

COMMERCIAL FARMERS' UNION

PROPOSALS : NATIONAL BUDGET FOR 2015

INTRODUCTION

The national budget for 2015 should meet the following expectations:-

- Fiscal and monetary policies must be crafted in a way that achieves the main objectives of sustainable economic growth, increased formal employment, poverty alleviation and an improving standard of living for Zimbabwe's citizens.
- Government should target its own expenditure to provide all the public goods and services necessary to allow the private sector to operate efficiently. Public expenditure should incorporate investments in infrastructure and capital goods that by their nature can only be undertaken by Government. The budget should be less consumption orientated with more emphasis placed on wealth creation.
- Government must devise methods of eliminating the sizeable informal markets and the dual economy that has developed over the past decade to expand its tax/revenue base
- Regarding trade the projected 2014 current account deficit of \$3.5 billion (or 25% of GDP) is alarming. Falling international commodity prices have put a brake on export earnings while under-performance in some of our domestic sectors, most notably agriculture and manufacturing, continues to maintain a strong demand for imports of food and manufactured goods.
- To counter this undesirable situation Zimbabwe must expand the volume of its exports, especially from the mining and agricultural sectors to boost earnings, and increase production levels of raw materials supplied to the manufacturing sector as an import substitution strategy to reduce inflows of foreign goods.
- Agriculture can play a very important role in improving our trade performance in that there is substantial capacity to increase the volume of agricultural exports (e.g. tobacco, cotton, sugar, horticulture, beef, coffee, tea, paprika, etc) and at the same time reduce our food import bill by expanding the output of commodities like maize, wheat, oilseeds, dairy, and poultry.
- Government must ensure that its fiscal regime is supportive of boosting productivity in the farming and other sectors.
- Finally the budget must be realistic and attainable. Once legislated there must be Government commitment to strictly adhere to its provisions.

AGRICULTURE

Agricultural Performance in 2013/14

Agriculture is a key sector of Zimbabwe's economy and is capable of achieving self-sufficiency in food production as well as contributing substantially to Zimbabwe's export earnings. Previously this sector was highly diversified, employed the most people in formal employment, was the main export sector, and had the most backward and forward linkages with other sectors of the Zimbabwean economy, especially the manufacturing sector. Thus recovery in the agricultural sector will be the main catalyst for securing rapid rates of growth that Zimbabwe's economy needs to catch up with the levels being achieved by other countries in the region.

Agricultural performance in 2013/14 was much improved when compared with the previous season. It is expected to contribute more than 16% of GDP in 2014 which is higher than the 13% realized in 2013. In the 2014 Mid Term Fiscal Policy Review agricultural output is projected to grow by 23.8% in 2014, which is well above the original growth projection of 9.0%. Increased production for some commodities was mainly the result of a much better distribution of rainfall.

The Ministry of Agriculture estimates that 1 400 000 tons of maize has been harvested this year which is well up on the 798 600 tons produced in 2013. Various sources have indicated to us that the Ministry figure may be over-optimistic and it is more likely there was a 40% increase to around 1 120 000 tons. Whatever figure is actually realized imports will still have to occur to make up the deficit to the national consumption requirement of 1.8 million tons.

Sorghum output is this year expected to increase from 70 000 tons recorded last year to about 105 000 tons in 2014. Output for small grains (millets) is expected to increase to 45 000 tonnes this year from 43 000 tonnes harvested in 2013.

Winter wheat production continues to suffer numerous challenges which threaten production feasibility. In 2013 the main negative features included low dam levels due to poor rains, intermittent power supplies, rising production costs and reluctance of financial institutions to fund production. Given the above there is strong resistance from farmers to growing the crop and wheat output is projected at 14 000 tons in 2014, down from the 20 000 tons harvested in 2013.

A decrease in output of cotton has occurred this year following the diversification out of this crop due to very poor prices being received by cotton growers over the past two seasons. According

to the Cotton Ginners Association the projected harvest is around 136 000 tons this year down from the 145 000 tons produced in 2013. These figures are less than half of the 342 000 tons achieved in 2012. International prices being fetched for cotton make local production unviable and one large contractor (Cargill) has ceased operations, while another (Romsdal) is now under judicial management.

Tobacco sales for 2014 increased by 30% to 216.6 million kg's sold at an average price of \$3.17 per kg which was an improvement on 2013 when 166.6 million kg's of tobacco were sold at an average price of US\$3.69 per kg. In value terms the increase from \$614.8 million to \$ 686.6 million was only 12% because the much poorer average price reduced the impact of the much larger sales volume. Tobacco output has been on an upward trend since dollarization. About 99 400 farmers registered to grow and sell flue cured tobacco in 2013/14 season compared to 66 500 in 2012/2013. So far this year 77 580 farmers have registered to grow tobacco but this is not a final figure as the registration process is still ongoing.

