



**AGRICULTURAL INFORMATION SERVICES DEPARTMENT
REPORT TO CONGRESS 2011**

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, 2010. 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

GDP estimates for 2010 range between US\$ 5.5 billion to US\$ 6.7 billion. The economy is forecast to record positive growth for the third successive year in 2011. According to government data overall economic growth was 8.1% in 2010 and this followed a 5.7% increase in 2009. Most economists did not accept the Government figure of 8.1% but there was strong real growth of GDP in 2010 (between 5.7% & 7.0%) and this trend is expected to extend into 2011 and beyond. This good outturn mainly centres on the very good performance of the mining sector (see below).

Although the overall result indicates a significant upturn some sectors have not achieved desirable levels of growth because of a number of constraints. Most sectors are operating at capacity utilization levels of well below 50%. Problems being experienced include:-

- i. Money market illiquidity limits access to credit and working capital;
- ii. High interest rates and borrowing costs
- iii. Investment uncertainty because of Indigenization measures
- iv. Low business confidence
- v. Ailing infrastructure because of low investment and a shortage of funds for recapitalization
- vi. High domestic production costs vis-à-vis competition from imports
- vii. Electricity/power outages;
- viii. Depressed domestic demand because of low wages

2.1 Agriculture

The Government projection for the agricultural sector growth in 2010 at 33% was over-optimistic, but there has been significant recovery in tobacco output. (See detailed report in section 3 below)

2.2 Manufacturing

Manufacturing growth is only around 5% and there is severe underutilization of capacity in most factories with overheads being spread over fewer units of output. Although a capacity utilization target of 60% in factories was set for 2010 most sub-sectors are still experiencing levels of well below 50%. In turn this makes Zimbabwean products relatively expensive and the economy has become vulnerable to very strong competition from imports. Many large retailers are importing as much as 80% of their goods from South Africa and other regional countries. Competition from the region remains a major challenge; particularly as basic foodstuffs continue to be zero rated for duties.

2.3 Mining

The liberalized marketing environment established in 2009 has enhanced mining sector viability. This sector has also benefited from the very bullish international prices for precious metals and minerals that have prevailed since then. The mining sector grew by 47% in 2010. A strong performance from the gold and platinum sub-sectors occurred with growth rates of 61% and 24% respectively in 2010. Chrome earnings increased by 148%, nickel by 25%, and coal by 25%. During this year the production of diamonds emerged as a major potential source of earnings for the sector although there have been difficulties in obtaining international registration for exports. Gold production is forecast to nearly double in 2011 to 13,000 kg from 7,610 kg achieved last year. Similarly platinum output is expected to increase to 12,500 kgs as both Zimplats and Mimosa ramp up production. A robust global demand for precious metals is expected to maintain high price levels in the short term. 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.

2.4 Balance of Payments

Real growth in GDP in 2010 to a large extent can be attributed to a very significant improvement in external sector performance. Exports grew by 62% from US\$1.366 billion in 2009 to US\$2.221 billion in 2010 mainly because of the strong growth in mining receipts. Last year mineral exports comprised 64.5% of the total, tobacco 17.2%, other agricultural products 9.1%, and manufactured items 7.6% of the total. A much more modest further increase in exports is forecast for 2011. Mining exports increased by 143% from US\$ 708 million in 2009 to US\$ 1,719 million in 2010. The best performers were diamond exports which earned US\$ 361 million in 2010, up from US\$ 37 million the previous year, and gold receipts that grew from US\$ 132 million to US\$ 334 million over the same period. Foreign payments increased from US\$1.479 billion in 2009 to US\$ 2.496 billion in 2010. The main import components were capital goods which increased from US\$ 247 million (2009) to US\$ 440 million (2010); raw materials from US\$ 142 million (2009) to US\$ 191 million (2010); and consumables which grew from US\$ 330 million (2009) to US\$ 640 million (2010). Debt repayments were US\$ 759 million in 2009 and increased to US\$ 1.224 billion in 2010.

When invisibles are also taken into consideration in the external accounts the overall balance of payments deficit according to government figures was – US\$ 463 million in 2010 and this is expected to decrease to –US\$ 388 million in 2011. Other data indicate that the deficit in 2010 was US\$ 1.2 billion in 2010.

Zimbabwe's main export markets overseas are within the EU. During the last few years China and other countries in Asia have rapidly emerged major outlets for exports. Zimbabwe's main export markets by value in SADC are RSA, Zambia, Botswana, Malawi and Mozambique. RSA has remained the major export destination of Zimbabwean products over the period under review. The DRC is emerging as an important export destination. The main import source is RSA with other countries in the southern African region, the EU, China, and the USA also being important sources.

Foreign debt including all arrears is currently pegged at US\$ 6.9 billion. This debt overhang is the chief reason why Zimbabwe attracts very little in the way of direct foreign investment. Assistance from the IMF and World Bank has also been curtailed because of the non-repayment of loans.

