AGRICULTURAL EMPLOYERS' POSITION PAPER ON THE GENERAL AGRICULTURE SUB-SECTOR MINIMUM WAGE FOR 2012/2013

Introduction

In as much as we need to uphold basic human and labour rights for farm workers in the general agriculture sub-sector and eliminate exploitation of farm workers, the minimum wage must be fair and reasonable guided by the economic realities of our country.

A minimum wage is the lowest hourly, daily or monthly remuneration that employers may legally pay to workers. That is to say it is the compulsory lowest amount; **but it should be stressed that *it is not necessarily the actual salary level that all farm workers will receive*.** On the contrary, the desirable position is one where growth of the economy and in particular the agriculture sector leads to a scenario where employers compete in the labour market and the forces of supply and demand drive wages up.

It is a well known fact that a relatively high statutory minimum wage - especially one that does not take cognizance of the viability of the employers' business or prevailing macro economic factors - will have the following effects:

a. Reduced employment levels as business will either be forced to diversify into less labour intensive production, mechanise production to minimize on labour costs or close down because of poor viability. The common denominator is job loss.
b. Reduced investment in productive economic activities which will limit economic growth or may even cause shrinkage of the economy. Zimbabwe has some of the most labour friendly laws in the world which is one of many factors that limits investment into the local economy. Even if there is investment and resultant growth the likelihood is that it will be jobless.
c. An increase in the informal sectors where rules and laws relating to the employees conditions of work, safety, remuneration, retrenchment and so on are not followed. An unregulated informal sector may be rife with unfair labour practices, exploitation and even child labour.

Therefore the indicators that should be used to establish an initial minimum wage rate are ones that minimize the loss of jobs. Thus it is submitted that a statutory minimum should be one which the poorest and not the richest agricultural employer can afford to pay.

Employers and employees should be partners in driving national economic growth thereby creating more employment for more people. A push at this stage for short term gains for those 10% of workers who are employed will come at the expense of the 90% unemployed. The question that needs to be asked is do the wage gains received by employed workers offset the lost earnings suffered by those who lose or cannot find jobs?

It surely is in the interest of both employees and employers to see a reduction in the high level of unemployment. The advantages of increased employment levels are as follows:

- Rising standards of living within the country.
- More economic activity leading to rises in incomes which are sustainable.
- Increased Trade Union membership and therefore increased trade union revenues.

The Agricultural Employers Position

In view of the above considerations the employers propose that the general agriculture sub-sector minimum wage should remain at US $ 59.00 for grade A1 for the following reasons:

1. Poor Macro Economic Performance

The determination of farm workers remuneration should be contextualized within the broader national macro-economic and social framework. The theme of the 2012 mid-year fiscal policy Review sums up the current state of the economy: ***"from crisis to Austerity: Getting Back to Basics".*** According to the Minister of Finance, "The first half of 2012, is a sad balance sheet of unmet targets and policy slippages that has left the economy in an unacceptable state of underperformance".

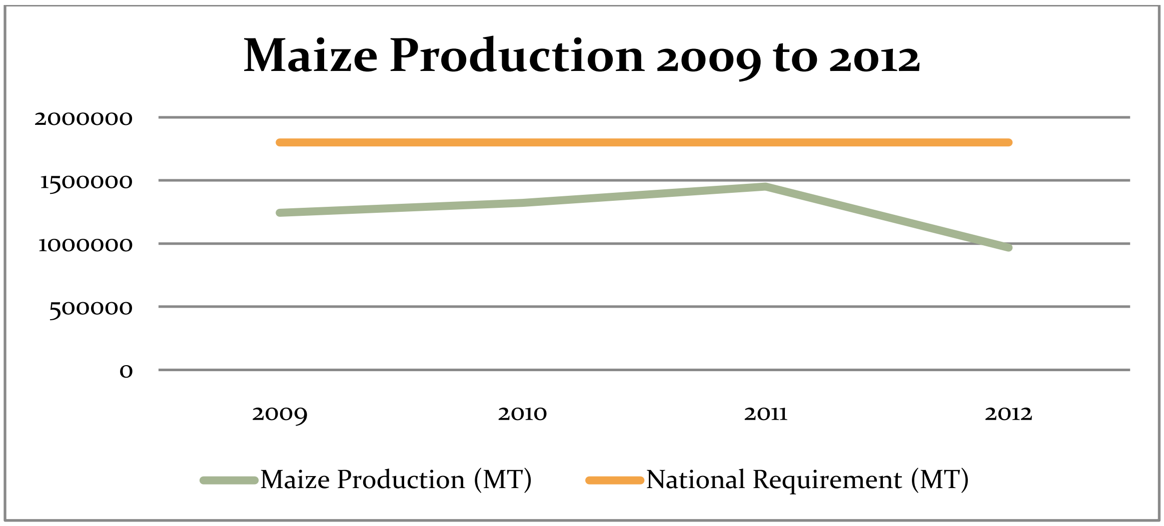
The poor macroeconomic performance is evidenced by the number of companies closing shop and restructuring [downsizing] across all sectors of the economy. Whilst the growth momentum was anticipated to be maintained in 2012, with a GDP projection of 9.4%, recent developments are pointing to the contrary. Economic performance is still constrained by challenges in power outages, liquidity shortages, low aggregate demand and low production capacity utilization. The economy has thus remained stagnant for the first half of 2012. The above scenario has resulted in the revising downwards of the current budget by US$600 million by the Ministry of Finance in his mid-term fiscal review.

