Why did the People's Development Bank of Mozambique fail?

Lessons from successful government development banks from Asia and Africa

By

Manganhele, Anina Trefina

Poster presented at the Joint 3rd African Association of Agricultural Economists (AAAE) and 48th Agricultural Economists Association of South Africa (AEASA) Conference, Cape Town, South Africa, September 19-23, 2010

Why did the People's Development Bank of Mozambique fail?

Lessons from successful government development banks from Asia and Africa

by

Anina Trefina Manganhele *

A paper submitted at the 3rd African Association of Agricultural Economics

Theme:

Africa and the Global Food and Financial Crises

Author is: Senior Researcher (MSc)

National Directorate of Economics

Maputo, Mozambique

Tel: + 258 21416115

Cel: +258 823010538/823260770

amanganhele@yahoo.co.uk

*This paper is based on the master's research thesis of Anina Trefina Manganhele supervised by Prof. Charles L. Machethe, University of Pretoria. The paper has benefited from the insights of the external examiner Prof. Cyntia Donovan from Michigan State University. This paper's findings, interpretations and conclusions are entirely of the author.

Abstract

Despite many decades of experimentation with supplier-led approaches to credit in many developing countries, limited success has been achieved in terms of improving access to credit for smallholder farmers. In the case of Mozambique, previous attempts by government to improve access to credit for farmers were not successful and the government is looking for more effective strategies. The purpose of this study is to examine experiences in other developing countries in Africa and Asia. The study is a multiple case studies selected from Zimbabwe, Thailand and Indonesia.

The data collection method comprised a combination of primary collected through in-depth interviews with key informants and secondary sources. The data analysis techniques consisted of searching for themes regarding successful strategies in terms of dealing with costs and risks of lending to agriculture.

Lessons from these cases were drawn to shed light on what the most effective intervention strategy for the Government of Mozambique could entail if it is to succeed to improve access to credit for smallholder farmers. The study concludes that an alternative strategy by the government to improve access to credit for smallholder farmers includes the re-establishment of a public rural bank. The study recommends that rural financial institutions should adopt a demand-driven approach, and the *fundos do fomento* (special development funds) need to be reformed.

Key words: smallholder farmers, access to agricultural credit, government intervention, Mozambique and other developing countries.

1. INTRODUCTION

Despite many decades of experimentation with supplier-led approaches to credit throughout the developing world, limited success has been achieved in improving access to credit and many developing countries are still searching for better ways to improve access to smallholder farmers.

When demand exists and the environment is sufficiently competitive, banks can be expected to extend access to credit to include a variety of clients, including smallholder farmers and firms who are currently considered to be high-risk and too high-cost for financial viability of credit provision. However, the reality in the developing world is that there are many mismatches between potential demand and supply of financial services, which makes the exact source of market failures vague when they occur. In addition, as noted by Classens (2005), there is very limited evidence across countries on factors affecting access to financial services for small farm households and small firms.

1.2 Brief overview of Rural Mozambique

The agricultural sector has been the backbone of the economy of Mozambique for many decades. About 80% of the population rely on agriculture for their livelihood and, indeed, it represents about 95% of Mozambique's primary sector (AfDB/OECD, 2006). Between 40% and 60% of export earnings in the country stem from this sector (AAAS/International/Africa, 2000; The New Agriculturist, 2004). Despite agriculture being heavily dominated by food production for Mozambicans' own consumption, the country not only imports more capital goods, fuel and energy, but also a huge amount of financial resources is expended on staple foodstuffs.

Policy constraints, together with the chronic lack of access to improved varieties and crop management techniques, have been preventing smallholder farmers from accessing improved food crop technologies and markets. Therefore, the low level of output and marketable surplus leads to food insecurity, with adverse consequences for labour productivity (ECI, 2003; MSU/MADER, 2004). With very limited access to external inputs, smallholder farmers remain with low levels of productivity. Extremely weak or non-existent financial services and lack of market facilities are key constraints to smallholder access to such inputs, and productivity enhancements cannot be achieved if the lack of investment in rural financial markets continues.