Horticultural production is anticipated to marginally increase from 41 500 tons last year to 44 000 tons in 2014. Future prospects are still being threatened by cheap imports that flood the market; deteriorating irrigation infrastructure; and a lack of technical skills.

Regarding livestock, a small increase in milk production to 56 million litres is forecast for this year from the 54.6 million litres produced last year. The number of beef cattle slaughters is projected to increase slightly from 242 000 head in 2013 to 245 000 head this year.

CHALLENGES AND CONSTRAINTS IN THE AGRICULTURE SECTOR

These have remained largely unchanged for several years:-

- Unresolved land reform issues 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.
- There is still no security of tenure. Without security and confidence most farmers are unwilling to undertake any medium to long term investments.
- The absence of a land market prevents financial institutions from granting loans to all farmers because there is little or no collateral to support loans.
- The new Zimbabwe Land Commission Bill grants the Minister of Lands wide powers over land tenure and occupancy and in its present form is unlikely to provide the financial sector with the security they need to provide credit to farmers. This bill is still under discussion with the various stakeholders being consulted on their views.

- Lack of collateral and the liquidity crisis results in insufficient finance for short term working capital and medium to long term finance for equipment purchase and capital development.
- High input costs and uncompetitive costs of production for many agricultural commodities in the face of falling commodity prices both regionally and internationally.
- Poorly functioning and generally inefficient domestic agricultural markets which sometimes result in late or non-payment for produce sold by farmers.
- Unfair competition from cheap and sometimes genetically modified imports.

Property Rights

Most of the challenges outlined above have been brought about by unclear property rights in the agricultural sector. Over 90% of Zimbabwe's agricultural land is now de facto state land and capital formation in agriculture has become heavily reliant on resources from the fiscus as private investment remains minimal due to the lack of clearly defined property rights. This situation is unsustainable as capital from the fiscus is inadequate to boost agricultural development to any significant degree. Secure long term tenure rights will encourage farmers to invest in the land they occupy and attract funding from private sources thereby reducing the need for Government funding.

Banking Sector reservations on collateral offered through 99-year leases

As stated above the Banking Sector still has strong concerns around legal and technical issues regarding property rights for land and improvements contained within proposed 99-year lease documents. This comes after the Bankers Association of Zimbabwe's legal committee met and reviewed amendments meant to transform the leases into bankable collateral that farmers can use to access loans.

These centre on legal issues relating to the separation of rights to land and the improvements thereon. Property laws in Zimbabwe treat land and improvements on the land as inseparable and transferable in a combined form. As such, treating land and the improvements on it separately, as expressed in the constitution, presents legal challenges in that separate ownership documentation is required. Another problem to resolve is how compensation for improvements on the land would be treated if a 99-year lease is terminated by Government.

Banking sector sources said that while progress is being made in improving acceptability of 99-year leases as collateral, substantive reservations remain. Discussions are still ongoing between banks and Government on the composition of the 99 year leases to make them bankable for purposes of funding to agriculture.

The proposed Zimbabwe Land Commission Bill has not addressed these issues in a manner that satisfies the banks, but as mentioned, the bill is still under review. The Union calls for current and proposed land legislation to be amended to provide secure property rights to all farmers. The

tenure instruments provided must be tradable and acceptable as collateral by the financial sector.

Compensation

Compensation for acquired farms is a constitutional obligation. To date only around 300 farmers have received compensation for title deeds out of a total of approximately 6,500 title deeds which Government has compulsorily acquired in terms of legislation.

Budget allocations for this item each year have either been miniscule, or nothing has been allocated at all. Three years ago the budget provided for compensation payments in that year and also contained indicative amounts to be paid in the following two years. The fact that the budgets in the following two years did not include any amount at all for compensation implies that Government has scant regard for property rights and compensation for assets that it compulsorily acquires.

Such actions breed distrust of Government's intentions, and is one of the main deterrents to foreign investment inflows as Zimbabwe is not perceived as a safe investment destination. Foreign direct investment is badly needed to boost Zimbabwe's economic growth.

The Union calls upon Government to seriously address this issue and meaningful resources must be allocated for compensation in the 2015 budget. The Union stands ready to assist Government in this regard.

Government Expenditure

In terms of CAADP that Zimbabwe is a signatory to, 10% of government expenditure should be allocated to agriculture. There is a need to ensure that public research and extension activities get a reasonable share of the allocation, because these services at present need considerable improvement if farm productivity is to be raised so that overall economic growth targets are met. There is also need to give a greater emphasis to irrigation development to mitigate the negative effects of drought on production.