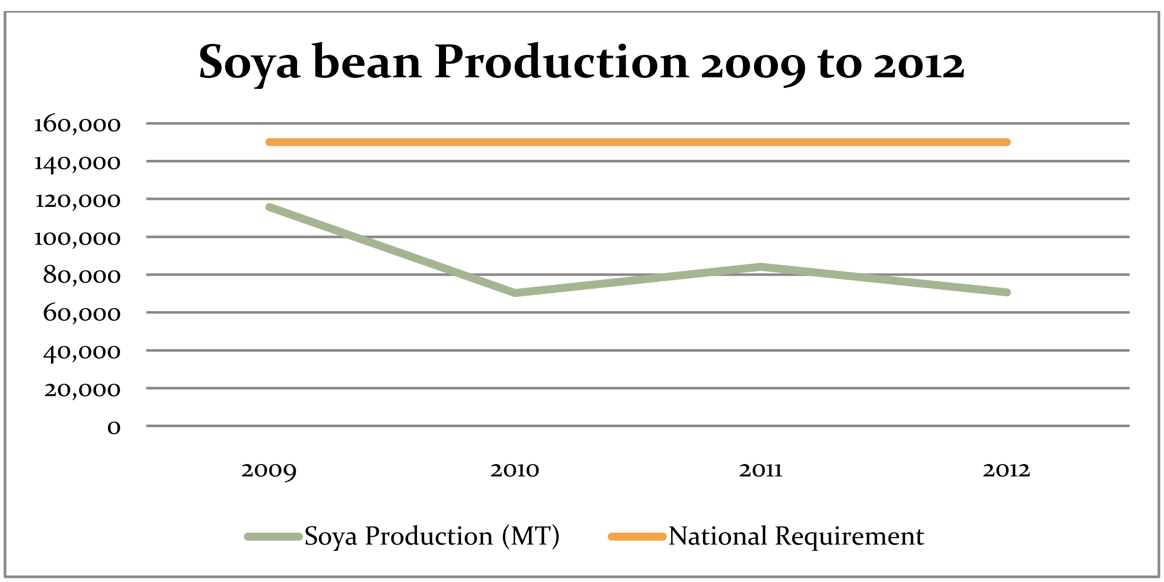
In a normal economic environment, under-capitalized businesses seek to redress their capital inadequacies by sourcing new investment, or by obtaining loan funding from banks and other financial institutions. But this has proved to be almost impossible in the prevailing environment. Investment funding is extremely limited as potential investors fear for the security of their investments as a result of the unstable political environment, uncertainties over the indigenization and economic empowerment policies, and pronounced government bureaucracy. Similarly, access to loan funding is marginal and at very high interest rates.

Public's lack of confidence in the banking sector after the collapse and failure of many banks has minimized deposits which in turn curb banks' lending. Financial institutions also experience great difficulty in sourcing international lines of credit to enable comprehensive lending to commerce and industry. Because of their limited lending ability, such loan funding as the banks can provide is of limited tenure, and subject to exceptionally high rates of interest and allied charges, coupled with demands for considerable collateral security.