1.3 Demand-driven paradigm for rural financial markets

A shift in paradigm to a demand-driven approach in rural financial markets seems to be one way forward, if the aim to ameliorate the poverty of smallholder farmers and to promote rural economic development is to be realised in a developing country such as Mozambique. As a result, a major challenge exists for Mozambique and other developing countries to identify sound rural finance institutions to serve smallholder farmers who, most often, have not been served by traditional formal banks and microfinance programmes.

Since many of the services required to promote smallholder farming and agricultural development are public goods (land, roads, water facilities, research and extension, etc.), one can expect little progress in achieving the objectives of agricultural development without government intervention. However, in the case of Mozambique, it is not clear whether the current proliferation of small donor-financed credit projects, including the special development funds (known as *fundos do fomento)*, throughout the country, can be transformed into a more comprehensive credit market which is pro-poor, especially since the type of state coordination needed is not yet known.

1.4 Research Questions

In view of the poor performance of past and current government strategies implemented in Mozambique in this regard, and the existence of successful government efforts elsewhere, the following research questions arise:

(1) What went wrong with the government strategies implemented in Mozambique between the mid-1970s and the mid-2000s in attempting to improve access to agricultural credit for smallholder farmers?

(2) What are the positive experiences with government intervention strategies that have been implemented in other developing countries of Africa and Asia and that have succeeded in improving access to agricultural credit for smallholder farmers?

(3) What can Mozambique learn from these countries with effective government intervention strategies that have succeeded in resolving or ameliorating the problem of the lack of access to agricultural credit for smallholder farmers?

3. DATA SOURCES AND METHODS

In this study, the multiple case studies method was selected because of the need for an extensive examination of the context in which previous government strategies failed in the given situation. The case studies are also suitable for this study because of the need to explore alternative innovative approaches that were adopted by other developing countries to improve access to credit for smallholder farmers. The research efforts were organised around a study of the cases of Thailand, Indonesia, and Zimbabwe, in comparison with the Mozambican case. Data were collected from primary and secondary and sources. Data were collected from secondary and primary sources: Literature review, interviews, focus groups, informal interviews with key informants in Mozambique and Zimbabwe. Attendance at a workshop on: Contracting Smallholder Farmers in Cash Crops Credit Schemes in Zimbabwe, and on field days. Qualitative methods of data collection included participatory observation during in-depth scheduled interviews with farmers. The data analysis techniques were used namely description of the main findings about successful government intervention strategies. Lessons from these cases were drawn and the analyses of the case studies were undertaken as an attempt to provide answers to the three research questions of the study.

4. RESULTS AND DISCUSSION

This chapter presents and discusses the results of the study. The first section considers the efforts by the government of Mozambique to improve access to credit for smallholder farmers. The second section discusses the main findings from the case studies. Thereafter, based on the findings of the study in Mozambique and other countries, the lessons were drawn from other developing countries in this regard.

4.1 Efforts by the Government of Mozambique to improve access to agricultural credit

Mozambican government efforts to develop a strategy to improve access to credit to smallholder farmers from the post-colonial era until the mead 2000s included: the establishment of the BPD, a development bank; privatisation of the BPD; establishment of parastatals and Government Development Funds. The BPD collapsed and the parastatals are currently performing poorly. The privatised commercial banks, including Austral, simply neglected the expansion of the bank’s portfolios for smallholder farmers. Agricultural development funds are experiencing managerial problems, face a scarcity of skilled field staff, and shortage of funds leading to their survival being brought into question.