2.6 Inflation

The inflation outturn is highly dependent on exchange rate developments between the US dollar and the RSA rand. This is because imports from RSA have grown to about 65% of the total. When the rand strengthens against the US dollar, domestic prices rise in tandem. Annual inflation is also conditional on other interrelated domestic and external factors, more notably trends in international

food and oil prices. Average real inflation in 2010 was 4.0% p.a. and an increase to an average of 4.5% p.a. is expected for this year.

2.7 Interest Rates

The change over to the multi currency system in 2009 was followed by a severe liquidity crunch that has abated to some extent although it still continues as of now. An easing of the liquidity problem was evident last year with total deposits in January 2010 of US\$ 1.4 billion, increasing to US\$ 2.1 billion by November 2010. Bank credit to the private sector nearly doubled over the same period from US\$ 759 million to US\$ 1,485 million. This favourable development continues, albeit slowly.

At the beginning of 2010 interest rates were prohibitive because of the shortage of funds in money markets. For an early period last year only 90 day money was available at rates that well exceeded 20% p.a. when establishment charges were included. Domestic borrowing costs have since decreased with lending rates for short term and longer term borrowing variable but ranging from 12 – 18% per annum for most banks. Rates are forecast to decrease further as access to external funding improves and money markets become more liquid.

3. Estimates of Agricultural Output – 2009/10

Most of the country received normal to above-normal rainfall in the first half of the 2010/11 summer season. A mid-season drought was experienced in February which has greatly diminished yields. The southern half of the country suffered a more prolonged dry spell that extended to mid March. Normal but more erratic rainfall resumed after the mid-season dry period.

Table 1 gives projections of the outturn for 2010/11 season. Data shown are based on assessments gathered from various sources.

Summer grains (maize, sorghum, and millets) total output is estimated to increase modestly from less than a million tonnes in 2010 to nearly 1.1 million tonnes in 2011. This is well short of domestic requirements and imports needs are projected in the region of 700,000 tonnes of maize to meet human and stock feed requirements. Wheat production in 2011 remains at a very low level mainly because of the perceived risk attached to unreliable power supplies.

Soyabean output has increased mainly because of upward price movements after marketers realized that they had been underpaying producers at well below import parity. Groundnut plantings increased substantially while sunflower production remained static.

Favourable prices for tobacco renewed interest from both producers and tobacco merchants and there has been an increase in flue cured tobacco plantings in all sectors. In 2010 flue cured tobacco output was more than double that of 2009, and the current crop is expected to increase further to 161 million kg's.

Although prices improved, cotton output decreased slightly when compared with 2010. Zimbabwe's cotton sector needs to improve its international competitiveness by adopting better technology (bio-tech cotton) that is available elsewhere.

Sugar output is anticipated to grow to 333,000 tonnes in 2011. Static positions are expected for other perennials like tea and coffee. Production of horticultural commodities like flowers and citrus will remain relatively static when compared to 2010 while fresh produce output will increase modestly.

Beef off-take from the commercial sector is set to increase by 10% when compared with 2010 as rebuilding of the herd continues in the A2 and large scale commercial sectors. Annual milk production is expected to rise again as viability improves and the number of cows in milk increases.

4. Production Viability and Inputs

With currency stabilization the days are gone when farmers could purchase inputs and speculate on commodity prices to rise through hyperinflation and wipe out any losses. The removal of commodity price controls and subsidies means that price levels fluctuate according to market conditions and there is more risk attached to production. Import parity prices are important in many cases and surpluses in neighbouring countries have a direct influence on domestic prices.

In preparing budgets much more attention has to be paid to ensuring that viability will be achieved when margins are thin. Input prices are maintained at high levels for domestically produced inputs like fertilizer and stock feeds because reduced throughput in factories carry higher overheads per unit. High interest rates because of prevailing money market illiquidity are also a very important consideration when contemplating obtaining loans to finance an enterprise.

Other factors also present a significant challenge to the viability of the agricultural sector. Commercial farmers must take into account the levies and tariffs imposed by several levying authorities and parastatals in the running of their businesses. These are:

- The Zimbabwe National Water Authority (ZINWA) mandated by an Act of Parliament to charge various levies on the extraction, storage and use of water in Zimbabwe
- The Environmental Management Agency (EMA) created and mandated by an Act of Parliament with the maintenance of a clean and safe environment. In practice EMA is relevant to farmers because it levies a licence fee for the discharge of dairy effluent, the storage of chemicals and the storage of fuel.
- The Zimbabwe Electricity Transmission and Distribution Company (ZETDC). This parastatal has the monopoly on the transmission and distribution of electricity as well as maintenance of infrastructure and
- Rural District Councils. These domestically elected bodies levy rates to maintain public infrastructure in the form of roads, etc.

