



FINANCIAL PRODUCTS FOR FARMERS AND SERVICE PROVIDERS REPORT

Zimbabwe

Farm Mechanization and Conservation Agriculture for Sustainable Intensification

(FACASI)

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1. INTRODUCTION

Agriculture in Zimbabwe provides employment and income for 60-70 percent of the population, supplies 60 percent of the raw materials required by the industrial sector and contributes 40 percent of total export earnings. Despite the high level of employment in the sector, it directly contributes only 15-19 percent to annual GDP, depending on the rainfall pattern (Government of Zimbabwe, 1995).

Loans to the agriculture sector in Zimbabwe take up 19% of the total \$3.8 billion availed by the banking sector since dollarization. 60% of the funds availed to the agriculture sector in the 2014/2015 season were channeled to finance tobacco farming as this is a safe haven for bankers because of the high repayment rate. (Herald, 2014; Financial Gazette, 2015). Local banks have set aside nearly \$1 billion to support the 2015-16 agricultural season as Government with the bulk of the money was earmarked for strategic crops and livestock production (Zimbabwe Daily, 2015).

The local banks in Zimbabwe are offering short term loans which are not sufficient for the myriad financial requirements in Agriculture (The Herald, 2015). Bankers Association of Zimbabwe President highlighted that in order to solve the limited credit to agriculture in Zimbabwe value chain finance offers an opportunity to expand financing for agriculture, improve efficiency and repayment in financing, and strengthen or consolidate linkages among participants in value chains. For financial institutions, value chain finance creates the impetus to look beyond the direct recipient of finance to better understand the competitiveness and risks in the sector as a whole and to craft products that best fit the needs of the businesses in the chain. Through financing the agriculture value chain by considering the different actors from small farmers to corporate agribusinesses, it is possible to overcome the challenges of agriculture in the country (Financial Gazette, 2015)

After lifting a decade long sanctions that had been imposed on Zimbabwe, under the 11th EDF, 88 million euros has been earmarked for agriculture as the engine of economic growth. EU last year launched four projects worth 20 million dollars aimed at supporting communal irrigation schemes, development of productive small holder livestock sector as well as sustainable forest management in order to build small holder farmers' resilience to external shocks and enhance their productivity and efficiency in service delivery. However Zimbabwe's agricultural sector continues to experience severe challenges within its entire value chain, including insecure land tenure, unreliable public services, lack of access to affordable inputs and difficulties in finding appropriate agricultural financing (Africa News, 2015)

2. The Financial Sector in Zimbabwe

Zimbabwe's financial sector consists of a Reserve Bank, discount houses, commercial banks, merchant banks, finance houses, building societies, the Post Office Savings Bank, numerous insurance companies and pension funds and a stock exchange (Banking sector analysis: 2013). A total of 19 banks are operating in Zimbabwe and their operations are controlled by the Banking Act. The Reserve Bank of Zimbabwe (Bankers association of Zimbabwe) directly supervises these banks. The financial sector also comprises of Microfinance Institutions (MFIs) which are supposed to service the economically active poor and other marginalized groups who cannot meet the stringent requirements of the banks. Zimbabwe currently has 172 MFIs registered as of February 2014 (Banking sector analysis: 2013).

Commercial banks carry out their business through a network of branches, agencies and mobile facilities. In Domboshawa they use Harare as their town so all banks are there and in Makonde the available banks are Cabs, CBZ, Barclays, Agribank, POSB, CBZ, Allied Bank, FBC and ZB. The banks offer current and deposit account facilities, and provide loans and overdrafts to needy business organizations and individuals.

3. Objective and Methodology

The aim of FACASI is to mechanise agriculture through small machinery. FACASI Zimbabwe is encouraging service providers and private sector companies to buy business kits of the 2WT and or equipment in Table 2. So the study is looking at the financial products available and their possibility to finance players in the 2wt mechanisation value chain.

