

The Way Forward

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**Seeking Agricultural & Economic
Recovery in Zimbabwe**



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AGRICULTURAL AND ECONOMIC RECOVERY IN ZIMBABWE

INTRODUCTION

This paper is prepared as an accompaniment to a short film with the same title. It proposes a simple framework to facilitate successful agricultural investment and economic development in Zimbabwe. It simultaneously addresses the main consequential obstacles to recovery and sustained growth that have arisen in the wake of the land reform programme.

BACKGROUND & CONTEXT

Ten years ago there was little argument about the significance of Zimbabwe's vibrant commercial Agricultural sector. Much has been made of empowering people in the process of transforming this sector and yet has this in reality been achieved? Whilst few have argued about the necessity for land reform in Zimbabwe the implementation which saw the dismantling of property rights and secure land tenure has damaged confidence for investors. The attrition of these rights has impacted not only on citizens but also foreign investors. Compensation for expropriated investments is a pre requisite to the restoration of country's image as a good place to do business.

Forging a successful way forward requires an assessment of the present circumstances as they relate to Zimbabwe's agricultural sector. The last decade has been characterised by hyperinflation and economic collapse associated with the land reform programme, monetary policy and governance issues. In that time, a number of developments with particular regard to property and investment have occurred:-

First, the local asset based debt; (mortgages etc) have been effectively wiped out leaving most assets unencumbered with 100% positive equity. Put simply, Zimbabweans are largely debt free but cash poor.

Secondly, the rapid contraction of the economy saw the stagnation of the country's productive base which now leaves opportunities in two main regards:

- 1) potential to create lines of credit against unencumbered asset value; and
- 2) potential to grow a productive base rapidly from a relatively low starting point.

If this were to happen the positive impact on the economy would be massive. Both international and regional companies would seek to transfer wealth to Zimbabwe in order to be part of both the consequential substantial asset and production gain.

Traditionally, for every dollar directly invested into agriculture, three were invested into downstream industry and services. We are therefore confident that with the right policy framework, Zimbabwe is poised for recovery not only in agriculture but in associated sectors. In addition the vast mineral wealth and tourism potential can make Zimbabwe a destination of choice for investors.

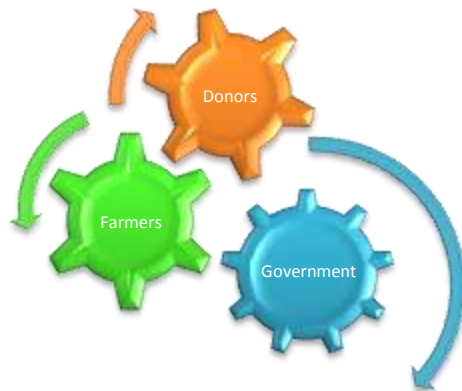
Achieving this potential is dependent on restoring investor confidence; re-establishing values on agricultural land can have an enormous effect in this regard with positive impact on other potential investments and lines of credit.

This will enable an environment where agriculture can thrive and can fairly compensate outgoing farmers on a cost recovery basis which ensures the extension of secure tenure to new farmers. This will enable all farmers to fully invest and produce with confidence. One of the key principles behind financing agriculture in this way is to avoid burdening the nation's tax payers for the benefit of those selectively empowered by access to a finite national resource.

The Commercial Farmers' Union has considered at length the problems facing the nation and the agricultural sector. We acknowledge and accept the historical context that has given rise to the demand for land, and to an extent we understand that what has happened in the past ten years has been rooted in rational protest. We also acknowledge but cannot condone, the terrible trauma, loss, illegalities and violations experienced by many of our constituents and their employees which we cannot condone. However, we believe it is time for the nation to move forward and we would like to propose a possible way to achieve this.

