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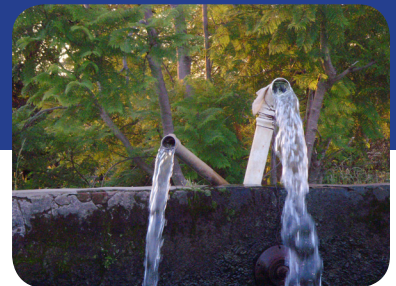
SUSTAINABLE FINANCING OPTIONS FOR AGRICULTURE IN ZIMBABWE

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LIST OF ABBREVIATIONS

AFC	Agriculture Finance Corporation
ASPEF	Agriculture Sector Productivity Enhancement Facility
FAO	Food and Agriculture Organisation
RBZ	Reserve bank of Zimbabwe
FTLRP	Fast Track Land Reform Programme
GMB	Grain Marketing Board

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ABSTRACT

This paper seeks to investigate the extent to which Zimbabwe's agriculture sector has a financing gap and to find ways and strategies that can be adopted by Government, banks and the donor community to close the gap. The paper notes that there indeed exists a financing gap in the country's agriculture sector, especially after the Fast Track Land Reform Programme due to land ownership challenges that emerged in the country's land market. Notwithstanding this challenge, basing on experience elsewhere, the paper argues that the country's agriculture sector is bankable and creditworthy. The paper emphasizes the importance of information, social cohesion and peer loan guaranteeing in successful lending to agriculture. It is, therefore, recommended that institutions such as the Grain Marketing Board, with assistance from Government need to invest in establishing farmer data bases on past farmer loan performance, production performance and indebtedness that banks need in appraising farmers' loan applications. Banks on the other hand need to adopt collateral substitution lending approaches that have been used by successful agriculture finance institutions in other countries to lend to the sector without collateral security.

1.0 INTRODUCTION

Agriculture is a major driver of economic growth in the greater part of the world. The sector is critical for food security, poverty reduction and industry linkage perspectives. The 2008 World Development Report asserts that in the 21st century, agriculture continues to be a fundamental instrument for sustainable development and poverty reduction. The World Bank estimates that agricultural growth is at least twice as effective at eliminating poverty as growth from any other sector. The positive impact of agriculture on standards of living in poor countries is even bigger. The sector has well established potential to boost rural livelihoods, reduce poverty and underpin other sectors of the economy. In Africa alone, for example, agriculture is one of the most important sources of livelihood, accounting for more than 70% of total employment (FANRPAN, 2010). In addition, 70% of Africa population live on rural agriculture.

The importance of agriculture with regard to its linkages with the mainstream industry in the economy cannot be underestimated. Nurkse (1953) posits that “the spectacular industrial revolution would not have been possible without the agricultural revolution that preceded it”. Rostow (1960) concurred with this view in his assertion that revolutionary changes in agricultural productivity are an essential condition for successful growth take-off. If these facts are true, then estimates that agricultural production could potentially grow more than three-fold over the next 20 years to 2030 (World Bank, 2008) imply that the sector will have immense positive downstream impact on industrialization and world growth. It is also worth noting that, Africa used to be an exporter of food and is now a net importer of food despite the best of climates. Currently Africa imports one-third of its grain and a third of African population suffer from hunger. This, therefore, calls for governments, the donor community, development institutions and providers of credit to make concerted efforts to support the sector.

1.1 What Prompted this Study

Notwithstanding the importance of agriculture in poverty reduction, enhancement of standards of living of the poor, food security and nutritional and industrial linkages the sector has not, of late, been receiving commensurate attention and support by providers of finance, including the donor community in many countries. Three factors could be accounting for the decline in agriculture support. Firstly, the interventionist doctrine in the agriculture sector contradicts the prevailing and popular neo-liberal attitudes that are currently popular among economists in many countries. Secondly, there has been growing dissatisfaction among providers of financial support with the performance of many of the agricultural projects and programs. Lastly, the low prices of agricultural produce could be taken as signaling success in the sector, henceforth reduced support efforts.

The situation is more critical in developing countries where even private financiers have also not been able to provide adequate funding to farmers. Reasons for the limited support of the agricultural sector by private financial institutions include high transaction costs, high risk levels, long turnover periods, low return on investment and in some instances the absence of market for land due to unclear land tenure systems. It is out of this that

Mosher (1996), suggested that economics of agricultural development calls for a major role of government in providing essential incentives and accelerators needed to getting agriculture moving.

Zimbabwe is not spared by the above facts. While agriculture has been acknowledged to be critical for the economy, it is doubtful whether adequate resources have been provisioned to support the sector. The paramount question to guide policy is whether credit matter for the sector. Allegations of inelastic agricultural production with regard to credit availability have at times been leveled against farmers due to misuse or diversion of loans and other support for agriculture to non-farming activities. This paper seeks to answer the following questions:

- i. Is there any financing gap in Zimbabwe's agriculture sector?
- ii. Is Zimbabwe's agriculture sector bankable or not?
- iii. Is there any link between agriculture finance and agriculture output in Zimbabwe?

The study, therefore, seeks to investigate the impact of agriculture finance on agriculture production and growth; to assess the magnitude of any existing financing gaps in Zimbabwe's agriculture sector; and to explore ways and financing models through which credit to farmers can be improved. It is hoped that findings and recommendations from this paper will provide valuable input in policies and strategies that are designed to empower farmers to improve productivity on their farms through the provision of alternative financing options and products.

2.0 ZIMBABWE'S AGRICULTURE SECTOR BACKGROUND

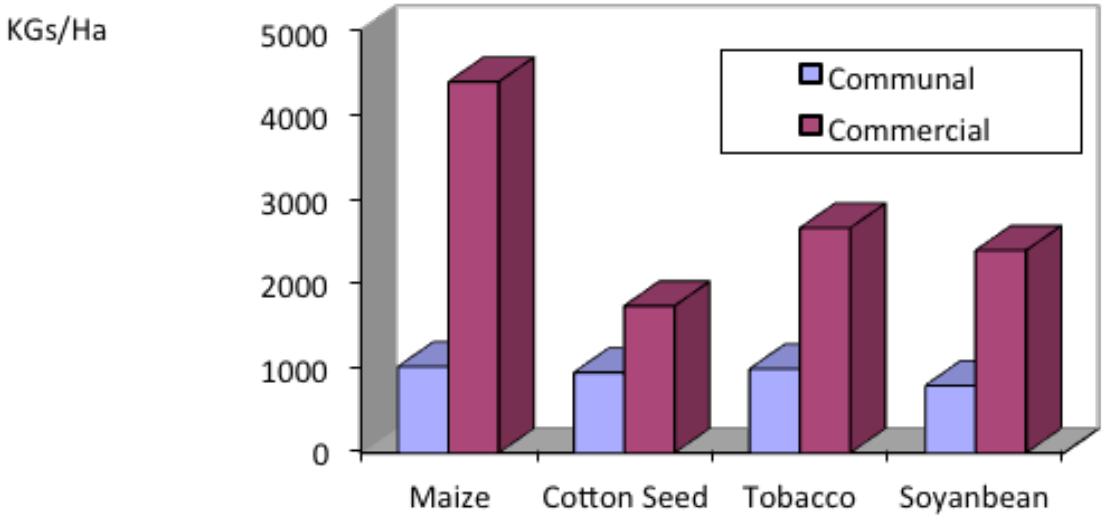
Agriculture is the backbone of Zimbabwe's economy. On average, the sector contributes about 15% of Zimbabwe's GDP, 22.8% of export earnings and about 23% of total formal employment. The country has a total land area of 39.6 million hectares with 33.3 million hectares of the land being reserved for agriculture (Utete Presidential Commission, 2003). Major crops produced in Zimbabwe include maize, tobacco, cotton, soyabean, sorghum, and wheat.

In 2000, the Zimbabwean government embarked on a major Fast Track Land Reform Program (FTLRP) that sought to address the land ownership imbalances and inequalities that existed then. Several other programmes meant to distribute land more equitably amongst the people of Zimbabwe were undertaken since independence in 1980. Between 1980-1990 land was re-distributed on the basis of willing buyer willing seller, between 1990- 1997 through the Land Acquisition Act and the FTRLR in 2000. Prior to the fast track land re-distribution, ownership of land was skewed in favour of white large scale commercial farmers. Large scale commercial white farmers, constituting 1% of the total population, owned 49% of the total agricultural land, while 51% was owned by African indigenous farmers, who constituted 99% of the population in the country.

