Submission by the Commercial Farmers' Union of Zimbabwe to the National Budget Consultations 2018/19

The Key Problem:

The over-arching and key problem facing Zimbabwe's agricultural recovery, and that of the rest of the economy, is the undermining of property rights and thereby the collateral value of billions of dollars-worth of agricultural land. Unlocking the value of this asset would set in place a chain of reactions that could rapidly turn around the current situation.

Proposed solution:

Restore freehold ownership rights, with accountable performance responsibilities, backed properly by constitutional guarantees on security of tenure to restore trust in the authorities both internally and externally.

Rationale:

With internationally recognized collateral, farmers can borrow the necessary finance for farming operations direct from Banks and lending houses and cease to rely on government to unsustainably provide the bulk of their necessities. Higher performance standards will be achieved when farmers are financially accountable and liable for the debt personally incurred. There will be no need for price subsidies when higher yields are achieved. Maize and other competitively produced crop surpluses could be exported on parity with the prevailing international prices, this is not possible under the current Zimbabwe pricing system.

With security of tenure, longer term development and capital investment into such things as irrigation infrastructure, dam construction, borehole drilling as well as into plantations, would be assured versus the 'hit-and run' agriculture currently being practiced. Critically, this would also lead to more diligent attention to environmental protection and enhancement.

Unlocking the value of the asset, with a restoration of more efficient and accountable farming practices, will fast lead to farmers' recovery, cut the necessity for food imports, increase exports and promote the revival of manufacturing in food processing, textiles, timber, paper, as well as expansion in engineering, transport and banking services among other areas.

Property Rights.

Land reform has extended access to land to a considerable number of beneficiaries, however the changes have resulted in significant economic disruption as the full bundle of rights that were previously drove successful large- scale commercial agriculture has not been transferred. The vesting of ownership and control of access to land is in the hands of the state and there is no longer a land market; this has generally undermined the property rights of *all* farmers regardless of scale or category and has simultaneously diminished the access of genuine farmers and investors to the land and scared away the banking sector both local and international. This has increased risk and the cost of finance damaging competitive production.

Additionally, many new farmers have lacked the essential skills required to use the land productively which has resulted low yields, debt and a growing and unstainable dependence of farmers on the state for all forms of funding. Reform has also burdened the state with as yet un-extinguished or fully quantified liability for compensation to former owners.

Farm Turnover Categories and Budget Support:

Historically agriculture was divided into three categories: Commercial, Small-scale Commercial and Communal, each of which had specific requirements from the National Budget contingent on their ability to fund their short term, medium-term and long-term activities. The Land Reform has resulted in the transfer of significant areas of former commercial farm land into A1, A2 status, this has considerably changed the demands on the National Budget by farmers and also their own ability to meet their requirements and contribute to economic development.

Farm Turnover can be used to classify four groups which require different interventions by the fiscus:

1. $1 to $20 000
2. $20 000 to $100 000
3. $100 000 to $ 1000 000
4. $1 000 000 +

Category 1 would require substantial advisory service (ideally based on sound 'Foundations for Farming' principles), and also input procurement and marketing infrastructure. Village water supplies, reforestation, group finance and small-scale irrigation schemes would be worthwhile projects for Government and International Development Funding.

Category 2 would require similar services plus tillage services, however a lot could be provided by private sector contract companies through the development of machinery rings which have been proven effective elsewhere in the world where the cost of individual ownership of equipment is prohibitive for farmers.

Category 3 would need credit facilities provided by Commercial Banks or an Agricultural Finance Corporation. These farmers would be serviced by the private sector and contracting companies.

Category 4 would effectively be termed Corporate Agriculture and would source all services and finance from the private sector. This sector could be a quick and viable basis of increasing production and employment requiring highly skilled management.

