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Rural Banks for Rural Agricultural Productivity in Zimbabwe in the 21st Century

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ABSTRACT The 2000 land reform programme in Zimbabwe availed large tracks of arable land to farmers. The first reaction to the land reform programme was a slump in food production in the country. Several factors have affected the sustainability of the land reform programme. The thesis of the current study is that the lack of finance contributed to the poor performance of the agricultural development in the country. The research methodology is qualitative desktop. Data were collected from literature on rural banking. The study identified the following opportunities for rural banking in the country; the land reform, the current indigenisation and economic empowerment policy and the government of President Mugabe's inclination towards appeasing the rural peasantry. The study identified the following possible challenges for rural banking in Zimbabwe; liquidity crunch, poor staffing, weak managements, low capitalisation, poor technology, and lack of adequate communication facilities and inadequate training. The conclusion is that the rural banking concept needs to be adopted and implemented in Zimbabwe. The significance of the study is that it stimulates debate on supporting the land reform programme in Zimbabwe. It intends to demonstrate the fact that agricultural productivity in the rural areas could be *enhanced* through a robust financial intermediation for the rural farmers.

INTRODUCTION

One of the pillars of the Zimbabwean economy, agriculture, suffered the most during the recent economic decline. The slump in agricultural productivity in the country resulted in food insecurity, which exacerbates rural poverty in the country (Chimhowu et al. 2010; Nyawo-Viriri-Shava 2012). The above problem is linked to a lack of financial intermediation to support rural agricultural development. A study by the reserve Bank of Zimbabwe (RBZ) concluded that while about 70% of the population in Zimbabwe were in rural areas, only 11,7% of the banks' total branch network served them (The Herald Newspaper 24 June 2011). New ways of financing rural agricultural activities are required.

The Problem

Banks in Zimbabwe seem to shun the rural agricultural economy because of transaction and monitoring costs, inaccessibility of most rural areas and lack of collateral. The banks require security to reduce the risk of not recovering the borrowed money. This creates a void in institutional credit for rural communities that do not have the security required by the banks. The thesis of this discourse is that poor agricultural productivity in rural Zimbabwe is a result of socio-economic factors that fail to provide the financial resources needed to support rural agricultural development.

Objectives

The study is delineated to opportunities and challenges of establishing rural banks to support rural agricultural productivity in Zimbabwe.

Contribution of The Study

The study contributes valuable knowledge on rural banks in Zimbabwe. For the rural banking concept to succeed in Zimbabwe, it needs to be implemented on a strong foundation. The study contributes knowledge on the socio-economic and political opportunities that support rural banking in Zimbabwe. It also contributes knowledge on the challenges that rural banking presents to communities. Apart from citing the challenges, the study provides possible solutions to these challenges.

RESEARCH METHODOLOGY

This is a desktop research. Data were collected from books, journals and other forms of publications on rural agriculture, rural banks in general and rural development. The study stimulates debate on rural banking in Zimbabwe. The study is timely in that it is/was carried out in the context of three historical epochs of Zimbabwe. First, the study comes soon after the "fast track" land reform programme, which has availed land to the land-hungry rural residents in the country. Second, the study is carried during the era of Indigenisation and Economic empowerment of indigenous Zimbabweans. Third, the study is carried out at a time when the banking sector in the country is failing to modify its operations to meet the specific financial intermediation needs of rural residents in Zimbabwe.

RESEARCH FINDINGS

The research findings are presented in two broad categories; namely opportunities for rural banking in Zimbabwe and challenges for rural banking in Zimbabwe.

Opportunities for Rural Banks in Zimbabwe

Prior to the 2000-2003 land reform programme in Zimbabwe, land was divided unequally between Blacks and Whites. The later constituted less than 10 percent of the population in Zimbabwe and yet they occupied over 80 percent of the arable land in the country. The 2000-2003 land reform programme has increased access to agricultural land to both men and women in the rural areas in the country. However, access to financial support to the rural farmers has been inadequate. The farmers had land but with no money with which to purchase farm implements, seed, chemicals, labour and machinery. The above scenario resulted in low agricultural productivity by the farmers. Land access on its own does not increase agricultural productivity. Financial intermediation is a requirement, particularly for women farmers in the rural communities. Rural banks provide the microfinance that is required to improve the quality of life of low income communities through the provision of credit, savings and other financial services to the informal sector, usually considered unbankable.