4.1.1 The development bank: the People’s Development Bank approach

Direct government intervention for improving access to credit for smallholder farmers in Mozambique included establishing in 1977 a development bank, the *Banco Popular de*

Desenvolvimento (BPD), with the aim of creating an incentive for capturing savings, as well as of providing investment facilities to agriculture, industrial, housing and other sectors of the economy (Lubrimo, 2000). However, on average, the agricultural cooperatives received only 5% to 10% of the total investment allocated by the BPD for the agricultural sector. In fact, the majority of the smallholder farmers, including the villagers, received almost nothing at all between 1977 and 1981 (Assane, 1999; Gaspar, 2000). Therefore, the smallest proportion of the financial resources was allocated to this sector.

According to (Hanlon, 2004) in the 1980s, the BPD of Mozambique faced serious liquidity problems arising from:

- mismanagement and improper loans;
- inadequate credit assessment and monitoring procedures;
- lack of loan recovery and collateral provided in many cases proved to be difficult to liquidate;
- lack of appropriate technical expertise and technology;
- shortage of qualified human resources

As a result, the BPD increased interest rates, and made loans to newly opened sectors of the economy. However, by the 1990s, the bank was unable to settle the claims of local depositors and indeed, it was technically insolvent (Hanlon, 2004). Consequently, in 1991 World Bank suggests BPD be shut down (ISSN, 2002; ECI, 2003).

Following Decree No. 21/95 of 16 May, the former BPD bank was proclaimed a commercial bank. However, the privatisation of the BPD has led to a concentration of its lending portfolio on less risky and bigger operations, and indeed, it failed to expand its lending services to smallholder farmers (Matola, 2001). As a result, in 1995, the BPD was liquidated. The BPD was turned into a commercial bank, with mainly urban focus.

4.1.2 Lessons from the Banco Popular de Desenvolvimento of Mozambican

Owing to problems of imperfect information in rural areas of Mozambique, mismanagement and moral hazard, the BPD's day-to-day management operations also deteriorated. Many lessons can be drawn from the failures of the BPD to improve access to credit for smallholder farmers in Mozambique including that:

- Bad banking management, political interference and the civil war undermined BPD.
- Neglecting the provision of savings while emphasising lending at subsidised interest rates did not work.
- Lower interest rates were not translated into improving access to credit.

Furthermore, the fact that the BPD also lacked a strategy to improve the business skills of the recipients of subsidised credit, lacked institutional capacity to enforce mechanisms for timely loan repayments, coupled with the fact that; the beneficiaries, lacked credit culture and discipline, led to high loan default rates.

4.2. Cases studies

This section has addressed the strategies by the governments from Asia and Africa with positive experiences in improving access to credit for smallholder farmers, respectively, the cases of Thailand and Indonesia and the case of Zimbabwe.

4.2.1 The case a profitable agricultural government-owned bank in Thailand

The Thai case study is a profitable agricultural government-owned bank which illustrates the reform policies undertaken at the Bank for Agriculture and the Agricultural Cooperatives (BAAC) of Thailand, which led to new methods of lending technology that suit smallholder farmers credit needs.

Several studies (Klein et al., 1999; Meyer & Nagarajan, 2001; Christen & Douglas, 2005) have found that Thailand is one of the few Asian countries with strong financial institutions that are capable of serving a large number of smallholder farmers.

The strategies by the BAAC included the provision of many financial services such as;

- mobilised most of its resources through savings & lent to 86% of farm households in Thailand;
- use of joint liability methods 4 those without traditional collateral (75% of the borrowers; groups ranges from 5-30 members), including those who are engaged in non-farming activities; and
- loans to individuals with higher income and collateral.

Therefore, the Thailand case has shown that, in spite of the shortcomings that have trapped agricultural development banks in many developing countries in the past three decades, lessons can be learnt from some government developing banks such as the BAAC. These lessons suggest that it may be feasible to reform agricultural development banks and also greatly improve their banking operations and outreach. This can only be accomplished if certain critical preconditions to facilitate their rehabilitation are in place. These include a favourable financial system environment, a real commitment to the profitability and sustainability of the rural bank operations, and an effective demand for rural financial services.