Before 2000, access to credit was relatively easy for the commercial farmers whose land ownership rights were clearly defined in the Land Apportionment Act of 1930 compared to the small scale communal agricultural sector with communal land ownership vested in the state. Land productivity was, therefore, generally higher in the large scale commercial farms compared to the small scale, resettlement and rural sectors. The large scale commercial farmers, for example, produced about 85% of the total agriculture output in value terms, while the communal small scale, rural and resettled farmers produced 15%.

Figure 1 below clearly shows that crop yields were higher in the large scale commercial farming sector for all crops. Of course, other factors such as high level farming expertise, higher levels of technology adoption and use of high yield crop varieties contributed to the higher yield. Logically, it can still be argued that the adoption and deployment of these factors in farming is positively correlated with financial and credit availability to the farmer.

Figure 1: Crop Yield: Commercial Farms and Communal Farms (1990-2000 Averages)



Source: Ministry of Lands, Agriculture and Rural Resettlement

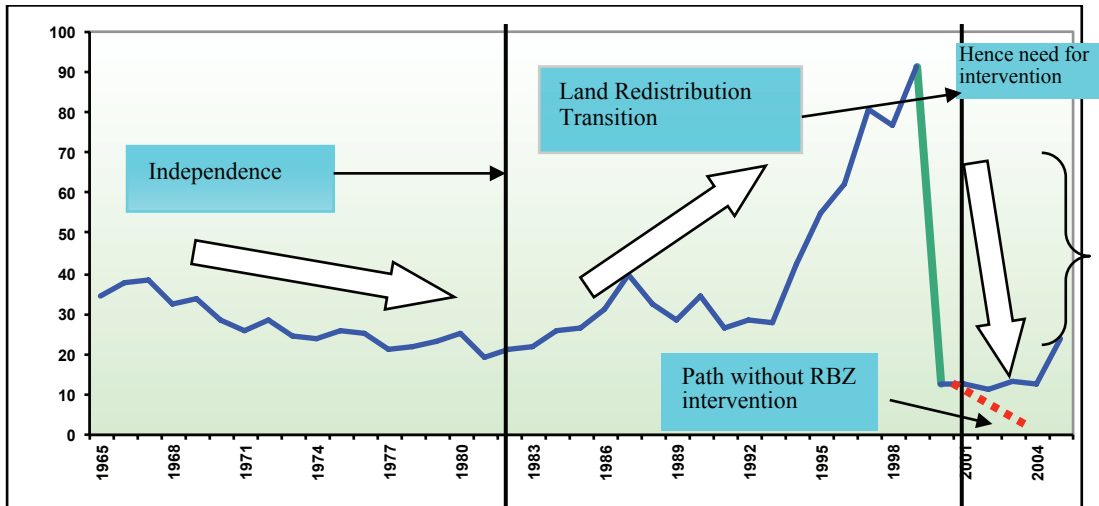
Before the FTLRP, the institutions that provided credit to farmers included government through annual budgetary allocations, agriculture procurement bodies such as the Grain Marketing Board and the Cotton Company of Zimbabwe through input schemes, commercial banks, the Agriculture Finance Corporation (AFC) and agricultural co-operatives. Private sector companies such as Seed Producing Companies and tobacco merchants also provided credit to farmers through contract farming arrangements.

During the same period, dating back to pre independence, agriculture funding was structured such that there was short term funding (0-2yrs) was offered by banks meant for seasonal crop production requirements; medium loans (2-6yrs) meant for irrigation development, and long term loans (6-30yrs) offered through AFC, meant for dam construction, purchase of land. AFC used to get funding from EU and World Bank.

The beginning of the 2000 FTLRP saw a drastic policy shift in the agriculture sector credit market as issues of land tenure, precisely land ownership, transferability and marketability became unclear. In the early stages of the 2000 FTLRP, land acquisitions were done without proper government administration until the issuance of the 99-year leases to land holders in the last years of the programme.

There was an acute deep in agriculture credit in the early years of the 2000 to 2008 period, a development, which, prompted government through the Reserve Bank of Zimbabwe's Agriculture Sector Productive Enhancement Facility (ASPEF) Programme to provide much of the sector's financing requirements. Under the ASPEF, government provided loans to farmers through commercial banks. ASPEF was instituted as a second-best interventionist measure that sought to rescue the country's agricultural sector from market failures that arose due to challenges in the country's land market.

Figure 2; Agriculture Sector Borrowing from Commercial Banks as % of Total Borrowing (%)



Source: Adopted from RBZ Monetary Policy Statement (2008)

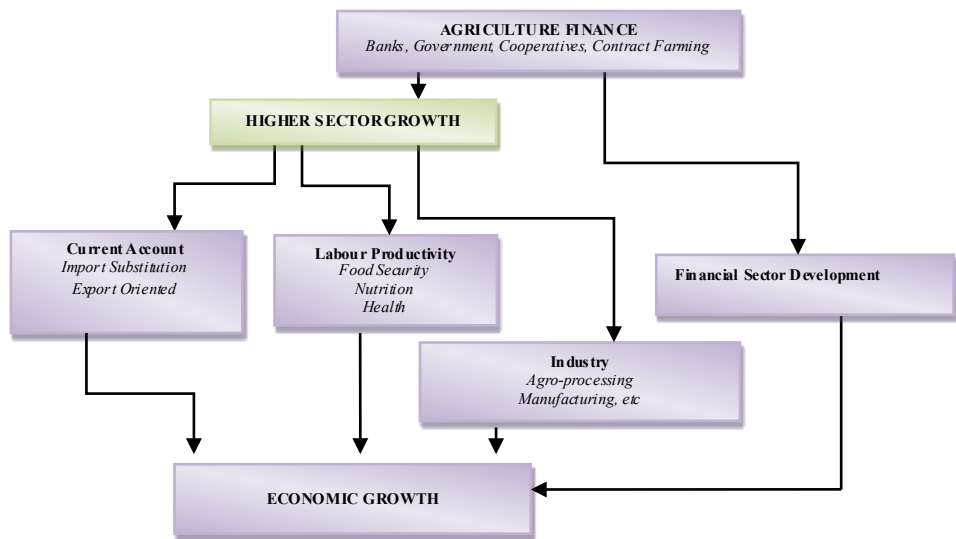
Between 2000 and 2009, more than 90% of farmer credit was extended through the Reserve Bank of Zimbabwe's ASPEF. Procurement companies tobacco merchants and donors provided the remaining 10% through contract farming arrangements. Figure 2 suggests that the Reserve Bank of Zimbabwe's ASPEF rescued a possible slump in agriculture finance which could have occurred after the land redistribution period.

3.0 THE ROLE OF AGRICULTURE IN ECONOMIC GROWTH

Agriculture has been acknowledged to be the cornerstone of economic development since time immemorial (Nurske, 1953; Rostow, 1960). Proponents of this view suggest that industrialization and economic growth are dependent on good performance of the agriculture sector. Views on the role of agriculture on economic growth and development revolve around two thoughts. The first view stresses the passive role of agriculture as a supplier of resources to the economy and in the process propelling the economy forward. Secondly, agriculture is seen as a sector that is able to proactively promote economic growth through specific pro-growth actions and behavior in the sector (FAO, 2000). The Food and Agriculture Organization stresses two major categories of the roles of agriculture in economic development, namely the economic roles and the non-economic roles. In both cases, the FAO notes that these roles are either underestimated or neglected by the market. The economic roles include; income generation, poverty reduction and food security; while the non-economic roles include; management and conservation of natural resources, social cohesion and stability and preservation of culture. Through various channels and chain effects, this will enhance growth, increase incomes of farmers, enhance employment creation and reduce poverty across the economy.

Most developing countries, including Zimbabwe are anchored on agriculture, with the sector contributing more than 10% towards GDP. The direct effect of agriculture on the economy comes through the impact of higher sector output on GDP. The indirect effect is felt through backward and forward linkages between agriculture and the rest of the economy. Agriculture draws inputs such as seed, pesticides, herbicides and equipment from industry. At the same time, the sector supplies the necessary inputs into the agro-processing industries. Figure 3 below summarises the various links between agriculture production and growth of the economy.

Figure 3: The Agriculture Output/GDP growth Linkage



4.0 ARGUMENTS FOR AGRICULTURE FINANCE

The campaign in most countries to establish agriculture finance institutions as well as the drive to institute policies that promote lending to farmers emanates from the observation that there is widespread shortage of finance, both long-term and short term, in the sector compared to other sectors. This is perceived to be the cause of underdevelopment among the farming communities and low incomes for the farmers. Shortage of finance is also blamed for low technological advancement on farms, low mechanization, low fertilizer usage and the use of low yielding seed varieties, which all result in retarded growth and development of the sector.

