

Submissions by the Commercial Farmers' Union of Zimbabwe to the National Budget Consultations 2020/21

It is hoped that the 2020/2021 budget will comprehensively address these issues.

The galloping inflation and unstable exchange rate which characterized the greatest part of the year has undermined confidence in the financial system. There is generally lack of trust in the financial authorities and policies they make, as most of the time, they are made without proper consultations of the people or institutions involved.

Government and private sector need to cooperate in monitoring production, supply and consumption. Superior market perspective is vital for government to make sound and informed decisions in agriculture.

The thrust of the 2020/2021 National Budget should focus on resuscitating the viability of primary agricultural production (particularly of export crops) and improving the competitiveness of agricultural value chains. There is need to widen and develop value chains. Value addition will curb the problems of post-harvest losses being faced by farmers annually.

Financial Issues / Viability / Tax

- ② Accessing funding has remained the biggest challenge facing farmers. This is mainly because most farmers do not possess collateral security that is required by banks when lending.
The high interest rates prevailing in the country makes cost of borrowing high.
The banks are under capacitated they are not liquid enough to provide adequate funds to on-lend to agriculture.
Make the Agricultural Finance Bank operational as soon as possible. There is currently very limited funding for Agriculture.
- ② Over 90% of Zimbabwean agricultural land is de facto state land and capital formation in the agricultural sector has become heavily reliant on resources from the fiscus as private investment remains minimal due to lack of clearly defined property rights.
- ② Capital flow from the fiscus is inadequate to boost agricultural development to any significant degree. Secure long- term tenure will unlock investment.
- ② Finality to compensation for acquired farms is essential to improve access to high value markets by farmers where there are current restrictions. The implementation of the Global Compensation Agreement and the establishment of the accompanying road map for recovery needs to be resourced adequately. Any delay needs to ensure further funding is made available for Interim Relief payments.

- ② IMTT The 2% intermediate tax in the current unfavorable environment increases cost. The 2% tax required forethought as this has an impact on wage hikes on producers who are already highly uncompetitive. IMTT should be offset against QPD's
- ② Last year there was the introduction of a transfer tax of 2% on all local transfers / payments. A few months ago, this transfer tax was applied to every single transaction including foreign external payments for all imported inputs. This is an effective 2% of gross turnover tax.
- ② Compulsory Liquidation of Export Proceeds. Last year the government introduced a regulation that all export earnings would have 20% deducted and this 20% would be paid in local Zimbabwe currency. The difficulty with this is the rate of exchange used officially is different to the market rate. The difference fluctuates between 25% and 80%. This means at times businesses were losing 15% of income. Last month the government changed this to 30%. Currently the official rate is 81 and the market rate is 105. This means a loss of 9% gross of the value of exports.
- ② Compulsory Liquidation of Local USD Transfers. 20% retention on local Nostro for Horticulture and other crops is affecting viability of farmers. The limit on days to use your Nostro income before it is liquidated to RTGS is not fair for farmers and hinders meaningful investments. Last month government increased the compulsory export earnings liquidation from 20% to 30%. The government also introduced a 20% compulsory surrender of all internal Zimbabwean USD transfers. At the current rates of 81 official versus 105 market, this is equivalent to a 6% of gross loss. This loss is not acceptable to the suppliers so they mark up their prices by the amount of loss. Thereby making the effective loss 12%.
- ② When all of the above are added up the cost implication to exporters is 11% on non inputs and 23% on inputs. This before ZIMRA's insistence that all taxes should also be paid in Foreign Currency, meaning that exporters also pay higher tax than non-exporters.
- ② All the above is completely opposite to what the country needs. It is better to produce local again, especially considering that US\$ is freely available locally again.
- ② There is need to improve the ease of doing business by simplifying tax laws and making them fairer and more just. For example, ZIMRA tends to exploit technicalities to penalize tax payers even when the state has not been prejudiced.
- ② Improve the ease of doing business generally by simplifying licensing requirements, reducing waiting periods and the number of steps involved in any process and promoting "One stop shops" for all permits and licenses. Introduce the "silence is acceptance" rule for business applicants. This means that if an authority does not respond to an application within a certain time frame the applicant can take it that the application is automatically granted. This will reduce backlogs and promote efficiency. In addition, the use of ICT should be exploited to introduce on line compliance support services which are quick and efficient.
- ② Tax undermines production viability, Zero rate VAT on all agricultural equipment from the current exempt status.
- ② Also exempt VAT on Electricity and water (ZINWA) for agricultural consumers since they are key inputs to agricultural production
- ② In addition to the agricultural commodities exempted in the Value Added Tax (General) (Amendment) Regulation, 2016 (No.40) the list needs to be expanded enable producers to claim back their input taxes on capital expenditures.

