AGRICULTURAL INFORMATION SERVICES DEPARTMENT
REPORT TO CONGRESS 2010

VICE PRESIDENT'S REPORT TO CONGRESS

1. Introduction

This report briefly covers the developments that have occurred in the economy and the agriculture sector since the last Congress in August, 2009. It also contains estimates of agricultural output for the 2009/10 season; and prospects for agriculture for 2011 and beyond.

2. An Overview of the Economy

The economy is projected to record positive growth for the second successive year. According to the IMF overall economic growth is forecast at about 2.2% for 2010 and this follows a 4.0% increase in 2009. A contraction of -14.5% was experienced in 2008. Economic activity remains sluggish across most sectors of the economy constrained by several intertwining factors that have combined to impact on recovery. Most sectors are experiencing capacity utilization levels of well below 50%. Recovery, thus, remains fragile across all sectors, hamstrung by several factors, as highlighted below:-

i. Working Capital and Recapitalization Constraints;
ii. High domestic production costs
    - High domestic money market borrowing costs
    - High utility tariffs
iii. Ailing infrastructure
iv. Electricity/power outages;
v. Uncertainty surrounding Indigenization;
vi. Depressed domestic demand
vii. Low business confidence

Agriculture

Agriculture is forecast to record positive growth of 8.5%, mainly on the back of gains in tobacco production. (See detailed report in section 3 below)

Manufacturing

The manufacturing sector continues to reel under the combined effects of higher competition from cheaper imports, and local power supply and financing challenges. Domestic demand remains depressed due to low wages for both civil servants and the private sector. Competition from the region remains a major challenge; particularly as basic foodstuffs continue to be zero rated for duties. Many large retailers are importing as much as 80% of their goods from South Africa and other regional countries. Despite these negative factors this sector registered a 7.5% growth last year and the growth rate is expected to pick up slightly to 8.0% in 2010.

Mining

Due to the liberalized marketing environment that has enhanced mining sector viability, the mining sector is projected to grow at 12.4% in 2010 and this follows a 4.0% increase last year. A strong performance from the platinum and gold sub-sectors is expected. Platinum production is forecast to double in 2010 as both Zimplats and Mimosa are ramping up production. International platinum prices are forecast to remain high on the back of a robust global demand for precious metals. Gold production is forecast at 6 tonnes for the year – a growth of 25% and prices are projected to remain strong. The main challenges faced by the mining sector are erratic power supplies, financing difficulties and high borrowing costs, and the effects on investment of indigenization policies.

Balance of Payments

Despite real growth in GDP there was deterioration in external sector performance in 2009 mainly because of the fall in agricultural exports and strong import growth. The current account deficit increased from USD -945 million in 2008 to USD -1,323 million in 2009.

The Balance of Payments position still remains fragile in 2010 because economic recovery is proceeding at a slow pace and export growth is slower than initially anticipated. The forecast deficit for this year is USD -1,200 million. Mineral exports are forecast to continue their dominance of export earnings on the back of rising global mineral prices, notably gold and platinum.

Imports will continue to consist mainly of food imports, reflecting the current drought and the projected deficit of about 700,000 tonnes of maize. Imports of other basic foodstuffs including wheat, as well as raw materials, machinery and spare parts are projected to increase in 2010.

Foreign debt including arrears is currently pegged at USD 5.9 billion.

Inflation

The economy is now emerging from the deflation that immediately followed the official introduction of the Multi Currency system in February 2009. This new system effectively ended the hyperinflation era – characterized by almost daily surges in prices that were triggered by excessive monetary printing. The post hyperinflation era in 2009 was characterized by deflation being recorded for most months as prices realigned downwards, and the calculated average for the year was -5.5% p.a.

Going forward, the direction of monthly and annual inflation will be conditional on several interrelated domestic and external factors, more notably trends in international food and oil prices. The annual inflation rate is forecast to end this year at around 8.3%, with the average for the year projected at 5.0%.