Direct or indirect intervention by governments and donors to finance or build institutions that finance rural development, therefore, follows the argument for the need to compensate the agricultural sector for the distorted and urban biased policies and market forces that tend to disfavour the agricultural sector. The perceived imperfections in agriculture credit markets stem from adverse characteristics of farming that make it costly and risky to provide smooth banking services in the sector, such as the sector's systematic

dependence and vulnerability on the vagaries of the weather, output price volatility, small loan sizes, geographical dispersion of farmers, absence of collateral, political pressures and in many countries, weak legal systems that make it difficult to enforce borrowing contracts between financial institutions and farmers.

Consequently, therefore, where agriculture credit has been made available, it tends to favour large scale commercial farmers with very little going towards the small scale farmers. This has left the majority of the small-scale farmers (communal, resettlement and A1) farmers in prolonged periods of underdevelopment and poverty. Credit intervention in the sector is, therefore, justified on equity and developmental grounds due to perceptions that the private benefits that emanate from financing small scale farmers are below the social benefits of the interventions.

Binswanger, et al, (1989) observed that the effects of agriculture finance is a substitution of purchased inputs and machinery for labour due to the fungibility of money, with minimum effect on the sector's technological development and output. Following similar argument, Jacob (1992), noted that the premise that credit shortages inhibit adoption of new technology by farmers is questionable on the basis that many inputs and technologies in the sector are divisible in such a way that they can be adopted gradually with little capital.

Jacob, further marginal returns on investment argues that the performance of many agriculture finance institutions has been poor and unsustainable, with most state- and donor- support for agriculture benefiting a minority of the farming population, especially wealthier and socially outstanding farmers. Failure of the institutions has also been blamed on persistent dependency on subsidized funding sources and the donor community as opposed to sustainable mobilization of savings. Brazil, Mexico and India were cited as typical examples where the agricultural credit systems of the World Bank suffered from severe equity erosion either from low and negative interest rates or poor loan collection after receiving support from the World Bank in the 1980s.

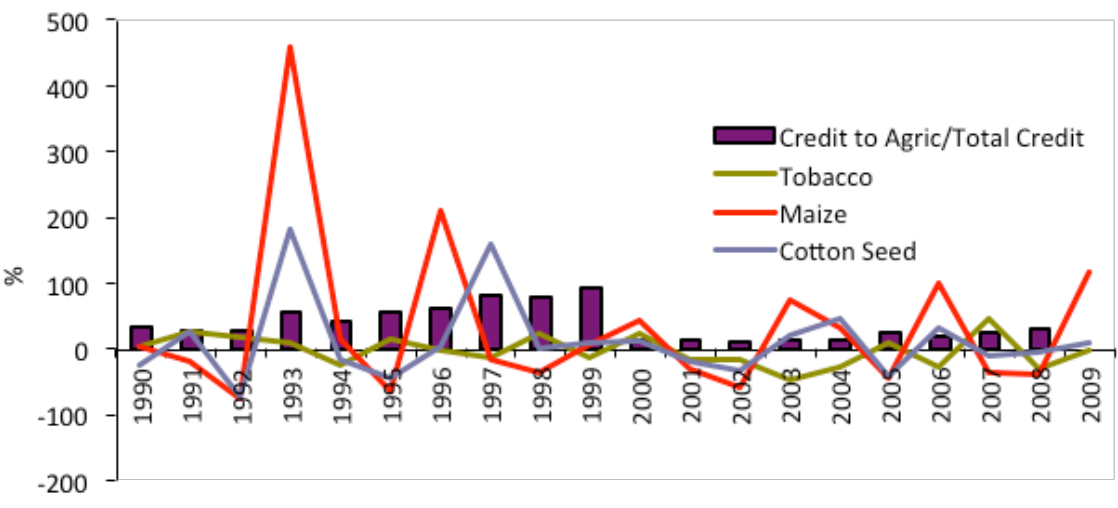
4.1 Agriculture-financing and productivity in Zimbabwe

Most researches and models on agricultural finance emphasize the impact of finance and financial development on growth. Parceling out growth in terms of sectoral contributions to GDP and investigating how financial development and access to credit by each of the sectors of the economy affects growth is more enlightening than blanket investigations. This argument becomes more relevant when there are large disparities on marginal returns on investment across the different sectors of the country. In developing countries such as Zimbabwe where levels of investment in agriculture are still low, it is anticipated that returns from new investments in agriculture and research in high yield farming techniques in the sector are high.

This paper assumes that agriculture finance is key to enhancing productivity and output in the agricultural sector. The assumption that agriculture finance is positively linked to agriculture output is supported by Figure 4 below, which plots the ratio of bank credit to agriculture against growths in tobacco, cotton seed and maize production in Zimbabwe

between 1990 and 2009. With the exception of drought years of 1991/92, 1994/95 and 2001/02; years of higher credit ratios to agriculture were matched with higher output growths.

Figure 4: Bank Credit to Agriculture and Growth in Maize, Tobacco and Cotton Output



The relationship between agricultural finance and agricultural production became more evident in the post FTLRP. After the FTLRP, much of the farm infrastructure and equipment (dams, irrigation systems, roads, etc) was vandalized and left in moribund state. Without adequate financial support and assistance to the sector, the new indigenous farmers had challenges in investing adequately in the sector to match productivity of the pre-FTLRP period. The issue of the availability of credit to Zimbabwe's agriculture sector, therefore, become more critical post the FTLRP than before. There is need for concerted effort from government with regard to creating an appropriate land tenure system that makes it easy for farmers to borrow and invest on the land. At the same time financial engineers should explore alternative agriculture financing models that facilitate access to credit by farmers at minimum possible risks and costs to the farmers in order to improve productivity.

5.0 WHY HAS AGRICULTURE FINANCE FAILED

Dependence on Unsustainable Funding Sources

Specialized finance institutions and banks that provide loans to farmers have suffered from inherent design problems and inability to provide wholesome banking services. Failed institutions have undertaken agriculture finance from a partial rather than holistic approach, with many of them defining one sided interventions such as mere lending or channeling of government or donor funds at directed and unviable lending rates. Programmes such as lending to Smallholder Farmers, lending to Rural Farmers, lending to

Farmer Co-operatives, or lending to the Youth in Agriculture have been initiated as support programmes earmarked for farmers without clear strategies on sustainable resource mobilization. Such state- or donor- supported programmes have often been viewed with less repayment pressure by the borrowers. This perception has been aggravated in cases where there is political pressure on the institutions involved to speed up loan approvals, outreach and volumes. This has resulted in lesser degrees of freedom on the part of the lending institutions to diversify their loan portfolios and also to recover outstanding loans.

Low Lending Rates

The view that agriculture is disadvantaged by historical lack of credit often compels governments and donors to provide support to the sector at lending rates that are below market levels. Institutions that depend on external sources of finance from governments and or donors have limited leverage to charge economically viable rates. The viability plight of the institutions involved under such scenarios has been exacerbated by the high risk and high administrative costs that are associated with lending to farmers, given the clientele geographical dispersion, the small loans, lack of enforceable collateral security and poor farmer records. Fixed and improperly indexed interest rates have, therefore, caused massive erosion of agricultural finance institutions' capital bases.

Between 2000 and 2008, much of the loans that went to the agriculture sector in Zimbabwe under the RBZ's ASPEF were extended at below market interest rates. Even though the funds were lent on behalf of the Reserve Bank of Zimbabwe-hence crowding out private banks' own lending capital/capacity, administering banks assumed the full risk and administration costs on the loans. The administering banks, however, did not have the leverage to determine interest rates on the loans. This eroded banks' equity bases, especially as inflation persistently spiraled up in the later part of the decade. Despite attempts to re-capitalize the country's land bank-AGRIBANK, the prevailing institutional and lending set-up in the agriculture sector continued to pose viability challenges to the institution.

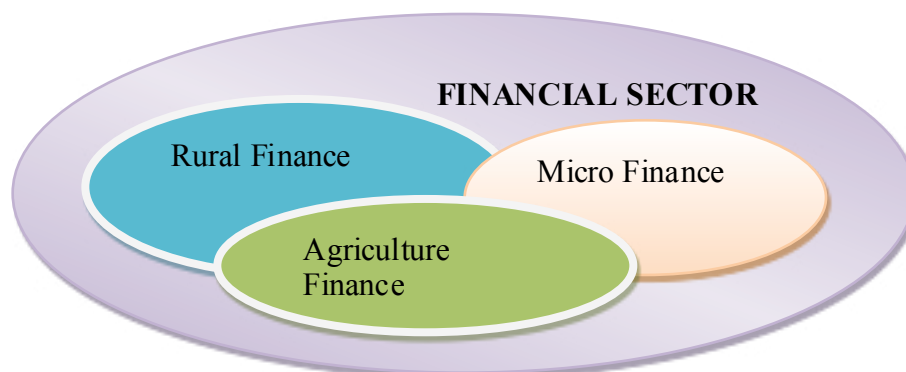
High Loan Delinquency

Governments have, more often than not, given directives and pronouncements to state owned or donor supported agricultural institutions to extent longer loan grace periods and grant roll-overs on loans given to farmers. Such government leniency on delinquencies has tend to encourage defaults, hence a bad loan portfolio of the lending institutions. Jacob Yaron (1992) indicated that collection rates for the agriculture finance institutions varied between 50 and 80 percent and at times below 20 percent in Bolivia - 47%, India – 50%, Malaysia – 40% and Bangladesh – 80%. The low collection rates of many government sponsored finance institutions have perpetually cost the fiscus even though the observed developmental impact has been thin.