The rural agricultural financial (rural bank) initiative subscribes to the empowerment policy of President Mugabe's administration. The banks avail small loans using unconditional lending methods to people with low incomes. The rural bank concept did not only enhance cocoa productivity but also improved the quality of cocoa produced by the rural famers in Ghana (Asiedu-Mante 2011). Zimbabwe has an opportunity to learn about rural banking and rural agricultural productivity from the Ghanaian experience. The Grameen Bank, which was established in 1976 in Bangladesh by a Nobel Prize Winner, Professor Muhammed Yunus, has been successful in supporting rural agriculture In Bangladesh.

The idea of rural banks is timely as some companies are beginning to respond to the Government of Zimbabwe's (GoZ) indigenisation and empowerment policy. The policy requires that foreign-owned companies transfer 10 percent of their stake to indigenise Zimbabweans. The Indigenisation, and Economic Empowerment Act (Chapter 14:33) defines an indigenous Zimbabwean as, "any person who, before 18th April, 1980 was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person, and includes any company, association, syndicate or partnership of which indigenous Zimbabweans form the majority of members or hold the controlling interest." Unki Platinum Mine in Shurugwi, an Impala subsidiary has already paid funds to the Shurugwi Rural District Development Trust Fund (Matunhu 2012). These are some of the funds that could be deposited into rural banks to increase their viability share in the banking sector.

The GoZ is rural development focused. This focus gives impetus and reason for the Reserve Bank of Zimbabwe (RBZ) to be visible in the rural areas. The role of the Reserve Bank in the initial stages of the rural bank would be to; provide suitable banking premises, office furniture and equipment, stationery, appoint board directors, recruit and train staff. The funds could be availed in the form of "redeemable preference shares". Preference stock is an investment that has characteristics of a debt. The idea of preference shares serves as a morale booster to the people in a rural locality.

In Ghana, the idea of preference shares was able to send a clear message that if the Central Bank of Ghana (CBG) was a part-owner of a rural bank, then it was an activity worth supporting (Asiedu-Mante 2011). The involvement of the RBZ in rural banks would create public confidence in the rural bank system. The Reserve Bank would be expected to off-load its shares unto the local people for subscription as a rural bank showed signs of growth, liquidity, profitability and sound management. Off-loading Central Bank shares to the rural communities creates a sense of ownership of the bank by the rural residents. Embedded in a sense of ownership is commitment to succeed (de Wet 2008). If the above assertion s true then rural agricultural productivity is likely to improve in Zimbabwe.

By holding ordinary shares in a rural bank, members of a local community automatically become true owners a bank. Members of a locality have the power to influence decision making in the running of their bank. The importance of share holding in business ventures has been emphasised in sustainable development conferences like the 1992 Rio Earth Summit and the Johannesburg World Summit on Sustainable Development in 2002. Hence, Sir Moody-Stuart argues that all the best examples of the application of principles of sustainable development involve partnerships/shareholding (Matunu 2012).

Challenges and Possible Solutions to The Rural Bank Concept in Zimbabwe

The rural bank initiative is likely to have a fair share of distress. The most pronounced of these challenges are those related to liquidity, loan recovery, poor staffing, weak managements, low capitalisation, poor service delivery, poor technology, and lack of adequate communication facilities and inadequate training. The challenges above have motivated Littlefield (2003) to incorrectly conclude that; "microfinance offers an illusion of poverty reduction. As in any lottery or game of chance, a few in poverty, do manage to establish microenterprises that produce a decent living . . . these isolated and often temporary positives are swamped by the largely overlooked negatives . . ." The negative view above fails to recognise that most rural communities are poor and isolated because they do not have the finance to support their ideas. A study on rural poverty and micro-finance by Prof. Yunus demonstrated that micro-credit supports rural development. There is ample evidence to suggest that rural banks could stimulate improvement in agricultural productivity in Africa.

The institutional arrangement of rural banks could create challenges to the rural residents in Zimbabwe. Ideally, the idea of rural banks for rural agricultural productivity should emanate from the rural residents themselves. The challenge comes in the event of rural residents failing to raise concern on rural banks. In such a case, the Freeze-Thaw theory of social change by Kurt Lewin could be applied. The theory states that change can be introduced by first making people uncomfortable about their situation. Bringing change agents into a rural community could help people realise a need to change for the better. The Kurt Lewin theory is applied where people resist change in favour of a status quo. The rural bank concept involves change in the manner and sources of rural finance. Fear of the unknown might compel people to resist the rural bank concept.