Interest Rates

The change over to the Multi Currency system last year was followed by a severe liquidity crunch that has endured until now. The general shortage of funds continues to impinge on the economy by constraining growth, especially in manufacturing capacity utilization. Domestic borrowing costs remain high with interest rates for short term borrowing (less than 3 months) variable but ranging from 15 – 30% per annum for most banks.

3. Estimates of Agricultural Output - 2009/10

Most of the country received normal to above–normal rainfall in the first half of the 2009/10 summer season and this favoured increased plantings and early development of the main crops (especially maize). Rainfall became more erratic and scattered from mid–December to mid–January in most parts of the country and a three weeks dry spell severely affected crops throughout the country. The southern half of the country suffered a more prolonged dry spell that extended to mid_ February. Consequently, the cropping season's prospects, which initially were better than last season's because of better access to inputs, were diminished significantly. Rainfall improved from February to April.

Table 1 gives projections of the outturn for 2009/10 season. Data shown are based on assessments gathered from various sources.

It is interesting to note that summer grains total output (maize, sorghum, and millets) is estimated at less than a million tonnes, mainly due to the effects of reduced plantings and the impact of the mid-season drought. Estimates for 2010 wheat production are the lowest since the peak in 2001 and the much reduced area stems from a number of factors including credit unavailability, shortages of inputs, and especially the perceived risk attached to unreliable power supplies.

The erratic rains in mid – December 2009 affected the establishment of the soya bean crop and production is lower than last year. The early rains in most parts of the groundnut producing areas saw an increase in plantings but the prolonged dry spell affected pod development and hence output did not increase as much as originally expected.

Favourable prices for tobacco renewed interest from both producers and tobacco merchants and there was an increase in flue cured tobacco plantings in all sectors. Final flue cured tobacco output for the current crop is expected to be more than double last year's production.

Cotton output is down compared with 2009 due to decreased plantings. Viability problems arising from low prices, and yield stagnation affected production decisions. It is critical that the Zimbabwe cotton sector improve its international competitiveness through adoption of productivity enhancing technology (b-tech cotton).

Sugar output is anticipated to stagnate at around the current 275,000 tonnes. Static positions are also expected for other perennials like tea and coffee. Production of horticultural commodities has declined significantly in recent years and recovery will be slow because of the long term nature of citrus production and the high capital costs involved in flower production.

Beef off-take from the commercial sector is set to increase moderately when compared with 2009 as rebuilding of the herd continues in the A2 and large scale commercial sectors. Off-take from the small scale sector is expected to rise slightly especially in those areas that are experiencing food deficits as households will dispose of livestock to meet their food requirements. Annual milk production is expected to decline further as viability problems continue to plague the dairy industry. Recovery of both beef cattle and dairy production will be slow because production cycles are lengthy

4. Recent Developments in the Agricultural Sector

- Farmers welcomed the liberalization of the domestic agricultural markets in February last year. Although the GMB retains a role as the residual buyer of maize that organization offered the best price for maize until recently but had limited funds to purchase significant quantities of the commodity. Therefore other buyers with cash were able to offer lower prices. Liquidity has remained a challenge for agricultural markets to perform efficiently and effectively.

- Duty free imports of basic commodities including maize grain, maize meal, wheat grain and flour remained in place until April. This enabled deficits in domestic production to be met from imports and helped to stabilize prices. An outbreak of Rift Valley Fever in South Africa resulted in imports of many animal and all grain products and all stockfeeds being banned by the veterinary department. The ban has subsequently been lifted on milled grain products and stockfeeds.