6.0 STATUS OF AGRICULTURE FINANCE IN ZIMBABWE

The agriculture credit market is an integrated component of the broader financial system. The schematic below indicates that the source of agriculture finance is the rural financial system, micro financial institutions, and the urban banking system.

Figure 5 Components of the Financial Sector



Adopted from BASIS Collaborative Research Support Program, March 2004.

The prevailing scenario in Zimbabwe is more or less similar to this presentation, wherein sources of agriculture finance covers product and services in both the money and capital markets. The money market mainly raises loans of shorter term nature such as overdrafts for working capital and seasonal cropping. The tenor of the majority of such loans range between 90-180 days, though stretchable to one year depending on the nature of the project. The capital markets have historically been used to raise long-term finance for farm projects and activities with longer gestation periods such as purchase of equipment and farm infrastructure investments. This has been done through the issuance of agro-bonds and bills with tenor of more than one year by banks or the sector parastatals such as the Agriculture Marketing Authority (AMA), the Grain Marketing Board (GMB) and the Cotton Company of Zimbabwe (COTCO) in collaboration with banks such as CBZ and AGRIBANK. Commercial and Merchant banks are the major players in providing short and long term loans to the sector. Zimbabwe has a specialized agriculture finance institution, AGRIBANK as well as 23 commercial and merchant banks that provide loans to farmers.

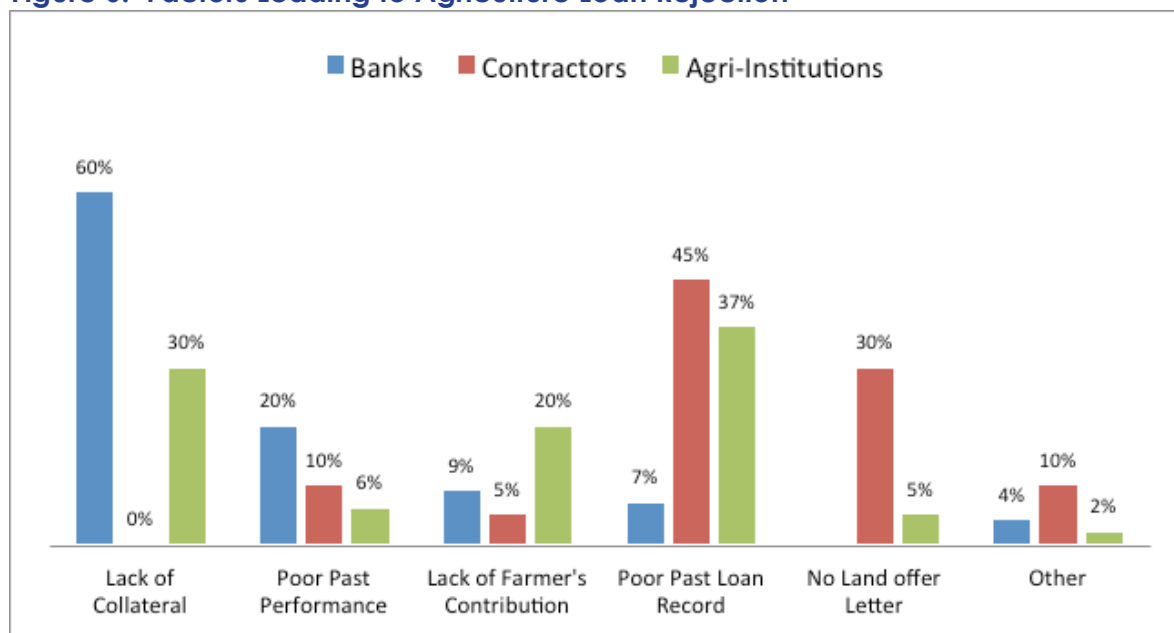
Agro-dealers and private contractors have played a pivotal role in direct financing of farm activities through off-shore finance facilities. The RBZ's Exchange Control Regulations, which guide financing of tobacco and cotton, require that the financing company sources the required loans from off-shore sources. These crops have, consequently relied heavily on contract farming from private merchant companies as the major source of finance.

6.1 Agriculture Lending in the Multi-Currency Environment

Since the introduction of the multi-currency system in 2009, banks in Zimbabwe have maintained between 10% and 25% of their loan portfolio in agriculture. With total financial sector deposits of approximately US\$2.5 billion in 2010, for example, this translates to more than US\$250 million being outstanding bank loans to farmers. Surveys conducted on the country's providers of finance to farmers, have indicated that conventional banks still consider the agriculture sector a risky sector. Lower ratios of agriculture loans to total bank loans, were, therefore observed in most big conventional banks. The smaller banks, which are in most cases indigenous, tend to have higher loan exposures in the agriculture sector. Factors that are considered by banks in appraising farmers' loan applications include availability of collateral security, past farmer production performance, farmer's own financial contribution and past loan performance.

On the issue of collateral, most banks require farmers or their guarantors to own physical registered properties which can be used as security such as houses, land and business premises and in limited cases transferable financial assets. The need for conventional collateral security by banks explains most banks' low agriculture loan portfolios. Among the reasons for bank loan rejection by farmers, as shown in figure 6, for example, lack of collateral security accounts for at least 60% of the rejected loan applications followed by poor past farmer production performance, which accounts for 20% of the rejections. Specialized agriculture institutions, including AGRIBANK are less restrictive on the use of collateral security in farmer loan appraisals. Poor past loan performance, accounts for at least 37% of loan rejection, while lack of collateral accounts for 30% by the institutions.

Figure 6: Factors Leading to Agriculture Loan Rejection



Source: Data from Survey

The potential for successful lending to farmers in Zimbabwe is exhibited by the approach taken by farmer contracting companies, which extend credit to farmers mainly through inputs. Interviews conducted with the Association of Cotton Ginners, representing 14 contracting companies in the cotton sector and individual tobacco contract companies revealed that these companies do not require collateral security as a condition for the farmer to access credit. They instead require proof of land ownership, such as land offer letter or letter of land ownership from the headman. Past loan performance, either with the contracting company or other companies is the major factor determining access to credit through contract farming. Other factors such as production performance and farmer's own contribution are also considered by the companies. Loan recovery rates of the contracting companies average more than 95%.

Surveys have also shown that agriculture loans and credit extended to the agriculture sector by banks, have performed on average more or less the same as loan portfolios held by the same banks in other sectors of the economy. The indigenous banks, which have moved aggressively towards providing farmer loans have loan recovery rates of more than 95%. However, in cases when the banks lent out funds on behalf of government and or another financial institution, usually government owned, loan recovery rates tend to be low at 50% or less.

Successful lending to farmers by the aggressive banks is hinged on the fact that they are actively involved with the farmers' activities on the farm from land preparation to marketing. These banks employ agricultural economists, who conduct on-farm visits during the loan appraisal process and after the loan is approved to provide technical support and extension services to the farmer. There is closer and personal relationship between the farmer and the bank. In addition, a farmer can only access a loan from the bank if he maintains an account with the bank. The institutions, therefore, provide full banking services to their clients. Where registered property is not available, the banks have also used more flexible security in the form of Notarial General Covering Bonds (NGCBs) for crops that are in field and movable farm assets.

The good loan performance of contract companies is a factor of both closer personal relationships between the farmers and the companies as well as coordinated or centralized marketing arrangements for the products. Systematic and co-ordinated marketing arrangements has enabled the Tobacco Industry Marketing Board to develop a Central Loan Focal Point, which host borrowing and output statistics on individual tobacco farmers. Credit providers for the crop are able to electronically access latest information on the farmer's past and current loans, any past loan defaults and marketing history. Most banks in the country subscribe to the TIMB Central Loan Focal Point data base. The data base has equally assisted them to manage agriculture default rates to low levels. In the cotton sector, a more or less similar coordinated marketing arrangement is run through the Cotton Ginners Association, even though the statistics are not electrically accessible by field loans officers due to communication infrastructure deficiency in some parts of the country.

