informants in this research put it, if Government invested in infrastructure by improving irrigation facilities and dams, this would automatically change the mindset of smallholder farmers. With irrigation facilities available, smallholder farmers will produce for both consumption and commercial purposes (see 5.2.1). When the smallholder farmers turn commercial, there may be no need to convince private commercial banks that there is business in the communal areas since most of the risks regarding agriculture (e.g. lack of roads and poor rainfall) would have been reduced. Hence: the best way for Government to convince banks to extend financial services to the smallholder farmers in the rural areas is by improving the rural infrastructure.

It is only when rural infrastructure is developed and banks made available that one can speak of the 'economic opportunity for the poor' referred to by Semboja (2004) (see 2.3.2). In his findings in Kenya and Tanzania, Semboja (2004) showed that it was the infusion of credit into an atmosphere of economic opportunity that creates income, potential and prosperity otherwise no amount of credit can help the poor to find their way out of poverty. The implication is that given the poor infrastructure under which the smallholder farmers operate, instead of prioritizing private credit, which may not reach all the intended smallholder farmers, Government should invest in building rural infrastructure if it wants to promote agricultural development on long-term basis. After carrying out an econometric evaluation of maize smallholder farmers in Zimbabwe, Musuna and Muchapondwa (2008) recommended construction of dams in the rural areas since their findings showed that availing subsidised credit did not increase productivity and that it was rainfall that mattered (see 4.2.3). International evidence indicates that returns to private inputs subsidies are usually

lower than returns to investments in public goods. With this in mind Haggblade (2007) argued that investment in public goods such as agricultural research and extension, rural roads and irrigation is better than in input subsidies, which tend to encourage rent-seeking behaviour. The desire by respondents that all smallholder farmers should be supported may never be realised until the structures in which these farmers operate are not improved. It falls under the mandate of Government to see to the improvement of the macroeconomic environment in order to encourage extension of financial services to the rural areas.

6.2 Need for development of institutions

Just as a good turf on a football field and professional refereeing does not produce good football without good players, and so it is in the credit business - a stable macroeconomic environment, with low inflation, good and well-respected market rules and improved rural infrastructure does not do the trick without competent players. The players in this case, are the credit institutions and the farmers. Some of the problems experienced in the extension of loans that surfaced during the peak of hyperinflation were indications of an already faulty system that needed restructuring. In this way, hyperinflation only made these problems more evident than they were before. However, a crisis (see 1.3) can serve as an opportunity to provide permanent remedy to the identified problems in the institutions. Some of the challenges discussed in the previous chapter go beyond problems related to hyperinflation. It then becomes relevant to consider the development of (both public and private) financial institutions, a concept discussed at length in Chapter Two (see 2.3).

6.2.1 Building institutional capacity

Institutional capacity is one of the aspects that need to be looked into, especially regarding public financial institutions and other public agencies that provide credit facilities to farmers. Negative effects caused by the delays in the dispatching of concessionary loans from the RBZ might not have been felt much before hyperinflation. However, these negative effects were magnified during hyperinflation. Farmers failed to meet their budgets due to fast erosion of the money. That, for instance, a sum of money that could have purchased at least 1000 herd of cattle in

2007 ended up failing to buy 10 herd of cattle by the time it reached Agribank (5.2.4) was unfortunate. Nonetheless, it demonstrated how high the cost of these delays was under hyperinflation. In cases such as that of delays in payment by GMB, farmers ended up receiving money that could hardly help them to buy anything for the seasons that followed. The elimination of hyperinflation does not automatically solve the problem of credit extension since the problem of delays would still remain. This is because it is some internal factor which incapacitates the concerned Government institutions. The delays are only a tip of the iceberg. The lack of competent staff, shortage of staff, poor technology and lack of motivation due to poor incentives are some of the factors that negatively affect the performance of public institutions. The problem of lack of institutional capacity of Government agencies was also highlighted by Mukwereza and Manzungu (2003). These authors pointed out that because they did not have any operational framework, some Government agencies they studied found it difficult to facilitate the distribution of Government subsidies to farmers (see 4.2.3). Agribank also lacked the skills to compete with established commercial banks in winning farmer-clients even though it had improved the technology of its broad network of branches it inherited from AFC. Developing the institutional capacity of the concerned public institutions is critical if these institutions have to be effective players in ensuring efficient financial services to the farmers.