2. Poor Agricultural Performance

The Agricultural sector continues to operate in a constrained environment the only noteworthy gain being significant increases in small scale tobacco production. The Charts below indicates a recent decline in production of National Food Staples.





3. Rising Costs of Agricultural Production unable to be matched by the price of Agricultural Commodities

It should be understood that farmers cannot usually pass on increases in their costs of production to their customers. The price of Agricultural commodities is generally speaking dictated by import parity and market forces. The costs of agricultural production in any given season should be as fixed as possible prior to planting and the prevailing market trends should be studied to have an accurate estimation of the expected price. Sudden hikes in the minimum wage mid season are not budgeted for and cannot be passed on.

The first point to note with regard to rising costs of production is that the cost of borrowing working capital has is at uncompetitive levels:

Lending rates to Agriculture in Zimbabwe are as follows:

Agribank: 12-20%; default rate 40%
CBZ: 12-14%; default rate 32%
Barclays: 10-18%; default rate 20%
Stanbic: 15.85%; default rate 33%
Standard Chartered: 14-19%; not stated
ZB: 18%; default rate 50%
Metropolitan: 28%; default rate 58%

Moreover unlike in other countries Zimbabwean Farmers cannot benefit from subsidies to reduce the cost of production

Country	Lending Interest Rates	Subsidies to Farmers
Zambia	5%	Yes
South Africa	11%	Yes
United States	3.3%	Yes
Italy	4%	No Data
Switzerland	2.8%	No Data
United Kingdom	0.5%	Yes