Proposed Intervention to improve Macro Economic Performance

Work together with multi-lateral funding institutions to develop a **"Comprehensive Rural Development Plan"** which provides for:

- **The formal closure of the land reform and resettlement exercise.** This will ensure certainty and improve agricultural investor perceptions. This will increase both local and foreign investment as the government lowers investment risk by ensuring land security to allow returns on investments.
- **The putting in place of tradable, secure land tenure instruments for all classes of farmers.** Interim GIS and GPS surveys of allocated land can provide for the speeding up of the process. This will enable farmers and agricultural investors to use rural land as collateral when accessing credit. It will also lower risk profiles and reduce the costs of finance and therefore the costs of production. In addition, this can improve farmers' confidence to make productive capital investments on farms.
- **The comprehensive finalization of the outstanding issue of compensation for acquired farms.** Undertakings made at Davos in this regard should be expedited in terms of best international practice as this will trigger considerable investor confidence for Zimbabwe which is essential for recovery.
- **Policy shift that fully recognizes white Zimbabweans as citizens with equal rights** can both reduce and turn the compensation liability into an investment asset, and the financial and human capital which is currently idle, could be encouraged to be used for the recovery of the sector. There is a need for specific provision in the tax laws for compensation fund disbursements to be enacted, based on the precedents of ex-farmers who have already accepted Government offers and received payouts.
- It is essential that **farmers across all levels and types of production are trained and mentored for success.** Focus on improved yields will ensure Zimbabwe can sell its produce in line with import parity, otherwise it has little hope of growing or exporting. Improved farming skills are necessary to optimally increase agricultural productivity. The capacity of extension and research service providers needs to be strengthened. Access to land through the land reform programme particularly for A2 farmers, should include having received some formal training in agriculture or a proven track record of performance and experience. Stop the hemorrhage from the support of non-performing farmers.
- **Affordable and competitively priced inputs**. Across all categories, the availability of inputs such as fertilizer, seed, and crop chemicals should be priced and, if necessary, be subsidised so as to ensure production costs are low and output is competitive with regional producers.

Currently local fertilizer products are expensive and are not competitive with imported alternatives, thus raising input costs.

- **ZINWA costs:** currently there is a disproportionate differentiation in the price charged for raw water used for irrigation between Large Estates (US$ 12.45/mega litre) and A2 farmers (US$5 / mega litre). This is unfair and increases the cost of large- scale production. There is in fact no written definition of what constitutes a 'Large Estate' and it becomes the discretion of ZINWA. Many of these so- called Large Estates have leases or Offer Letters and therefore fall within the model A2 scheme. It is proposed that the ZINWA agreement water rates for Large Estates should be reduced and aligned with the rate for model A2 farmers.
- **ZETDC: Reduce the costs of electricity to farmers** by re- introducing the subsidized Electricity tariff for Agricultural Customers. In addition, the Rural Electrification levy could be reduced to lower the cost of electricity to agriculture and industry. This will improve competitiveness. Generally, it is proposed that tax incentives should be used to leverage better agricultural practice and investments into irrigation equipment.
- **Tax undermines production viability.** Zero rate VAT should be applied on all primary agricultural commodities and agricultural inputs, including electricity and water. Presently some commodities are exempted, some are standard rated and some are zero rated. We submit that in the short-term, standard rated commodities should be zero rated. In addition to the agricultural commodities exempted in the Value Added Tax (General) (Amendment) Regulation, 2016 (No.40), the regulation should enable producers to claim back their input taxes on capital expenditures. There are numerous other cost drivers, from a tax perspective, which need to be addressed such as VAT on inputs, tariffs on imported spares. To mitigate against the effects of climate change, the development and rehabilitation of irrigation infrastructure is essential. It is proposed that Government introduce a 120% Special Initial Allowance on all investments into irrigations infrastructure, dam construction and borehole drilling in rural areas. Farmers who invest in smart farming technology such as drones, Satellite yield mapping etc should also be given a Special Initial Allowance.
- **Land Rental & RDC Levy.** Instead of the blanket fee of US $5 per hectare as a land rental and a payment towards the Rural District Council levy, it is submitted that a new model which accounts for the productive capacity of land be used to calculate a land use rental and a Rural District Council rate on a farm by farm basis. The variable factors would include the natural region the farm falls within, and the % of arable land which makes up the farm, as well as proximity to water resources. This could be done on a comprehensive rates valuation roll using GIS as alluded elsewhere.
- **Joint Ventures (JVs).** Government needs to come up with viable strategies and other products to promote agriculture investment and encourage all-inclusive participation in agricultural production. As much as the use of Joint Venture Agreements in the sector has improved access to land and increased productivity, their effectiveness has been questionable and

concern has been raised over rising breaches in the agreements. Such violations are impeding the badly needed investments into the agriculture sector. For farmers, whose only access to land is contingent on JVs with land beneficiaries, the ease of doing business is really an issue. There is a resistance to allowing direct access to state land yet an effective land audit should create access to land for competent farmers to farm in their own right, paying dues direct to the State fiscus, and not be limited to providing substantial passive income to non-productive farmers, who in turn pay limited land rentals to the State.