6.2.2 Building a culture of loan repayment

While hyperinflation highlighted the problem of delays in public institutions, it concealed the old problem of non-repayment, due to the deceiving record of 100% rate of loan repayment. As revealed in the findings, the loans had fixed and low interest rates which were not revised according to the rise of hyperinflation and they were to be paid at the end of the season. A rapid loss of value of the loans due to hyperinflation made it easy for the borrower to repay. However, that repayment only represented monetary figures but not productivity. History shows that smallholder farmers had a poor record of loan repayment with AFC and Agribank. It could be argued that the culture of non-repayment would still exist regardless of hyperinflation. It, therefore, needs attention. The misconception that loan subsidies are like social transfers that do not need to be repaid needs to be corrected. The tendency to consider

Government subsidies as nobody's money (*imari ye hurumende, haina munhu* [S, 10/03/09]) encourages neither the borrower to repay nor the public lending institution to follow-up in the event of default. Suggesting innovation through group approaches may be like trying to reinvent the wheel. Research shows that these types of approaches generally do not work since farmers lack necessary homogeneity characteristics (see 2.3.2) and they never really worked for Zimbabwe (Bond 1998). However, the success story of Cottco, which was giving credit facilities to smallholder cotton growers and had a record of 98% rate of repayment in 1999 needs to be closely examined for best practice purposes.

6.2.3 Partnership with private sector

Another problem related to public institutions, notably Agribank, was the lack of capitalization. Government had no money to fund Agribank and the latter could not manage to mobilise enough deposits to sustain its operations. It was due to the need to supply credit that AFC was created but it was due to the lack of capitalization that it was privatised and became Agribank. The vicious circle continued because the Agribank, as private bank, could not supply credit to the poor and the Government repossessed it in order to ensure credit supply. History repeated itself as Government lacked capital. Entering partnership with organizations that prioritise development goals is one way that Agribank can solve its problem of lack of capital. Malaba (2008), the Bank's executive manager argues for such Public-Private-Partnership. In addition, this can also reduce the problem of political interference, which is typically experienced by many parastatals (see 2.2.2). Literature shows that there are cases such as that of the Banrural Bank of Guatemala whereby Public-Private-Partnerships have worked well in extending credit to the poor (see 2.3.4). The agricultural policies of both Kenya and Senegal referred to by Anseeuw (2010, cited in Padayachee 2010 [forthcoming]) also consider it important for state institutions to make partnership with the private sector (see 2.1.4).

The concept of institutional innovation of financial institutions with the aim of improving their efficiency regarding sustainability, outreach and quality of their services to the rural poor discussed in the literature review (see 2.3) is also important in Zimbabwe. Respondents from all the stakeholders approached in this study

indicated that it was critical to extent credit facilities to smallholder farmers since they possess the potential to ensure food security and provide other cash crops such as cotton. As pointed out by one informant, banks should try to find ways of accommodating and supporting smallholder farmers instead of leaving them to struggle on their own (5.2.1). Under favourable macroeconomic conditions achieved through the measures discussed above (see 6.1) and given that they have also invested in rural areas, both private and public banks are challenged to find ways of penetrating their rural clients. This may involve identifying hidden opportunities (e.g. use of cattle as collateral) and eliminating barriers (e.g. language or gender related) of accessing financial services by rural people and yet they may have great potential of being bankable (see 2.3.2).

6.3 Political will

The future of agricultural credit in Zimbabwe also lies in the political will of its leaders. The profiles of various stakeholders that participated in this research show that the country has potential in stimulating agricultural activities but their efforts could not be effective under harsh macroeconomic conditions (see 5.2.8). The determination of the political leaders and the kind of policies that they put in place do matter. Could the Government of National Unity be the beginning of a new era that can revitalise the agricultural sector? This will depend on the kind of policies that it adopts and on how seriously it implements them. A populist approach has not been sustainable in the past (4.1.2) and neoliberal policies of the 1990s have not lifted the smallholder farmer out of the poverty trap either (4.1.3). The Short Term Economic Recovery Programme (STERP) of the new Government of National Unity is already being criticised for failing to prioritise the finalizing of land tenure security (4.2.4). Patrick Bond (The *Mercury, [South Africa]*, 29 September 2008) fears that political leaders in the new establishment may forget the concerns of the *povo* (the masses). According to him, the *povo* may remain trapped in between the interests of the two rival political parties (with ZANU [PF] fighting to remain in power and the Movement of Democratic Change [MDC] inclining itself to neoliberal policies). The views of stakeholders in this study demonstrated that they know what it is necessary for them to develop the agricultural sector. However, as Adesina (2007) suggested for

farmer organizations in Africa, Zimbabwe farmers' organisations need to increase the political cost for politicians who fail to live up to their promises (see 2.1.4) and force the politician's rhetoric to translate into action. Unfortunately, Zimbabwe may not be an exception to John Sender and Sheila Smith's observation: the working class, which carries the potential to turn the political landscape around, is often muffled by post-Independence regimes under the guise of national unity (see 2.1.4).

