

1 INTRODUCTION

- 1.1 The Agriculture Sector Productivity Enhancement Facility (ASPEF) was introduced following the announcement of the May 2005 Post- Elections and Drought Mitigating Monetary Policy Framework to provide capital and working capital finance to agriculture and related activities and exporters at concessional interest rates.
- 1.2 This was in recognition of the critical role played by agriculture in the Zimbabwean economy, with the sector contributing about **18%** of the country's Gross Domestic Product.
- 1.3 It is imperative that support be given to this sector as it has some backward and forward linkages with other key sectors of the economy that are critical in enhancing economic growth.
- 1.4 The broad objectives of the facility are:
 - i) To enhance food security;
 - ii) Foreign currency generation through exports;
 - iii) Foreign currency savings through import substitution on food and related products;
 - iv) Stimulate a positive supply response in key sectors of the economy;
 - v) Price Stability; and
 - vi) Employment creation

2 ASPEF TERMS AND CONDITIONS

- 2.1 Loans under the facility are currently attracting an all inclusive interest rate of 20% per annum which is subject to review periodically.
- 2.2 The maximum tenor for capital expenditure and working capital loans was initially set at 18 months and 6 months, respectively.
- 2.3 The principal loan amount together with interest accruing to the Reserve Bank for working capital loans was payable upon maturity, while capital expenditure loans were payable in equal installments after every six months.
- 2.4 Initially all loans were, however, expected to be repaid by 30 June 2006 when the facility was scheduled to be discontinued.
- 2.5 The limit of ASPEF was set at **\$5 trillion** and was allocated as follows: -

Table 1: Allocation of \$5 trillion ASPEF Funds as at May 2005

FACILITY	AMOUNT	INTEREST RATE
Irrigation Support	\$1 trillion	20%
Horticulture	\$750 billion	5%
Beef Cattle Support	\$500 billion	20%
Dairy Support	\$300 billion	20%
Piggery and Poultry Support	\$300 billion	20%
Other Crop and Livestock Facility	\$1 trillion	20%
Export Support Facility	\$1.15 trillion	5%
Total	\$5 trillion	

- 2.6 The Export Support Facility was discontinued as exporters' viability concerns were addressed through the adjustment of the exchange rate following the announcement of the July 2005 Monetary Policy Statement.

3. AMENDMENTS TO FACILITY TERMS

- 3.1 In August 2005, the facility was increased to **\$7 trillion**, with the additional amount of **\$2 trillion** specifically meant for irrigation, in line with the Accelerated National Irrigation Development Programme, thus, bringing the new facility allocations as highlighted in table 2 below: -

Table 2: Allocation of \$7 trillion as at August 2005

FACILITY	AMOUNT	INTEREST RATE
Irrigation Support	\$3 trillion	20%
Horticulture (export)	\$1 trillion	20%
Beef Cattle Support	\$750 billion	20%
Dairy Support	\$750 billion	20%
Other Crops and Livestock	\$1 trillion	20%
Piggery and Poultry Support	\$500 billion	20%
Total	\$7 trillion	

- 3.2 Other amendments to the facility included the following: -
- i) The tenor for capital expenditure loans was increased from 18 months to 36 months.

- ii) The expiry date of the facility was extended from 30 June 2006 to 30 June 2008, thus all loans under the facility should be repaid by this date or the maturity date, whichever, is earlier.
- 3.3 The above amendments were meant to enable the repayment period to coincide with the payback period for long-term projects such as cattle breeding, construction of greenhouses, irrigation expansion, and dam construction.
- 3.4 This resulted in an increase in the facility utilization for capital expenditure projects, which had been characterized by low take up rates as borrowers were concerned with the mismatch between the initial expiry date of the facility and the payback period for long-term capital projects.

4 FACILITY UTILIZATION

- 4.1 A cumulative amount of **\$5.59 trillion** had been disbursed to **2 647** applicants through commercial and merchant banks under ASPEF as at 31 December 2005.
- 4.2 The distribution of the amount disbursed per facility is shown in table 3 below: -

Table 3: Distribution of Disbursements of ASPEF loans as at 31 December 2005

Facility	Applications	Amount (\$bn)
Irrigation Support	338	812.77
Dairy Support	80	158.80
Beef Cattle Support	197	395.43
Poultry and Piggery	200	335.36
Other Crops & Livestock	1 600	3 115.52
Horticulture Support	167	361.34
Export Support	65	415.55
TOTAL	2 647	5 594.77

- 4.3 The \$1 trillion allocated for Other Crops and Livestock Facility has been exhausted, thus, funds initially allocated for other facilities where the take up rate has been low have been diverted to this facility.
- 4.4 This is because major crops like tobacco, cotton and maize, some of which require expensive inputs, are financed under the Other Crops and Livestock Facility.