Taxation and Related Matters

The following issues are important for the farming sector because of their adverse effects on production viability:-

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

- Large amounts of food items like dairy products, chicken meat, flour, vegetable oils, etc, that are subsidized in their countries of origin are imported to the detriment of local production which finds it difficult to compete. There have been measures taken recently to slap some of these products with surtaxes to even out the competition. However this does not appear to be having the desired effect and our markets continue to be flooded with these products, due to a number of reasons including lax border controls.
- Inappropriate application of VAT on some agricultural commodities and two key inputs (electricity and water) undermines production viability. A joint paper prepared on behalf of the four agricultural unions is attached as an appendix which includes the main arguments in favour of zero rating these items.
- Production viability in agriculture is also adversely affected by a wide range of state levies and charges. Some of them (e.g. EMA and RDC charges) have a significant impact in undermining profitability and productivity, especially in the drier regions of the country. Some charges have obviously been applied without due consideration of this aspect. Again papers are attached in support of arguments to moderate these charges.

Conclusion

Resuscitation of productivity in the agricultural sector must receive top priority in the 2015 budget. It makes no sense for a country that is quite capable of achieving food security for its population to continue to waste foreign exchange on importing large quantities of basic foods when these monies could be better utilized in promoting economic development. Unless the issues outlined in these papers are dealt with, agriculture will keep on operating at well below its optimum potential to the detriment of economic growth and the wellbeing of Zimbabwe's population.

4th November 2014

Joint Farmers' Union Paper on Various issues relating to Value Added Tax on Primary Agricultural Products and Certain Key Inputs (Electricity and Water)

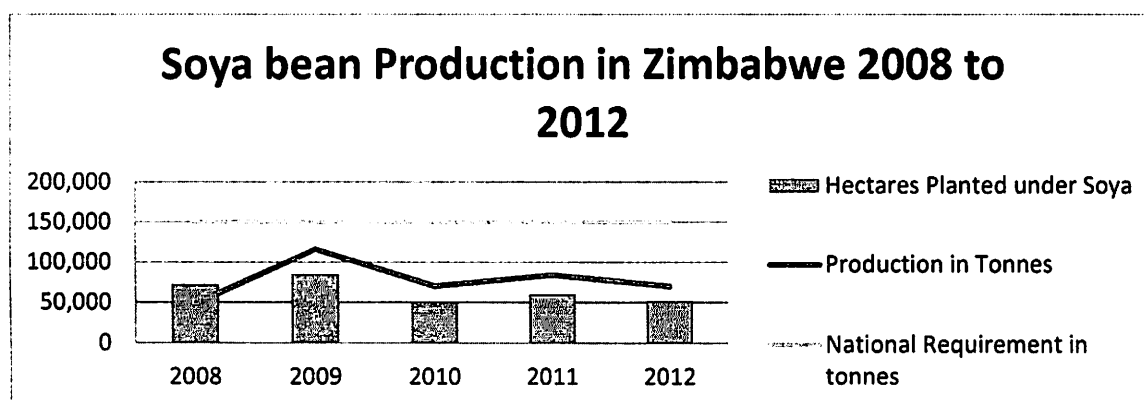
Presented to the Agricultural Marketing Authority (AMA) and the Ministry of Finance and Economic Planning by, the Zimbabwe Farmers' Union (ZFU), the Zimbabwe Commercial Farmers' Union (ZCFU), the Zimbabwe National Farmers' Union (ZNFU) and the Commercial Farmers' Union of Zimbabwe (CFU)

08 May, 2014

This paper sets out various issues and recommendations on those issues pertaining to value added tax (VAT) on certain primary agricultural inputs and outputs.

Request to remove Value Added Tax on Soya Beans for sales during the period 1st February, 2009 to 1st August 2012

1. Soya Beans are a strategic food crop. The commodity is a vital component in stock feeds and an important source of protein and cooking oil for humans.
2. Local production of soya beans has failed to meet local demand for some time. However, the country has potential to produce a surplus. The deficit is met by imports from Zambia and Malawi. Farmers look to Government as partners in boosting local production of soya beans which is in the overall national interest.



3. Apart from the threat to national food and nutrition security, the deficit in local production has had a negative knock on impact on the competitiveness of livestock production. Stock feed manufactures have for several years relied on imports of soya beans and soya bean cake which is one of the factors that has driven up the cost of stock feeds.
4. We appreciate that Government has recognized the need to improve competitiveness of local production of soya beans and has accordingly zero rated the commodity for VAT with effect from 1st August 2012.
5. Nevertheless, before the relief referred to above became operational, the majority of the main players in the soya bean industry were under the mistaken impression that soya beans were already either exempt or zero rated for VAT. In addition, it is submitted that the Zimbabwe Revenue Authority (“ZIMRA”) had not made attempts until relatively recently to collect VAT on Soya beans, and in fact in their correspondence to traders in 2004 had given the impression that Soya beans were zero rated. See the attached letter from ZIMRA to one of the main buyers of various primary agricultural commodities called Origen Corporation. This information pertaining to the VAT status of soya beans came to be in broader circulation and gave most producers and traders the impression that soya beans were zero rated.
6. Thus, the position now is that most soya bean farmers and traders are exposed to unmanageable tax liabilities for the period 1st February, 2009 to 1st August, 2012. This is an unbudgeted expenditure and, if pursued in the future, could either bankrupt some producers or at the very least constrain their ability to expand production of the crop. Additionally it will constrain the ability of traders to purchase the crop. The overall net effect will be reduced or stagnant local production of soya beans.
7. Whilst the tax liability is unmanageable for the soya bean producers, the loss to the *fiscus* if Government is to write it off would be relatively negligible. The cost benefit analysis of reviewing the effective date is most certainly in favour of putting in place a policy to support the soya bean industry. The Table below illustrates the **maximum** amount of revenue that

