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# THE WAY FORWARD –

## AGRICULTURAL AND ECONOMIC RECOVERY IN ZIMBABWE – A PROPOSAL

### INTRODUCTION

This document is prepared as an accompaniment to a short presentation in the attached DVD or accessible on line as follows: <https://vimeo.com/59656618>. 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 and agrarian reform programme.

In Zimbabwe today it is clear that all farmers have the following needs:

- Access to affordable finance
  - An end to isolation from international financial markets
  - Access to collateral value
  - A reduced country risk
- Farm investment security and transferability
- Wealth creation opportunities
- New technology , skills and other resources
- Greater access to all commodity markets
- Government policies which support viability

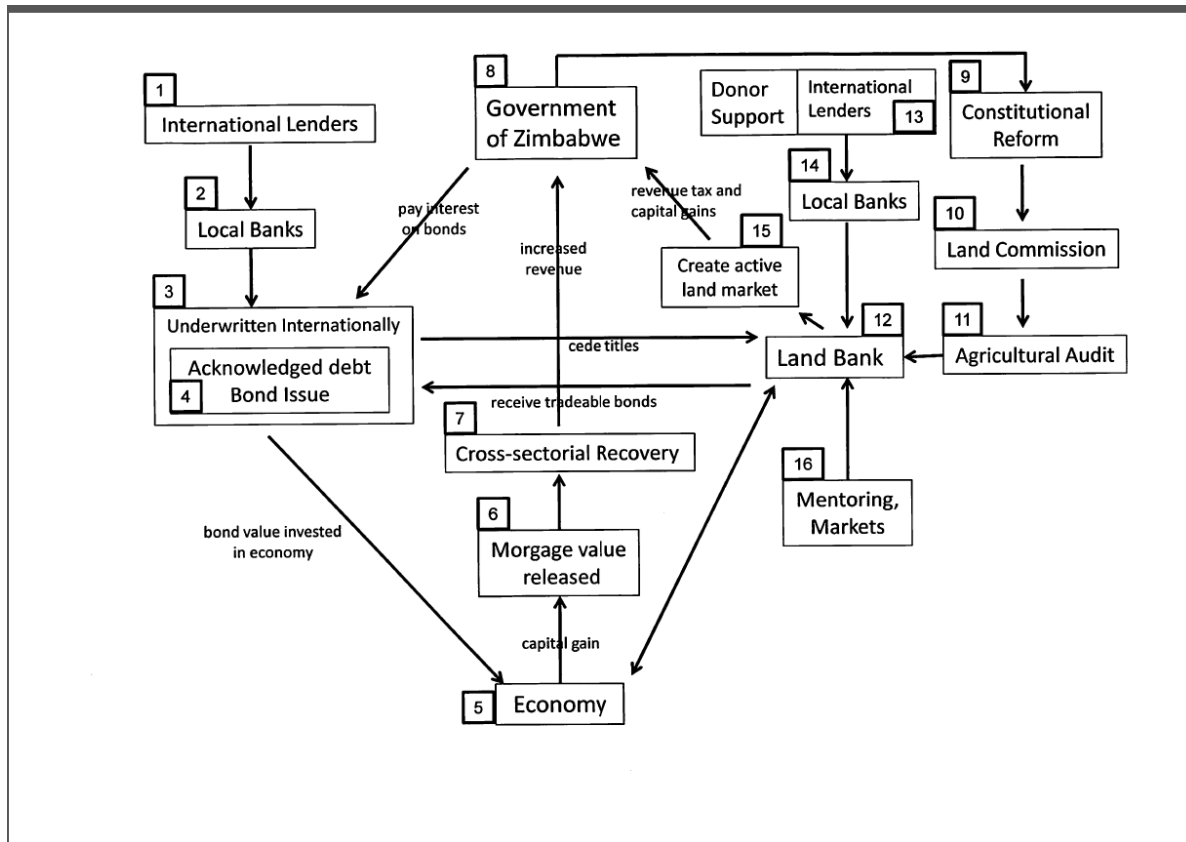
This proposal intends to deliver these requirements.

### A PROPOSED SOLUTION

The Highlights of the proposal are as follows:

- To establish a credible and well financed Land Bank to fund agricultural sector working capital requirements at affordable interest rates. The Land Bank will also enable beneficiaries of land reform to fund the procurement of tradable and bankable secure tenure instruments on favourable terms over 25 years. This will establish confidence and incentives on the part of both financiers and farmers for long term developments and capital expenditures.
- To trigger the development of a robust market for agricultural land. This will simultaneously allow the release of a mortgage market and trigger a natural capital gain. Thus bringing Land based investment values in Zimbabwe in line with recent growth in surrounding African countries.
- To release underwritten bonds redeemable over 10 years for the value of unpaid compensation for acquired commercial farms. This will be a mechanism for the reinvestment of compensation into the Zimbabwean economy. Using the compensation problem as an opportunity for growth and a message to stimulate greater investor confidence.