5 ROLLOVER/EXTENSION OF LOAN REPAYMENT PERIOD

- 5.1 Disbursement of ASPEF funds commenced in June 2005 while maturities for working capital loans started from January 2006.
- 5.2 It is recognized that some farmers may face challenges in repaying outstanding loans before the commencement of the marketing season of major summer crops in April 2006, whilst some long-term projects may not have been fully implemented.
- 5.3 Borrowers may, therefore, apply for an extension or rollover of such loans.
- 5.4 Banks will not be required to remit the principal amount being rolled over or extended, where such request **has been approved** in order to avoid having beneficiary loans placed on market rates during the period when the applications are being processed.
- 5.5 In this regard, borrowers and banks are required to ensure that applications for the rollover of loans are submitted in time to enable a decision to be made prior to maturity.
- 5.6 The expiry date of the facility will remain at 30 June 2008, thus borrowers are reminded to take note of this date in their cash flow planning.
- 5.7 The first repayment installment for all capital expenditure loans will now fall due after **12 months** from the date of the initial loan approval and thereafter, after every six months.
- 5.8 The amount to be extended or rolled over will be restricted to the minimum time required to complete the project.
- 5.9 It is expected that borrowers with the ability to repay their loans will do so. Rollover or extension of loans is, therefore, not automatic.
- 5.10 Banks should, therefore, ensure that the tenor for the extension of a loan is consistent with the nature of the project and that information submitted by borrowers in support of requests for rollover/extension is correct and appropriate, as penalties will be levied on those who provide incorrect information.

6 TOBACCO SEEDLINGS AND LAND PREPARATION FACILITY

- 6.1 The Reserve Bank made available an amount of **\$150 billion** to finance tobacco seedlings production and land preparation.
- 6.2 These funds were disbursed to farmers through Agribank and the Tobacco Industry Marketing Board (TIMB). Agribank provided funds for working capital whilst TIMB provided the necessary inputs.
- 6.3 As at 31 December 2005, a total of **\$80 billion** had been disbursed under the facility, of which **\$65 billion** was for working capital while **\$15 billion** was for inputs.
- 6.4 The balance of **\$70 billion** was later disbursed to small-holder tobacco growers following the realization that funding for field inputs and related activities for such farmers was inadequate.

7 BARN REHABILITATION

- 7.1 A \$50 billion facility was put in place to assist farmers rehabilitate tobacco barns, most of which had been neglected for some time.
- 7.2 Funds under the facility were disbursed through Agribank and have a repayment period of 3 years. It is expected that the improved availability in curing facilities will assist in improving tobacco production and the quality of the crop delivered to the auction flows.

8 \$1.5 TRILLION MAIZE AND SORGHUM SUPPORT FACILITY FOR A1 AND COMMUNAL FARMERS - 2005/2006 SEASON

- 8.1 A facility of **\$1.5 trillion** was put in place to support the production of maize and sorghum for the 2005/2006 agricultural season by A1 and communal farmers.
- 8.2 This was in recognition of the important role played by this class of farmers in contributing towards national food security. It should be noted that A1 and communal farmers produce more than 70% of the country's maize output.
- 8.3 These farmers, however, encountered challenges in accessing ASPEF loans, due to limited or unavailability of collateral often demanded by banks.
- 8.4 Funds under the facility are being drawn from the \$7 trillion ASPEF facility.

- 8.5 Funds are made available to Government through the Ministry of Agriculture for the purchase of seed and fertilizer including transport costs for on-lending to farmers.
- 8.6 Inputs are being distributed through Grain Marketing Board (GMB) depot network.
- 8.7 All loans should be repaid in full by the end of the marketing season i.e. on or before 30 September 2006.
- 8.8 A total of **\$424.03 billion** had been disbursed to input suppliers and service providers as at 31 December 2005.
- 8.9 As at 31 December 2005, GMB had received **16 785 tonnes** of maize seed, **165 tonnes of sorghum seed** and **8 000 tonnes** of fertilizer for distribution through their depots under this facility.