could be lost or conversely the maximum amount of tax liability that could be faced if it is assumed that the VAT on the total amount of locally produced soya beans was able to be collected (i.e. in the hypothetical scenario that every soya bean producer was registered for VAT or met the VAT registration threshold and if every producer opted to sell his or her soya beans and not use the soya as stock feed). The real loss of tax revenue is most likely substantially lower. Conversely, the individual sums to the affected farmers would be significant:

Year	2009	2010	2011	2012
Total Soya Bean production to the nearest Tonne*	115,817	70,256	84,173	70,542
Average Price of Soya Beans for period ¹	385	467	568	580
MAXIMUM TOTAL VALUE OF SOYA BEANS FOR THE YEAR	44,589,545	32,809,552	47,810,264	40,914,360
MAXIMUM POTENTIAL VAT (i.e 15% of the Total Value)	6,688,432	4,921,433	7,171,540	6,137,154

Maximum Tax Liability if all producers were registered **24,918,558**

Notes

* source Agritex

¹ This is the average market price for the year in question

It must be stressed that this amount would not be anywhere near the total indicated in the table because most small scale soya bean producers do not meet the VAT registration threshold and many large scale producers do not sell the soya beans opting instead to use them for stock feeds for their own cattle.

8. As a commodity Soya beans require economies of scale to be viable. It is important to put in place policies that encourage A2 Farmers and other large scale producers to invest in the crop or reinvest in the crop. If these persons are faced with tax liabilities which they were unaware of then they will be unable to continue production going forward.
9. Farmers have noted with gratitude Government's support by according zero rated status and VAT exempt status to White Sugar and Tobacco sold in terms of a contract (Contract Tobacco). Most notable is the effective dates of 1st January 2009 and 1st February 2009 which are applicable to these commodities. However, farmers query why soya beans are not accorded the same treatment. The loss to the *fiscus* in backdating the Zero rated status of

Tobacco and White Sugar would have been far greater than the amount in respect of locally produced soya beans. Why not back date the effective date of Soya Beans also?

10. It would be in the national interest to support the increased production of soya beans. Farmers therefore request for the reviewing of the effective date of the zero rated status on soya beans to the 1st of February 2009.

Request to adopt a policy that accords zero rated or exempt VAT status to all primary agricultural Commodities

11. According to a document published by ZIMRA entitled “the Tariff Handbook FINAL 7 JUNE, 2013”¹ a number of Agricultural Commodities are still Standard Rated (i.e. at 15%) for VAT. Some of the most notable of these have been selected out of the document and are indicated in the following table:

Commodity	Heading/Code
Barley	10.03
Oats	10.04
Paprika and Other Peppers (Capsicum)	09.04
Goat Meat	02.04
Sheep Meat	
Tea	09.02
Coffee	09.01
Groundnuts	12.02
Pumpkins	0709.9300
Aubergines (egg-plants)	0709.3000

The list is not exhaustive but merely serves to highlight that some common primary agricultural commodities are subjected to standard VAT rating. It is also noted that the

¹

http://www.zimra.co.zw/index.php?option=com_phocadownload&view=category&id=6:customs&download=450:tariff-handbook-hs2012-integrated-ict-tariff&Itemid=99

document does make it clear that there may be inconsistencies between it and the relevant Legislation.

12. For some time now the unanimous call of all farmers has been to see that all primary agricultural commodities be either zero rated or exempted from VAT. The main rationale for this is that VAT charged to the farmer impacts the viability of production of the commodities in question, particularly at this time when it is in the national interest to ensure that policies that support increased agricultural production of all agricultural commodities are put in place.
13. It is therefore respectfully requested that the above mentioned primary commodities be either zero rated or exempted from VAT as soon as possible.

Request for removal of VAT from Electricity supplied to Agricultural Customers by the Zimbabwe Electricity Transmission and Distribution Company (ZETDC) and Raw Water for irrigation sold by the Zimbabwe National Water Authority (ZINWA)

14. Electricity is a key input in agricultural production. It is necessary for the overwhelming majority of irrigation schemes, Tobacco curing, Pig, Dairy and poultry production etc,
15. The Cost of Electricity in Zimbabwe is high for farmers, particularly when drawing a comparison with Zambia. Zambia is cited as an example because it is the foremost source of imports of non GMO Maize and Soya Beans into Zimbabwe, and is therefore Zimbabwe's natural competitor in so far as agriculture and these commodities is concerned. Unlike Zimbabwe, Zambia is fortunate in that almost all its power is generated at hydro electric schemes, and therefore costs of electricity are significantly lower. In Zimbabwe, high costs of electricity and unreliable supply are one of the factors that erode the competitiveness of local agricultural production.
16. Recently, the Zimbabwe Power Company (ZPC) and ZETDC have applied to the Zimbabwe Energy Regulatory Authority (ZERA) to increase their tariffs. The justification for this proposed increase is that it is required in order to continue and expand effective service

delivery. Farmers appreciate that more funds are required to ensure a long term plan to increase the reliability of electricity supply, but the trade off is that it will lead to a further short term loss in competitiveness and viability to the farmer.

