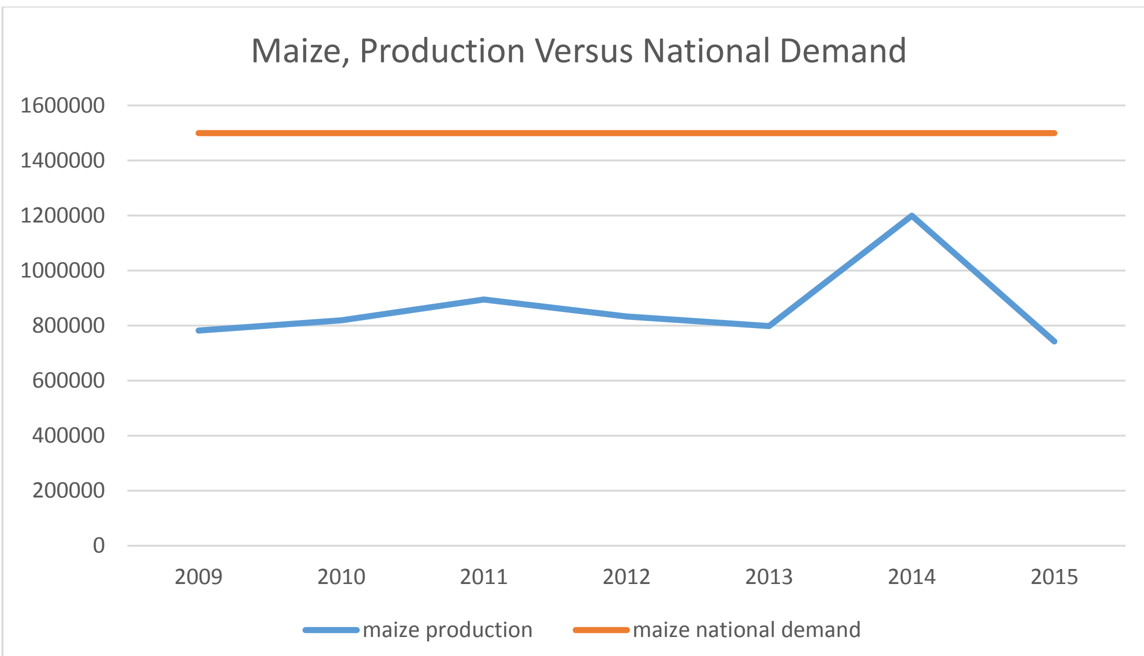
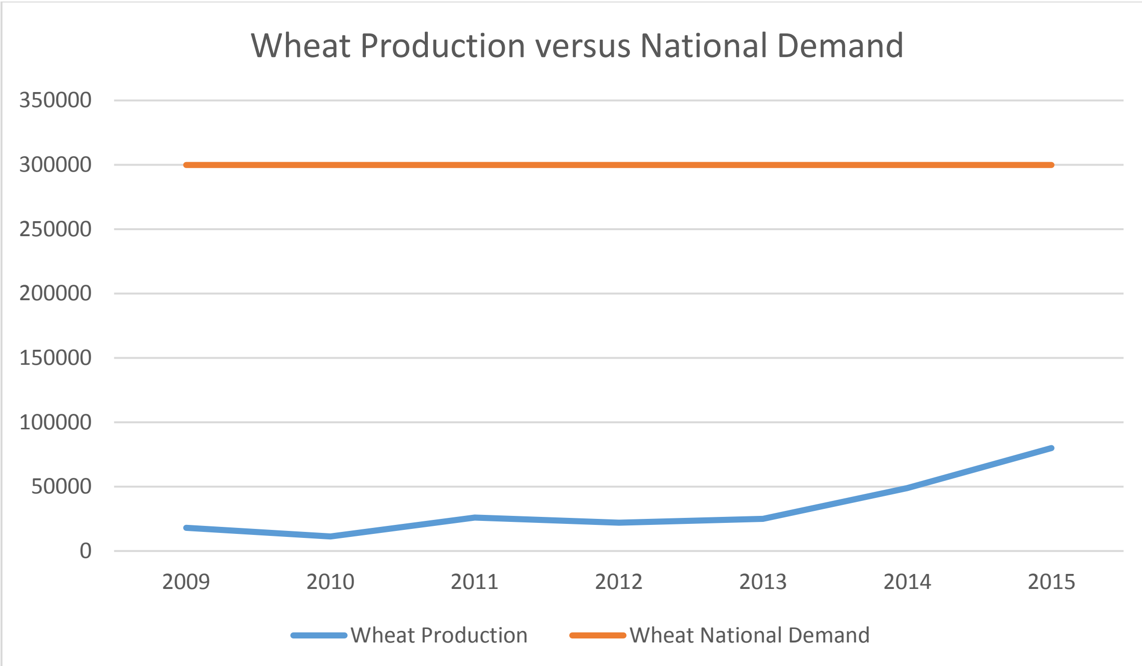
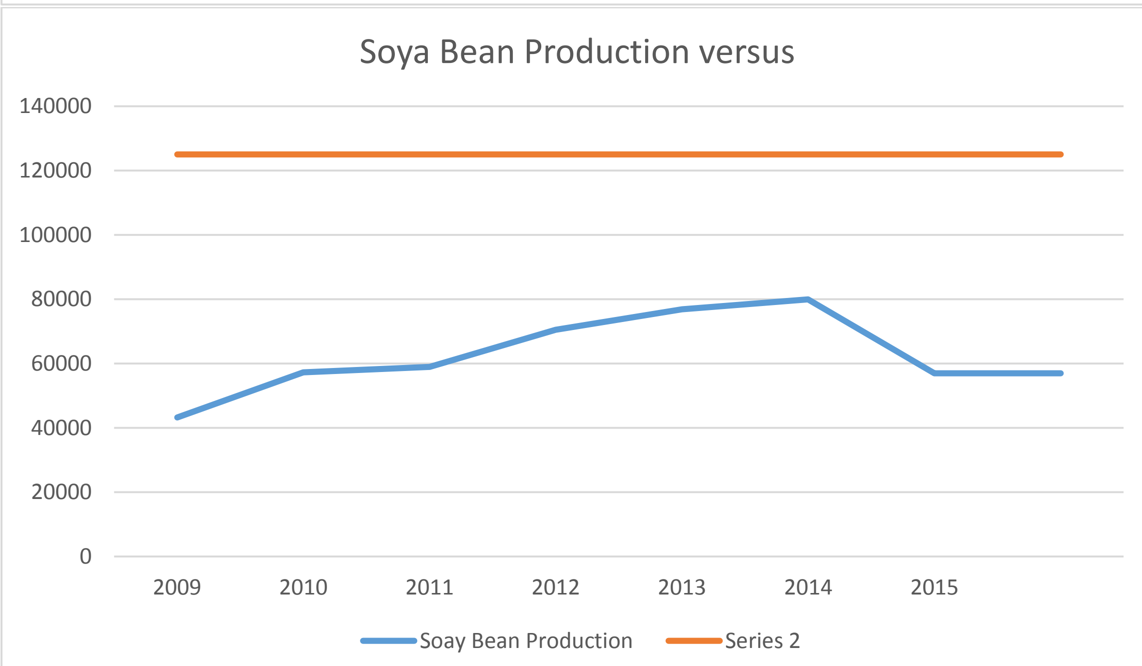
Promoting Competitive Agricultural Production in Zimbabwe – A Focus on Row crops