In Ghana, the CBG requires communities to apply for a licence to operate a rural bank. The thinking is that if the local people owned the bank, then they would subscribe to its shares and do all that was necessary to get a rural bank operational. Just as is the case in Ghana, the rural banks in Zimbabwe would be expected to float shares that are subscribed to residents of a rural locality. Limits would be necessary to control the board of directors. Issues of fiduciary and corruption are rampant where there are no clear controls. In Ghana, the regulations of a rural bank were so crafted that the holder of the preference shares was vested with a veto power exercisable in the board room. The exercise of the veto power is meant to shape the mission and vision of a rural bank and also to ensure operational efficiency. According to Asiedu-Mante (2011), veto power gives a Central Bank some powers on decision making in the board rooms of rural banks.

The major challenge that the rural bank system in Zimbabwe is likely to face today is that of liquidity of the RBZ. The bank is facing liquidity problems, which came as a result of the 2000 to 2009 economic recession in the country. The bank could start the project at a lower scale. Apart from that, the bank could link up with rural development financial institutions like the African Rural Agricultural Credit Association (AFRACA), which is an association of banks and financial institutions that offer financial support to rural development. Rural residents could contribute labour in the infrastructural development of the banks. Currently, the RBZ is very particular about statutory reserves in the banking sector. This requirement could be relaxed in the case of rural banks until they have reached financial independence, which come with increased viability.

Liquidity problem is a factor to consider in rural banks. In Ghana, most liquidity problems in rural banks can be traced to rapid and uncontrolled credit expansion, which was fuelled by over lending tendencies by such banks. In Ghana, the failure of the CBG to provide adequate supervision and monitoring of the banking sector created the 1990s liquidity crises in many rural banks. The RBZ is currently performing well in supervising and monitoring the banking sector. This is evidenced by the stern measures that the Governor of the Reserve Bank of Zimbabwe, Dr. Gono has put in place to bring about sanity and discipline in the traditional banking sector. The same aptitude and competencies would be required to instil and sustain financial discipline by the rural bank system. However, laxity of statutory reserves of rural banks would need to be relaxed to keep them viable and competitive.

The non-recovery of loans from the rural farmers is one of the institutional challenges that the rural bank system would be concerned about. The experience of Ghana is that many rural banks were good at disbursing loans but poor at recovery. The assumption was that once loans were disbursed, the beneficiaries would automatically service their loans. This assumption had a disastrous effect on the viability of the banks. The non-collection of loans impacted adversely on the capital and profits of the rural banks. One lesson from the Ghanaian experience is that most loans granted by rural banks were not backed by collateral. In cases where securities were provided, most of them could not be foreclosed because there were no enforceable documents. In Zimbabwe, the credit worth of applicants would require closer appraisal by qualified bank staff. In this regard Asiedu-Mante (2011:177) reports,

Reliance on the court system to collect outstanding loans was ineffective. This was because most . . . rural properties, be they land or buildings did not have documents of title. In instances where there were documents, the slowness of the court system made that option unattractive. Where . . . a default on repayment had resulted in a repossession of the item financed . . . a rural bank was unable to resell the items seized because no one in rural Ghana would like to buy a confisticated item seized from belonging to a neighbour. It is either a taboo or an unforgivable act on the part of the one who bought that type of property. The rural bank system in Zimbabwe would be expected to consider the issue of security seriously in order to avoid a repeat of the Ghanaian experience.

One of the possible challenges of rural banks is that of agreeing on the number of RBZ representatives in a rural bank board of governors. On one hand, too high a representation by people from the Reserve Bank would affect the rural residents' feelings about ownership of the banks. On the other hand, too low a level of representation by the Central Bank in a rural bank board would affect board room decisions. The RBZ in consultations with traditional leaders would have to agree on the size and composition of rural banks. In Ghana, the CBG books two seats of the board of a rural bank, this gives a rural bank a greater representation in the board. The Central Bank representatives would be well grounded in banking and finance. This is to allow the transmission of current knowledge, skills and best practices from the experienced bankers to the local community. In Ghana, Central Bank representatives on the board of a rural bank are carefully chosen members of staff who are not only fairly senior in rank but are also knowledgeable in the operations of a rural bank.

Agreeing on the structure of a board of directors and such other issues related to the ownership of a bank might be a challenge. The GoZ could promulgate a legislation governing the structure of board of directors in rural banks. People, who are not shareholders, but possessed exceptional qualities or expertise, would be co-opted unto the rural boards. The co-opted members would normally be prominent citizens who possessed special knowledge, skills and expertise that could be brought to bear on the operations of a rural bank to enhance its performance. Co-opted members would not have voting rights but would be allowed to participate fully in the deliberations of a board.