17. However, farmers have noted that there are two charges, additional to the tariffs, which contribute to the high cost of electricity. These are The Rural Electrification Levy and VAT. This paper addresses the latter.

18. Whilst farmers can theoretically claim back input VAT on electricity, in practice there is an administrative burden which is costly, delays which disrupt the farmer's cash flow, and a lost opportunity cost. In addition, many farmers are not registered for VAT because their businesses do not meet the VAT threshold. The net effect is that VAT makes electricity unnecessarily costly for the farmer.

19. VAT on electricity is also arguably unfair for the *fiscus*. This is because all primary agricultural products are zero rated for VAT and therefore farmers could claim back input VAT and not collect any output VAT, despite ZIMRA incurring costs in time and administration of the transaction.

20. It is therefore in the interests of both Government and farmers that VAT be exempted or zero rated for agricultural electricity consumers. The benefit will be to reduce the administrative work of ZIMRA and reduce the actual cost of electricity to farmers. Thus we request that Electricity supplied to Agricultural customers be either exempted or zero rated for VAT.

21. The position is quite similar in respect of raw water for irrigation or livestock watering sold to farmers by either ZINWA or the Sub Catchment Councils.

22. It is requested that likewise Raw water used for irrigation and the watering of livestock be either exempted or zero rated for VAT.

ENDS

Robert
Tambandini } 24288
218442

ZIMBABWE REVENUE AUTHORITY
COMMISSIONER GENERAL



ZIMRA

WRITE TO:
THE REGIONAL MANAGER
ZIMBABWE REVENUE AUTHORITY
P O BOX CY 352
P O BOX CY 782
P O BOX CY 803
CAUSEWAY, HARARE

TELEPHONE:
+263-4-795711
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CALL AT
RECEPTION
9TH FLOOR KAGUVI BUILDING
CNR 4TH STREET CENTRAL AVE
HARARE

IF REPLY PLEASE QUOTE
REF. NO.

20 February, 2004

THE DIRECTOR
OF BEN CORPORATION
7 SEAGRAVE ROAD
SECOND STREET EXT
HARARE

ATTENTION : SARA STOCKIL

Dear Madam

ALLOCATION OF VAT PERCENTAGES TO COMMODITIES

Your letter ref : SS/VAT/C dated 11 February 2004 refers.

Below listed are various commodities and how they should be treated under VAT.

COMMODITY	%AGE RATE
YELLOW MAIZE	15%
WHITE MAIZE	15%
MAIZE MEAL	0%
MAIZE SEED	0%
SOYA BEANS	0%
SOYA OIL	0%
SOYA MEAL	0%
SOYA SEED	0%
WHITE SORGHUM	0%
RED SORGHUM	0%
SORGHUM MALT	15%
SORGHUM SEED	0%
SUGAR BEANS	0%
SUNFLOWERS	15%
SUNFLOWER SEED	0%
SUNFLOWER OIL	0%
WHEAT	15%
WHEAT BRAN...	15%

WHEAT FLOUR	15%
BARLEY	15%
BARLEY SEED	0%
GROUND NUTS	0%
OATS	15%
COTTON	15%
COTTON SEED	0%

/sk

Impacts of Regulations enforced by the Environmental Management Agency on the Viability of Primary Agricultural Production

1. Primary agricultural production in Zimbabwe is at present not competitive when compared to other regional Agricultural commodity producing countries such as Zambia and South Africa. Exacerbating this lack of competitiveness is the plethora of state Levies and charges which significantly increase the overheads and production costs of farming businesses. Table 1 below lists some of these charges:

Table 1

Levy or Tax	Financial implications to Farmers	Consensus of opinion amongst farmers
Rural District Council Land Tax	Ranges from US \$ 1 to US \$ 3 per hectare	Redesign land tax system with reference to the viability of commodities produced on the agricultural land in question.
Rural District Council Levies on Commodity sales	For sales of Cattle in some Rural District Councils the levy is 11.25% of the sale price paid by the buyer.	Scrap these levies.
Cost of compliance with Livestock movement regulations	Securing livestock movement permits and Police Clearance is generally a costly and time consuming exercise.	Simplify and streamline administrative procedures. Use ICT to improve efficiency and reduce cost to farmers.
Standards Development Levy	0.05% of the Gross Wage Bill	Scrap this and fund Standards Development issues out of the national fiscus. Encourage exports of agricultural commodities forcing farmers to meet international standards in order to access international

		markets.
National Employment Council Dues	Agricultural Employers required to contribute US \$ 1 per employee per month.	Ensure greater service delivery from the NEC which should represent a fairer balance between the interest of employers and workers.
National Social Security Authority Contributions	Agricultural Employers required to contribute 3.5% of wage bill on a monthly basis for pension and benefits scheme and in addition 1.53% of monthly wage bill as Workplace accident insurance.	Reduce the % and make NSSA more accountable for how it spends its money.
Comparatively High Costs of Electricity supplied by ZETDC	The cost of power to Zimbabwean Farmers is on average about US \$ 0.14 per Kwh including 6% rural electrification levy and VAT as opposed to US \$ 0.05 per Kwh in Zambia.	Remove VAT and reduce the Rural Electrification Levy. Improve supply to farmers - make agriculture load shedding exempt.
Environmental Management Agency Licenses for the storage and use of Fuel and chemicals on farms.	Can be as much as US \$ 640 per year for red label chemicals.	Substantially reduce the Licence fees and only apply the regulations to suppliers of chemicals and not farmers.
Environmental Management Agency licenses for the discharge of effluent from pigsties and dairy parlours.	Is at least as US \$ 453.60 per year for a small pig producing unit or Dairy.	Substantially reduce the Licence fees.
High Costs of water for irrigation and the watering of commercial livestock to ZINWA.	For A2 Commercial Farmers drawing from ZINWA managed water storage facilities the cost of water could be as much as US \$ 10.21 including various levies and	Reduce the cost of Water to under US \$ 4 per mega liter. Remove VAT on Raw water.

	VAT.	
High Agricultural Marketing Authority Registration fees to Buyers, Traders and processors of Agricultural Commodities.	The various relatively high levies and registration fees charged by AMA to Commodity buyers and processors increase their overheads which are naturally passed on to farmers in the form of lower prices.	Reduce the administrative burdens and registration fees.
High Toll gate fees	For the Transportation of Inputs onto the farm and produce out of the farm farmers must budget for toll fees	Allow farmers and transporters of agricultural inputs and outs puts to have a special dispensation and pay reduced toll gate fees
VAT on agricultural commodities	A tax burden of 15% on some primary commodities (e.g soya beans sold between Feb 2009 and Aug 2009, paprika, some vegetables, goat and sheep meat) where inputs are zero rated.	Scrap VAT on all primary agricultural commodities.

2. This paper will focus on those regulations enforced by the Environmental Management Agency (EMA) which at present undermine the viability and competitiveness of farming as indicated in the Table above. The regulations in question are set out in Table 2 below:

Table 2

Relevant Statutory Instruments	Name of Regulations	Impact on Farmers which cause increased farm overheads and production costs	
SI 6 of 2007, SI 4 of 2011	Environmental Management (Effluent and Solid Waste Disposal) Regulations, 2007 as amended.	Requires farmers to obtain a waste disposal Licence for the discharge of agricultural waste. The charges are as follows:	
		Annual Registration Fee	US \$ 32
		Annual Monitoring Fee	Blue Licence US \$ 80 Green Licence US \$ 155

		<table border="1"> <tr> <td></td> <td>Yellow Licence US \$ 300 Red Licence US \$ 585</td> </tr> <tr> <td>Quarterly Environmental Levy based on Volume of Liquid Effluent Discharged.</td> <td>Blue Licence US \$ 80 Green Licence US \$ 150 + US \$ 0.0075 x volume of effluent discharged in kilo litres Yellow Licence US \$ 300 + US \$ 0.015 x volume of effluent discharged in kilo litres Red Licence US \$ 585 + US \$ 0.03 x volume of effluent discharged in kilo litres</td> </tr> <tr> <td>Administration Fee</td> <td>5% on all fees.</td> </tr> </table> <p>The minimum a pig or dairy farmer would pay, assuming he or she held a Blue Licence, would be US \$453.60 per annum for a small piggery or Dairy. This fee would immediately put the small farmer out of business.</p> <p>In addition the regulations place a burden on the Farmer to make and implement waste disposal plans. There is no fund available from money collected by EMA to finance these plans.</p>		Yellow Licence US \$ 300 Red Licence US \$ 585	Quarterly Environmental Levy based on Volume of Liquid Effluent Discharged.	Blue Licence US \$ 80 Green Licence US \$ 150 + US \$ 0.0075 x volume of effluent discharged in kilo litres Yellow Licence US \$ 300 + US \$ 0.015 x volume of effluent discharged in kilo litres Red Licence US \$ 585 + US \$ 0.03 x volume of effluent discharged in kilo litres	Administration Fee	5% on all fees.
	Yellow Licence US \$ 300 Red Licence US \$ 585							
Quarterly Environmental Levy based on Volume of Liquid Effluent Discharged.	Blue Licence US \$ 80 Green Licence US \$ 150 + US \$ 0.0075 x volume of effluent discharged in kilo litres Yellow Licence US \$ 300 + US \$ 0.015 x volume of effluent discharged in kilo litres Red Licence US \$ 585 + US \$ 0.03 x volume of effluent discharged in kilo litres							
Administration Fee	5% on all fees.							
SI 12 of 2007, SI 99 of 2008 and SI 129 of 2011	Environment Management Act (Hazardous Substances, Pesticides and other toxic Substances) Regulations, 2007 as amended.	<p>There are 2 issues:</p> <ol style="list-style-type: none"> 1. Section 9 of the Regulations require Large scale Farmers (defined as utilising hazardous substances on farming activities on land that is more than 500 ha) to obtain a Licence for the use chemicals, fuel etc. The Licence costs US \$ 640 per annum for the use of Red Label chemicals. This pushes up the overheads of medium to large Farming businesses. 2. The second and more significant issue. Although not 						