4.2.2 The successful case of reforming a government-owned bank in Indonesia

The Bank Rakyat Indonesia (BRI) is one of a few notable examples of banks that have reformed successfully and achieved the goal of improving access to credit for smallholder farmers. It remains a unique profitable agricultural government-owned bank in Indonesia. The BRI of Thailand initially experienced problems similar to BPD but reacted quickly to change to survive. It implemented sound policies and a massive staff retraining programme, which turned its microfinancing unit to become a “tremendous” success (Seibel, 2000a).

The case of the BRI has shown that if a bank is to succeed in implementing reforms, it requires setting up an appropriate legal and regulatory framework including setting prudential norms and effective internal controls and external supervision, and should entail operational autonomy and freedom from political interference in its daily basis operations (Seibel, 2000a). Therefore, the results from Box 1 reveal that, in addition to interest rate deregulation and a management initiative to commercialise operations and supervision, innovative ways of lending to rural clients were also part of the core of the success of the BRI.

4.2.3 Across the two Asian Case Studies

Both the Asian cases from Thailand and Indonesia provides to Mozambique valuable lessons to succeed in improving access to credit for smallholder farmers through a government development bank including:

- extensive system of branch banking was critical to reach and capture savings and loans;
- local savings mobilisation is a sustainable source of funds for lending and diversifying the loan portfolio; and
- the importance of investing in infrastructure (e.g. a computerised accounting system; communication systems, telephones; and roads).

A summary of the key characteristics and indicators of success of the BAAC and the BRI is contained in Table 1.

4.4. The case study of Zimbabwe

Section four presents the African experience with a relative success in improving access to credit for smallholder farmers through a government owned development bank. The case Zimbabwe records provides some positive lessons by demonstrating various strategic interventions for dealing with market failures in rural areas with the government playing an active key role.

4.4.1 Agricultural Finance Corporation (AFC)

Since independence in 1980, the Government of Zimbabwe has always played an active role in extending agricultural credit to smallholder farmers for crop and livestock production. In 1980 and 1981, the government declared that loans would be granted to smallholder farmers in an attempt to redirect institutionalised agricultural credit. The smallholder farm credit scheme was thus established through two statutory financial instruments. This led to the establishment of the AFC which granted credit to smallholder farmers (Zumbika, 2000). Access to credit for smallholder farmers through AFC improved while long-term loans were granted to large-scale commercial farmers for infrastructural development projects (Rukuni, 2006).

Zumbika (2000) explains that the exponential increase in demand for loans by smallholder farmers occurred in response to the shift in paradigm undertaken by the AFC. Furthermore, smallholder farmers became aware of the advantages of obtaining loans from the AFC that enabled them to adopt modern methods of farming. Farmers also began to realise that the use of modern technology made possible by access to credit from the AFC would enable them to increase their crop production and income. The increasing demand for loans from the AFC occurred in tandem with the government's financial support for the smallholder farmers.

The results from Table 2 show, that from 1982 to 1997, there was a noticeable and steady increase in the number of loans granted. Although it is evident from same Table that the number and value of loans have decreased since 1997, through the AFC lending approach, the government has, to some extent, succeeded in its efforts to improve access to credit for smallholder farmers. The figures in Table 2 illustrate this achievement. This may be attributed to the direct government intervention in the rural financial markets by establishing a financial institution and mobilising funds to be used for lending activities.

The strategy by the Government of Zimbabwe to improve access to credit for smallholder farmers by promoting cash crops such as tobacco, led to the diversification from flue-cured tobacco, only grown by white commercial farmers, to other types of tobacco (air-cured and oriental) which mainly smallholder farmers began to grow. However, it is evident from Table 3 that, the goal to improve access to credit for smallholder farmers was in fact achieved in the first decade but was not maintained in the second decade. Therefore, between 1988 and 1991, the AFC did not perform well and this can be explained by the value of the loans which began to decline slightly. Later on, between 1997 and 1999, the AFC did not perform well at all, which can be seen from the further sharp decline in the supply of funds. This indicates that, between 1988 and 1991, the AFC's performance started to be threatened by the mismatching of the demand for loans by smallholder farmers and the supply of loans granted by this institution. The AFC realised that the smallholder farmer's credit system would no longer be viable and sustainable, particularly because government no longer guaranteed the loans after 1985. Therefore, the AFC had to revisit its credit delivery system and the overall management of the smallholder agricultural lending portfolios. In addition, the undue interference by politicians had to be addressed.