Most contractors source their funds from either local banks or off-shore facilities. They have also managed to partner with insurance companies that provide crop insurance. Their intervention in the agriculture sector lending has, therefore, availed yet another financial product that benefit the farmer. The contradicting paradox, however, is the ability of these companies to extend loans to farmers at relatively lower cost than would be charged by the banks - given that they source funds from the banks, and at the same time managing to obtain a high repayment.

6.2 Challenges Facing Agri-finance in Zimbabwe

High risk.

Generally there is perceived and real risk in agriculture financing emanating from the aspects of natural disasters, climatic changes and uncertain policies on land ownership and lack of security. The world over there are climatic changes that are occurring which in some cases result in natural disasters and Zimbabwe is mostly affected by floods, hail storm and cyclones. The biggest challenge is not only in predicting occurrence of these catastrophes but also in determining the extent to which a loss is declared to have occurred as a result of these. Equally challenging is securing the accompanying insurance against such risks and also determining the risk premium. There is also the issue of lack of collateral to secure borrowed funds from financial institutions and in agriculture land would have been the ideal security. In Zimbabwe, land is owned by the state and the current land tenure system for current holders or users does not permit transfer of ownership. It then becomes difficult for banks to extend credit secured by land given the complexities in both ownership and transferability. Movable properties and crops are currently not acceptable forms of collateral especially with financial institutions as a regulatory measure from the central bank.

Default on loans as a result of production and marketing problems

Lack of properly coordinated marketing of most agriculture products have made it difficult for financial institutions to enforce repayments of loans through stop order system. Except for tobacco and grain deliveries to GMB other crops are not centrally marketed and also grain purchased by private buyers do not pass through the centralised payment system of GMB. This makes it difficult to enforce loan repayments given that farmers have direct control of the monetary receipts and would opt to default on any loan.

High transaction costs

Agriculture, unlike other economic sectors like manufacturing and service, is dispersed on geographical lines. Financial institutions would incur high transaction cost during monitoring of projects as there is need to carry out farm visits and these visits are wide spread across the whole country. It then becomes operationally costly to finance agriculture given that farmers need to be visited no matter how far away from the financial institution service centre and how dispersed these farmers are.

Lengthy litigation process when seeking default recourse

In case of default, it takes a lot of time for financial institutions to get recourse and recover the loss. Legal process is always lengthy and in the mean time the bank would be locking its money in the non performing loan or the pledged security waiting for liquidation. From the survey done during this research it was indicated that on average litigation of loan defaults may take up to 2 years and all this time there is a lot of opportunity costs as sometimes the institutions would not be able to get compensation for the time value of money.

Institutional constraints

Financial institutions, especially those inclined towards funding agriculture (Agribank to be specific) are currently under capitalised and also facing liquidity challenges. The shareholder, which in the case of Agribank, is government is financially crippled is not in a position to capitalise the bank and efforts are in course to private the institution. The only challenge is that once it assumes private ownership, there is likelihood that it would change its focus and concentrate with thriving sectors like mining for survival and leave out the risky agriculture.

Social barriers

This challenges came out as an operational challenge especially for small scale farmers. In some countries, small scale farmers benefit from forming cooperatives and access funding through group lending where the concept of co-guaranteeing is utilised. In Zimbabwe, the concept of group lending is difficult to implement, particularly on A1 farmers since there is no social cohesion amongst farmers in that same areas since they are from diverse backgrounds and were brought together by the land reform. It then becomes difficult to arrange lending models that depends on social cohesion of beneficiaries.

7.0 SUCCESSFUL CASES OF AGRICULTURE LENDING

Success cases in agriculture lending, world wide, have been structured around innovative techniques such the Grameen Bank's Group Based Model. The Grameen Bank of Bangladesh, Thailand's Bank for Agriculture and Agricultural Cooperatives and Bank Rakyat Indonesia are notable examples of successful agriculture financial institutions that give loans to small farmers. Under group based lending programs, loans are made through peer groups, with group members co-guaranteeing repayment for each other's loans. Peer pressure and collective responsibilities are used as collateral substitutes by banks. A notable similarity among the successful agriculture finance institutions is that they all provide wholesome banking from savings mobilization to lending as opposed to just being conduits for channeling funds to farmers. The institutions are also generally market dependent on both deposits and lending rates used and offer incentives and or bonuses to borrowers and staff for good loan performance.

The Grameen Bank of Bangladeshi

The Grameen Bank was transformed into a full fledged independent institutions in 1983, with the Government of Bangladeshi owning 60% of the bank's shareholding and 40% owned by the borrowers of the bank. The bank is a task oriented credit institution created for the purpose of improving rural sector livelihoods, initially the female population. The institution has grown to be one of the success stories of group lending, with wide and persistently growing outreach and loan recovery rates above 90%.

The sustainability of the bank's funding sources is evidenced by the gradual decline over time of government ownership from 40% to 7%. The bank, thus has evolved from fiscal dependence to own internal financing. Unlike most failed rural finance institutions, the Grameen bank, offers a complete chain of financial services to farmers and the rural poor, from deposit taking to lending. The bank has also managed to diversify into other rural sector demand-driven products such as finance for housing. Grameen bank's success is founded in a good organizational structure, which is highly decentralized and encourages the participation of its shareholders in product development and innovation. The bank, thus, grew to more than 2 million members and more than US\$29 million disbursements per month by 1994.

Bank Rakyat Indonesia (BRI)

The Bank Rakyat Indonesia introduced the government's rural credit program in 1984. The bank has over the years successfully managed to grow its savings and deposit mobilization base, henceforth depending less on government subsidies. BRI applies market determined lending and deposit interest rates to ensure effective intermediation between savers and borrowers as well as operational viability. The Bank employs mobile banking techniques for easy and cheaper access to its clientele base and uses incentives and bonuses tied to loan performance to borrowers and bank staff to encourage high rates of loan repayment.

Bank for Agriculture and Agriculture Co-operatives (BAAC) in Thailand

The BAAC was established for the purpose of providing financial assistance to farmers in Thailand. While the bank was wholly owned by government at establishment in 1966, it has gradually weaned itself from subsidy dependence by instituting cost effective management strategies and efforts towards maximum loan recovery. Jacob Yaron (1992), notes that the highest growing source of finance for the institution has been voluntary savings, thereby shifting its initial characteristic from a supply-led institution to a more universal, well-balanced financial institution, as well as reducing its subsidy dependence.

Standard Chartered Bank South Africa

The Standard Chartered Bank of South Africa uses an innovative approach to providing loans to farmer without the use of collateral security. The Bank advances loans to farmers through agri-contractors. The contractor acts as the middleman between the bank and the farmers. Funding is provided for all stages of farm production from land preparation to marketing. This lending methodology essentially removes the risk from the farmer to the

contractor. The bank and the contractor also take the responsibility of hedging the prices at contracting stage, henceforth removing price risk from the farmer. Through this model, the bank has successfully managed to finance production area of up to 400 000 hectares in 2010 season for various crops which include maize, barley, soyabean and sunflowers. The bank is moving in to finance the small- and medium-scale scale through group lending to cut on costs. ABSA, through the value-chain financing scheme, has also successful extended loans to farmers in South Africa.

Rural Agriculture Finance Case Studies

a) Village Savings and Loan Association (VSLA): this is one model of a Community-Based Financial Organizations (CBFOs), which basically, are user- owned and -operated groups that provide mainly saving and lending services but may also offer other financial services such as insurance. Started in Niger by CARE International in 1991, the VSLA adopted lessons from the efforts of poor local women to save in this large, poor, sparsely populated country. Since then, CARE and other nonprofit development agencies have spread the model to 39 countries, the vast majority in Africa. VSLA groups, consisting of between 10 and 30 members, have simple rules that govern their savings and lending activities. Each member saves on a regular basis, and this money is then lent out at an interest rate and on loan terms decided by the group. The model enables all members to receive a lump sum on the same date, often one that coincides with most members' need for funds, such as an annual festival, the start of the planting season, or the date that school fees must be paid. (Ritchie, A, 2010).

b) The Self-Help Group (SHG) model. Begun in India several decades ago and has become the dominant microfinance model in that country, especially for the rural poor. SHGs usually have between 10 and 20 members who save regularly and lend the money out to members only. The funds saved are not distributed back to members, but, rather, grow over time. SHGs in India often receive small amounts of seed capital from government or donors. Many SHGs belong to federations that provide them with access to external capital, technical assistance in areas such as accounting, and greater bargaining power with government and banks. As of 2007, India had approximately 69,000 SHG federations.

c) Rabo Development: was created by by the parent organization, Rabobank, (which was created by farmers in the Netherlands more than one hundred years ago) to serve the financial needs of emerging markets and developing countries. RD participates in financial institutions and provides management services and technical assistance. It has made investments in Tanzania, Zambia, Mozambique, Rwanda, Paraguay, Brazil, and China (Empel. G. V, 2010)

d) Rural and Community Banks in Ghana: The first RCB was established in a farming community in the Central region of Ghana in 1976. Several others were established in rapid succession, and by 1984 the number of RCBs reached 106. The Government of Ghana, with the support of the World Bank and other donors, implemented a follow-up project—the

Rural Financial Services Project—between 2001 and 2007 to help further strengthen the RCBs. This project provided extensive training to RCBs and supported the establishment and strengthening of the Association of Rural Banks (ARB) Apex Bank, as a bank to the RCBs. (The Association of Rural Banks had been established in the early 1980s as a networking forum for RCBs and later started providing training to member RCBs (Nair. A and Azeb. F, 2010).