A PROPOSED SOLUTION

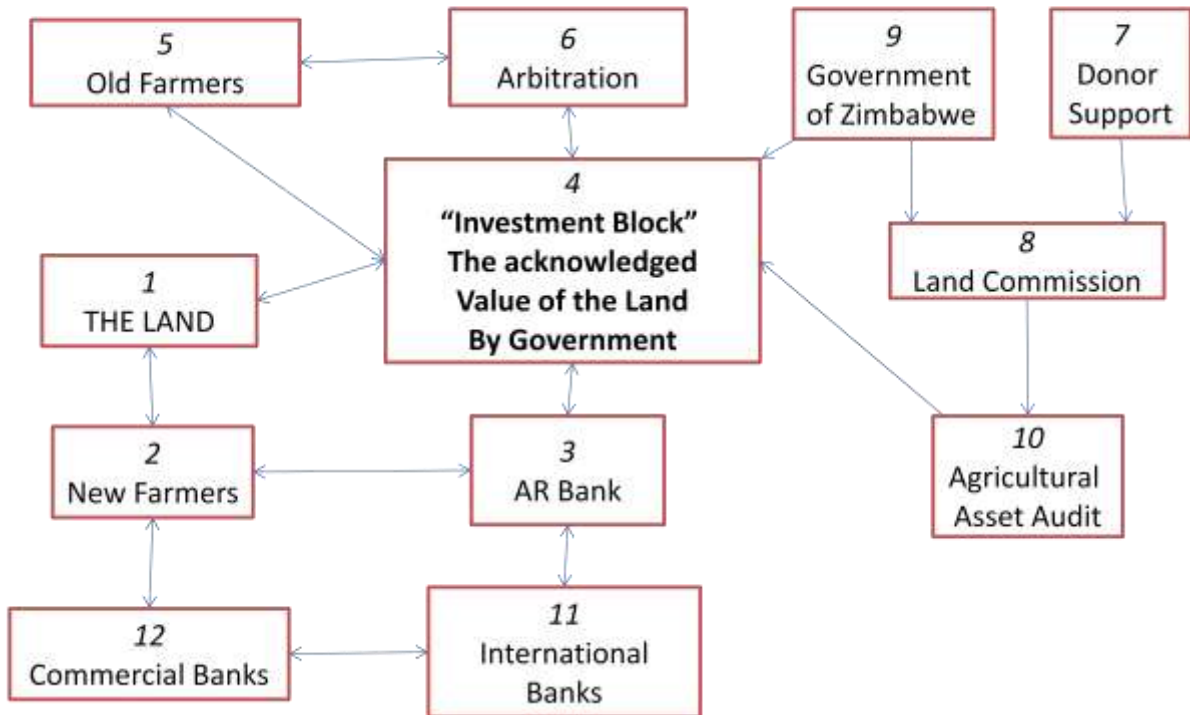
The principle parties to any solution to sustained economic recovery, particularly in the agricultural sector, are recognised as Government, Farmers and resource partners which include the international community. Each sector has specific roles that when fulfilled together can meet the requirements of Agricultural and National Recovery and resolution to the land question.



We believe that a process that simultaneously facilitates the needs of outgoing farmers and incoming farmers provides the frame work for resolution. All the benefits of secure tenure need to pass from one party to the next in order to bring closure. This can be done through the establishment of a formalised independent structure where acquired title and corresponding value can be lodged and managed. At the same time financial instruments can be managed through a recovery bank and formal transfer of value can take place. This will simultaneously boost agricultural production and infrastructural recovery in a sustainable way and it is likely to reactivate an active mortgage market for the benefit of all.

Our proposed way forward has been formulated after broad consultation. It is a work in progress, but we believe it has been sufficiently developed and debated to allow a wider circulation. The schematic below shows the framework of the proposal.

Schematic of the Proposal



Each element and how it relates to the others will now be discussed in outline.

1 THE LAND

The principal consequence of the fast track land programme is that the land value has been lost. In contrast land values and land based investment in the region has increased markedly. Neighbouring countries within the region who are able to harness the collateral value of land to drive agricultural production have witnessed impressive agricultural growth.

The land is a critical national asset that should be engaged to drive economic recovery and empowerment. Key to this is ensuring value is realised by equitable access through a well funded facility based against security of tenure and an active land market. This also ensures accountability for the use of land and makes available the essential working capital to leverage agricultural production.