		<p>entirely clear in the regulations the Environmental Management Agency relying on section 8 of the Regulations has been insisting that farmers obtain Licences to store fuel and chemicals on their farms even farms that utilise amounts of land below 500 ha. It is submitted that the intention of section 8 of the regulations is to require suppliers of chemicals and hazardous substances to obtain a licence and not ordinary farmers.</p>
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3. From the outset it must be understood that Farmers are entirely cognizant of the need to ensure that the Environment in which they operate is respected and preserved for future generations. They are additionally cognizant that the farming methods which they employ must be environmentally sustainable. However, it is submitted that the regulations discussed in this paper go too far in attempting to achieve these objectives. Instead they have the negative effect of unreasonably undermining the viability of agricultural business thus jeopardizing growth of the agricultural sector and in turn national economic growth.

4. The current national priority as set out in the Government of Zimbabwe's "Zimbabwe Agenda for Sustainable Socio-Economic Transformation" (ZIM-ASSET) Economic Blue print is, amongst other things, the revival of the agricultural sector in order to ensure food and nutrition security and additionally agricultural raw materials for value addition and beneficiation. It is submitted that the regulations in question are militating against these most noble objectives.

5. Accordingly it is recommended that the Licence fees set in the regulations highlighted above be significantly reduced by at least 80% to a level that will not undermine productivity and viability. In addition it is proposed that EMA utilise its resources to undertake feasibility studies into low cost methods of treating effluent and other best practice environmental management plans.

ZIMBABWE FARMERS ALLIANCE TRUST

PAPER ON THE EFFECTS OF CATTLE SALES LEVIES AND LAND UNIT TAX ON LIVESTOCK PRODUCTION IN AGRO-CLIMATIC ZONES IV AND V

1. INTRODUCTION

The purpose of this paper is to highlight the effects of current practices and levels of cattle sales levies and land unit tax on the viability of livestock production, specifically in agro-climatic zones IV and V (Matabeleland, and parts of Midlands and Masvingo).

Land Unit Tax

Land unit taxes are charged in terms of the Finance Act [Chapter 23:09] of 2009, as read together with the Rural District Councils Act [Chapter 29:]. The rates are set at \$2/ha/annum for local authorities and \$1 for central government, or a total land unit tax of \$3/ha/annum for Region IV irrespective of land utilization. The current total land unit tax for region V is 2\$/ha/annum.

RDC Levies on Cattle Sales

The instrument used for levy collection is the Ministry of Local Government, Public Works and Urban Development, Circular Number 7 of 2006. This stipulates that buyers of cattle must pay 10.5% of the sales value of cattle to the Rural Development Council. The cattle sales levies are collected at livestock auctions or paid by abattoirs. As provisioned in the circular, RDCs collect the money for onward transmission to relevant government departments. In reality only a small part of the cattle sales levies will benefit livestock farmers through support to veterinary services and maintenance of infrastructure such as roads and dip tanks.

2. EFFECTS ON LIVESTOCK PRODUCTION

Given the climatic nature of regions IV and V, extensive livestock keeping is the most viable form of farming in these regions. In the resettlement areas a viable farm needs to measure at least 1000 ha. Such a farm in Region IV can maintain around 100 livestock units. The land unit tax for such a farm would currently be \$ 3000/year. For Region V the corresponding figures for a 1000 hectare farm would be 60 livestock units and a land unit tax of \$ 2000/year.

The average operational cost for a 1000 hectare cattle farm has been compiled in table 1 in the Annex to this paper. In region IV the average operational cost is \$ 7400, and for Region V it would be \$ 5700. Table 1 shows that labour charges are the largest single cost item. The calculation is based on 2 full-time farm workers.

The operational cost for livestock production in Regions IV and V can fairly accurately be recorded. An insight in income from sale of animals is more difficult to obtain. For this paper an average annual sale of 30 animals for Region IV, and 20 animals for Region V, has been estimated.