Table 1: Business kits procurement prices

Business Kit	Purchase Price
2 wheel tractor single row planter	2,800
2 wheel tractor double row planter	2,900
Sheller (multipurpose)	1,500
Small sheller + generator	215
2 wheel tractor and trailer	3,800

The objective of this study is to highlight the financial products offered by banks to individuals and companies in Zimbabwe with special focus on players in the mechanisation value chain. In doing so, the study focuses on the minimum requirements of banks in order for one to access loans and their implications on access to credit. In addition, the paper looks at the affordability of these financial products and discussing the implications of the lending rates on beneficiaries. To understand these financial products three main approaches were used in this study. First, purposive sampling was

done on the existing banks using their websites to check on the network of their branches across the country.

Secondly a desktop study was carried out through reviewing literature on the financial products offered by the banks. The approach mainly involved visiting the bank's websites and accessing relevant documents on the products as well as the costs of accessing the products. To verify some of the findings from desktop studies and to have current information on the financial products consultations were made with the bankers. These consultations did not only provide an opportunity for verification of findings from desktop study but also provided an opportunity for seeking clarification on some aspects of the banks' products that were not well explained on the websites and other ancillary material.

Thirdly, random sampling was done on the existing MFIs selecting from the list of MFIs in Zimbabwe and calls were made to understand the products they are offering. Again consultations were made with a key informant who works for Zimbabwe Microfinance Fund, a board that finances some MFIs, and names of microfinance institutions that normally fund agricultural activities or deals with agro based clients were given.

The next sections provide an overview of the financial products offered to by the Zimbabwe financial sector.

4. Results and Discussion

The financial products to be discussed cover the available products from the banks available to the players in the mechanization value chain: - these are the farmer, supplier, manufacturer, importer and the mechanics.(Table 2) Most of the available financial products are available to the salaried, business persons and established companies or enterprises, as they do not support start up businesses. Banks have got stringent requirements that the ordinary Zimbabweans do not meet. The stringent requirements by banks to leave out most small scale commercial farmers who do not have formal employment and are thus likely not to have documents such as payslips required to process the loans. This finding is supported by a study done in Zimbabwe which showed that the formal financial system services about 30% of the economically active population whilst the remaining 70% are excluded from access to formal financial services (Banking sector analysis, 2013). This therefore means that the formal banking sector is not accessible to most people.

The banks which were visited are those which have visibility in most towns around the country. It is also important to note in this report that a visit to the banks was made after the Supreme Court of Zimbabwe ruling of Friday 17th July 2015 which states that an employer has a right to terminate an employment contract on three months' notice in terms of an employment contract or in terms of the Labour Relations Act. This ruling has seen to a number of workers loosing employment and this has impacted on the financial products that some banks normally offer, as they fear to give a loan to someone who might be unemployed in the following month. A challenge was faced with some banks as they did not want to disclose information about their loans to someone who does not have an account with them.

Results from the microfinance study reinforce the study of SAPRIN, 2002, where they found evidence that indicates that financial reforms have failed to work for the poor and other economically disadvantaged groups and that, these groups have been further marginalized from the credit and financial system through market forces of exclusion. Instead of MFIs being the ones serving the unbankable in Zimbabwe, the MFIs have followed in the footsteps of the banks; the only difference is that the MFIs reach out to many clients than banks which might not have branches in some towns. Interest rates for microfinance institutions range from 4.5%-18% per month which is higher than that of banks. Some microfinance institutions have got stringent measures which are just like the banks. The bizarre economic situation in the country has seen to some MFIs reducing their loan repayment period from 6months to 3month to curb for uncertainties.

5. FINDINGS

Table 2: Banks and Microfinance institutions and the financial products they offer