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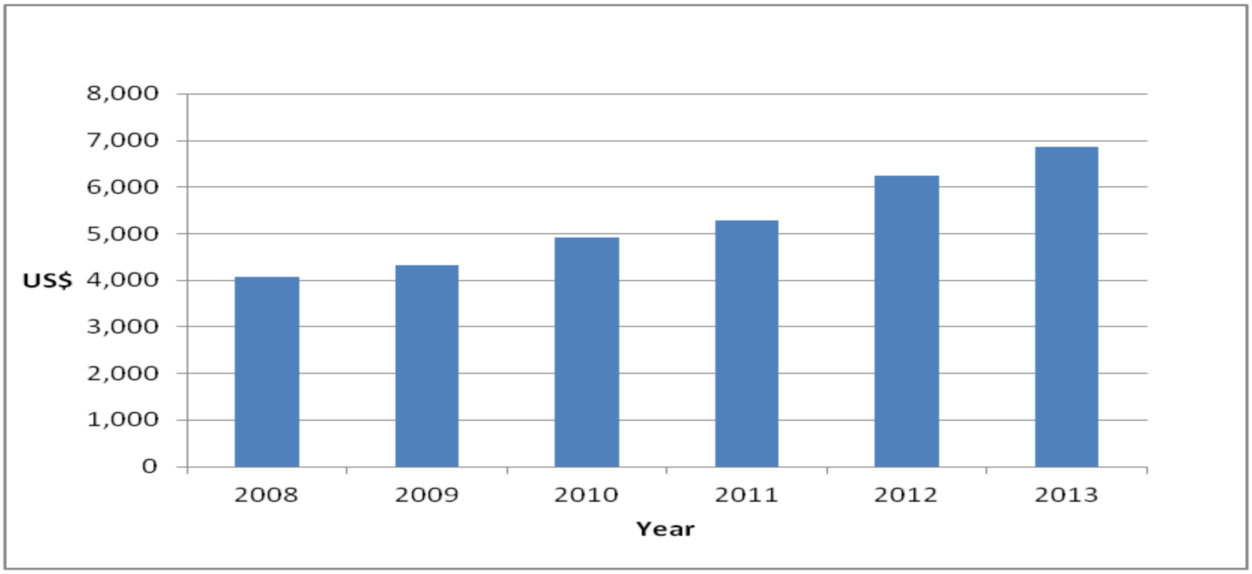
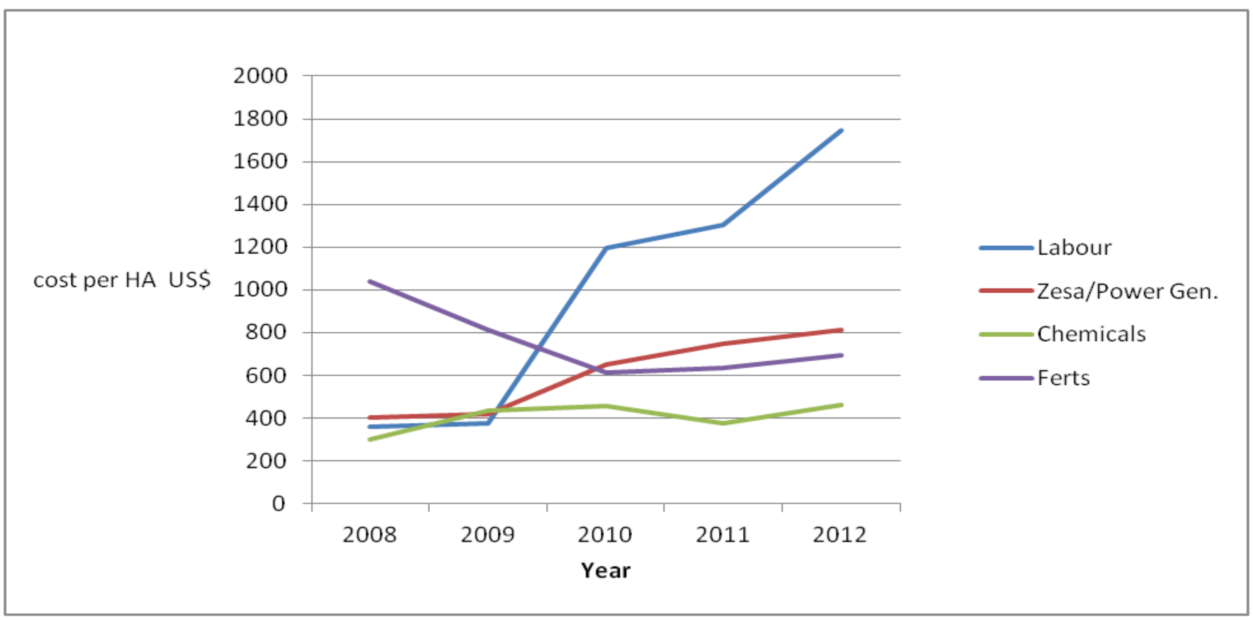
It should be noted that the liquidity problems and high costs of lending both directly and indirectly inflate cost of production in agriculture. Directly in the sense that the costs of borrowing working capital are extremely high and indirectly in that the cost of inputs are raised because other sectors of the economy face the same liquidity problems.

Tobacco Production Case Study

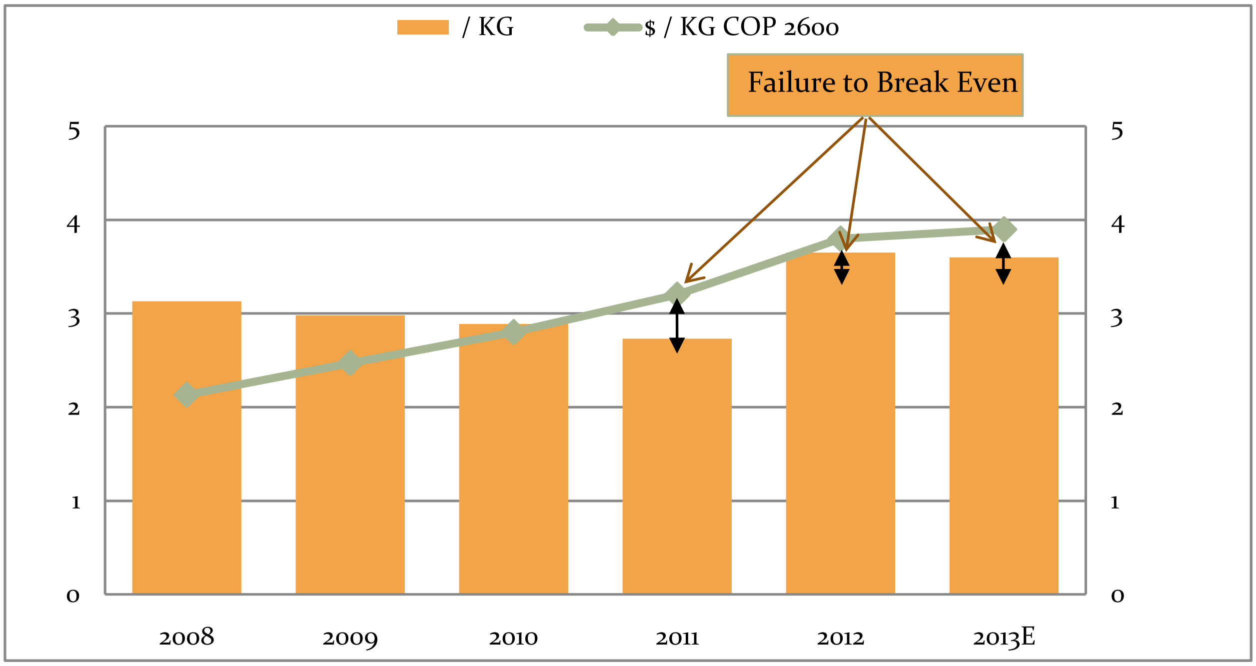
Using Tobacco production as an example, in the chart below we note the general trend of rising aggregate costs of production per hactare since 2008.