9 MAIZE DELIVERY BONUS

- 9.1 A **\$100 billion Maize and Sorghum Delivery Incentive Facility** was put in place in order to encourage maize deliveries to GMB by farmers who were holding on to maize stocks due to the low producer prices being paid by GMB.
- 9.2 The producer price of **\$2.2 million** per tonne for maize and sorghum offered by GMB was viewed as unattractive in view of the ever-increasing production costs.
- 9.3 This resulted in low deliveries to GMB with some farmers preferring to sell through the informal market.
- 9.4 In this regard, a bonus of **\$500 000 per tonne** was paid to farmers who delivered maize and sorghum to GMB during the 2005 marketing season. Farmers who delivered these crops up to 30 November 2005 would also benefit from the delivery bonus.
- 9.5 A total of **\$30 billion** was disbursed to GMB for this purpose as at 31 December 2005.
- 9.6 A bonus of **\$2 million** per tonne will also be paid for all maize and small grains delivered to GMB between February and May 2006 for the 2005/2006 production. The bonus will be reduced to **\$1.5 million** per tonne for deliveries between June and July 2006.
- 9.7 The bonus payment is expected to act as an incentive for farmers to grow more maize and deliver through official marketing channels.

10 \$600 BILLION WINTER WHEAT FACILITY

- 10.1 The Reserve Bank put in place a facility of **\$600 billion** as bridging finance for the **2005 Winter Wheat Facility** to finance 80 000 hectares of wheat.
- 10.2 The purpose of the facility was to make available financial resources to wheat growers, in order to enhance availability of wheat and ease the pressure on foreign currency demand by cutting on food imports.
- 10.3 The facility was meant to finance working capital requirements for the 2005 winter wheat crop and for minor repairs of irrigation infrastructure.
- 10.4 Of the **\$600 billion** made available, **\$400 billion** was through Agribank to finance at least **50 000 hectares** of wheat.
- 10.5 The remaining **\$200 billion**, meant to finance approximately **30 000 hectares** was for beneficiaries through commercial and merchant banks. The actual planted hectareage based on AREX and Reserve Bank Provincial Staff reports was about **65 000 hectares**.
- 10.6 The total expected output of wheat is around **165 000 tonnes** assuming an average yield of 2.5 tonnes per hectare.
- 10.7 A total of **\$533.88 billion** was disbursed under the facility, of which **\$420.0 billion** was disbursed through Agribank, with the balance of **\$113.88 billion** channelled through commercial and merchant banks.
- 10.8 A total of **\$208.93 billion** had been repaid by Agribank and **\$113.83 billion** by Commercial and Merchant Banks as at 31 December 2005 bringing the total recoveries to **\$322.76 billion**, excluding interest.

11 2005 WHEAT PURCHASE FACILITY

- 11.1 A facility was put in place to facilitate payments to farmers for wheat deliveries.
- 11.2 Funds were made available to GMB through the Ministry of Agriculture.
- 11.3 This was expected to encourage farmers to expedite delivery of wheat to GMB, thus, saving foreign currency for the country through substitution of wheat imports as well as encourage more farmers to grow the crop in future.
- 11.4 According to GMB records, a total of **126 228 tonnes** worth **\$1.25 trillion** had been delivered as at 31 December 2005.

- 11.5 GMB is, however, expected to deduct outstanding 2005 and 2004 Winter Wheat loans before paying farmers the net amount. This amount will be remitted to the Reserve Bank to offset the outstanding loans.
- 11.6 A total of **\$1.08 trillion** had been disbursed as at 31 December 2005 to GMB to pay wheat farmers for deliveries.
- 11.7 Agribank and GMB have remitted a total of **\$208.93 billion** net of interest to the Reserve Bank for loan recoveries under the 2005 facility representing a recovery rate of about **50% to date**.
- 11.8 The two institutions have advised that more funds will be remitted to the Reserve Bank by 31 January 2006, when all loans are expected to be repaid.
- 11.9 The repayment performance shows a significant improvement from the 2004 facility. This is attributed to the tightening of the disbursement criteria, which included exclusion of willful defaulters from benefiting as well as efforts to encourage farmers to honour obligations by various stakeholders.

