Statutory Instrument 129 of 2017

Appeal From Livestock Industry Stakeholders For Deferment of Statutory Instrument 129 of 2017 to Accommodate Consultations Under the Ease of Doing Business and Rapid Result Initiatives and Command Livestock Public – Private – Partnership Financing Strategies

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Preamble

In line with the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimASSET), the primary function of the agricultural sector is to efficiently produce and supply competitively priced raw materials for value addition and beneficiation to satisfy the growing demand from price-sensitive consumers in the domestic as well as the export market.

Since the inception of ZimASSET, stakeholders in the livestock industry have been proactive and constructive in bringing to the attention of various ministries, the high cost of compliance with regulations from a multiplicity of regulators targeting the livestock value chain with duties, fees and levies.

The sector has facilitated several studies to measure the cost of compliance in the livestock industry and has actively contributed to the Zimbabwe Agriculture Competitiveness Report as well as the Ease of Doing Business Initiative being spearheaded by the Office of President and Cabinet (OPC).

Presently, stakeholders from the livestock value chain are actively engaged with the Ministry of Agriculture, Mechanisation and Irrigation Development (MoAMID) in dialogue on Rapid Result Initiatives (RRIs) for Improving Competitiveness of Domestic Industries under the leadership of the Policy Monitoring and Coordination Directorate, OPC. Three inter-related agro-industry RRIs – comprising of Agriculture, Manufacturing and Export – seek to stimulate growth of an export-oriented agro-processing industry by:

i) Reducing the current regulatory cost of compliance fees and levies by at least 50%;
ii) Restricting the number of government entities collecting fees and levies directly from agriculture or from specific value chains to only the specialist agricultural regulatory service provider [eg, Department of Livestock and Veterinary Services (DLVS) for livestock, Horticultural Promotion Council of Zimbabwe for horticulture and the Pig Industry Board for pigs]; and
iii) Advising OPC to ensure that government provides adequate fiscal budgetary resources to cover operations of the key regulatory agencies to agriculture and industry. Eleven entities are routinely collecting levies and fees in the beef value chain.

In light of the ongoing stakeholder consultative dialogue with regulatory bodies and service providers within MoAMID and under the guidance of OPC, the industry was surprised by the announcement of the new statutory instrument (SI) 129 of 2017 on 13th October 2017 which requires that:

- All registered cattle abattoirs be charged $10 per animal;
- All registered milk processors be charged 1 cent per litre; and
- All registered chick producers be charged 1 cent per chick.

This further increases the regulatory fees and levies affecting livestock value chains.

Below, a number of issues are highlighted that are of concern to the industry from this recent policy. Stakeholders met on 20th October to discuss the SI and included the Zimbabwe Commercial Farmers Union, Commercial Farmers Union, Zimbabwe Farmers Union, Zimbabwe Dairy Industry Trust, Zimbabwe Association of Dairy Farmers, Livestock and Meat Advisory Council, Zimbabwe Abattoirs Association, Stockfeeds Manufacturers Association of Zimbabwe and Zimbabwe Poultry Association. Key issues raised included:

- Lack of consultation before the SI was gazetted;
- Lack of clarity in the SI itself;
- The quantum of the levies in relation to ease of doing business; and
- Lack of assessment of the impact of the levy in relation to ongoing livestock development thrusts.

These are elaborated upon below.

Lack of consultation

Stakeholders in the livestock industry were surprised about the gazetting of the SI as none of their member associations were consulted in its drafting. The sector has been participating in consultations on a wide variety of issues affecting livestock value chains, including:

i) 'Ease of doing business' discussions for industry and agriculture;
ii) Responses to Foot and Mouth Disease (FMD) outbreaks;
iii) Responses to the outbreak of Avian Influenza (AI);
iv) Command Agriculture and Command Livestock; and

v) Macroeconomic policy discussions.

In all these discussions, the livestock industry has indicated overwhelming willingness to work closely with Government to move the country forward.

If the sector had been consulted in the development of this SI, stakeholders believe that a more balanced outcome that furthers the objectives of the sector without negatively affecting the viability of each sub-sector would emerged.

The economic impact of the SI for the individual producer, the value chain and economic wide levels has not been assessed before the SI was promulgated.

Lack of clarity in the SI itself

There a number of issues that are not clear in the current text of the SI including:

- The SI does not specify the effective date that the levy will be applicable;
- The SI defines a "processor" *as an entity that prepares for sale any product from agricultural products of which he or she is not the producer*.

  This definition is problematic in a number of ways. If someone produces and prepares for sale products without buying in livestock products from other farmers (eg. vertically integrated poultry operations), is he/she classified as a processor by this definition? If an abattoir operator does not buy any cattle but toll slaughters for a butcher, is he classified as a processor? And since he does not take ownership of the fifth quarter, is he liable to pay the per animal levy of $10 specified in this SI?