- A serious look should be made at the current **procurement and pricing procedure for fuel**. Significant savings could be made in the supply and availability for all sectors of the economy and cost of production could be further reduced.
- **Close non-viable and financially draining agricultural para-statals**, these must not continue to cause financial drain on the fiscus.
- **Government budgets must ensure adequate finances towards key agricultural support services such Research, Training, Extension and Veterinary services and also for development of key infrastructure such as rail, road, electricity and storage facilities.**
- Whilst there has been notable recovery in **the Tobacco sector**, much of this is driven by the contractors who control the credit extended to farmers and both the cost and extent of funding is determined by the same party that purchases the end product. The farmer, whilst encouraged to produce is left at the mercy of the funders, there is considerable concern that the MOU's behind this are heavily weighted in the favour of the contractors putting considerable risk on the continued growth of the sector.
- The recent achievement of **national maize self-sufficiency as a result of the Command programme** illustrates the capacity of farmers to produce but highlights the question of the programme's sustainability which has placed enormous burden on the state to pay a regionally uncompetitive producer price, which has further resulted in subsidised sale to millers. The producer price hike was clearly a production incentive aimed at avoiding costly imports but also spoke of the reality of high input costs and low producer yields, both factors that affect the competitiveness of this commodity. The high price further disrupted other value chains, in particular livestock and oilseeds, and demonstrates the danger of a lack of broad value chain consultation for agriculture. Stock feeds are available but very expensive. Many farmers are importing maize bran, wheat bran and cotton seed cake from Zambia and Malawi where prices are much lower and more competitive. This situation needs to be addressed. There have in the past been similar price interventions as in the cotton sector which has resulted in investor withdrawal. Policy consistency will ensure local and foreign investment commitment and no side-marketing. At a macroeconomic level, the high price of maize and impact on other commodities has also contributed to the current fiscal crisis where the value of RTGS money and the USD is clearly not on at par as has been so frequently stated by the RBZ Governor.

- **New Technology.** The availability of software that monitors crops and weather patterns can significantly assist in managing climate risk as well as creating platforms for data capture of individual farmer performance and input and output requirements. The use and ownership of such data by farmer organisations should become the platform for building sustainable farmer organisation advocacy and accurate statistics for the sector for planning purposes at district and national level.
- It is submitted that as a matter of policy **all farmers should be required to be licensed** and to join Farmers Union of their choice, as farmers' unions drive the agenda of agricultural growth. To facilitate this, it is proposed that a 'Farmers' master card system' be put in place where only registered and licensed farmers, who are members of a farmers' union, should be extended any tax reliefs including selling their commodities zero rated and buying their inputs as 0 rated for VAT. Joining organised structures will enable the easier dissemination of information and training of farmers.
- The registration of all farmers and collation of production, input and sales data along with the collection of weather data and other information can be used to focus **insurance-based interventions by the state that mitigate risk from natural disasters and climate change.**

SUMMARY:

The current Investment environment remains high-risk, both for local and international investors. Zimbabwe's 'ease of doing business' ranking continues to deteriorate. Currently Zimbabwe ranks 161 out of 190 countries on the World Bank index, and 128 out of 138 on the Global Competitiveness Index. There is significant uncertainty and lack of trust in the authorities as fiscal and monetary policies appear to be crafted in a manner similar to the year 2008.

Perhaps the fiscal policy objectives should target more on reducing government expenditure. The 2% tax recently introduced continues to undermine business confidence and will increase costs for producers.

Zimbabwe cannot afford to continue with 'business as usual,' valuable time is constantly being lost and the necessary investment is not forth-coming. Tough economic and political decisions need to be made but the positive effects would be rapidly experienced.

Skilled farmers require affordable finance for seasonal, medium term and long-term capital development. Property rights confers collateral which fully empowers farmers who must be both responsible and accountable for the land they occupy and for the risk or profit involved thereon. They need to be competitive producers in order to drive economic recovery at all level of the value chain. It is hoped that the 2018/2019 budget will comprehensively address these issues.