Since the adoption of the multi currency system in February 2009 the levies and tariffs payable to these bodies have been fixed in US Dollars and have been set at very high levels without proper consideration as to the effects of these decisions on viability. In spite of the increase in fees and tariffs there has not been an improvement in services. Electricity supplies suffer from severe load shedding which is erratic and not systematically planned. This presents a major obstacle to irrigating crops, and keeping refrigeration and other electrical equipment functioning.

With regard to other inputs the availability situation has vastly improved over the past year. Seeds for major crops are now readily available as are stock feeds, chemicals, fuel, farm machinery, and irrigation equipment. When particular types and brands are unavailable there are usually substitutes that can be used. Fertilizer companies are sitting on large stocks of product that they have difficulty in selling. The main reason for this situation is affordability and restricted credit at exorbitant interest rates. Low commodity prices result in high production risks and slim margins when inputs are very expensive.

5. Challenges and Constraints in the Agricultural Sector

These centre on the following:

- Unresolved land reform issues continue to seriously undermine productivity in commercial agriculture in Zimbabwe.
- Evictions of farmers still continues and farming operations are still being disrupted
- There is an acute under-utilization of land and resources in the commercial farm areas, and.
- There is no security of tenure. Without security and confidence most farmers are unwilling to undertake any medium or long term investments.
- The absence of a land market prevents financial institutions from granting loans to all types of farmers because there is little or no collateral to support the loan
- There have been no extension programmes put in place to enable new farmers to be trained
- Adverse money market developments and the critical shortage of working and investment capital have greatly restricted credit to agriculture.
- Liquidity has remained a challenge for agricultural markets to perform efficiently and effectively.
- Various production schemes operated by processors/exporters of horticulture products, tobacco, and cotton have been set up to meet some partial working capital requirements. These processors provide some inputs in exchange for exclusive buying rights to output for a pre – agreed pricing formula. Often these schemes are biased towards the interests of the traders and leave the farmers open to exploitation.
- Affordability of inputs remains a major challenge for all categories of farmers.
- The viability of producing many farm commodities is marginal

Future Prospects

The future outlook of agriculture is bright providing all the issues listed in section 5 are resolved to the satisfaction of all stakeholders. With this in mind farmers unions have begun to undertake joint operations and to merge some of their activities to avoid duplication and provide efficient services required by their members. This is illustrated by the ZIMFAT project that is to be implemented over the next two years where the ZFU and CFU will be co-operating to provide their members with improved services.

To circumvent the production viability problems described above your Union is currently negotiating farm input supply schemes to be financed through very favourable loan terms underwritten by insurance to cover a whole range of risks that would result in payment defaults. The scheme, called Preferential Trading Partners, brings together bankers, insurance companies, marketers, and input suppliers, and farmers are invited to apply for their requirements to the Union which will be managing the scheme.

**Commercial Farmers' Union of Zimbabwe
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Table 1

TOTAL PRODUCTION OF MAJOR AGRICULTURAL PRODUCTS in ZIMBABWE (000 tonnes)												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
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	900.00
Wheat	250.00	314.00	186.50	120.00	121.65	134.00	170.20	64.55	25.55	18.05	11.30	10.00
Sorghum	61.91	60.74	23.82	59.56	124.00	111.00	126.80	130.80	103.00	113.50	85.80	96.00
Barley	32.00	32.00	58.00	50.00	36.40	43.00	53.50	32.00	24.50	33.15	40.50	30.00
Small Grains										43.32	37.62	64.00
Traditional Export Crops												
Tobacco Flue Cured	236.13	202.54	165.84	81.81	69.00	73.39	54.25	73.39	48.72	57.00	123.00	161.00
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	0.06
Cotton	353.00	335.25	195.67	253.00	330.00	198.00	260.33	255.00	223.02	210.09	200.00	195.00
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	59.00
Groundnuts	190.89	171.78	58.56	141.18	85.30	n/a	51.27	130.55	116.55	44.46	50.66	138.00
Sunflower	15.75	31.50	4.39	4.83	18.60	n/a	42.61	42.58	33.40	16.25	13.30	12.00
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	11.00
Coffee	6.54	7.26	6.60	5.52	7.20	3.96	2.70	1.86	1.32	0.50	0.40	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	1.20
Flowers	17.86	17.86	21.89	22.80	20.17	16.27	14.33	10.17	8.00	5.00	7.50	7.50
Citrus	39.32	39.32	33.64	43.19	47.77	34.23	26.31	26.45	19.00	15.00	29.75	30.00
Fresh Produce	10.22	10.22	7.51	9.64	10.24	7.28	4.95	5.33	4.00	3.00	3.20	4.50
Sugar	538.00	515.00	581.00	502.74	422.30	400.00	446.65	400.00	380.00	280.00	300.00	333.00
Livestock												
Dairy	187.05	176.77	153.13	114.08	97.64	94.55	92.50	87.36	47.72	37.00	47.00	56.00
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	220.00

* Estimates