AGRICULTURAL INFORMATION SERVICES DEPARTMENT
VICE PRESIDENT'S REPORT TO CONGRESS - 2012

1. Introduction

This report briefly covers the developments that have occurred in the economy and the agriculture sector since the last Congress in August, 2011. It also contains production data for the 2010/11 season and estimates of agricultural output for the current 20011/12 season.

2. Overview of the Economy

According to statistics produced by the Ministry of Finance, Zimbabwe has been experiencing sustained economic growth since dollarization recording 8.1% GDP growth in 2010 and 9.3% growth in 2011. Initially the Minister of Finance had projected a GDP growth of 9.4% in 2012. However, following the developments during the first quarter of 2012, especially performance of the agriculture and tourism sectors, GDP growth rate for 2012 has been revised downwards to 5.6% from the initial projection.

The multicurrency regime has been successful in restoring price stability, whilst exchange liberalization has resulted in the restoration of some capital inflows, improved efficiencies, and growing output. However, the economy still has vulnerabilities, which remain similar to those in 2011:

- Political uncertainty; lack of clarity over the timing of general elections, and speculation over potential outcomes continue to hinder both Foreign Direct Investment inflows and portfolio investment. The structured implementation of the indigenization framework remains critical, with concern being heightened regarding the policy as a campaign tool in the event of an election.

- Declining commodity prices; with agricultural and mining exports driving the growth of the economy, there is an increasing vulnerability to both hard and soft commodity prices. Global demand trends, particularly emerging out of China, will have a significant bearing on the economy.

- Wage overruns; civil servants have this year demanded a second round of wage increments after bonuses and increments awarded in the fourth quarter of 2011. As at August 2011, 27 of the 42 workers unions in the country were involved in wage negotiations. This will apply upward pressure on operating costs and affect the competitiveness of local products.

- Fragile banking sector; the Non Performing Loans issues are a clear and present danger.

i) Agriculture

According to the initial 2012 budget statement, local agriculture was expected to grow by 11.6% in 2012. This growth was to be underpinned by growth in Tobacco, Maize, Cotton and Sugar expected to record expansion of 12.8%, 24.1%, 14.4% and 8.1% respectively. However, from the revised Macroeconomic Framework Report, agriculture output is likely to fall by -5.8% in 2012 following the drop in maize, tobacco, and some other commodity output. Decreased production was mainly the result of the late onset and uneven distribution of rainfall, poor and late distribution of inputs, and the unavailability of Ammonium Nitrate. These among other factors has led to more than one third of the maize crop being written off which affected the overall targeted agricultural output for the year. Poor liquidity, high input costs, high cost of credit, high water and electricity charges and unreliable services are some of the other challenges that farmers have faced during the 2011/12 season.

ii) Mining

From the 2012 national budget statement, the mining sector is expected to register growth of 15.9% in 2012 on the back of firm commodity prices, continued capital investment, as well as mitigation against electricity supply disruptions. The sector is likely to benefit from increased gold, coal, diamond, and platinum output. Although global commodity prices remain favorable and production is on the rise, significant amounts of capital expenditures are required in an illiquid financial environment, and mining corporations are clearly struggling to recapitalize their operations.

iii) Manufacturing

According to the Revised Macroeconomic Framework for 2012 report, the manufacturing growth projection is 6% for 2012. The manufacturing sector has experienced subdued growth since dollarization, but an improvement may occur in 2012. Data from CZI show that plant capacity utilization, has increased to 57,2% as of last year from 43,7% in 2010. It is expected to rise to 59.5% in 2012. Industry players warn, however, that unviable manufacturers with low productivity are closing operations and this may give the impression that capacity utilization is increasing in the sector. Industrialists are calling for a workable solution to challenges affecting firms such as short term financing restrictions, low product demand, machine breakdowns, high costs of imported raw materials, and high utility charges among other factors. Agro-industrials' performance has been hampered by supply shortages as local agricultural output continues to fall short of national demand.