- The SI proposes to charge a levy on chicks or milk produced. In production of layer day old chicks, male chicks are not sold. Are these liable to be levied? Milk is processed into many products - liquid milk, cream, yoghurt, cheese, among others. Is the levy applicable only on liquid milk and not on other products?
- With reference to the Disbursement Committee proposed in the SI, the text reads as if one individual will represent the interest of all farmers including chicken, beef and dairy farmers. Similarly, chicken, beef and milk processors will be represented by one person. These value chains obviously have different interests regards priorities for implementation of the Fund.

The SI and "Ease of Doing Business"

The imposition of these levies without consultation is contrary to all the work being done towards "ease of doing business" coordinated by the Ministry of Industry and Commerce and the OPC. What is of concern for industry is that the levy in this SI is in addition to – rather than a form of rationalising – the existing high regulatory costs such as Rural District Council (RDC) levies that are not used in development of livestock sector.

The increase in the regulatory costs suggested in this SI are quite substantial. Most animals from smallholder areas are worth less than $350. Thus, the levy of $10 per animal amounts to nearly 2.9% of the value of an animal slaughtered. This is in addition to the levy of 10.5% charged by RDC's.

This implies that the cattle slaughter levy suggested in the SI increases the cost of doing business by 24% over and above the RDC levy which is counter to the objectives of the "ease of doing business". The impact on the other value chains affected by the SI is also significant at 0.3% of the wholesale value chicken and 2% of the wholesale value of liquid milk.

Benefits of the levy in relationship to ongoing livestock development thrusts

SI 129 of 2017 goes against the spirit of ongoing industry development trends and initiatives as the following illustrate.

Beef Sector and the Proposal by the Zimbabwe Association of Abattoirs to Establish the Beef Industry Revitalisation Fund

The Zimbabwe Association of Abattoirs (ZAA) is a membership based organisation representing the interests of the primary market cattle buyer and meat wholesalers which account for 70% of the red meat (cattle, goats and sheep) livestock value chain.

Out of 132 licensed abattoirs, only 57 are monitored by DLVS. The majority of monitored abattoirs are vertically integrated and operate their own cattle ranching/feedlot finishers and also manage their own butchery outlets.

Since its formation, ZAA has always valued its strong business partnership with DLVS on livestock value chain development matters and has tabled the Beef Industry Revitalisation Fund: Private-Public Sector Partnership for Revitalisation of the Beef Value Chain. This concept note presents a forward-looking vision of formalising a private – public sector partnership agreement for coordinating and financing the development and revitalisation of Zimbabwe's beef value chain. The objective of the Fund is to facilitate sustainable growth of the national beef herd and ensure a stable and reliable commercial market supply of adequate volumes of quality-assured beef to fully satisfy the domestic and export beef market by:

i) Facilitating effective coordination of beef sector stakeholders for inclusive development of the cattle value chain;
ii) Securing the national cattle herd against natural and man-made disasters;
iii) Promoting growth of the cattle herd through provision of affordable long-term financing mechanism;
iv) Facilitating genetic improvement and sustainable cattle management; and
v) Assisting the management of outbreak and spread of endemic cattle diseases.

The Beef Industry Revitalisation Fund was incorporated into the financing strategy for the Command Livestock Programme presented by DLVS at the Second Command Livestock Workshop organised by OPC.

Beef value chain actors have expressed willingness to participate in an initiative predicated on the principle of reducing regulatory costs by at least 50% - as per "ease of doing business" guidelines – on the levies being currently applied on trade in cattle by RDC's, Agricultural Marketing Authority as well as the Environmental Management Agency. A single unified levy of between $5 and $10 per slaughtered animal has been proposed.

This fund - collected from every beef animal slaughtered by butcheries and abattoirs would be used for:

i) disease control, establishing a revolving fund for re-building the national commercial beef herd; and
ii) organisational development of the beef value chain.

Fund management protocol would involve setting up a livestock board as a Public Private Partnership in which cattle farmers, beef processors and DLVS would nominate their own representatives to the Board. The revolving fund for commercial development of the beef sector is designed as an investment fund, attracting matching funds from development partners, local commercial banks as well as global and local equity funds to be deployed on a competitive basis.

SI 129 does not reflect the spirit of this proposal which improves the ease of doing business while channelling resources to livestock development.