- ② The tax brackets for PAYE must be realistic and not structured to disadvantage lowly paid workers in an inflationary environment. Pushing tax onto lowly paid workers in primary production is counterproductive in terms of ensuring competitive production; recent wage increases in the agriculture sector have been eroded by formerly untaxed workers entering the PAYE regime pushing up costs of production significantly. There should be no PAYE/Tax for farm workers covered by the CBA. It is also a challenge where informal employment and untaxed employment such as gold-panning, puts farm wage earners on the back foot and agricultural employers can't keep up because of the taxes and other employment compliance costs.
- ② Ensure competitiveness by charging a fair value for electricity and reliable supply of power. Treasury should avail money to ZETDC to maintain power lines, replace poles, transformers, and meters to keep power grid maintained and ensure uninterrupted power supply. Costly ZESA reconnections on new Joint ventures where historical debt is significant require specific support to avoid production disruption

Marketing

- ② Payments to farmers for their commodities particularly by GMB should be based on parity prices this solves the porous silos and porous borders dilemma. Farmers need real value for their produce.

Infrastructure / Technical Skills

- ② Infrastructure in the form of roads, machinery and equipment and post-harvest handling facilities should be made accessible to farmers as part of the agriculture recovery process.
- ② Improved farming skills are necessary to optimally increase agricultural productivity. The capacity of extension and research service providers needs to be strengthened
- ② 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.
- ② Farmers who invest in smart farming technology such as drones, Satellite yield mapping etc. should also be given a Special Initial Allowance.

Investment / Land Issues. A fundamental to providing the benefits of long-term infrastructure investments in productive capacity also in the essential need for attractive employment conditions for workers in the farm sector is the security of tenure which encourages investment social aspects such as in housing, schools and clinics other such infrastructure that attracts and stabilizes skilled labour. The current environment needs a holistic review to ensure the sector delivers on the potential to provide employment that is sustainable and attractive.

- ② Encourage local investment by restoring confidence of investors through
 - Restoration of property rights
 - Reasonable interest rates
 - Viable commodity prices
- ② 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.

- ② 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.
- ② 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. Those who have failed to use allocated land should relinquish it back to the state. There is need for a market related lease process for direct access to land such land.
- ② The putting in place of tradable, secure land tenure instruments on all classes of farmers is needed. Processing of Offer letters and processing of 99year leases is taking so long which hampers investment. Given the significant liability on the state for the payment of compensation on acquired farms, appropriate cost recovery measures need to be put in place to ensure beneficiaries of acquired assets contribute appropriately.
- ② Clarity on the process for applications under SI 62 of both indigenous and Bippa covered properties is required. Consideration should be given to bona-fide Zimbabweans that purchased land post-independence for consideration under this S1 as it has the prospects of putting skills back on the land and reducing the compensation liability.
- ② 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.
- ② 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.