4.4.2 Lessons from Zimbabwe: Agricultural Finance Corporation (AFC)

- farmer associations associated with a cash crop (tobacco): minimise the costs of production;
- requirement for farmers to contribute a proportion of total amount of a loan;
- loans to both small scale and large scale commercial agriculture;
- insurance required as one of the strategies to deal with the risks of lending to agriculture (govt. as guarantor); and
- credit can lead to increase technology adoption.

4.4.3 The agricultural government bank strategy since 2000

In 2000, the Government of Zimbabwe established an agricultural development bank, Agribank, as one of the major strategies to recapture the past gains of the government in its efforts to improve access to credit for smallholder farmers. The aim establishing the Agribank was to fill the vacuum that had been left by the AFC. The government created the Agricultural Development Assistant Fund (ADAF) under the umbrella of Agribank (Zumbika, 2000).

The finding of this study shows that the Government of Zimbabwe faced similar challenges to those of the Government of Mozambique, including the shift from the policies designed during the colonial era that favoured white commercial farmers to new and inclusive policies towards developing the smallholder farming sector. However, in the case of Zimbabwe, after its independence, the government managed to design and implement policies that led to encourage smallholder farmers to adopt modern technology. These policies were meant to enable smallholder farmers to produce reasonable volumes of marketable food and cash crops. Strategies to achieve this goal included the launch by the Government of Zimbabwe of agricultural credit delivery schemes targeted at the smallholder farmers. In addition, the establishment of an agricultural development bank by the government also demonstrates that improving access to credit for smallholder farmers can be achieved if the government plays its role yet without interfering politically in the operations of the bank. Furthermore, proper lending conditions should be designed and implemented. In the case of the Agricultural Development Bank of Zimbabwe, the creation of an agricultural development assistant fund under its umbrella was a positive initiative.

4.5. Requirements to be addressed by rural financial institutions

Based on the Asian and African case studies, section five presents the requirements that need to be met by rural financial institutions in Mozambique in an attempting to improving access to credit for smallholder farmers. Strategies to increase borrowers' willingness to repay should include:

- imposing penalties on late payment and making use of peer pressure;
- positive incentives, such as levying interest, to stimulate on-time payments;
- maintaining an efficient internal information system;
- professional management and considerable autonomy in their day-to-day operations;
- using bonus payments to promote high levels of staff efficiency;
- proper risk management measures and strategies must be developed and implemented;
- interest rates must be charged taking into consideration the market forces, but differentiated according to the categories of farmers;
- loans need to be profitably allocated to various income generating activities.

5. CONCLUSION AND RECOMMENDATIONS

The study conclude that since loans in all at the former Mozambican People's Development Bank were provided only at subsidised interest rates, the bank (including the current rural finance institutions such as the development funds) had also overlooked the capacity of some of their clients to pay market related interest rates, while political interference led to politically well connected clients not being followed up when they failed to repay their loans. Therefore, these credit institutions and the BPD were also left with no alternative but to expand their sources of funds to non-agricultural projects. Therefore, smallholder farmers were persistently and continuously excluded by financial institutions such as commercial banks and semi-formal credit schemes operating in Mozambique.

Experience from Thailand and Indonesia suggest that re-establishing a formal development bank can be effective if it presents a different face from that of the former BPD. However, the implication of this is that legislation for rural banks needs to be evaluated to ensure sounds legal environments for a public rural financial institution. In addition, financial sector policies need to be reviewed to determine whether they are appropriate for creating an environment conducive to financial innovations, particularly in the case of parastatal financial institutions and government developing funds.