The Case of Contract Farming in Zimbabwe

Contract farming has been one of the major financing vehicles for agriculture in Zimbabwe. This has covered mainly cash crops such as tobacco and cotton. The surveys from this research have shown that most conventional banks in Zimbabwe have small percentages of their loan portfolios in agriculture, due to the sector's perceived risk and high cost of loan administration. The case of the sector's perceived risk can to a large extent be refuted by good performance of loans given through contract farming, whose reported repayment rate ranges between 90% and 97% under normal circumstances. It is even more startling that loans given through contract farming tend to be more expensive, at times with implied interest rates of more than 60% per annum, yet farmers have proved commitment to repay the loans. Cases of high loan default rates have been observed in circumstances either when farmers got inputs late, or when drought was severe, or when commodity price excessively went under, or when the contractor short-changes the farmer and gives him lesser inputs than agreed on in the contract.

The success and better performance of loans given under contract farming rests in several factors, which banks have not seriously considered and incorporated in their lending models. These include: (i) direct interface between the farmer and the company extending the loan, which tends to create personal relationships between the farmer and the lending company; (ii) a well maintained and updated loans data bases for the farmers that is shared among the lending companies, such as the Tobacco Industry Marketing Board (TIMB)'s Central Clearance Point (CCP); (iii) providing the farmers with direct technical assistance; and (iv) the existence of a centralized and co-ordinated marketing arrangements for the crop through an established board such as the TIMB or an association of procuring companies such as the Cotton Ginners Association.

The above factors point to the importance of information and collectivity in successful lending to agriculture. Contract farming companies directly engage the farmer on his farm from planting to harvesting, giving technical assistance to the farmer. In the process they literally become part of the farming process and of the farming community. This reduces production risks and risks of intentional under declaring of yields and harvests.

The use of the Central loans Clearance Point by the TIMB has assisted contract farming companies in the tobacco sector to easily access the history of farmers' loans performance and their indebtedness elsewhere. Some banks, which have ventured into the agriculture sector also subscribe towards accessing the database. Though the Cotton Ginners Association's loans database for cotton farmers is not online, all loans offers of the various contracting companies always use a periodically updated loans database when

appraising farmers' loans applications. The existence of a centralized or co-ordinated marketing arrangement for the crop makes it easy to maintain the loans databases.

8.0 STRATEGIES AND POLICIES TO IMPROVE AGRICULTURE LENDING IN ZIMBABWE

Reforming Zimbabwe's Agriculture Finance Institutions

Collateral substitution in the form of owner equity contribution by the project proposer is one way banks some countries have successfully lent to risky projects including farming. This works well not only to minimize moral hazard and adverse selection by the borrower but also to compel the borrower to choose projects with higher returns and to compel him to make effort to repay the loan. At institutional level agriculture finance institutions need to reform their ownership structures and transform themselves into farmer-owned institutions such as co-operative banks with majority shareholding and directorship owned and controlled by farmers who have interests and expertise in farming.

While the institutions should be given the leverage to spread their business portfolio into all sectors of the economy, they need to prioritize their business in agriculture. It should be made a condition that only farmers who are either shareholders or depositors with the banks are allowed to access loans from the institution. This enhances the bank's ability to raise own capital and savings rather than depending on the fiscus. The institutions may be given seed capital from the national budget but only with a time plan to pay-off the capital injection from government and gradually increase farmers' shareholding to 100%. Lending exclusively to farmers with equity or savings contributions into the bank instills sense of ownership and control among the farmers, henceforth giving them an incentive to repay back borrowed funds. Farmers' Co-operative Banks are widespread in India, where they have successfully managed to penetrate most of the previously unbanked rural populace. The Bank for Agriculture and Agricultural Cooperatives in Thailand has also managed to gradually wean off itself from government subsidy dependence since it was established in 1966, through operations that enhance loan recovery.

The proposed institutional reforms are recommended for AGRIBANK, which is Zimbabwe's major specialized agriculture bank. The bank has suffered persistent equity erosion year after year due to poor loan performance and high administration costs, which are at times as high as 132% of operational income (National Budget Statement, November 2010)

The Reserve Bank of Zimbabwe Bank Regulations Act may also need to be more flexible and permissive with regard to regulation and supervisory compliance on definitions of risk loan portfolios, loan loss provisioning and liquidity and capital adequacy requirements for agriculture sector loans. These indicators are currently rated like any other loan portfolios in any other sectors of the economy. Rating of agriculture sector loans may need to be structured in a way that takes into account the seasonality of the agriculture sector as well as the high risks associated with natural catastrophes that negatively affect repayment capacity of the sector. The changes in bank regulations and provisions governing the

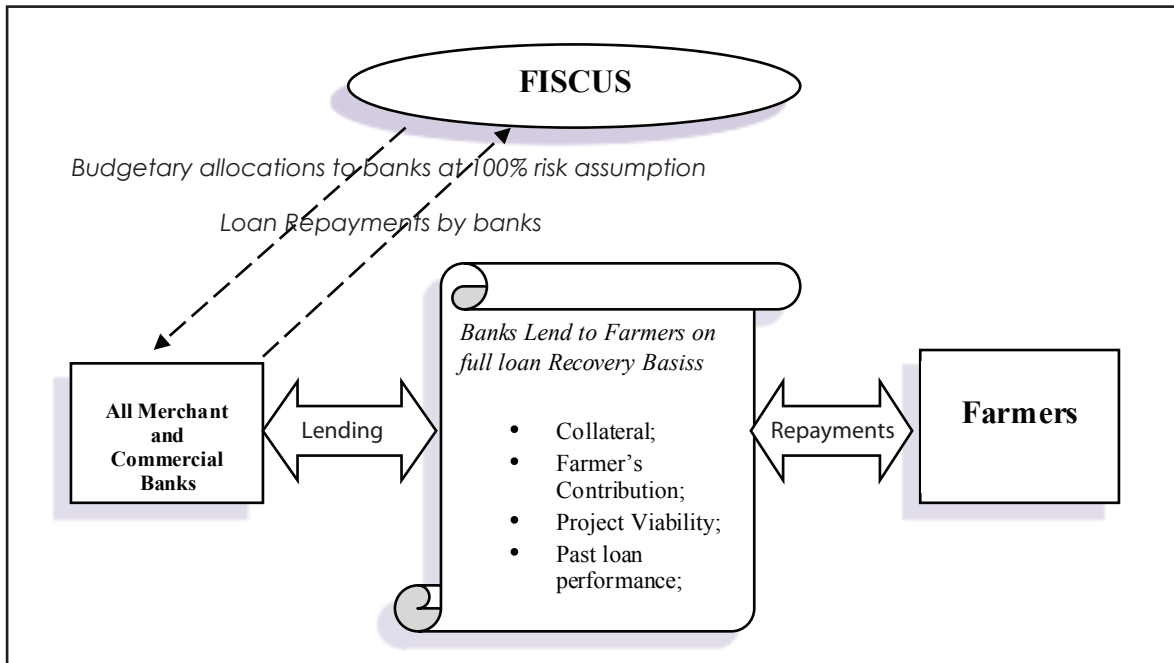
operations of the land banks should, however, not compromise banks' institutional sustainability.

Lending Through Recoverable Fiscal Allocations

The recommendation to lend to farmers through recoverable fiscal allocations involves government allocating funds through yearly budgets to all banks for on-lending to farmers in a scheme that resembles a Revolving Agriculture Loan Fund. In this proposed model, the banks will need to assume 100% risk so that they exercise diligence in client appraisals and avoid moral hazard. Banks should be given leverage to charge viable interest rates on the funds, with government only setting interest rate margins that are concessionary. Interest revenue should be split between the government and the bank. The banks should remit the principal loan advancement and interest to government before accessing further disbursement tranches of the facility to enable government to grow the Agriculture Loan Fund overtime.