Law and Order / Stability

- ② Capacitate law and order and security services in particular the police force to perform its duties effectively on farms and surrounding areas. Crime rate is on the rise, the level of theft is too high and the police seem to be doing nothing to help especially in the case of stock theft. Many farms are now employing more guards than productive workers because of the constant threat of theft of crops and equipment.
- ② Due attention and care in regard to the monitoring environmental impact and the management of informal gold panning which has had significant and devastating damage to various key river systems such as the Mazoe Catchment also requires significant resource allocation to responsible authorities. The lure of artisanal gold has resulted in significant destabilization of the formal employment creation and availability of skills in the Agriculture sector where the payment of competitive wages is a challenge. The consequences that key agricultural production

is challenged and the environment are both irreparably damaged. A holistic policy review is essential if the long-term future of agriculture and food security is to be ensured.

- ② The central vehicle registry need to clear backlog in terms of vehicle number plates as most farmers have their investments lying idle because they cannot use unregistered vehicles. Furthermore, police are taking advantage of the situation and arresting and impounding such vehicles.

Farming Sector / Unions

- ② It is submitted that as a matter of policy all farmers should be required to be licensed (compulsory) and be members of a Farmers Union of their choice as farmers' unions drive the agenda of agricultural growth. To facilitate this, it is proposed that a system be put in place through a "card system" 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. This card will have benefits including insurance-based benefits for the farmers and it can also be used to collect funds to be termed "disaster funds" which monies will be used to assist farmers when major climate disasters occur.
- ② Farmer Unions to be involved in government programs channeled to agriculture.
- ② Government budgets need to provide adequately finances towards Research, Training and Extension services. Two Key areas will be to improve Extension Officer to farmer ratios. In addition, investments into ICT can be made to lower the costs of providing information to farmers.

Fertilizer

- Shortage of foreign currency and the multi pricing systems have made it very difficult for farmers to afford fertilizers.
- High costs of inputs, their availability and accessibility remain an issue. Some fertilizer consignments had to be paid for before the auction system made forex more accessible, and the cost of that forex was higher than auction rate. If forex could be allocated to fertilizer companies, timely delivery could be accomplished, and shortages could be avoided.
- Transport costs add significantly to the cost of fertilizer and rail transport needs to become a reliable and cost-effective option compared to road.
- The process of obtaining permits for fertilizer imports is cumbersome. Costs of maize seed and fertilizer remain relatively high compared to other countries in the region. On all fronts high input prices threaten the viability of producing many commodities.

Seed

- The multi pricing and the unstable economy has increased the price of seed and most farmers are likely not to afford the seed hence they will use retained seed which gives them low yields. For seed producers, the return on seed crops are not high enough compared to commercial crops to attract specialist growers willing to invest the attention to detail necessary for a seed crop. Untimely delivery of government inputs including seed and fertilizer remains a challenge for most farmers in Zimbabwe.

Chemicals

- There is no local production of chemicals hence most distributors rely on imports. Due to the challenges of foreign currency and inadequate foreign currency allocations, both veterinary and crop protection chemicals are not readily available. Foreign currency allocation for crop chemicals that can reach the general market needs to be made, and in time for the season considering shipping timelines. If available, uptake is very low because they are very expensive.

Stock feeds

- 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 competitive. Small and medium stockfeed companies do not have the finance available to issue contracts to farmer, and find it hard to compete with the established players, which ultimately leads to lack of competition and high prices. For this reason, small and medium companies find it almost impossible to set up value chains with farmers and stockfeed buyers. Govt assistance with financing, even as guarantors of loans would assist in this regard. Additionally, any contracts that may be put into operation should not be hampered by constraints on movement of maize – free shipment should be allowed between contracting parties.

Fuel

- Farmers involved in the growing of crops, such as soyabeans, maize and wheat, clearly contribute to saving on import costs, however they do not earn foreign currency. They are unable to buy fuel supplies in adequate volumes without resort to the black market. We need a solution to this. A farmer harvesting a unit of 100 tons of e.g., maize or soyabeans should be allocated a sum of forex which can be used for farm inputs like diesel.

Irrigation Infrastructure

- A particular opportunity to make a substantial and significant increase in sustainable irrigated crop production lies in the funding of the BIRI Dam pipeline to Lion's Den. An investment of USD \$3 million has the potential to bring an additional 5,000 ha into double crop production enabling an equal summer and winter cropping programme.