iv) Financial sector

The adoption of the multiple currency system in 2009 brought stability to the economy and has led to a marked improvement in deposits in the banking sector. Deposits have grown from US$ 300 million in February 2009 to US$ 3.25 billion by November 2011. However, the level of market deposits still falls far short of the funding requirements of the economy. The Medium Term Plan (2011-2015) estimates the capital requirements for the Zimbabwe economy at above US$ 9 billion, thus indicating a very wide funding gap in the economy. Banks have been over-extending loans to all sectors in anticipation of a business boom which has resulted in very high and unsustainable loan-to-deposit ratios. The average loan-to-deposit ratio for the market stands at 78%, which is higher than the 75% implied by the Reserve Bank of Zimbabwe (RBZ) prudential reserve ratio requirement of 25%. As of 30 November 2011 some banks' loan to deposit ratios were above 100%. Financing is expected to remain a key constraint to growth in the economy, particularly in the 1st half of 2012. Many of the banks will now need to recapitalize in order to increase their lending. Compounding the problems in the banks is the fact that the RBZ only has access to an estimated $100mn following the establishment of a $100mn fund by the Ministry of Finance, aimed at improving interbank lending. This only forms 3% of total deposits in the banking sector. The RBZ is therefore not adequately capitalized for the resumption of its duties to significantly improve confidence and financial liquidity in the sector. The issue of Non-Performing Loans in the sector also presents a significant threat to financial depth in 2012, with a number of indigenous banks facing failures. Therefore, 2012 is expected to be yet another year of largely short term financing at punitive interest rates, with a negative impact on the overall economic growth prospects.

v) **Inflation**

In his 2012 Budget Statement the Finance Minister gave an annual projection of below 5 percent inflation. However, it is now estimated that the annual inflation rate could possibly exceed the 5 percent targeted by Government by the close of the year due to higher food and fuel prices. Increased utility tariffs could also drive up inflationary pressures. Furthermore, the exchange rate fluctuation between the US$ and the South African Rand is also affecting prices of local commodities as Zimbabwe mostly imports from South Africa. Over the past months the annual rate of inflation has declined. Last year inflation did, however, exceed the target of 4.5%, closing the year at 4.9%. The rate then declined to 4.3% in January and February and further went down to 4.0% in March. However, this decline in annual inflation does not necessarily mean that general prices are falling. Instead it means that while general prices of goods are still increasing, the overall average rate of price increases has slowed down.

vi) Interest - Deposit and Lending Rates

According to the recent RBZ's Monetary and Balance of Payments Report**, t**he absence of a functioning money market has resulted in the widening of the interest rate spreads. Nominal lending rates that were ranging between 15% and 25% are now ranging between 10-15% following the Governor's order for banks to lower charges. Time deposits, however, have been ranging between 3% and 8%. This high interest rate environment continues to have a negative impact on the productive sector of the economy as they culminate in high production costs, thus making locally produced commodities less competitive on both the domestic and international markets.

vii) Trade and Balance of Payments

According to recent statistics from Zimstats and RBZ total exports are expected to continue on a positive growth trend from US$4.474billion in 2011 to about US$5.126billion in 2012. On the other hand imports are expected to grow to about US$8.025billion in 2012 from US$7.562 in 2011. The retail and distribution sectors are expected to constitute the largest proportion of imports due to low productivity in agriculture and manufacturing. This continued absorption of wide-ranging imports, against the backdrop of an unfavorable export performance is projected to culminate in a current account deficit of US$2.898 billion in 2012 from a deficit of US$3.088 billion in 2011. The projected reduction in the trade gap is minimal.

The capital account is projected to grow from US$1.566billion in 2011 to about 1.952billion in 2012 mainly as a result of an expected increase in foreign direct investments from US$373 million in 2011 to US$540 million. The very large current account deficit or trading account gap in 2011, taken together with the backdrop of depressed capital inflows, triggered a huge imbalance in the country's external sector position which will have to be financed by increased foreign debt. This year the overall balance of payments deficit is expected to decrease to US$946 million from the deficit of US$1,522 million in 2011.

