COMMERCIAL FARMERS' UNION

PROPOSALS - NATIONAL BUDGET FOR 2013

General Comments about the Budget Strategy Paper 2013 (Ministry of Finance)

- In a national context the annual government budget is of extreme importance. It generally contains statements on policies that are to be implemented to benefit the economy as well as laying out a programme of how government is to manage its finances in the coming fiscal year.
- The public sector is responsible for a very substantial proportion of total national expenditure. Therefore the manner in which government finances are handled has a substantial influence on the rest of the economy, and on the well-being of the national economy as a whole.
- Government's budget needs to be crafted in such a way that it creates an enabling environment for business to operate efficiently and with confidence. Confidence in the future is a critical element if the business sector is to make the necessary investments so essential to growth.
- Government should target its own expenditure to provide all the public goods and services necessary to allow the private sector to operate efficiently. This must also incorporate investments in infrastructure and capital goods which by their nature can only be undertaken by government.
- Ministries that service the productive sectors must be allocated the necessary financial resources to enable them to provide all the services needed without constraints

The Budget Strategy Paper 2013 identifies eight major economic challenges that Zimbabwe currently faces. Of these the following are of particular relevance to agriculture:-

- Financial market illiquidity
- Cost of borrowed capital
- Limited irrigation capacity
- Inadequate infrastructure
- Erratic power supplies
- Water shortages

The paper states that the original 2012 growth forecast for the economy of 9.4% has been reduced to 5.6% due to underperformance of the agriculture sector. This outcome is undoubtedly due to the above challenges, the effects of which are stated in the section on agriculture performance below.

The paper invites comments on what is a comprehensive analysis of macroeconomic prospects up to the year 2015, and the effects that this will have on the various economic sectors and the government budget. Priority expenditure areas for the 2013 budget are identified.

The growth forecast for 2013 is pegged at 8.9%. This level is optimistic and presumably is premised not only on the firming up of international commodity prices but also some recovery in agricultural output. The recent re-emergence of the "El Nino" effects on weather patterns and the possibility of drought conditions in the latter half of the next summer crop growing season may pre-empt any recovery in the farming sector.

The Budget Strategy Paper 2013 suffers from the following omissions or very scant coverage on these important issues.

- Property rights and the adverse effects of a lack of long term land tenure and collateral in mobilising funding for agriculture
- Similarly the lack of long term land tenure in holding back on-farm investments
- The negative impact of indigenisation on foreign investment and economic development. There is also no reference to compensation for property acquired by Government and that this is another factor which deters investors. The Paper needs to make strong reference to and set out clear incentives that will promote the foreign investment that Zimbabwe badly needs.

These omissions are further elaborated on below.

AGRICULTURE

Agricultural Performance in 2012

- Most of the country received normal to above-normal rainfall in the first two months of the 2011/12 summer season. A mid-season drought was experienced in January / February which greatly diminished yields for some important food crops.
- Tobacco output increased from the 132 million kg's marketed in 201 lto 148 million kg's sold this year. The effect of this, together with better prices, increased total earnings to USD527 million this year from the USD361 million achieved last year.
- The mid-season drought adversely affected food security with maize output falling to about 833,000 tonnes. As a result Zimbabwe will have to import around 800,000 tonnes and utilize scarce foreign exchange to meet domestic consumption requirements.
- Some growth occurred for a few commodities like sugar and soyabeans with output for most of the other commodities remaining relatively static.
- Wheat production at around 22,000 tonnes estimated for this year is at the third lowest level since the 1970's. Unreliable power supplies for irrigation, low dam levels, and the scarcity of finance are the main causes of the reluctance to grow this crop.

Background to Commercial Agriculture

Agriculture is a core sector of economic activity in Zimbabwe. The sector is capable of generating over 90% of the total food requirements of the country and of contributing a greater proportion of the country's foreign currency earnings. Thus, policies must be implemented to ensure its success.

However, commercial farming has many challenges in attempting to achieve optimal production levels:-

- Since the year 2000 policy directives have been specifically at the expense of the large-scale commercial farming sub-sector. This sub-sector was previously the most diversified in our economy, employing the most people, exporting the most goods, and had the most backward and forward linkages with other sectors of the Zimbabwean economy.
- The damage done by these policy choices is severe and has been felt not only by farmers but have also had wider ramifications within the Zimbabwean economy as shown by:
    - The attack on commercial farming property rights has through knock-on effects brought private sector investment, from both domestic and international financiers, within the country down to negligible levels. The capacity of the public sector to fill this gap has been limited by lack of funds.
    - Unresolved land reform issues that continue to seriously undermine productivity in commercial agriculture in Zimbabwe.
    - There is an acute under-utilization of land and resources in the commercial farm areas, and in some cases farming operations are still being disrupted.
    - There is no long term security of tenure. Without security and confidence most farmers are unwilling to undertake any medium or long term investments.
    - The absence of a land market prevents financial institutions from granting loans to all types of farmers because there is little or no collateral to support loans.
    - Adverse money market developments and the critical shortage of working and investment capital have greatly restricted credit to agriculture.
    - There have been no extension programmes put in place to enable new commercial farmers to be trained
    - Various production schemes operated by processors/exporters of horticulture products, tobacco, and cotton have been set up to meet some partial working capital requirements. These processors provide some inputs in exchange for exclusive buying rights to output for a pre - agreed pricing formula. Often

these schemes are biased towards the interests of the traders and leave farmers open to exploitation.