Since the problem of agricultural credit in Zimbabwe has symptoms that go beyond hyperinflationary causes, it needs a solution that also goes beyond hyperinflation. While Government has to restore stability in the national economy and improve the regulatory framework and rural infrastructure, much still needs to be done in order to develop financial institutions and systems. This will enable these institutions to increase their outreach to the poor and in a sustainable way. However, without enough political will to formulate and implement most of the policies, agricultural development through credit may never come to fruition.

Chapter Seven

7 Conclusion and Recommendations

This research has been built on the assumption that agriculture is important for development and poverty reduction and that the finance sector can contribute to agricultural development through extension of credit to farmers. The deepening economic crisis in Zimbabwe, which started in 1997, reached its peak by registering a world-record hyperinflation between 2007 and 2008, signalling a collapsed economy. Insight from literature showed that agricultural credit does help farmers to increase productivity but the supplying institutions also need to be sustainable so that they can continue extending credit to the farmers. However, experience from countries that experienced hyperinflation indicate that under such circumstances, emphasis shifts from lending in general to finding ways of bringing down hyperinflation and establishing stabilization, usually through discipline in fiscal and monetary policies.

The research took a qualitative approach and used a case study methodology to collect and analyse views of key informants from stakeholder institutions in agricultural sector. The historical features of the country's agricultural sector was characterised by dualism that had a bias for white farm lands and this feature did not disappear after independence. The context of Zimbabwe was that of a declining economy in the aftermath of a series of factors, some of which included a highly controversial and politicised fast-tracked land reform programme.

Findings from the field brought forth several issues. They showed that both smallholder and large farmers were considered important for increasing agricultural productivity in the country and should all have access to credit. Private banks reduced their lending to new farmers, mainly due to lack of collateral security. The Government remained as the main funder of agricultural activities through concessionary loans provided by the RBZ. These loans were part of what fuelled hyperinflation and the central bank printed more and more money to cope with the hyperinflation. The slow speed at which the loans were released could not catch up with the rise of hyperinflation. Government tried to control prices but this only led to shortage of inputs. It tried to provide inputs, but again, they usually came late.

Corruption and politicization of these inputs interfered in the distribution process. The various copying strategies that the stakeholders approached in this research were ineffective to produce positive results.

An analysis of these findings indicated that in a hyperinflationary environment such as that in Zimbabwe, agricultural credit does not benefit the nation in the long run as high prices trigger the printing of more money to fund the sector. Instead, credit only leads to development if it is administered in a stable macroeconomic environment. In the case of Zimbabwe, a stable macroeconomic environment means eliminating hyperinflation and establishing proper rules that favour extending of credit by banks and the building of rural infrastructure. The development of financial institutions and systems in order to encourage both innovation leading to more outreach to the poor by financial institutions and financial sustainability is another challenge that Zimbabwe has to face in order to uplift the agricultural sector. These challenges existed before hyperinflation. The latter merely brought them into the limelight. This crisis presents an opportunity for Zimbabwe to set the record straight once and for all and reclaim its position as the bread basket of Southern Africa. Nevertheless, nothing will change unless Government, not only formulates proper policies, but also implements them. It is at the level of implementation that many governments in Sub-Saharan Africa usually fail (see 2.1.4). The Government of National Unity, which the civil society should, nonetheless, make sure it keeps its promises, is still to pass the test of stabilizing the economy.

This paper offers a few policy and further research recommendations. In order to promote access to rural finance Government needs to put priority in establishing communal or rural infrastructure. This entails building of roads, dams and provision of irrigation facilities. The fundraising, planning and implementing of this programme may need creating synergies with various ministries and the private sector involved in development and service delivery systems in rural areas. Since the economy of Zimbabwe is agro-based, it is necessary for Government to speedily establish with finality, the land tenure provisions so that private commercial banks can be assured of security when they issue loans to new farmers. Since Government cannot capitalise

Agribank, we recommend it to allow this bank to forge partnership with private organizations that value development goals.

In terms of further research, there is still need to find out how financial institutions can optimally increase both their sustainability and outreach to smallholder farmers. A repayment rate of 98% to Cottco by smallholder farmers is remarkable. Future research can be made in order to closely establish the story behind the achievement by Cottco and verify if all parties are winners in the process. This case study can serve as best practice for other institutions. Another area of research concerns the access to foreign currency by smallholder farmers. Given the history of poor financial services in the rural areas, future research may also explore the mode and extent to which foreign currency has been circulating in the rural areas since the introduction of the multicurrency system.