It is important to note that farmers already contribute a great deal of funding to DLVS through the current costs they are charged. A farmer in West Nicholson - an FMD vaccination zone - currently contributes the following to DVS and the Department of Livestock Production and Development (DLPD):

- $10 per veterinary movement permit;
- $2 per animal for "S" branding for slaughter;
- $4 per animal for vaccination against FMD; and
- 3% to DPLD as grading fees (ie $15 per animal that has a value of $ 500) of the levy of 10.5 % imposed by RDC's.

Thus, farmers in FMD affected areas already contribute a lot to both **disease control** (movement controls, FMD vaccine procurement) as well as **livestock development** (DLPD 'grading fees') when none of these services are provided in predominately private cattle sales), the investments which SI 129 of 2017 proposes to target.

Milk Sector

Against a backdrop of declining local dairy production resulting in milk supply which does not meet domestic demand and net importation of milk and dairy products, farmers, public sector and private sector stakeholders formed the Zimbabwe Dairy Industry Trust (ZDIT) to solve common problems and to grow the dairy sector in Zimbabwe to a net exporter of milk and milk products. Its membership includes:

- Ministry of Agriculture, Mechanisation and Irrigation Development (DLPD and Dairy Services);
- Zimbabwe Association of Dairy Farmers (ZADF);
- Smallholder Dairy Farmers Association of Zimbabwe (SHODFAZ);
- Zimbabwe Dairy Processors Association (ZDPA);
- Small-scale Processors Association (SPAD);
- Stockfeed Manufacturers Association of Zimbabwe (SMAZ); and

- Retailers Association of Zimbabwe (RAZ).

Through the initiatives of ZDIT, there has been a steady growth in milk production from a low of 36 million litres in 2009 to 65 million litres in 2016, and this is projected to grow further. Sector-wide employment levels have equally increased from 6,000 in 2009 to about 14,000 currently.

The Trust put together the Dairy Revitalisation Program funded by voluntary levies and wholly managed by members of the sector. The fund has supported herd improvement efforts through importation of heifers and semen, training of farmers as well as importation of FMD vaccines in response to the recent outbreak.

The industry has put in place a transparent system to regulate players, protect and grow the industry and is a success story of how the private sector and government can work together for the mutual growth of the economy. Realising the importance of milk to the health of the nation, the industry has worked tirelessly with support from government to ensure that milk continues to be available at an affordable price. Apart from the Dairy Revitalisation Fund, individual processors have voluntarily provided services to farmers through extension support, working capital support and importation of animals.

Members of ZDIT are therefore concerned that the recent publication of SI 129 - without any consultation with stakeholders and without assessing its full impact to the industry - threatens the mutual trust that existed between Government and private sector under ZDIT, threatening sustainability of the growth that has been registered over the years. Further, the instrument creates a non-level playing field in the market, penalising some processors and leaving others. For instance, the definition of a "processor" in the SI implies that:

- Any dairy farmer who forward integrates and uses the milk he produces is exempt from this instrument; and
- Any dairy processors who relies on imported raw materials is exempt from this levy.

Also of concern to members of ZDIT is that the Disbursement Committee provided for in the SI is not adequately inclusive and will only have one member to represent the interests of all processors whether they are in beef, poultry or dairy. It would be desirable that each of the sectors contributing to this fund has a say on how it will be used.

Though the effective date was not spelt out in the SI, stakeholders have been informed that AMA is expecting processors to pay this levy with effect from 7th November. This short notice does not give processors enough time to re-price and recover this money from the market; at the same time only some processors and not all of them are affected, creating conditions for unfair trading practices.

Members of ZDIT believe the good intentions outlined in the instrument can be achieved in a manner that does not appear punitive or selective and that the funds can be channeled to best advantage if adequate consultations are made.

Poultry Sector

Gazetting of SI 129 comes at a time the poultry sector is struggling to deal with the negative impact brought about by the outbreak of AI which has reduced the breeding capacity of the industry, reduced supply of day-old chicks (DOCs), resulting in an increase of their price.

Government and the sector have collaborated to incentivise importation of breeder birds as well as hatching eggs to improve local supply of DOCs, lower their process and boost supply of chicken and eggs into the market. Increasing levies makes it difficult for the industry under this amount of stress to recover.

Veterinary authorities and the industry are encouraging poultry farmers to invest in stronger on-farm biosecurity measures to ensure that the risk of AI is minimised.

Instead, SI 129 will increase the price of chicks, making it difficult for farmers to invest in extra biosecurity and thus negating all these collaborative efforts to revive the sector.

Going Forward

Given the above, stakeholders in the livestock sector are appealing to the Minister of Agriculture, Mechanisation and Irrigation Development through the Deputy Minister responsible for Livestock to consider a freeze in the implementation of the SI to allow for intensive stakeholder consultations towards a livestock development fund whose terms are agreeable to beef, dairy and poultry farmers, industry and Government.