Stakeholder	Source of finance	Max. amount	Interest rate (%)	Repayment period (yrs)	Collateral terms	Comments
Manufacturer/Importer	CBZ bank	10000	18	1	Title deeds and land tenure	This agribusiness loan have currently been suspended for poultry and machinery
SP/Mechanics/Farmer	CBZ bank	3X net salary	22%	1	Salary comes through the bank	
SP/Mechanics/Farmer	Stanbic Bank	3X net salary	15%	1	Salary comes through the bank	
SP/Mechanics/Farmer	CABS bank	7X net salary	25%	1	Salary comes through the bank	Temporarily suspended the facility
Manufacturer/Importer/SP/Mechanics/Farmer	CABS bank	50% property value	20%	Variable	Title deeds	Use your paid up property to get half value as loan
Manufacturer/Importer/SP	CABS bank	500000	20%	3	Title deeds, immovable property, financial records	arrangement fee 2%, security registration fees
SP/Mechanics/Farmer	MBCA bank	5000	23%	2	Salary comes through the bank	
Importer/SP	MBCA bank	Relative	15.0%	5	Account with the bank, 20%deposit,	Vehicle Asset Finance, bank buys the vehicle and keeps the registration book until after

						completion of payment.
SP/Mechanics/Farmer	Banc ABC	20000	25%	1	Salary comes through the bank	Minimum salary of \$500 for qualifying
SP/Mechanics/Farmer	Barclays	10X net salary	19%	3	Salary comes through the bank	The service has been temporarily suspended
SP/Farmer	Steward bank	300	5% establishment fee	0.25	Ecocash save basic account, active ecocash user	Targeted at Econet subscribers (a telecommunications company)
Manufacturer/importer/SP	Steward bank				Immovable property and cash cover	Fund set up by Zimbabwe Agricultural Development Trust' (ZADT) to support smallholder farmers
Manufacturer/Importer/SP/Mechanics/Farmer	ZB Bank	300000	14.50%	2	Immovable property and cash cover	
Manufacturer/Importer/SP/Mechanics/Farmer	ZB Bank	10000	5%/month	0.5	Salary comes through the bank	Repayments can be discussed with the bank to match the cashflows.
Manufacturer/Importer/SP/Mechanics/Farmer	Agribank	8X net	18%	2	Salary come through the bank	
Manufacturer/Importer/SP/Mechanics/Farmer	Agribank MFI	Depends on project	2000	0.5	Cashflows required and collateral	These are SME loans

Manufacturer/Importer/SP/Mechanics/Farmer	Microking Finance MFI	5000	6%	1	Property as security and title deeds	Currently servicing repeat borrowers only
Manufacturer/Importer/SP/Mechanics/Farmer	Virl MFI	1000	6%/month	2	title deeds or vehicle registration book, business records for the past 3 months	Do not finance start ups. 5% administration fee and 2% insurance upon loan disbursal
Manufacturer/Importer/SP/Mechanics/Farmer	Virl MFI	10000	6%/month	2	title deeds or vehicle registration book, business records for the past 3 months	Do not finance start ups. 5% administration fee and 2% insurance upon loan disbursal
Manufacturer/Importer/SP/Mechanics/Farmer	Untu MFI	5000	4.5%/month	1	Source of income/ title deeds/guarantor	This is for micro leasing
Manufacturer/Importer/SP/Mechanics/Farmer	Untu MFI	5000	5.5%/month	0.5	business records, guarantor	These are for a business loan
Manufacturer/Importer/SP/Mechanics/Farmer	Quest MFI	1000	15%/month	0.5	3month bank statement, 2 latest payslips, company documents	salary based loan
Manufacturer/Importer/SP/Mechanics/Farmer	Credfin MFI	Varies with asset	16.50%	1	Bank statement, confirmation of employment and salary slips	Help you to procure an asset

Manufacturer/Importer/SP/Mechanics/Farmer	First Micro Credit MFI	120% of net	10%/month	1	3month bank statement, copy of payslip and proof of residence	
Manufacturer/Importer/SP/Mechanics/Farmer	Zimnat Financial Services MFI	3X net salary	6.5%/month	1	3month bank statement, copy of payslip and proof of residence	Targeting civil servants and private companies that they have MOUs with
Manufacturer/Importer/SP/Mechanics/Farmer	Kingcash finance MFI	1000	10%/month	0.25	Vehicle and submit original registration book	
Manufacturer/Importer/SP/Mechanics/Farmer	Kamlish investments MFI	5000	<500-15%, 500> 12.5%	0.25	Copy of payslip	Targeting civil servants and bankers
Manufacturer/Importer/SP/Mechanics/Farmer	Kamlish investments MFI	5000	<500-15%, 500> 12.5%	1	Electrical movable gadgets	Collateral based loans
Manufacturer/Importer/SP/Mechanics/Farmer	Mtilikwe Financial Services MFI	400	18%/month	0.5	3month bank statement, copy of payslip and proof of residence	Consumer loans