An analysis of Zimbabwe's FDI flows over the years shows a sharp decline as compared to its regional peers like Zambia, Mozambique and Namibia that have been receiving significant inflows. According to a report by the RBZ the prevailing uncertain investment climate compounded by lack of clarity on the indigenization and economic empowerment initiatives, has reduced the country's capacity to attract meaningful non-debt creating foreign direct investment inflows into the country.

viii) Revenue Collection and Expenditure

Government expects revenues (tax and non-tax) to rise to $4.0 billion in 2012 from $2.8 billion in 2011 driven by an injection of $600 million from diamond sales following the Kimberley Process Certification Scheme's compromise of allowing the sale of the Marange diamonds. According to the Ministry of Finance progress report, in the first quarter to March Government collected US$771.1 million against a target of US$869.7 million. Revenue collected from diamonds was US$30.4 million against a target of US$122.5 million. Failure to meet revenue targets will limit the ability of government to increase civil servant salaries.

However, the Ministry of Finance also reported that, at the end of the 2012 first quarter, expenditures amounted to US$751.4 million against planned expenditure of US$869.9 million. With expenditure being kept at levels below the reported revenue figure, Government so far this year is managing to keep a tight rein on its financial management.

3. Agricultural Production

i) Weather Update

According to the weather reports given by the Meteorological Service Department the 2011/12 summer season started late for most parts of the country with the onset of rains occurring in the third week of November. Rainfall distribution across most provinces has been erratic both in space and time. The first period of rains was followed by a long dry spell which lasted up to about 7 weeks in most districts. This occurred between late January and mid-March and the southern provinces were affected most. This dry spell adversely affected overall crop production as most crops suffered from water stress.

ii) Agricultural Output Estimates -2011/12

Harvesting of the 2011/12 maize crop commenced in March. Adverse weather and the maize marketing problems experienced in the previous season had stimulated some diversification into other crops which were more favorably priced last year. Recently released maize production estimates, from a Government assessment in April, indicates a sharp drop in production compared with the previous season. Maize production is estimated at 833 000tonnes which marks a reversal of the increasing trend since 2009 (see Table 1).

Wheat production remains a primary concern, and little growth is projected for the crop despite production being at only 12% of its 2000/2001 peak of 341 000 tonnes (see Table 1**)**. Production is constrained by unreliable power supplies, the unavailability of cheap lines of credit and high rates of interest, which have all contributed to the steep decline in area planted in the last two years. The cost of importing additional food in 2012 to make up production shortfalls of particularly maize and wheat, is projected at a total of US$ 584.5 million.

The country is expecting an increase in output of cotton and soya beans in 2012 following diversification into these crops by farmers due to favorable prices in 2011. The projected harvests are 80 580 tonnes of soya beans and 255 000 tonnes of cotton. Very poor prices being received by cotton growers this year will probably be followed by a drop in cotton plantings in the coming 2012/13 season. Sorghum and millet output this year are estimated to be above 2011 levels respectively, and there is some growth in oilseed crops like groundnuts and sunflowers.

Following some of the season's challenges identified above; the Tobacco Industry and Marketing Board (TIMB) has projected a moderate decrease in total production of tobacco from 2011. A total of 127 000 tonnes of flue cured tobacco from a total hectarage of 74 879 is expected to be sold this season. Not much change is expected in horticultural exports although some decrease will occur in flower production and exports.

Regarding livestock, a moderate reduction in milk production is forecast for this year and the number of beef cattle slaughters is projected to fall slightly, although at present there is some uncertainty about the suspension status of the memorandum of understanding with Botswana allowing cattle imports.

4. Inputs Report

The national maize seed supplies were estimated at over 80 000 tonnes, about 25 000 tonnes in excess of the country's requirement, leading to the lifting of the seed export ban. Farmers had a variety of maize seed types to choose from different seed houses ranging from hybrid seed to open pollinated varieties, long, medium and short season varieties. The quantities of seed available through the formal channel for secondary crops such as sorghum, groundnuts and millets were low in comparison to the area which was put under these crops. This could be because farmers generally rely on the informal market (retained and farmer to farmer exchanges) for seed for these crops.

A report by fertilizer companies indicates that there was some significant improvement in availability of fertilizers this season due to increased local production. The industry supplied the market with approximately 330 000MT of fertilizers for summer crops, compared with only 200 000MT the previous season. Despite this position an estimated 78 000MT of nitrogenous fertilizers were imported after the sole local producer of ammonium nitrate (Sable Chemicals) failed to meet local demand because of power cuts for the non-payment of accounts after the electricity tariff subsidy for Sable was lifted, and constant equipment breakdowns. Although stock feeds, dips, and crop chemicals were generally available on the market, they remain very expensive and affordability is a major problem for most farmers.