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Appendix 1: List of Respondents

Interview code	Date	Position	Gender	Institution	Location
D	12/08	Key Informant	M	Agribank	Harare
F	02/06/09	Relationship Manager	M	ZB Bank	Rotten Row - Harare
G	03/06/09	Senior Manager	M	Commercial Bank of Zimbabwe	Westgate, Harare
H	04/06/09	Inputs Administration Officer	M	Tobacco Industry and Marketing Board (TIMB)	Harare
J	08/06/09	Operations Manager	M	Grain Marketing Board	Harare
K	10/06/09	Agronomist	M	Pannar Seed	Ruwa
L	15/06/09	Sales Manager	M	SeedCo	Stapleford, Harare
M	23/06/09	Marketing Manager	M	Windmill	Westgate, Harare
N	08/06/09	Head of Planning and Business Department	M	Agricultural and Rural Development Authority (ARDA)	Harare
Q	09/06/09	Officer	M	Agricultural Rural & Extension Services (AGRITEX)	Head Office, Harare
R	03/06/09	Economist	M	Zimbabwe Farmers' Union	Harare
S	10/03/09	Key Informant	M	A2 Farmer	Harare
T	23/06/09	Focus Group	M & F	A1 Farmers	Macheke

Appendix 2: Interview guide

Questions directed to institutions that supply credit

How can your operations be described with regard to agricultural credit under current conditions?

What do you supply credit facilities for? Where do you get your money from? Is it easy to get? Which group of farmers do your finance? How do you select them? What do you consider most in selecting them? Is it helpful to extend credit to poor farmers given that they may fail to repay you? Why? How do you get repayment? What has been your experience with regard to credit recovery? Do you make any follow-up on defaulters and what has been your experience in doing so? What credit constraints are linked to hyperinflation and what constraints are general? What measures have you been taking to overcome the challenges associated with hyperinflation? What do you think should be done? What do you think you could have done better as a credit supplier? What can farmers do better?

Which group of farmers (smallholder or large farmers) do you think should be targeted in terms of extending credit? Why this particular group and not the other one?

Is what you are doing effective, given the current economic conditions? If yes, why? If not, why?

Questions directed to farmers or organizations that represent them

How can your activities as farmers in relation to credit acquisition and use be described?

Where do you credit from? Why do you choose that particular credit supplier and not the others? What do you need to get the credit? Is access to credit easy? What do you use the credit for? Is it enough for your purposes? How do you repay? How has been your repayment practice? What happens if you fail to repay? Does the supplier make any follow-up if you fail to repay? What credit constraints are linked to hyperinflation and what constraints are general? What measures are you taking to overcome these constraints? What do you think that you should have done better as farmers during hyperinflation? What should the supplier have done better?

Which group of farmers (smallholder or large farmers) do you think should be targeted in terms of extending credit? Why this particular group and not the other one?

Is what you are doing effective, given the current economic conditions? If yes, why? If not, why?

Appendix 3: Key periods in Zimbabwean history

Sources: Ndlela (1980), Palmer (1977), Nziramasanga (1980), Riddell (1978) (cited in Ndlela and Robinson 2007)

Dates	Political & Economic Framework	Land Policy	Agricultural & Food Policy
13th-15th Century	Mhunumutapa Great Zimbabwe		Food production to sustain the Mhunumutapa empire. Cotton cloth also produced. Trading.
1890-1923	British South Africa Company ruling under a Charter from Britain	Reserves set aside for Africans, white settlers occupying the best agricultural land	Policy intended to promote European agriculture, provide cheap wage goods & limit reserves to reproduction of labour
1923-1953	Southern Rhodesia self-government under white minority	Land Apportionment Act 1930 entrenched highly inequitable land distribution	Dualism of agriculture entrenched through distortions in factor & produce markets & operation of marketing boards.
1953-1963	Federation of N&S Rhodesia and Nyasaland		Growing maize and tobacco exports
1965-1979	Unilateral Declaration of Independence Rhodesian regime under int'l sanctions	Liberation war focus was on the alienation of land from the indigenous peoples	Strong government support to white large-scale commercial farmer.
1980-1989	Independent Zimbabwe Controlled economy	Piloting of land reform models. Planned reforms ran out of steam in 1985	Spread of marketing facilities and extension services into remote areas. Prices based on cost of production
1990-1999	Structural adjustment Liberalisation of the economy	Growing concern over neglect of land reform. Int conference plan (1998) rejected by President	Commercialisation and some privatisation of agricultural parastatals. Prod prices more closely linked to world prices.
2000-2004	Precipitous structural change Pro-inflation macro-economic policies	Fast-track land reform associated with collapse of agricultural production	Land reform beneficiaries not necessarily farmers. Collapse of input supply. Massive subsidies