5.1. Salary based loans

Salary based loans are one of the common financial products being offered by banks. As a basic requirement to accessing loans, an individual or a group must have banked with a particular bank for a minimum period of between 3 and 6 months. In addition, for one to access this loan, their salary should be coming through a particular bank or have a regular inflow of money into the given account. These loans can be offered up to ten times one's net salary and the interest rates range from 17% to a maximum of 25% and is payable across varying time scales up to a maximum of two years. With regards to requirements, it can be observed that most financial products can only be accessed by an individual who is formally employed and has an account with the bank. Majority of the banks offer this product but some have since suspended salary based loans to clients who bank with them. Salary based loans have been suspended because of Friday 17th July 2015's Supreme Court ruling which states that an employer has a right to terminate an employment contract on notice in terms of an employment contract or in terms of the Labour Relations Act. Some banks such as FBC Holdings and Agribank have got a microfinance section which handles the loan issues. Most banks like FBC and Stanbic which are offering salary based loans are only targeting civil servants and particular companies on condition of a written undertaking from the employer for permanent employment for a given time.

Zimnat an MFI is offering consumer loans and they are only targeting civil servants, bankers and private sector companies that they have a memorandum of understanding with, this is so because they garnish the repayments at source, as salary based loans. The economic situation in the country has affected the financial products on offer; some MFIs like Mtilikwe Financial Services said they have stopped giving loans as they are waiting for repayments from previous transactions. MFIs have high lending rates compared to banks as they normally charge a rate per month whilst bank charge annually.

The least paid civil servant in Zimbabwe is earning \$360, which means looking at the bank offering the best deal of 10times net salary, the civil servant can access any business kit (small sheller \$315 – double row planter and 2WT \$2,800) they wish to procure. With this kind of deal the business model of the Individual entrepreneur, Group entrepreneur and the farmer led business models could be supported by these. Given the number of civil servants in the country which is 550 000, targeting them gives us a huge base of potential SPs who can contract some people to offer service provision.

Loan experience. A group of 26 farmers got input loans worth \$6,708 from Quest a microfinance institution to produce maize. The MFI deposits money into the accounts of the input suppliers of interest to the farmers to avoid misuse of the money. 100% loan repayment was achieved; there were constant visits to the farmers by Quest officers through the whole cropping season following up

5.2. Agribusiness Loan

The above section has shown that salary based loan is a common product across banks. However, these are not readily accessible to farmers particularly small scale farmers. In this regard, some banks have established an agribusiness section that is meant to cater for the agricultural sector. Typical banks offering this service include CBZ, MBCA, Agribank and ZB Bank. Unfortunately, agribusiness products are mainly targeted at commercial farmers who have title deeds or lease agreements for the land they use. This is a major bottleneck to smallholder farmers who have got user rights with no title deeds. This therefore eliminates the smallholder farmers from receiving these agribusiness loans. Furthermore, the majority of small scale farmers do not have financial records of their business operations and thus cannot prove the viability of their farming activities. In this regard, there is need to train small scale farmers on record keeping and business development as a first step towards building their requirements to accessing these loans (*NB- most banks do not support startup businesses but at least those which have been in business for a year and with proof of existence like records of cash flows*). The few banks that are offering these agribusiness products are only confined to certain localities. For instance, BancABC's agribusiness division is only found in Chiredzi where they are targeting large scale sugarcane farmers. Banks such as CBZ have suspended poultry and machinery funding due to failure by farmers to service their loans.

