‘Failure to safeguard property rights cripples agric sector: IMF

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Despite the country’s huge financial injection into the agricultural sector, output remains low.

THE government’s failure to safeguard property rights has crippled the agricultural sector, the International Monetary Fund (IMF) has said.

Zimbabwean farmers have been unable to access loans from banking institutions due to concerns over the 99-year leases, and this has hamstrung the sector which is a vital cog in the economy.

Financial institutions have baulked at giving farmers loans based on the 99-year leases which are not bankable despite government claims to the contrary.

In a wide-ranging interview, IMF representative to Zimbabwe Patrick Imam said property rights are pivotal to resuscitating the agricultural sector.

“Take land reforms. Investment in agriculture has been seriously hampered and the sector is not producing enough output to feed the country, despite Zimbabwe having been the regional food basket in the past. The fundamental problem we have is that the title system is broken,” Imam said.

“This explains why many analysts characterise the land in Zimbabwe as dead capital, as it cannot be collateralised. Because of that, banks are not willing to extend credit to farmers. As banks are not willing to lend, and to substitute for an unwilling banking system, the government introduced command agriculture to enable farmers to get direct inputs. While the new system introduced earlier this year to channel funds via banks is a step in the right direction, it is not leading to a huge investment in the sector, as most farmers still don’t feel secure about their property to invest in, say, an irrigation system.”

He said despite money being poured into the agricultural sector, the output remains low.

“The first best solution to revive the sector would be to tackle the most binding constraint, which is property rights. But contrary to what one often hears, when I speak to bankers and farmers, the unanimous view is that the 99-year lease is not yet bankable,” Imam said.

“In fact, most of the ongoing initiatives have not worked so far in significantly changing the agricultural landscape. Despite billions of dollars having been put into agriculture, the outturn has been disappointing.”

Imam said the country’s failure to clear its arrears with international financial institutions (IFIs) has impeded the Bretton Woods institutions’ capacity to assist Harare which has been ravaged by drought, resulting in nearly eight million people facing hunger.

“We are very mindful of the impending humanitarian crisis, and that over eight million people are expected to be food insecure. Zimbabwe, however, still has arrears towards multilateral development institutions, notably the World Bank and the African Development Bank and also the European Investment Bank. The IMF rules don’t permit us to provide financial support to any member country that has arrears to the other international financial institutions.

“Thus, before becoming eligible for financial support from the IMF, Zimbabwe will need to clear these arrears. In addition, Zimbabwe would also need to reach an understanding with its bilateral creditors over the clearance of their outstanding arrears,” Imam said.

“Only once the debt issue is cleared is the IMF in a position to provide a fully financed programme. If it wasn’t for the arrears situation, Zimbabwe could probably qualify for the Rapid Credit Facility, both because of the drought and potentially the coronavirus outbreak. This type of programme would provide emergency financial assistance and allow the Fund to disburse money very quickly. But this is not yet possible.”

The IMF, in its report which was published after its board meeting on the Article IV Consultation with Zimbabwe on Monday last week, painted a grim picture of the state of the country’s economy, projecting mere 0,8% growth this year.

This is much lower than government’s forecast of 3% growth. It also revealed that the country’s GDP had contracted by more than 8%.

‘Bad policies, half-hearted reforms sinking Zim’

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reforms be needed? Why are the reforms not succeeding in stabilising the economy?

PI: Let me give you an analogy of the problem. Suppose that you have weed in your garden, and that you want to get rid of it. If you pull the weed half-heartedly, the result is that your hands will bleed, but the weed will remain in the ground.

Even if you try repeatedly, the result remains that your hands will bleed each time, without the weed having been removed. If, however, you are fully determined and extract the weed, your hands will bleed once, and possibly a lot, but then your hands can heal and the problem will have been taken care of once and for all.

A similar analogy applies to many of the reforms in Zimbabwe. The country is feeling the reform pains, without seeing many of the benefits. This is because, oftentimes, the reforms are axed on only tackling the symptoms or part of the problems, rather than the underlying problems, or reforms are carried out unevenly.

Let us take the example of the forex market. Zimbabwe introduced a new currency last year, but did not accompany this decision with an active monetary policy. On top of this, money continued to be printed on a large scale as was visible in the most recent balance sheet numbers of the RBZ.

So while we have the benefit of having the Zimbabwean dollar as the national currency, and the elimination of many of the distortions that we had compared under the dollarised system, the lack of stability achieved so far in the new currency means the benefits are lower than they could be. The fact that the gap between the official and parallel rate has grown significantly in recent months is quite telling.

The IMF has emphasised monetary discipline

In other words, much of what has been done so far is a step in the right direction, but is not sufficiently going towards addressing the root of the problem to have a transformative impact on people’s lives.

KK: With no outside support but immense needs, what should the government do? Many in the private sector are calling for more infrastructural investment, while many in civil society are calling for more spending on vulnerable groups, especially children.

PI: This is a very tough question, but let me try to answer it as follows. First of all, the choice of which areas to spend its resources on is the government’s sole prerogative. It is the government that has the mandate from its people and the responsibility of spending taxpayers’ money as effectively as possible.

And, second, let us be clear, the needs are everywhere in Zimbabwe, so regardless of the government’s choice, there will be people who will be unhappy with the final decision. In circumstances like now, the choices are not between good and bad, but between bad and worse.

But regarding your question of whether the government must decide whether to put extra money into infrastructure or, say, invest in children, what should it do? I think — and this is just a personal view — that both morally speaking and economically speaking, the answer points to one direction.

The state should invest in its children first. I will not go into the moral aspect, just the economic one. If the state does not repair a road or build a bridge for several years, the country will have lost some economic activity.

If, however, the state does not invest in a child in its early years of life, the result will be a child with stunted development, whose capacity to live a fruitful and prosperous existence will be significantly diminished over that person’s lifetime. But these are, of course, not the trade-off a state like Zimbabwe should have to make. By stabilising its economy, and growing again, the country should be able to invest in all its children and in basic infrastructure simultaneously.

KK: Given that the IMF’s SMP is off-track, what is the way forward?

PI: The IMF board has been clear. It wants the fund to remain actively engaged with Zimbabwe. The fund, even in the most difficult circumstances, always stands by its member countries.

As we speak, our discussions with the authorities on the economic reforms are continuing. But all the commitments that were made in the SMP are essentially commitments that were anchored on the Transitional Stabilisation Programme and, going forward, these guiding principles for the reform process remain unchanged. The hope is that a mission from (IMF) headquarters will come soon to Harare take it up where they left in December.