2 New Farmers

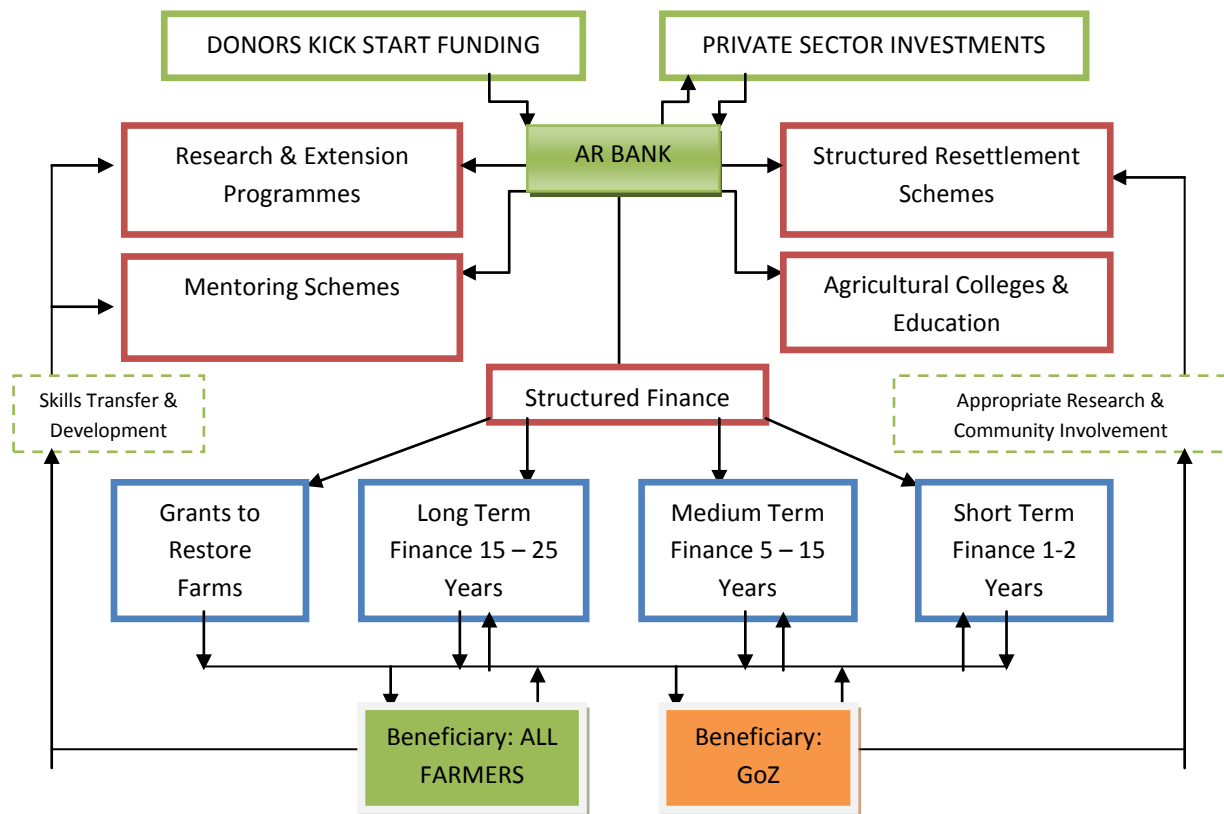
New Farmers will be issued new bankable and tradable tenure instruments in respect of their land allocations. Moreover, New Farmers will be required to pay the Government for the rights to the allocated land (either by way of a lease fee or on preferential purchase terms). This is in order to ensure the full economic benefit is transferred to them, and to facilitate the optimal production and utilisation of land.

**3
AR Bank**

A key feature in this proposal is the establishment of the Agricultural Recovery Bank. This body is vital to the whole process of agricultural recovery through the provision of short medium and long term finance. Each of these loan types will be underwritten by the inherent value of the agricultural businesses and the land on which they operate. The recognition of the core value of business infrastructure and land as the basis on which secure lending can be facilitated is the first step.

It is proposed that the roles of the Bank would be:

1. Re-establishment of land values in the country by funding an active land market.
2. To manage a revolving fund to give all farmers short, medium and long term structured finance enabling them to purchase and capacitate their farming enterprises.
3. To fund structured resettlement schemes throughout the country catering to the needs of A1 beneficiaries and other small scale farmers. This will support the development of social and economic infrastructure such as schools, water, clinics, supply networks, transport networks etc. This may extend to financial support in the re-organisation of poorly planned resettlement where necessary
4. To engage displaced professional farmers and other appropriate persons in a process of skill transfer through mentoring schemes and other similar programmes. It is envisaged that any one participating in the land bank funding will be mentored until their debt is fully paid for 2 main reasons:-
 - To protect the revolving fund by ensuring the establishment of successful and viable agricultural enterprise.
 - To empower new owners through promotion of skill and excellence within the agricultural field.
5. To promote the re-capacitation of research stations, colleges and extension services.
6. To support the development of viable commodity markets.