While this proposed lending model operates more or less like the RBZ's ASPEF, the difference lies in the source of funding for lending to farmers. This model relies on fiscal allocations as opposed to ASPEF that relied more on banks' statutory reserves and or seignorage, which exerted inflationary pressures on the economy, with consequential effects of eroding the real value of the same agriculture loans.

Figure 7: Fiscal Lending Through the Banks



In addition to Fiscal allocation, the government need to allocate the Ministry of Agriculture enough funds for its operation. Budget allocation need to reflect the importance and materiality of agriculture and should fully embrace the Maputo Declaration, which require Governments to allocate at least 10% of national budgets towards agriculture. Reference

can be made to Malawi whose historical allocations to agriculture averaged 10% of the budget and has recorded remarkable growth in agricultural output.

Creating an Enabling Legal System

The financial sector policy and legal frameworks in the country should be reformed with a view to strengthen lending to agriculture, the small businesses and the poor, especially where no collateral security is available for the required loans. Farmers in Zimbabwe have quite substantial assets such as land, crop reserves, farm equipment and livestock. The country's legal system does not automatically create a conducive environment that facilitates secured lending through collateralization of many of these assets, especially in circumstances where there is no formal registry for the assets. Physical assets, such as houses, for example, have registered title deeds, which can be bonded and securitized against borrowed funds. Once the bond has been registered, it is not easy for the borrower to sell the property or use it in other borrowings. More so, the liquidation procedures of the bonded property, in the event of a borrower defaulting are clear and enforceable.

Regarding farm assets mentioned above, there is limited legal literacy, in many of the instances, among farmers on rights and responsibilities over the assets, procedures and existing laws to convert such assets into liquid capital through secured borrowing, using the assets. To enable farmers to convert their assets into collateralizable assets, the country's legal system needs to facilitate the creation of registries of the assets, clarify their ownership and rights of use of the assets, define priority of claim on the assets when they are pledged as collateral, as well as defining liquidation procedures of the collateralized assets in the event of delinquent farm loans, which they are pledged against. Once such a legal framework is in place and well operationalised, the donor community should be involved in educating farmers and banks involved in lending to the agriculture rights and responsibilities associated with ownership of the category of assets defined here.

Risk Mitigation in Lending to Agriculture

One reason why the conventional banking sector in Zimbabwe and many countries has not been aggressively lending to the agriculture sector is the perceived high and correlated sector risks. The risk is high given the vagaries of weather, crop and livestock diseases, unstable prices and possibilities of side marketing and correlated given that an over-exposure by banks to the sector will see all their clients being adversely affected in same way by the same factors. A big percentage of the farm loan portfolio systematically depends on the same vagaries. A bank which specializes in agriculture is, therefore, less diversified and is always likely to be rated low with regard to its loan book. To worsen the situation, the sector is also less known by banks with regard to the history of borrowing farmers, factors that affect different crops' performance and even the geographical location of the farms-especially given that the banking system in Zimbabwe is highly centralized in the major urban areas.

Experience has proved that provision of crop insurance to mitigate against risk in the agricultural sector is marred by the subjectivity in the definition of what constitute a drought or floods or any other agricultural disaster that can be compensated by a crop insurance

scheme. A more objective approach, which is recommendable for Zimbabwe, is to rely on index-based insurance schemes that, for example, pre-define amounts of rainfall which are region specific, in millimeters per season, below which a drought would be declared for insurance claims purposes.

Contract farming companies have successfully partner with insurance companies to reduce the risk of lending to farmers. Banks should also structure agriculture loans in the same way and make it mandatory for farmers to secure crop insurance before a loan is disbursed. Alternatively, government should fund the establishment of an agriculture loan insurance vehicle or institution whose business is to insure farmers' crops and livestock as well as to guarantee agriculture sector loans. The risk with this option is that such institutions, once set-up are never weaned and will remain an unsustainable fiscal drain for long periods until they collapse.

It has also become evident from surveys of this research and other researches (Siegel, P and Yaron, J. 1988) that the high risk associated with agriculture lending is partly a result of poor information on the nature of agricultural activities, the farmer's past production and marketing performance and his past loan record. The cotton and tobacco sectors in Zimbabwe, where product marketing is centrally coordinated have managed to put-up farmer data-bases with information, which financiers and lending institutions in the sectors have successfully utilized to minimize lending risks. Where marketing is fragmented and information of farmers is absent, lending risks and observed loan defaults have been high. Major agricultural procurement companies, especially, the Grain Marketing Board, should set-up farmer data bases such those of the TIMB and Cotton Ginners Association of Zimbabwe to make lending easy even for grain producers. This paper is not advocating for the re-introduction of centralized state procurement in the agriculture sector. Such an approach has got its pitfalls and distortions. Marketing can remain decentralized and deregulated but making it mandatory for the private procurement companies to remit farmer information to GMB. It should, however, be noted that such information is public and as such rational private players do not have the incentive to gather and manage the data bases. Government should, therefore, make efforts to finance the establishment and management of the information data base. The data base management system will be expected to gradually run itself without government support once banks and other lending institutions start subscribing for the use of the data bases.

Product Diversification by Banks

Most development banks, including agriculture finance institutions worldwide are product specific or product driven in terms of their outreach in the agriculture sector. In most cases financial products are in respect of farmer lending as opposed to adopting a holistic approach. The targeted approach used by the banks limits the scope for growth and services provision by the banks. This has also resulted in the institutions perpetually becoming mere conduits for channeling funds from the government and donors to farmers without setting up own sustainable resource mobilization strategies such as deposit taking.

The banks should approach the farmer with all banking functions from deposit mobilization to lending. The country has significant amounts of remittances coming from Zimbabweans working abroad. Most of the diasporans have relatives in the rural and farming communities who are recipients of the remittances. The establishment of a sound deposit taking agriculture finance institution with wide branch networking in the farming communities is, therefore, likely to be able to harness deposits from these unbanked communities. The institution should also provide other services to the farmers such as management advisory services, technical services, insurance and housing loans. The Grameen Bank of Bangladesh, for example, was established jointly by government and the rural poor for the purpose of lending to the rural poor, especially the female in agriculture and micro projects. The bank has gradually grown over time. Its business portfolio now includes provision of housing loans to its clients.

Financing Agriculture Through Agro-Dealers

Financing the agriculture sector through the supply chain, especially at agro-dealership level is an arms-length initiative that banks can utilize to reduce loans administration costs as well as the risk of lending to the sector that falls on their books. In this model banks give loans to farmers through agro-dealers and contract farming companies. The agro-dealers identify, appraise and lend to the farmers in kind or cash. The agro-dealer also manages production risk by monitoring and the farmer throughout the production and marketing season. The advantage with this approach is that the local agro-dealers know the local farmers better than the centralized systems of a typical bank in Zimbabwe, henceforth minimizing the risk of default. In addition, agro-dealers are in almost all farming communities of the country. Administration of the loans can, therefore, be done in local areas that are close to the farmers, hence reducing administration costs of the loans. The only challenge with this approach is the high cost associated with dealing with a longer financing intermediation chain.

Using Collateral Substitution

Most of the successful rural and agriculture finance institutions the world over have managed to support farmers without the use of collateral security. They have instead relied on collateral substitutes such as group lending, peer monitoring and co-guaranteeing that provide repayment incentives and enforcement mechanisms. Microfinance institutions in Zimbabwe have successfully utilized this approach to lend for micro projects and business without asking for collateral security for the loans (Ndlovu, N, and T Ngwenya, 2003). Banks in the country can utilize the same approach when lending to farmers, especially to communal, old resettlement and A1 farmers. The land reform programme has brought farmers geographically closer to each other in a more or less villagized resettlement. This makes the use of group lending easier and cheaper than before. The only challenge is that the setting of A1 does not promote the concept of group lending as there no social cohesion amongst farmers as they are from diverse background.