5.3. Overdrafts

Several banks offer overdraft facility but these are mainly targeted at executive clients, those that bank huge sums of money with the bank. The overdraft facility is normally given for a 30 day period, and these are given to selected corporate clients such as companies. Agribank for example offers interest free overdrafts to executive clients. CABS is one of the banks that offer overdrafts to clients who get their salary through the bank. The guarantee is that the bank will recover its money at the end of each month an overdraft is incurred.

5.4. Group Loans

FBC Holdings through Microplan their microfinance department offer group loans to groups with each member co-guarantying each other. The money is given to every individual in a group but the group is there to help encourage each other on payback. The arrangement is such that if a member of a group fails to pay back, the other members will pay and they will find means within their group to recover the money from the individual. This normally works since failure of one member to pay tarnishes the image of the whole group. As a result, members thrive to service their loans in order to maintain a good credit history. The requirements for accessing such loans are that the group should be a registered group with a constitution and a business account with the bank. Some banks can offer group loans to a group of farmers who are doing the same business and have got a constitution, but have been in business for at least a year with proof of existence.

5.5. Equity release

CABS offer equity release as a financial product. As summarised in Table 2, an individual offers their paid up property as collateral to CABS to get a loan of an amount which is less than or equal to the value of the property. CABS evaluate the value of property to be used as collateral. This product may work with our farmers who own properties with title deeds, that is for example some retired farmers who have got houses and other properties in town.

5.6. Ecocash Save loan

This facility allows customers to apply for Loans through their mobile phones. It targets Econet (Mobile network) subscribers only. A customer should be a registered EcoCash user with an EcoCash Save Basic Account. Vetting criteria will be applied by the bank on all applicants and an application will only be considered successful if the customer meets the vetting criterion which is based on the customer activity on EcoCash Save, EcoCash Usage and Airtime Usage. The more you save on EcoCash Save from your EcoCash wallet the higher the chances of qualifying for higher amounts. However the maximum amount one can access here is \$300.

5.7. Collateral based loans

For those without a salary, Kingcash Finance an MFI is taking vehicles only as collateral. This MFI offers instant loans with same day processing. Kamlish Investments another MFI is only taking movable electrical gadgets as collateral, these they would value first and give an equivalent loan amount depending on their terms.

5.8. SME and business loans

Micro-king finance an MFI which has previously funded smallholder irrigators in irrigation schemes said they are currently funding repeat Small and Medium Enterprises (SMEs) loans only, and they would consider engaging new clients at the end of the year but for SMEs only. These loans are only targeted at operational businesses which have been in existence for at least a year, with a proven track record of such. This form of finance is suited for our service providers who have already been in business, manufacturers, importers and mechanics. ZB bank is offering SME loans that go up to \$300,000 depending on the type of client.

5.9. Asset based loans

These are loans which are extended to an applicant as the asset that they wish to procure not as cash. Credfin microfinance is offering this facility which is one possible product we can tap for buying our machinery for salaried service providers. MBCA also offers vehicle asset finance where the asset bought acts as collateral but there is a variance in that the individual pays 20% value of the asset.

5.10. Microleasing

Micro-leasing is a contractual agreement between two parties, which allows one party (the lessee) to use an asset owned by the other (the lessor) in exchange for specified periodic payments. Untu is one institution which is offering this facility. However the stringent requirements are almost as those of banks where you should have some form of collateral and have some constant source of income proven by the bank statement. This facility is also one facility that our salaried SPs can tap into.

6. CONCLUSIONS AND RECOMMENDATIONS

In this study, we have highlighted the financial products that are offered by banks to individuals, groups as well as to farmers. It can be observed that while several products are available, they do not serve the interest of an ordinary small scale farmer. This is mainly a result of the basic requirements for accessing loans. These requirements include the need for one to have a proven regular source of income, collateral to guarantee the loan, and the need for financial and physical records, and these should reflect existence of at least a year in business if it is a group since they do not finance start-up businesses.