Management, monitoring and evaluation of the Bank needs to be controlled by independent and accountable governance to protect the Bank's investors, and ensure that the Bank is competitive enough to attract substantial private sector international investment.

4 Investment Block: Value of Acquired Investments

The central part of this scheme is the acknowledgment of the value of all acquired farms which can then be consolidated into an "investment block" with government. The property values have been established by professionals belonging to the Valuation Consortium, which is made up of 8 firms of property and asset valuers with local and regional expertise, using the latest technology available. A database has been constructed collecting and verifying all the data necessary to carry out a valuation, for example soil type, rainfall, infrastructure and so forth. The database enables accurate valuations based on any legally endorsed methodology. The underlying principle of all methods is that of equivalence meaning no richer or poorer than at the point of acquisition of the asset. Once the value has been established and acknowledged, it needs to be underwritten by credible international financial institutions, such as the African Development Bank, the World Bank and/or the IMF, so that it has real bankable and tradable value. Values are then apportioned against title deeds, which in effect become interest bearing bonds of a specific value until they are fully redeemed.

Effectively what this means is that the title deed of the acquired property now has a bankable tradable bond value which then allows the owner to:-

- a) Sell the bond within the investment block to other investors
- b) To borrow against the value of that bond to invest in other businesses thereby mobilising the value of compensation immediately for the benefit of the whole economy.
- c) To earn interest as an investment until the bond is fully redeemed.

5 Old Farmers

Evicted title deed holders yet to receive any form of compensation for the loss of their businesses and farming assets will receive compensation in line with the Investment Block scheme. Dealing with these outstanding issues is essential to create renewed investor confidence to rapidly revive the agricultural sector and attract other investors in the entire economy.

6 Arbitration

An independent panel will be set up with the specific task of dealing with farmers who are not happy with the value accorded to their properties within the investment block. We envisage that the arbitrator's decision will be final.

7 Donor Support

Whilst a key principle of this proposed solution is to limit the dependency on donors, this aspect of the scheme is nevertheless essential in that the donors would be relied upon to:

- a) Fund the land commission together with the agricultural asset audit on a grant basis; and

b) Provide initial support funding for the agricultural recovery bank through a revolving fund;

8
Land Commission

The land commission would have to be appointed by government (9) to monitor and implement policy going forward on the land issue as well as the appointment of an agricultural asset audit.

10
**Agricultural
Asset Audit**

This would be instituted by the land commission to create a full comprehensive register of owners/occupiers on all types of tenure on all agricultural land in Zimbabwe. The register must also record the legal instruments of entitlement to access a list of the infrastructural assets and physical characteristics of the land.

11
**International
Banks**

At present one of the biggest problems relating to international lenders and lines of credit is the country risk which has the effect of increasing the wholesale interest rate by as much as 5% per annum making any on-lending in Zimbabwe prohibitively expensive. The productive sector will be unable to recover or compete internationally at these levels. We therefore envisage with the right policy and the re-establishment of property rights that these punitive country risk charges will fall away and give our productive base full access to cheaper structured finance.

These institutions will necessarily fund based only on sound economic policy and investment confidence and potential. It is through these lines of credit made available to the domestic banking sector on a wholesale basis that the Zimbabwean economic recovery process can begin.

12
Commercial Banks

In a more secure investment environment, Local Commercial Banks will participate in the funding of farming ventures, parallel to the AR Bank. In addition these institutions are crucial in accessing new lines of credit created against the secure investment block enabling on-lending to old farmers who may want to borrow against the value of their bonds.

CONCLUSION

This proposal does not seek to dictate the way forward for Zimbabwe's Agricultural sector, rather it should be seen as a contribution that attempts to take a candid look at how a new dispensation might become fully empowered, and at the same time, engage the considerable value that can be leveraged through an integrated approach to the problem of compensation.

The overall concept is to empower agricultural stakeholders and investors, past and present, in an inclusive way that will bring sustained benefit to all sectors of the Zimbabwean economy. The proposal of necessity rests within the broader context of reform within the current legal and policy framework of the Government of Zimbabwe. We hope that the ideas put forward will begin a much needed process of consensus building. For too long dialogue around Zimbabwe's controversial Land redistribution process has been held hostage to power politics rather than the common good.

COMMENTS OR ENQUIRES

Should you have any comments, concerns or general enquires regarding this paper and/or the DVD please email

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