- Reduced output for many commodities and consequent shortages would normally be expected to drive up prices in domestic markets. For example, aggregate cereal production in 2010 will be below 1 million tonnes, a level substantially below domestic consumption requirements and leaving a deficit of all cereals of well over 1million tonnes to be met by imports in 2010/11marketing year (April/March). This gap in domestic supply would normally trigger price increases in cereals to levels around import parity due to the liberalization of the economy. Commercial imports (mainly maize grain, maize meal, and wheat) in the 2010/11 season are expected to account for a significant part of domestic consumption of grains. A very large maize crop of around 13 million tonnes has been harvested in South Africa with a surplus of about 4 million tonnes available for export in addition to carry over stocks of 6 million tonnes from the previous year. This has driven import parity prices for maize grain down to levels well below break- even costs of production in Zimbabwe. Although domestic maize prices are still well above import parity because of the ban on imports of maize grain this is not expected to last as the ban will probably be lifted in the near future. However prospects of low prices does not auger well for maize plantings in the coming 2010/11 growing season.

- Since last year tobacco and cotton farmers have been able to retain all their sales proceeds. Prices for good quality tobacco have been buoyant throughout the selling season but very poor prices for low grade tobacco has prompted growers to withhold product and one selling floor recently closed temporarily because of this.

- There is no change to the negative effects of the land reform programme and low productivity in the commercial farm areas persists. The main features are:

    1. Evictions of farmers from their properties and disruptions to production programmes.
    2. No security of tenure results in very little medium or long term investment. With the constant threat of property expropriations many commercial farmers restrict their cropping and livestock programmes.
    3. A rural land market does not exist. Without tradable title deeds or leases financial institutions are very reluctant to provide farmers with credit due to absence of collateral value.
    4. There have been no extensive programmes put in place to enable new A2 farmers to be trained and acquire skills to replace those displaced by the land reform programme.

- With depressed prices the affordability of inputs has remained a problem. Input supply schemes implemented by both government and non-governmental organizations have been limited in extent and therefore did not have a major impact on output.

- Credit is vital to agriculture because of extended production periods and it was estimated that USD 800 million would be required for the 2009/10 summer crops. Financing for agriculture under the dollarized environment has posed great challenges for farmers because the economy is currently operating largely on a cash basis. For the 2009/10 season, it is estimated that banks made available finance of around USD200 million to agriculture, whilst donors provided another USD 70 million through FAO managed input schemes[1] to support mainly smallholder farmers. A government Input Assistance Facility targeting over 660,000 households and valued at USD350 million was also implemented for the 2009/10 season.

[1] EU, USAID, UK, Ireland and Japan

Financing by commercial banks has been through overdraft facilities at market rates. These facilities are generally of a short term nature and very expensive. Medium to long term finance has been difficult to raise because of the general shortage of funds in money markets. Also, banks and other financial institutions are unwilling to lend to farmers on a medium to long term basis because of the security of tenure risk. Production cycles for coffee, tea, sugar, citrus and most types of livestock production are longer term and require medium to long term financing before reasonable returns are achievable. Output has therefore been constrained by the shortage of credit.

In addition to the above credit facilities, various schemes by processors/ exporters of horticulture, tobacco, paprika and cotton were put in place to meet partial working capital requirements. These processors/marketers provide some inputs in exchange for exclusive buying rights of output at agreed prices.

External lines of credit have largely dried up due to the country's failure to honour its external debts. Also current policies on foreign investment are unattractive. In the past, the tobacco, horticulture and coffee sectors were largely funded through external lines of credit that could be paid off with the export proceeds. Such arrangements for the most part have failed to take place due to the perceived country risk.

- The availability and supply of agricultural inputs at competitive prices has remained a challenge. There were shortages of maize, sorghum, groundnut, and sunflower seeds. Some imports alleviated this position but shortages nevertheless limited output of these commodities.

  The local fertilizer industry operates at less than a third of maximum capacity due to i) inadequate working capital – liquidity constraints in the market and lack of lines of affordable credit ii) shortages of imported raw materials like phosphates and anhydrous ammonia iii) uncompetitive prices regionally because of high overhead costs per tonne emanating from a low throughput iv) power outages v) limited coal supplies vi) skilled manpower shortages, and vii) poor service from NRZ that reduces deliveries of raw materials to factories. Low output resulted in shortages for the 2009/10 summer cropping season. Affordability also was a problem for many farmers.