12 \$600 BILLION WHEAT DELIVERY BONUS

- 12.1 The cost of producing wheat has been increasing as a result of rising input costs such as fertilizer, herbicides, labour and harvesting.
- 12.2 The current producer price for wheat of **\$6.9 million** per tonne is viewed as unattractive resulting in low deliveries to GMB, as some farmers prefer to sell through the informal market, which is viewed as more rewarding.
- 12.3 In this regard, the Reserve Bank put in place a facility where a bonus of **\$3 million per tonne** was paid to farmers through GMB, in addition to the current producer price of **\$6.9 million** per tonne of wheat delivered to GMB, giving a total of **\$9.9 million** per tonne.
- 12.4 Farmers who delivered wheat to GMB prior to the announcement of the facility were also paid the bonus in retrospect.
- 12.5 The facility was available up to 31 December 2005.
- 12.6 The incentive is expected to improve viability and spur farmers to increase the area put under wheat during the 2006 season.
- 12.7 This facility was also expected to encourage farmers to deliver wheat through official markets, thus, saving foreign currency.

13 \$500 BILLION SOYA BEAN PRODUCTION FACILITY

- 13.1 A total of **\$500 Billion** was set aside from the **\$7 trillion** ASPEF Facility to support the production of soya beans.
- 13.2 This was in recognition of the importance of soya bean as a food, cash, soil improving and industrial raw material crop.
- 13.3 A total of **40 000 tonnes** of soya beans was produced during the 2004/2005 season against total annual national requirements of about **200 000 tonnes** leaving a shortfall of about **160 000 tonnes** which have to be imported.
- 13.4 A total of **\$370.50 billion** had been disbursed to cover **37 569 hectares**, as at 31 December 2005.
- 13.5 The target is to have **50 000 hectares** put under soya bean, to yield an estimated **125 000 tonnes** during the 2005/2006 agricultural season, which still falls below national requirements.
- 13.6 The Soya Bean Promotion Technical Team with whom the Reserve Bank has signed a Memorandum of Understanding is providing technical support to growers.

14 IRRIGATION DEVELOPMENT

- 14.1 In order for the country to achieve self sufficiency in food availability, there is need to supplement dry land agriculture through irrigation development and rehabilitation programmes.
- 14.2 This initiative has been necessitated by the recurring droughts the country has been experiencing over the past years.
- 14.3 In this respect, the Reserve Bank, in collaboration with ZINWA and the Department of Irrigation, put in place initiatives to support the rehabilitation of existing irrigation infrastructure and development of new irrigation schemes.
- 14.4 The facility was specifically meant to finance capital expenditure requirements, with emphasis on increasing hectarage under irrigation.
- 14.5 It is expected that the impact of the Irrigation Support Facility will be felt from mid 2006, as implementation of a significant number of projects would have been completed.
- 14.6 Disbursements under the facility are being made through commercial and merchant banks and ZINWA.

- 14.7 Disbursements through banks are for borrowers with ability to meet ASPEF terms and conditions.
- 14.8 It was, however, observed that there were some A1 and communal farmers who faced challenges in accessing ASPEF funds for irrigation through the banks but had significant potential to practice crop production under irrigation.
- 14.9 In this, regard, a decision was made in **August 2005**, that such farmers be allowed to access funds through the Department of Irrigation.
- 14.10 As at 31 December 2005 a total amount of **\$699.28 billion** had been disbursed to the Department of Irrigation through ZINWA under the Accelerated Irrigation Programme.
- 14.11 Funds were for land clearing, rehabilitation of irrigation infrastructure and purchase of irrigation pipes.
- 14.12 Targeted hectarage to be rehabilitated for A1, A2 and communal farmers supported through ZINWA is estimated at **16 200** while the area to be cleared around under/unutilized dams is estimated at **18 400 hectares**.
- 14.13 As at 31 December 2005, an amount of **\$812.77** had been disbursed to **338 borrowers** through banks.
- 14.14 The expected provincial hectarage of projects supported through banks is **26 505 hectares**.

Dam Construction

- 14.15 In addition to the funds provided under irrigation, the Reserve Bank also made available a **Dam Construction Facility**.
- 14.16 As at 31 December 2005, a total of **\$640.7 billion** had been disbursed to finance construction of dams.
- 14.17 It is expected that the recently launched Infrastructure Development Bank of Zimbabwe, once fully operational, will take over the financing of these dams to ensure their completion.

15 CHALLENGES

- 15.1 The prevailing macro economic environment characterized by high inflation has resulted in increasing input costs, thus making it difficult for farmers to forecast financial requirements for the season. Farmers are, thus, being forced, to revise their budgets and apply for additional funds.