- Current indigenisation policies, which also apply to agriculture, are a further complication and currently damage Zimbabwe's investment attractiveness, creditworthiness and credibility internationally.
- Foreign support has disappeared because of property rights limitations. This makes the country largely dependent on internally generated export earnings and curbing import demand. The very large trade gap that currently exists has developed largely from the need to import large quantities of food items that could be produced domestically if our farmers are given the right incentives. The foreign exchange saved would be used for development purposes rather than importing food.
- Disinvestment and relocation of input supply companies (e.g. seed houses) to more financially secure countries in the sub-region has also occurred.
- A result of land reform is high unemployment in the rural areas and growing rural-urban migration.
- Job security in agro-related industries has crumbled, employment levels in urban areas are falling and human capital flight to other countries has become a major problem.

The slow pace being taken by government on land reform and the need to regularize the property rights position of commercial farms continues to obstruct meaningful efforts to set the economy on the road to full recovery.

The Union therefore calls for current land legislations to be amended to provide secure property rights to all farmers.

COMPENSATION

a) Government has repeatedly declared its intention to proceed entirely in terms of the Constitution, and has acknowledged its liability to pay compensation for farms acquired in terms of the law. To date less than 400 farmers have been compensated for title deeds out of a total of around 6500 properties that Government has acquired in terms of existing legislation. In addition farmers are also owed compensation for equipment and farm materials acquired by the State in terms of the the Acquisition of Farm Equipment or Materials Act (Chapter 18:23).

Compensation that is fair will take out the current conflict in agriculture.

Until the legal aspects of the transfer of the land are finalized, neither the new farmers nor the previous owners have any degree of security. Production is inhibited and financiers are reluctant to provide support for production on the disputed farms. The provision of fair compensation to the departing owner can thereby rapidly restore production levels on commercial farms.

The Union is concerned that since the start of the land reform, the allocation of resources for compensation does not reflect government's seriousness in proceeding entirely in terms of the Constitution. There is no meaningful progress to bringing this issue to a closure, and the fact that it remains largely unresolved is noted by the international community and this deters foreign investment.

Although compensation allocations for three years were announced in the 2012 Budget Statement the levels indicated were woefully inadequate to make any serious inroads to the problem.

The Union calls upon Government to come up with a framework of meaningful compensation payments that will settle this issue in the near future and that will remove all the problems outlined above so that Zimbabwe can move forward with confidence into the future.

b) Besides compensation for land, farmers among others are also owed money for foreign exchange held in bank accounts which was confiscated by the Reserve Bank to bankroll its farm machinery procurement programme in the mid-2000's. These are debts that should be refunded without further delay. The same also applies to produce sold to the GMB for which farmers are still waiting payment. The fact that farmers have not received payment has contributed to the difficulties that farmers have been experiencing in financing the crops that have followed the unpaid deliveries.

TAXATION

The Union would like the following taxation issues to be considered in the upcoming budget

• The Budget Strategy Paper does not comment on the fact that the formal sector which forms a small percentage of the population and is subject to all forms of taxation is shrinking in relation to unregistered non-formal businesses and their employees that are able to avoid tax. The collection of presumptive taxes is generally expensive and ineffective, and does not contribute much towards the fiscus. There is a need to capture those persons who benefit from tax avoidance by indirectly taxing items in general usage by most of the population the consumption of which cannot easily be escaped. This will lessen the tax burden on the formal sector and be an incentive for increased productivity.

- Relief from Capital Gains Tax for farmers receiving compensation

- Large amounts of processed or semi-processed food items like dairy products, chickens, flour, etc. that are subsidized in their country of origin are imported to the detriment of local production which finds it difficult to compete. Although a 25% surtax has been imposed on many of these items they still continue to flood the market to the detriment of domestic production. Import quota's should be considered as a method of protecting local producers from unfair competition and encouraging greater local output.

- Removal of import duties on raw materials used in the manufacture of basic inputs like stock feeds for livestock, fertilizers, etc. Anomalies exist in that, for example, stock feeds are duty free while some of the raw materials are not.

Value Added Tax

Capital Items subject to VA T

Whilst we take cognizance of the efforts by government to reduce capital costs to farmers by granting exemption status to agricultural machinery listed under SI 273 of 2003, First Schedule, Part II, item 7, a close examination indicates an almost complete exclusion on any livestock related capital inputs other than those listed under code 84.33.

Livestock enterprises are an integral part of Zimbabwean agricultural production systems. For example, the same rational for applying taxation to a plough used by a row crop farmer should be accorded to milking machines used in a dairy.

It is our proposal that the following commodity codes be incorporated as exempt capital items;

Code	Item
8434.0000	**Milking machines and dairy machinery**
8436	**Agriculture poultry keeping machinery**
8436.1000	**Machinery for preparing animal feeding stuffs**
8435.2100	**Poultry incubators and brooders**
8436.9100	**Parts of poultry keeping machinery**
84385000	**Machinery for the preparation of meat or poultry**
8479.2000	**Machinery for the extraction/preparation of animal/vegetable fats or oil**

Agricultural Commodities and Inputs subject to VA T: -

The current zero rated agricultural inputs include animal remedies; fertilizers; pesticides; seed and plants used in cultivation; and stock feeds. On the output side the list includes maize grain, wheat, and farm animals but excludes soya-beans, barley, and live chickens (that weigh more than 185 grams).

Code	Item
0105.9400	Fowls of species Gallus domesticus (>185 gms)
1003.0000	Barley
1201.0000	Soya beans
0511.1000	Bovine semen

Bovine semen is the animal equivalent to crop seeds that are already zero rated, and therefore should be treated similarly. Sales of nearly all live farm animals are not subject to VAT with the sale of live chickens being the only major exception. This item together with two major crops, being soya beans and barley, are subject to VAT and should be zero rated. A separate paper concerning the need to zero rate soya beans is attached to this paper

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