  Several input schemes involving the supply of fertilizer were put in place for the 2009/10 summer cropping season. Besides government and local banks, donors such as the EU, USAID and FAO were involved. However, their coverage was very limited with majority of farmers not benefitting. Shortages of compound fertilizers became apparent during the period when the current winter wheat and barley crops were established.

  Electricity supplies are very unreliable because of unpredictable load shedding. This was the main reason that deterred farmers from planting wheat as low yields are the product of irrigation cycle interruptions. Horticultural and dairy operations, among others, have also been negatively affected by power cuts.

5. Future Prospects

The future recovery of agriculture in Zimbabwe is closely bound to the country's political fortunes Solutions are urgently needed to restore growth and return to a situation where food security is achieved domestically. Neither will be possible until the political impasse and ineffectiveness of Zimbabwe's GNU is resolved. Actions must be taken to attain political stability, macroeconomic stability, maintenance of law and order, long term security of tenure, and incentive prices for commodities. All of these goals are essential for reviving the sector. Unless they are achieved the agricultural sector in Zimbabwe will continue to stagnate with low productivity at levels similar to those that have been applicable over the last few years.

Table 1 : TOTAL PRODUCTION OF MAJOR AGRICULTURAL PRODUCTS in ZIMBABWE (000 tonnes)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Grains and Cereals											
Maize	2,043.20	1,476.24	498.54	754.00	950.00	750.00	945.00	697.00	417.10	781.25	819.25
Wheat	250.00	314.00	186.50	120.00	121.65	134.00	170.20	64.55	25.55	18.05	11.30
Sorghum	61.91	60.74	23.82	59.56	124.00	111.00	126.80	130.80	103.00	113.50	85.80
Barley	32.00	32.00	58.00	50.00	36.40	43.00	53.50	32.00	24.50	33.15	40.50
Small Grains										43.32	37.62
Traditional Export Crops											
Tobacco Flue Cured	236.13	202.54	165.84	81.81	69.00	73.39	54.25	73.39	48.72	39.70	85.38
Tobacco Air Cured	8.16	4.60	3.99	1.99	1.00	0.34	0.27	0.09	0.06	0.06	0.06
Cotton	353.00	335.25	195.67	253.00	330.00	198.00	260.33	255.00	223.02	210.09	156.18
Oilseed Crops											
Soya beans	149.94	175.08	72.41	70.26	71.00	54.00	54.80	67.60	51.20	43.30	36.75
Groundnuts	190.89	171.78	58.56	141.18	85.30	n/a	51.27	130.55	116.55	44.46	50.66
Sunflower	15.75	31.50	4.39	4.83	18.60	n/a	42.61	42.58	33.40	16.25	13.30
Plantation and Industrial Export Crops											
Tea	21.80	21.73	22.88	22.54	20.72	16.87	15.43	15.11	13.00	10.00	10.00
Coffee	6.54	7.26	6.60	5.52	7.20	3.96	2.70	1.86	1.32	0.50	0.40
Paprika	13.87	12.79	13.40	10.80	7.18	4.57	3.11	1.61	0.74	0.26	0.34
Flowers	17.86	17.86	21.89	22.80	20.17	16.27	14.33	10.17	8.00	5.00	5.00
Citrus	39.32	39.32	33.64	43.19	47.77	34.23	26.31	26.45	19.00	15.00	15.00
Fresh Produce	10.22	10.22	7.51	9.64	10.24	7.28	4.95	5.33	4.00	3.00	3.00
Sugar	538.00	515.00	581.00	502.74	422.30	400.00	446.65	400.00	380.00	280.00	275.00
Livestock											
Dairy	187.05	176.77	153.13	114.08	97.64	94.55	92.50	87.36	47.72	36.72	30.83
Beef Slaughters (nos)	605.00	630.00	720.00	450.00	450.00	450.00	300.00	250.00	200.00	180.00	200.00
* Estimates											

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