Introducing rural agriculture funding

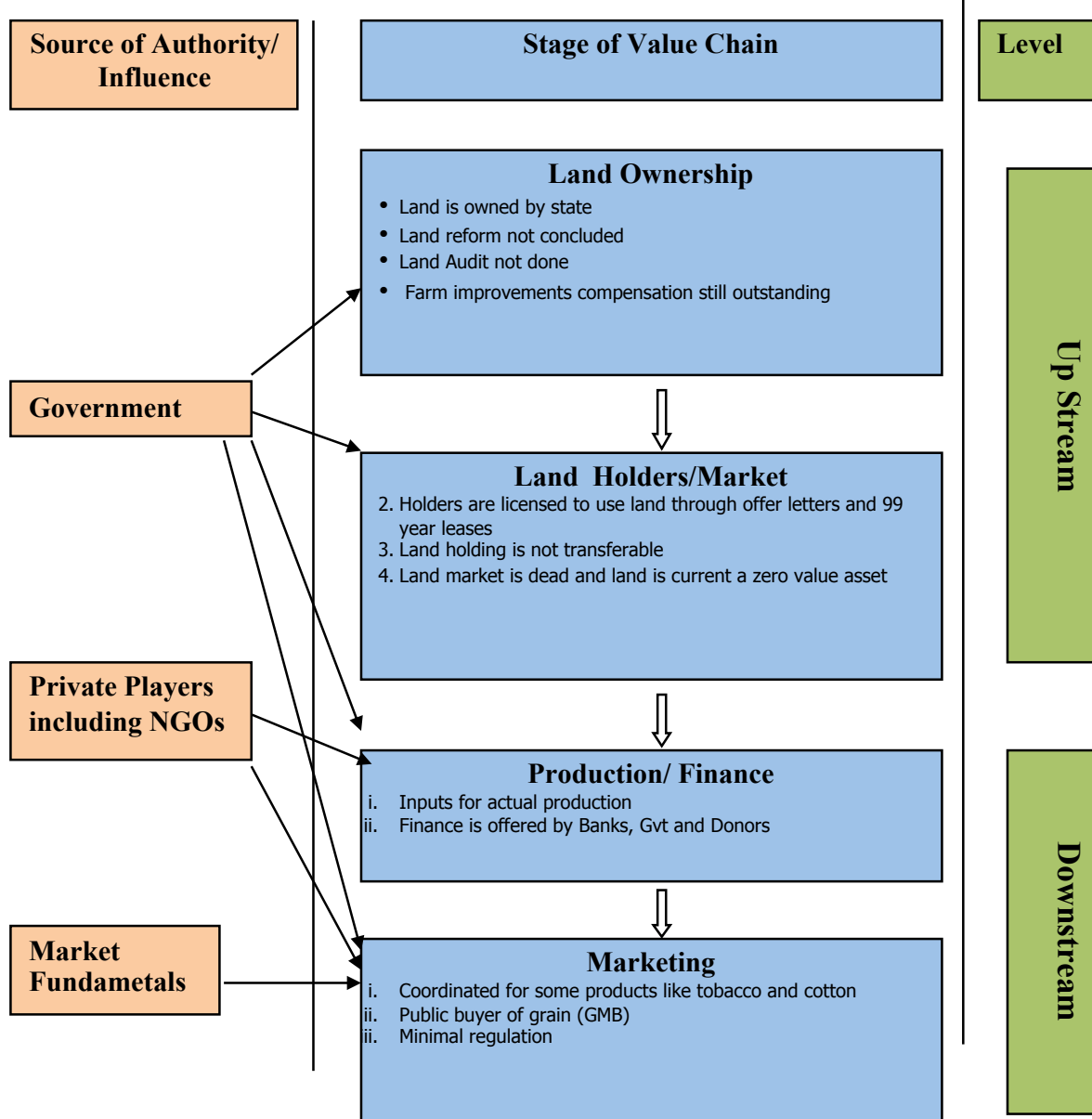
Rural agriculture, and lately A1 farming are part of agriculture in Zimbabwe which have not received considerable attention in terms of funding. Most of funding on offer is through inputs schemes by Government and Donor organization, in most cases as a strategy towards poverty alleviation through food self sufficiency at household level. There currently is very limited engagement of rural agriculture and A1 land holding for commercial agriculture, let alone funding by financial institutions yet there is a lot of potential in these areas. As noted in the section of successful case of agriculture lending, small scale and rural agriculture in countries like India, Ghana, Niger have grown due to unique funding arrangements which could be established. According to the World Bank, financial literacy is ranked as the first point of call in as far as innovations in financing the rural unbanked and poor farmers. In Zimbabwe the rural farmer lacks financial education and are not included in the agriculture financing grant plan.

The government can promote formation of community based financial organizations and the primary target could be farming communities which have the potential of generating sustainable incomes. Alternatively, established financial institutions could be incentivized to provide funding to rural agriculture as in the case of RaboBank in Netherlands.

9.0 ZIMBABWE AGRICULTURE SALIENT ISSUES

Whilst finance is a key component of agriculture development and the focus of this paper, there are some salient issues that affect agriculture production, especially in Zimbabwe. Agriculture in Zimbabwe, unlike in other countries, has a very long value chain with different stages which are controlled by different authorities. The flow chart in figure 7 below illustrates the value chain stages of agriculture. In the upstream stage there is the land ownership and land market. In Zimbabwe all land is owned by Government and is leased to users (through offer letters and 99 leases) of which government can revoke these leases without any legal recourse. In addition the current land tenure system does not permit transfer of ownership and this then affects commercialisation of land and at the end the land market is virtually dead with agriculture land having zero value. The land reform in Zimbabwe has literally not been concluded there is need to address upstream issues especially conclusion of the land reform in terms of finalising the following outstanding issues: land audit; tenure system and transferability of land holding; addressing issues on compensation as the beneficiaries of land need to pay for improvements on land and not tax payers. As shown in the flow, government controls all the upstream issues in agriculture which if not addressed have a bearing on the downstream issues that in this case include the financing of agriculture.

Figure 8 : Different stages of Agriculture value chain and source of control



Source: Authors' formulation

While this paper focuses on one of the down stream issues, that of financing, there is still need for synchronisation of the upstream and downstream issues so as to smoothen the whole value chain. For example, once the land reform outstanding issues are resolved, a policy on transferability of land holding as well as reviving the land market, it becomes easier for financial institutions to offer long term funding, securitised by land. More importantly there is need to de-politicise agriculture production and government need to have a commercial approach to agriculture production. Once production is stable and sustainable financial institutions would be persuaded to securitise funding with output.

Another salient issue in Zimbabwe agriculture is lack of savings culture. This hampers development of owner (farmer) driven agriculture finance institution. Under capitalisation of agriculture institutions (which reduce confidence in the financial sector) , hand to mouth survival by farmers, unpredictable economic future, uncertain policy changes are some of the reasons which contribute to the lack of savings culture within farmers. In as much as farmers have the willing to have an institution that entirely focus on agriculture, lack of funding from both farmers and government (as in the case of Agribank) would not guarantee sustainability of the farmer owned institutions

10.0 CONCLUSION

This paper has shown that since the beginning of Zimbabwe's FTLRP, there has been inadequate availability of credit for the agriculture sector. The challenges in the country's land market that has been brought about by the absence of transferable title deeds for land ownership, have made the sector riskier for lending by the banking sector. While the risk of lending to farmers in the country may be perceived to be high, this perception could be emanating from very few bad apples that exist among many good ones that only need to be given chance to prove their bankability and credit worthiness.

Borrowing from experiences elsewhere and the good performance of farmer loan portfolios of the private contractors in the farming sector, the paper argues that the agriculture sector in Zimbabwe is a bankable sector and that banks need to aggressively find a niche market in the sector. The paper argues that investing in information on farmers, their production performance and their past loan performance and coordinated crop marketing arrangement, which is currently not available with most cereal crops, is critical to revive lending to the sector. Banks are also urged to use collateral substitutes in the form of social cohesion and peer co-guaranteeing through group based lending methodologies to farmers. This has been successfully implemented in other parts of the world to improve financial inclusion of the rural and farming communities, where collateral security is unavailable.

11.0 SCOPE FOR FURTHER RESEARCH

This research starts from the assumption that availability of agricultural finance enhances crop yields and output at aggregated crop levels. Some scholars and researchers have argued otherwise. Their line of thinking is that agriculture sector productivity depends more on technological advancement and mechanization, which are not necessarily positively correlated with the amounts of loans given to farmers as the farmers may simply substitute less technology intensive factors of production such as labour for the more expensive high technology factors. The fungible nature of money may, therefore, result in little of the loans obtained from the banks being deployed towards productive investments on the farm.

Before one argues for the need for more loans to farmers, there may be need to undertake thorough research on the impact of agricultural credit on agricultural output in the country.

Along similar arguments, it should be noted that agricultural support has been extended in various forms that include input schemes, credit and technical support to farmers at different levels of production by banks, the donor community and government. Targeted crop support has, for example, been given for maize and sorghum producers in rural areas by some Non-Governmental Organizations. Research on production responsiveness of the targeted crops to the support interventions at farmer level may also need to be done. Some of the support by the NGOs has been research-linked to explore ways of enhancing the yield of the targeted crops. The proposed farmer level surveys and research will, therefore, conclude debates on whether financial support to farmers alone is adequate or whether there is always need for complementing research for higher yield technology.

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