As demonstrated in Thailand, sufficient financial resources need to be mobilised and made available for the rural financial institutions to ensure that these are reasonably equipped to meet the credit needs of the smallholder farmers. Thus it may be necessary for the government to commit a certain portion of funds from its national budget to re-establish a government development bank while additional resources can be sourced from international development agencies and the donor community.

Another key lesson from Zimbabwe and Thailand is that investment in human capital development in Mozambique for the financial system is an essential investment alongside investment in infrastructure. Skilled human resources can not only ensure viable daily financial operations, but also look for innovations in rural services delivery systems, such as credit through cell phones and mobile ATMs.

REFERENCES

AAAS/International/Africa. (2000). Science in Mozambique, Opportunities for US Collaboration. Republic of Mozambique: Compendium on Investment and Trade.

AfDB/OECD. (2006). African Economic Outlook 2005-2006. Mozambique Figures. www.oecd.org/dev/publications/africanoutlook.

Assane, B. (1999). Credito aos Pequenos Agricultores. Disponibilidade, Necessidade e Problemas. Unpublished Honours Thesis, Faculty of Economics, University of Eduardo Mondlane, Maputo, Mozambique.

Claessens, S. (2005). Access to Finance Services: A Review of the Issues and Public Policy Objectives. *World Bank Policy Research Working Paper 3589* May 2005.http://econ.worldbank.org, 12 September 2006.

Christen, R.P., & Douglas, P. (2005). Managing Risks and Designing Product for Agricultural Microfinance: Features of an Emerging Model. The Microfinance Gateway

Ebony Consulting International, [ECI]. (2003). Focusing the *fundos do fomento*, Draft7: February 2003.

Forum for Food Security in Southern Africa, [FFSSA]. (2004). Food Security Options in Mozambique: One Country Two Worlds. Consultation Draft, Country Food Security Option Paper No. 3. Retrieved May 15, 2007, from http://www.odi.org.uk/food-security-forum

Gaspar, N. (2000). Evolution of the System of the Mozambican Bank from 1975 to 1992. Maputo, Banco de Moçambique.

Hanlon, J. (2004). Do Donors Promote Corruption? The Case of Mozambique. *Third World Quarterly*, Vol. 25, No. 4, pp. 747-763.

Klein, B., Meyer, R., Hanning, A., Burnett, J., & Fiebig, M. (1999). Better Practices in Agricultural Lending. Agricultural Finance Revisited. Food and Agriculture Organization of the United Nations (FAO), *Deutsche Gesellschft für Technisch Zusammenarbeit* (GTZ), No. 3, December.

Lubrimo, M.I.M. (2000). Estrutura e Organização dos Bancos Comerciais: O caso do Banco Austral. Bachelors Honours Thesis, Faculty of Economcs, University of Eduardo Mondlane, Maputo, Moçambique.

Matola, G.E.A. (2001). Banco Austral: A privatização e os seu impacto nos recursos humanos. Unpublished Honours Thesis, Faculty of Economy, University of Eduardo Mandlane, Maputo, Mozambique.

Meyer, R.L. (2002). Performance of Rural Financial Markets: Comparative Observations from Asia, Latin America and the U.S. Invited paper presented at the annual meeting of the Brazilian Agricultural Economics Association (SOBER). 28-31 July 2002. Passo Fundo, Brazil.

Meyer, R.L. & Nagarajan, G. 2001. Development of Rural Financial Markets. *Agricultural Credit in Asia and the Pacific, Tokyo: Asian Productivity Organization*, pp. 75-89.

MSU/MADER (Michigan State University (MSU), Department of Agricultural Economics and Ministry of Agriculture and Rural Development (MADER). (2004). Strengthening Mozambican Capacity to Harness Technology, Markets and Policies for Accelerated Productivity Growth and Poverty Reduction. A Proposal in Support of PROAGRI 2. August.

Mucavele, C. (2006). (Former National Director of the National Direction of Rural Extension at the Ministry of Agriculture and the former President of the FFA). Maputo, Mozambique. 16 April 2006. Personal communication.