The most promising product which can be accessed by most farmers and SPs are salary based loans, these do not require owning a business but only require one to be banking with the bank. The other best bet is negotiating with the suppliers like ATA, and asking them to register with Salaries Services Bureau(SSB – which is responsible for paying civil servant salaries) so that they can sell equipment to civil servants and their money will be paid in instalments straight from the employer. These two products will support the individual entrepreneur model and group model. The Rent to own model is being supported by Farmshop, who is buying equipment, the tractors and planters and rent it to a service provider who will eventually take full ownership after completion of payment. This model is helping SPs around paying cash first in getting into the SP business. FACASI came up with a leasing model to get SPs around the liquidity crunch, where the SP pays a commitment fee and uses FACASI equipment to offer services for a season whilst raising money to buy own kit. We are still investigating other funding models that can be used for SPs and farmers.

In Zimbabwe it is unfortunate that there is not much we can do about the manufacturers and exporters and manufacturers in terms of business trainings or trying to link them to financial products. These are normally established businesses and in some case a member of a large group of companies whom you cannot advice on how they do their business, where they can get funding or on a business model to take. This we can take an example of Farmshop, we will simply follow the route that they want to do business and advice when they consult, and we cannot really tell them to go by our business models. Mechanics are everywhere and there would not be a case where one would want to get a loan to start such a business, there are various informal and formal mechanics.

Contract farming model is one funding model that we will be working with, with some of our partners in the project. Alliance and Beta Agriculture are companies that contract farmers to produce cotton and chillies respectively; they therefore want to offer 2 wheel tractor services into their input package. The companies have realised that 2wt and implements reduce the costs of production and hence increase the ability of their contracted farmers to repay their loans since they will be realising bigger margins. Find in the text box below the advantages and disadvantages of contract farming. The contract farming model can support the independent SPs or a Corporate SP model.

CONTRACT FARMING

Advantages of contract farming

- Farmers work towards a planned quality and quantity hence easier planning
- Guaranteed market for the farmer
- Farmers can benefit from contract packages with all inputs without financial hustles.
- Payments according to grades offer incentives for quality.
- For most contracts normally contractual obligations are clearly outlined which makes it easier to solve conflicts.
- Contract performance offers a credit history to a farmer for future engagements.
- Farmers can split produce with first grade honouring contracts (for export) and second grade going to Mbare and other residual markets. Total earnings are eventually maximised with such types of arrangements.

Disadvantages of Contracting:

- Both farmers and contracting companies are vulnerable to price fluctuations due to the volatile nature of agricultural produce.
- Sometimes parallel markets offer higher prices than those agreed in contracts leading to side marketing
- Smallholder farmers do not fully understand and appreciate the significance of contracts (verbal, written or implied). This leads to high defaulting rates.
- Companies also default knowing that farmers may not afford legal costs needed or may not even consider going this far.
- Grading at companies' premises (sometimes unavoidable) delays payments to farmers and brings in an element of mistrust.
- Defaulting attracts relatively high penalties (discontinued input support; mistrust; cancelled contract which may be followed by black-mailing etc).

Another possible source of finance is Internal Savings and Lending Schemes (ISALS). An ISAL is a small group of people having a mutual agreement to contribute a certain amount of money regularly into a group fund, with the hopes of seeing the fund grow. Members within the group can request to take out a loan to invest into some sort of income generating activity. S/he is then required to pay back the loan at an agreed time, with a low interest rate. This allows the members to not only develop and strengthen their entrepreneurial skills, but also serves as a way to pay for any difficult situations they may face, with additional money to pay back the loan and interest. This would have been an ideal source of income for a Group Entrepreneurs model or an individual entrepreneurs' business model but unfortunately there are no ISALS in our project area.

We recommend that it is of critical importance to give farmers business training so they know how to maximise their profits. Notably, there is also need to deliberately work with SPs on record keeping in order making them eligible for loans. As they embark in their business it is important to grow the culture of record keeping as this can be used to access loans when they plan to expand their business and these can also be used for management.

In addition, the project needs to engage banks in order to negotiate preferential terms for SPs for example we will be engaging the bank manager where the SPs have an account to monitor performance of the account so they can consider supporting the SP business in future. It can be concluded that the banking sector has a wide scope for engaging small scale farmers but needs to come up with flexible terms and affordable lending rates.

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