- 15.2 The outstanding issue of security of land tenure is hampering new farmers from accessing loans through banks.
- 15.3 Reports indicate that cases of farm disturbances and evictions were on the increase during the latter part of year 2005.
- 15.4 This could impact negatively on output of crops such as tobacco, soyabeans and horticulture, as some farmers, including ASPEF beneficiaries are being evicted from the farms in the midst of their cropping programmes.
- 15.5 As we step up our efforts to fund the agriculture sector, no one should be allowed to disturb the production process.
- 15.6 The nation stands to lose, if the infrastructure that will have been supported is disturbed and is not put to productive use.
- 15.7 This destabilizes the programmes that are being put in place in good faith to turn around our economy.
- 15.8 To this end, the Authorities are urged to guarantee that such investments are not disturbed.
- 15.9 The Ministry of Lands, Land Reform and Resettlement has already started the process of issuing 99-year leases for the A2 farmers who were allocated land. The authorities are however urged to expedite the granting of the leases, which should be transferable so that they can be utilized as security by the farmers.
- 15.10 Shortages of essential inputs like fertilizer, chemicals and fuel will impact negatively on production, thus, slowing recovery of the agricultural sector with the accompanying negative downstream effects.
- 15.11 Outbreaks of foot and mouth disease, the recently reported outbreak of army worms and the frequent quelea birds menace on the wheat crop is also impacting negatively on output and production.
- 15.12 There still remain some dishonest elements who exaggerate their financial requirements with the intention of diverting concessional facility funds to other investments like the money market and equity market.
- 15.13 Some borrowers with own resources are applying for funds under the facility, thus crowding out other borrowers who genuinely require assistance.

National Agricultural Mechanisation Programme

- 15.14 Mechanisation has been a major challenge in the successful implementation of programmes aimed at increasing agricultural production.
- 15.15 Countrywide surveys indicate that most of our farmers are constrained by lack of adequate agricultural equipment and implements.
- 15.16 Without adequate tillage capacity, implements as well as combine harvesters, aggregate yields will continue to be low even under conditions of good rains as is the case now.
- 15.17 It is against this background that the Reserve Bank will this year ring fence part of ASPEF funds, to support a comprehensive national agricultural mechanization programme.
- 15.18 Under this programme, tractors and implements such as ploughs, rom discs, planters as well as combine harvesters will be bought and strategically deployed across the country's provinces, with concentration levels that recognize provincial comparative advantages in agriculture.
- 15.19 Wisdom and guidance from the Minsitry of Agriculture has indicated the following deployment structure.

Table 4: Tractors

Province	285 hp	210 hp	150 hp	110 hp
Manicaland		10		40
Mashonaland Central	10	10	10	10
Mashonaland East		10		30
Mashonaland West	10	10	10	20
Midlands		5	5	10
Masvingo	5	10	10	5
Matebeleland North			5	5
Matebeleland South			5	5
Sub Total	25	55	45	125

Table 5: Implements

Province	Ploughs	Rom Discs	Planters	Seed Drills
Manicaland	30	20	30	15
Mashonaland Central	40	20	30	20
Mashonaland East	30	20	30	15
Mashonaland West	40	20	30	20
Midlands	10	10	10	10
Masvingo	15	10	10	10
Matebeleland North	5	5	5	5
Matebeleland South	5	5	5	5
Sub Total	175	110	150	100

Tbale 6: Combine Harvestors

Province	Hp 388	Hp 366
Manicaland	5	11
Mashonaland Central	10	6
Mashonaland East	5	11
Mashonaland West	15	6
Midlands	2	4
Masvingo	3	4
Matebeleland North		4
Matebeleland South		4
Sub Total	40	50

Source: Ministry of Agriculture

15.20 The deployment of the above equipment will strictly be on commercial terms and beneficiary farmers are expected to plan their cashflows accordingly.

15.21 It is imperative for stakeholders to note that this initiative is not meant to override or replace individual farmer initiatives towards investment in agriculture. The programme is borne out of the realization of current capacity constraints and the need for the country to guarantee minimum strategic land utilization levels that produce adequate food for the nation.

15.22 Operational Guidelines and Modalities of this intervention will be distributed to stakeholders in due course.

16 WAY FORWARD

ASPEF

- 16.1 In cases where beneficiaries have not used funds for the intended purpose, the Bank will immediately call back the principal loan amount and interests accrued at market rates.
- 16.2 There is need for decisive action to be taken against those who are reported to be vandalizing agricultural equipment and causing disturbances to farming activities thereby negatively affecting production.

2006 Winter Crop Production Programme

- 16.3 In order to maximise yields, it is important that the 2006 Winter Production Programme be put in place immediately.

Thank You

DR G. GONO
GOVERNOR
RESERVE BANK OF ZIMBABWE
24 JANUARY 2006

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