Here is the proposal outlined in more detail.



**Boxes 1 and 13. International Lenders** – The key point is that Zimbabwe could be with the right policy framework, an investor destination of choice. Here it is proposed to create an attractive investment option for international investors in order to finance the Zimbabwean agricultural sector.

**Boxes 2 and 14. Local Banks** – The local banking sector is largely crippled by a lack of liquidity and a legal framework in the agricultural sector that does not enable the use of land and agricultural developments as collateral security for loans or indeed as equity. This is because the land, and therefore the developments on that land, cannot be transferred on an open market. This position undermines the confidence of lending institutions to undertake longer term investments in agriculture. In addition investments in agriculture are regarded as high risk because farmers do not have established track records with lending institutions and a credible credit bureau is not in place. For farmers this means that the cost of capital is extremely high, making the production of agricultural commodities in Zimbabwe uncompetitive. This proposal seeks to trigger the potential of local lending institutions by creating an enabling environment for them to lend confidently into the agricultural sector at competitive interest rates. International and local investment funds should be channelled to agriculture through these existing structures.

**Boxes 3 and 4 Acknowledged debt, Bond Issue, Underwritten Internationally** – It is well documented that one of the most contentious issues pertaining to the recent Programme of Land Reform in Zimbabwe has been the wholesale nationalisation of land held under freehold title. This mass expropriation has taken place without any provisions being made for the compensation of former owners. In terms of Zimbabwean law today Government is

only liable for compensating former owners for improvements to agricultural land. In spite of this limited liability the Government of Zimbabwe has never been able to make adequate provision to settle outstanding claims.

The result has been massive decreases in levels of investor confidence in the agricultural sector and massive increases in Zimbabwe's risk profiles as an investment destination. Apart from the well published political posturing on this issue, the main reservation about dealing with the compensation issues has been that to comprehensively acknowledge liabilities to compensate and make it part of the country's domestic debt would be to unfairly burden the Zimbabwean tax payer. This proposal seeks to present the compensation issue as an opportunity for Zimbabwe's economy which does not unnecessarily burden the tax payer. This is done by taking the value of compensation and investing it directly into **the Economy (Box 5)**. It is proposed that a mechanism for this be created whereby all farms are valued in line with the principles of international law and tradable internationally underwritten bonds are issued to former farmers in respect of the values owed to them. Simultaneously the Title Deeds held by former owners should be ceded to a new institution established to fund agricultural production called the Land Bank. Bond holders will be in a position to:

- a) Sell the bond 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.

The release of the **Mortgage value of Agricultural land (Box 6,)** coupled with a mechanism, in the form of the **Land Bank (Box 12)**, to fund an **active land market (Box 15)**, and agricultural production on land, means that there will be a rapid capital gain or increase in the market value of land, which will exceed the value of the compensation amount. 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 have increased markedly. Neighbouring countries within the region which are able to harness the collateral value of land to drive agricultural production have witnessed impressive agricultural growth. The important point to note here is that by triggering the establishment of a mortgage market the value of agricultural land will rapidly catch up to the values in the region. But this does not only apply to agricultural land. All other types of immovable property in Zimbabwe will see a marked increase in value with the opening up of affordable mortgage finance.

The establishment of a land market will inevitably lead to **cross sectorial recovery (Box 7)**. This will boost revenue inflows to the **Government of Zimbabwe (Box 8)**. Greater production in the economy means more jobs and in turn less social dependency and more taxes. The Government of Zimbabwe will in time then be in a position to pay for redemption on the bonds and pay interest on the bonds.

Additionally, 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 agricultural assets (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 farms. An added advantage is that it restores a sense of national accountability in the distribution and re allocation of national assets to a limited number of individuals.

A key feature in this proposal is the establishment of the **Land Bank (Box 12)**. 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. 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.
2. 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.
3. 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.
4. To promote the re-capacitation of research stations, colleges and extension services.
5. To support the development of **viable commodity markets**. (Box 16)

It is envisaged that the land bank will be itself an attractive investment opportunity for local banks and international investors. However in order to trigger its capacity it may be necessary for initial donor support.

It is necessary that process of regulatory Reform, the establishment of a land commission and an **Agricultural Asset and Land Audit** (Boxes 9, 10 and 11 respectively) take place in order to provide a clear and concise legal framework for secure land tenure and a clear consensus on a national land policy.

## 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.

## COMMENTS OR ENQUIRES

Should you have any comments, concerns or general enquires regarding this proposal please email [pres@cfuzim.org](mailto:pres@cfuzim.org)