To be presented by the Joint Farmers' Union Presidents Council to the Governor the Reserve Bank of Zimbabwe

1. The main "row" crops are generally understood to be Maize, Wheat and Soya Beans. These three commodities are fundamental food staples for Zimbabwe.
2. In addition they are the primary raw materials of stock feeds for livestock and as such they have a direct bearing on the competeviness of livestock value chains.
3. The Chart below Illustrates the national demand for these commodities:







4. It should be noted that for over a decade local production of these commodities has failed to match demand.
5. Notwithstanding this, the country has a proven track record of producing surpluses of both Maize and Soya beans and whilst Zimbabwe has always been a net importer of wheat, historically the nation produced over half of its requirements locally which as illustrated not the case today. The Chart Below illustrates the peak production figures for the 3 commodities since 1980:

	Maize	Wheat	Soya Beans
Peak Production	2,833,400 MT	325,000 MT	140,793 MT

Year	1981	1990	2001

6. In line with the ZIM ASSET economic blue print it is of paramount importance that the production of these commodities be boosted to at least meet local demand. This critical importance is for the following reasons:
    a. Zimbabwe requires sovereignty over its food production and should not rely on foreign farmers to feed its people when it can do it itself.
    b. Zimbabwe needs to urgently address the fact that its import bill exceeds its export revenue. Local production can substitute imports thereby reducing the import bill and if surpluses are produced local production can stimulate exports.
7. It is therefore submitted that the constraints to the production of these commodities must be addressed as a matter of extreme urgency.
8. The primary constraints to production of these commodities are:
    a. a lack of viability and competitiveness or high production costs;
    b. a lack of policy to promote investment into agriculture particularly efficient irrigation infrastructure to mitigate the effects of droughts; and
    c. a farmer skills gap leading to sub optimal standards of management and low yields.
9. The major causes of Zimbabwe's lack of competitiveness in the production of row crops are:
    a. A lack of affordable credit finance
    b. High costs of potentially unreliable electricity
    c. High costs of Water
    d. High costs of seed and fertilizers
10. It is submitted that if the costs of production can be reduced this will result in a significant increase in the amount of maize, wheat and soya beans produced, the consequent greater economies of scale will naturally increase competitiveness throughout the value chains in question and deflate the price of:
    a. wheat, flour and bread.
    b. maize, maize meal and stock feeds
    c. soya beans, soya cake, soya chunks, crude oil and refined oil
11. We thus would like to recommend the following short term policy measures be urgently put in place to begin the process of increasing competitive local production of maize, wheat and soya beans:

Short term management of competition with imports to allow producers a period of incubation to build competitiveness

1. Strengthen Governments policy as contained in ZIM ASSET regarding the promotion of local industries including farming and the discouraging of imports in the following ways:
    a. Protect local farmers and millers and other agro processing industries from unfair competition with imported finished products such as Maize

meal, flour, wheat bran, soya cake, crude soya oil, refined oil. This can be done by putting in place a surtax on all imported finished products. Particularly Maize meal, refined oil, soya cake

   b. Establish an arrangement in terms of which import permits are only issued to applicants on proof of purchase of a specified quota of locally produced Wheat, Maize or Soya Beans. The proposed quota can be based on the difference between crop size forecasts and national demand.
   c. Ensure greater transparency by putting in place **an online import permit system** where all applications for import permits lodged at both Ministry of Agriculture, Agricultural Mechanisation and Irrigation Development (MAAMID) and Ministry of Trade and Industry (MTI) for all food commodities are made public by publication on the internet or laid open for inspection at the Ministry. During the application process objections to the proposed import permit from any interested party can be made within a specified time frame. Simultaneously the objecting party must propose alternative supply to the applicant of locally produced products.

Deflation of the costs of Water and Electricity specifically for agricultural producers

2. Mindful of the fact that approximately 40 % of the direct cost of production of wheat is in the cost of Electricity and water used in irrigation we propose to lower costs of production for farmers in the following ways:
   a. Reduce the National blend price of water used for irrigation (ZINWA Agreement Water) purposes by at least 50%. We attach hereto a paper on the cost of water which will explain this in more detail.
   b. Remove VAT on raw water used in agriculture. The overwhelming majority of primary agricultural commodities (including wheat, maize and soya beans) are already zero rated for VAT. The removal of this VAT will therefore not be a loss to the fiscus. In fact it will reduce costly administrative burdens on both farmers and ZIMRA
   c. Reduce the Rural Electrification Levy specifically for farmers to 3%.
   d. Remove VAT on Electricity supplied to farmers. The reasons stated for the removal of VAT on Raw water apply here also.
   e. Introduce a discounted electricity tariff for agricultural customers, as was the case prior to dollarization. A tariff reduction to 55% of the commercial tariff is required. This is not a new position. In the past prior to dollarization agricultural customers paid a tariff that was 55% of the commercial rate. To illustrate that this is justifiable it could be pointed out that for example a nightclub operator pays the same electricity tariff as a wheat farmer.

Agricultural Investment incentives to promote particularly irrigation infrastructure

3. Encourage investment in agriculture particularly Irrigation infrastructure and upgrades in the efficiency of irrigation infrastructure by introducing a 100%

special initial allowance[1] (SIA) on all agricultural machinery, irrigation equipment, boreholes, water storage infrastructure, farm roads, contours, farm fencing, barns and sheds, silos, and farm worker housing. For irrigation infrastructure and equipment it is proposed to increase the level of the SIA to 115%.

Deflate the price of Diesel

4. Reduce the price of Diesel by lowering the taxation on fuel. Whilst on the face of it this measure appears to be a reduction of revenue to the overburdened fiscus it is submitted that it will in fact have the opposite effect. It is contended here that to reduce the price of diesel fuel will stimulate all sectors of the economy by lowering the costs of transport, construction and farming. The consequent gain in competitiveness will yield greater returns in Value added tax and income tax to the fiscus which will compensate for the loss of revenue from reducing levels of taxation on diesel.

Introduce incentives to formalize and Organize the Agricultural Sector to build discipline and efficiency

5. It is necessary to formalize and organize agriculture to utilize farmer organizations as agents for skills development to compliment the activities of Government. The attached paper highlights this in more detail.

ENDS

[1] A Special Initial Allowance (SIA) is a capital allowance which ranks as a deduction on income tax. It has the effect of reducing the taxable amount and therefore the tax due from a business. This incentive enables the business to retain more of its earnings which can then be re-invested to grow the business.