One of the possible challenges of the rural bank initiative is that of setting the operational jurisdiction of such banks in Zimbabwe. In Ghana, initially the operational jurisdiction of rural banks was limited to twenty mile radius. This was to ensure even distribution of rural banks in the country. Currently, the number of rural banks is determined by population and viability. According to Matunhu (2012), more densely populated and viable area could have more banks established in a radius of 25miles. In Zimbabwe, viability of a bank could be established as a basis for the establishment of a rural bank. Viability could be assessed on population size, sufficiency of infrastructure and vibrancy of economic activities to support a rural bank. If these are found to be meeting the minimum requirements set by the RBZ, the area would be granted a license to operate a rural bank it applied for one.

Any prospects of for sustainable agricultural productivity in the rural areas will have to depend on the skills level of the rural farmers. Shortage of skills and knowledge on rural banks could be a challenge in Zimbabwe. Rural banks in Ghana did not attract good quality staff in the initial stages of the scheme (Asiedu-Mante 2011). There is a direct relationship between competency and level of training of employees. In this regard, training is an indispensable factor in rural banks. Two major factors are linked with the shortage of competent staff in rural banks. First, rural banks are cited in rural areas which most people consider to be hardship posts. Secondly, the remuneration of an average rural bank worker is likely to be far below that of his/her counterpart in a traditional bank. Zimbabwe would be expected to learn from the Ghanaian experience. Rural community leaders could be seconded to rural banks in Ghana to understudy the operations of the rural banks in that country.

With a high literacy and numeracy rate in our rural communities (Chimhowu et al. 2010), this would not be a challenge. After a tour of nations that have benefitted from the rural bank concept, resource persons from such countries would visit Zimbabwe to train the rural residents on rural banks. Writing about the importance of training, Confucius claimed that knowledge is power (Matunhu 2012). Given the dire economic posture of the GoZ, it would be advisable that AFRACA be involved in the initialisation of the rural bank initiative in Zimbabwe. This rural bank system in Zimbabwe would benefit tremendously from the experiences of AFRACA. The organisation (AFRACA) was formed in 1977 and has a liaison link with the Food and Agriculture Organisations of the United Nations.

The challenge of viability of the rural banks is real. The people of Zimbabwe are just moving out of a decade of financial crisis. Many people lost their investments as the economy shrunk. In some cases banks liquidated, resulting in many people losing their deposits. Resuscitating depositor confidence might be a problem. The GoZ could increase the viability by making sure that all civil servants operating in the rural areas receive their incomes in rural banks. Presently, many rural agri-businesses and retailers transfer large sums of cash to and from urban areas, and there is an inherent risk in that. The rural bank initiative has the capacity to mitigate the risk. To minimise the risk of insolvency, which might result from mismanagement and malpractice, the banks would be regulated by the RBZ. This regulation could be in the form of issuance of guidelines and directives with respect to the procedures for the establishment and continuing monitoring of the banks. In Ghana, the CBG undertakes off-site supervision and annual on-site examination visits to the rural banks (Asiedu-Mante 2011). The process of establishing a bank in Zimbabwe is long and taxing. GoZ is advised to make the process simpler for the benefit of the rural communities in the country.

CONCLUSION

Financial intermediation to support the rural agricultural economy of Zimbabwe is low. This paper explored the opportunities and challenges for establishing rural banks in Zimbabwe. The rural bank initiative subscribes to the empowerment policy of Zimbabwe. The role of the RBZ in the initial stages of the rural bank would be to provide the finances, monitoring and supervision that are required to establish a rural bank. The funds could be provided to a rural bank in the form of "redeemable preference shares". The local residents would be expected to own common stock in rural banks. The paper highlighted some of the operational problems associated with rural banks. The Non-recovery of loans is one of the challenges that the rural bank system should be concerned about. The experience of Ghana is that many rural banks were good at disbursing loans but poor at recovering the loans. The non-collection of loans impacted adversely on the capital and profits of the rural banks. The challenge of viability of the rural banks is real. The GoZ could increase the viability of rural banks by encouraging all civil servants operating in a locality to receive their incomes in the rural banks. Despite all these challenges, the rural bank initiative is a noble idea for rural development in Zimbabwe.

LIMITATIONS OF THE STUDY

The study relies on documented data and information. Some of the data might be outdated. Second, the data collected by the previous researcher might have been for research questions that might not be exactly the same the same with those of the current study. The study was carried out within the framework of Asiedu-Mante's (2011) thesis on rural banking in Ghana. This might be a limitation in that the socio-economic and political background of Ghana is not exactly the same with that of Zimbabwe. It would have been better to carry out an empirical study of the topic at hand. A field work is better in that it allows the researcher to define the problem form the perspectives of the rural residents themselves. This gives better credibility to the study. Despite these weaknesses, the study is important in that it sets the stage for debate and more structured researches on rural banking in the country.

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