Seibel, H.D. (2000a). Agricultural Development Banks: Close Them or Reform Them? *Financial and Development*, Vol. 37, No. 2, June 2000.

Seibel, H.D. (2000b). Challenges, Opportunities and Options for the Development of Rural Financial Institutions. University of Cologne Development Research Center and IFAD Rural Finance Working Paper No. 96345.

The New Agriculturist. (2004). Country Profile: Mozambique.

Zumbika, N. (2000). *The Challenges of Lending to Smallholder Farmers in Zimbabwe: A Personal Experience of Lending to Smallholder Farmers in Zimbabwe*. Association Companies, Branches and Representatives throughout the World, Kaycee Printers Harare, Zimbabwe.

Box 1: Reforms at the agricultural development bank of Indonesia

Bank Rakyat Indonesia: The Agricultural Development Bank that revolutionised rural finance
Many lessons derived from the BRI's experience: • Financial sector policies work successfully and create an environment conducive to financial innovations. • With attractive savings and credit products, appropriate staff incentives and an effective system of internal regulation and supervision, rural microfinance could be profitable. • The poor can save and rural institutions can mobilise their savings cost-effectively. • Without credit-biased incentives, the demand for savings deposit services exceeds the demand for credit by a wide margin. • Incentives for timely repayment are successful. • Transaction costs can be lowered and outreach to the poor can be increased by catering for both the poor and the non-poor with their widely differing loan size demands. • Outreach to a vast number of low-income people and financial self-sufficiency are compatible. • Agricultural development banks can be transformed into sustainable providers of microsavings and microcredit services.

Source: Seibel (2000b)

Table 1: Selected characteristics and performance indicators of the BAAC and the BRI

Item	**BAAC**	**BRI**
Year established/reorganised	1966	1983/84
Clientele	Farmers, cooperatives, farmers' associations	Rural low and middle-income households
Financial services	Loans and savings deposits	Loans and savings deposits
Lending technology	Group and individual	Individual
Approximate number of loans outstanding	3.1 million	2.3 million
Volume of loans outstanding	US$ 1,285 billion	US$ 1.2 billion
Average outstanding loan as a percentage of GDP per capita	42	54
Average annual volume of savings	US$ 2.8 billion	US$ 2.6 billion
Average annual volume of savings as a percent of average annual outstanding loans	66.5	199
Number of savers	4.4 million	14.5 million
Approximate nominal effective annual interest rate	8.3 to 15.5	32.7
Interest rate spread	1995:4.1	1994:21.7
Total operating costs as percentage of Annual average outstanding loans	1995:3.5	1994:13.5
Return on assets	1995:0.55	1994:4.8
Percentage of outstanding loans in arrears	8.3	6.5
Subsidy dependence index	1995:35.4	1995: negative

Source: Adapted from Meyer & Nagarajan (2001); Meyer (2002)

Table 2: Loans granted by AFC to smallholder farmers in 1982-1999

Year	**Number of loans**		**Value of loans**	
	Number	**Percentage change**	**Value ($Million)**	**Percentage change**
1982	34 710	-	15, 200	-
1983	46019	33	19,200	26
1984	92962	102	42,100	119
1985	88463	(5)	51,400	22
1986	93061	6	58,900	15
1987	91094	(3)	78,200	33
1988	82644	(9)	65,200	(17)
1989	65841	(20)	52,500	(19)
1990	49883	(24)	43,800	(17)
1991	35609	(29)	34,700	(21)
1992	34378	(3)	47,03	36
1993	20979	(39)	56,350	20
1994	17844	(15)	83,790	48
1995	13190	(26)	114,855	37
1996	12736	(3)	116,870	2
1997	22077	73	215,414	84
1997*	5869	(73)	121,305	(44)
1998	353	(94)	30,696	(75)
1999	496	40	35,000	14

Source: Agricultural Finance Corporation (2000)