The power supply situation in Zimbabwe remains critical with rampant load shedding. Electricity shortages have forced ZESA to ration supplies to both commercial and domestic users with some areas going for more than 10 hours per day without power. This arises from the fact that the installed power generation capacity in the country is well below demand and there is a reliance on power imports to make up shortfalls. ZESA has not been able to pay off its debts with Mozambique's Hydro Cabora Bassa, and in March HCB reduced power supplies to Harare. The domestic power system suffered from the economic downturn during the last decade. The sub-economic tariffs that were charged during that time meant that the revenue that was generated was not enough to enable maintenance to be carried out at the level required to maintain a decent level of supply. This problem still persists because of the following factors:

- About 35% of installed capacity is out of service at any time due to age, maintenance, etc.
- Power imports are limited as there are power shortages in the Southern African region.
- The utilization of electricity is largely inefficient in Zimbabwe.
- Consumers' inability and/or unwillingness to settle electricity bills.

5. Challenges and Constraints in the Agricultural Sector

These have remained largely unchanged for several years.

- Unresolved land reform issues continue to seriously undermine productivity in commercial agriculture in Zimbabwe.
- There is an acute under-utilization of land and resources in the commercial farm areas.
- There is still no security of tenure. Without security and confidence most farmers are unwilling to undertake any medium to long term investments.
- The absence of a land market prevents financial institutions from granting loans to all farmers because there is little or no collateral to support loans.
- Lack of collateral and the liquidity crisis results in insufficient finance for short term working capital and medium to long term finance for equipment purchase and capital development.
- High and uncompetitive costs of production for many agricultural commodities
- Trade barriers as well as liquidity challenges have remained major constraints for agricultural markets to perform efficiently and effectively.

Future Prospects

The future outlook of agriculture will be bright if every issue listed in the section above is resolved to the satisfaction of all stakeholders in agriculture. Growth and development are contingent on a stable production environment that encourages farmers to expand their business operations.

Farmers Unions now undertake joint operations and have merged some of their activities to avoid duplication and provide an efficient service required by their members. An example is the ZFAT project that is currently being implemented where the Zimbabwe Farmers Union and Commercial Farmers' Union are co-operating to provide their members with improved services. The consolidation of some activities will mean that farmers' unions can better represent their members in obtaining the benefits that members require.

7th June 2012

Table 1

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 *
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	895.00	833.00
Wheat	250.00	314.00	186.50	120.00	121.65	134.00	170.20	64.55	25.55	18.05	11.30	26.00	32.50
Sorghum	61.91	60.74	23.82	59.56	124.00	111.00	108.40	81.50	103.00	113.50	73.60	50.54	77.20
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	37.50
Small Grains (millets)	31.00	43.20	14.20	41.50	71.70	30.60	72.30	49.90	55.00	43.32	50.90	36.10	53.10
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	132.00	127.00
Tobacco Air Cured	8.16	4.60	3.99	1.99	1.00	0.34	0.27	0.09	0.06	0.15	0.23	0.31	0.48
Cotton	353.00	280.50	195.67	159.50	364.20	196.30	207.90	255.00	223.02	210.09	149.90	195.00	255.00
Oilseed Crops													
Soya beans	149.94	175.08	72.41	70.26	71.00	54.00	54.80	67.60	51.20	43.30	57.30	59.00	79.70
Groundnuts	190.89	171.78	58.56	86.50	64.10	57.80	83.10	126.80	116.55	44.46	136.70	97.50	108.20
Sunflower	9.20	30.30	4.63	16.90	20.20	7.40	16.70	31.10	33.40	16.25	11.80	8.23	9.37
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	10.50
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	0.30
Paprika	7.30	8.80	9.80	14.20	10.80	3.20	3.80	1.01	0.74	0.26	0.34	0.69	0.81
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	5.00
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	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	5.00
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	372.00
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	50.50
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	200.00

*** Estimates**