In selling of animals farmers are faced with various costs as presented in table 2 in the Annex. Although the cattle sales levy is not paid by the farmer but by the buyers, the buyers discount this cost on the buying price offered to the farmer, and it is therefore taken up as a cost for the farmer. Other costs include transporting inspectors or Agritex/veterinary officials, obtaining transport permits, and the actual transport cost of the animals.

In the actual sale of animals the price is often determined "on sight" instead of by actual weight. This further lowers the price offered to the farmer.

3. CONCLUSION

Tables 3 and 4 in the Annex provide an overview of profit or loss at various levels of Land Unit Tax and Cattle Sales Levies. The calculations made in these tables show that the current high level of Land Unit Tax in relation to the large land holdings needed for extensive livestock production in agro-climatic regions IV and V have a negative effect on the viability of livestock production. The Cattle Sales Levy of 10% on top of the high Land Unit Tax makes livestock keeping in regions IV and V unviable.

As the income of livestock farmers is generally less than the imposed land unit tax many farmers have to default on the tax and RDCs fail to get any revenue. Similarly farmers try to avoid paying the sales levies. The combined high levels of Land Unit Tax and Cattle Sales Levies are self defeating as livestock production is forced to be reduced and Government and RDC fail to obtain income from it.

In conclusion the Zimbabwe Farmers Alliance Trust recommends that Cattle Sales Levies are reduced to 4%. Proceeds from the levies should clearly be seen to benefit development of the livestock sector such as maintenance of diptanks and auction grounds.

It is further recommended that Land Unit Tax for agro-climatic region IV is reduced to \$ 0.50 or less per hectare per annum to maintain a viable livestock sector. The Land Unit Tax for agro-climatic region V should be scrapped as livestock production in this region is only marginally viable.

ANNEX

Table 1. Annual operational cost (in USD) for extensive cattle production in Region IV (100 livestock units on 1000 ha.), and Region V (60 livestock units on 1000 ha.).

Cost item	Region IV (100 LU)	Region V (60 LU)
Bulls	975	600
Vaccines	644	400
Deworming	366	230
Dipping	325	200
Wages (2 farm workers)	2378	2378
Vet costs	169	110
Sundries	113	92
Water	90	90
Insurance premiums	1840	1100
Repairs and maintenance	500	500
Total Annual Operational Cost	7400	5700

Table 2. Sales cost (in USD).

Number of animals to sale At an average value of \$ 350 per animal	1	2	5	10
Cost of vet/inspector	10	10	20	20
Cost of sales permit	20	20	40	40
Transport cost	20	20	50	100
Cattle sales levy (10%)	35	70	175	350
Sales cost per animal	85	60	57	51

Table 3. Annual profit/loss calculation for different levels of cattle sales levy and land unit tax for a 1000 ha. livestock farm in Region IV (in USD).

A. 10% levy.

Sales value, 30 animals	10,500	10,500	10,500	10,500
Sales cost and transport	750	750	750	750
Cattle sales levy (10%)	1,050	1,050	1,050	1,050
Annual operational cost	7,400	7,400	7,400	7,400
Gross profit/loss	1,300	1,300	1,300	1,300
Land unit tax level (\$/ha)	3.00	1.00	0.50	0.20
Land unit tax	3,000	1,000	500	200
Profit (loss)	(1,700)	300	800	1,100

B. 4% levy.

Sales value, 30 animals	10,500	10,500	10,500	10,500
Sales cost and transport	750	750	750	750
Cattle sales levy (4%)	420	420	420	420
Annual operational cost	7,400	7,400	7,400	7,400
Gross profit/loss	1,930	1,930	1,930	1,930
Land unit tax level (\$/ha)	3.00	1.00	0.50	0.20
Land unit tax	3,000	1,000	500	200
Profit (loss)	(1,070)	930	1,430	1,730

Table 4. Annual profit/loss calculation for different levels of cattle sales tax and land unit tax for a 1000 ha. livestock farm in Region V (in USD).

A. 10% levy.

Sales value, 20 animals	7,000	7,000	7,000	7,000
Sales cost and transport	500	500	500	500
Cattle sales levy (10%)	700	700	700	700
Annual operational cost	5,700	5,700	5,700	5,700
Gross profit/loss	100	100	100	100
Land unit tax level (\$/ha)	2.00	1.00	0.50	0.20
Land unit tax	2,000	1,000	500	200
Profit (loss)	(1,900)	(900)	(400)	(100)

B. 4% levy.

Sales value, 30 animals	7,000	7,000	7,000	7,000
Sales cost and transport	500	500	500	500
Cattle sales levy (4%)	280	280	280	280
Annual operational cost	5,700	5,700	5,700	5,700
Gross profit/loss	520	520	520	520
Land unit tax level (\$/ha)	2.00	1.00	0.50	0.20
Land unit tax	2,000	1,000	500	200
Profit (loss)	(1,480)	(480)	20	320