The chart below shows the trend of rising costs of some of the input items that make up the total aggregate cost of production. Most notably has been the steep rise in the cost of Labour versus the gradual rises in other inputs.



The rising price of Tobacco as a commodity has not kept pace with the rising cost of production. The Chart below illustrates this. It should be noted that the average contract tobacco floor price shown as the bars has fallen short of the cost of production shown as the line.



Soya Bean Production Case Study

The costs of soya bean production are similarly high by regional standards. The table below illustrates this point:

	Zimbabwe		Zambia		South Africa	
	Irrigated	*Dry Land*	*Irrigated*	*Dry Land*	*Irrigated*	*Dry Land*
Cost of Production per Ha in US $	1,097.00	900.00	1,221.50	945.00	No Data	728.00
Expected Average Yield MT/Ha	2.2	1.7	3.5	2.1	No Data	2
Cost of producing 1 MT in US $	498.64	529.41	349.00	450.00	No Data	364.00

The table below gives an indication of the slim gross margins that farmers will realise on soya bean production if a high yield of over 2.5 tonnes per hectare is not obtained.

Variable Costs of Production Per Hectare of Soya Beans	USD
Labour	50
Tillage, (equipment depreciation, R & M and Fuel)	80
Airial Spray	8
Irrigation (water, Elec & R&M)	175
Harvesting	90
Interest on working capital finance @ 18%	167
Insurance @ 0.65%	4
Fertilizer (Compound L)	200
Lime	30
Fertilizer and Lime Transport in	12
Seed and Thiram (including Transport in)	150
Herbicides	65
Insecticides	10
Fungicides	22
Bags	9
Transport Out to Market	25
Total Production Cost	**1,097**
GROSS MARGIN ANALYSIS	
Expected Average Yield per hectare (tonnes)	2
Expected Average Price per tonne at time of harvest in 2013	550
Therefore Gross Realised per hectare	**1100**
GROSS MARGIN (GROSS AMOUNT REALISED PER HECTARE LESS TOTAL COSTS)	**3**

4. Questionable Justification for a proposed increase

The following points question the justification for an increase in the Minimum wage at this time:

A. Stable Economy with Low Inflation Rates

It should be noted that whilst there has been limited to static growth of the economy, inflation has been contained within the projected levels in the first half of 2012. According to ZIMSTAS, the annual rate of inflation declined from above 4% in the early months of the year to 3.9% by June 2012. It is anticipated that the rate of inflation will be maintained within the 5% threshold by the end of the year in line with fiscal projections. The rate of inflation is the normal guide for wage increments in most countries. The table below illustrates that increases in the minimum wages for agricultural workers has far exceeded prevailing rates of inflation since dollarization in 2009:

Year	General Agriculture Subsector minimum wage for Grade A1	General Agriculture Subsector minimum wage for Grade A1	Allowances excluding transport	Allowances excluding transport	Total Monthly Cost of Labour After increase	Percentage Increase in cost of labour %	Year on Year Rate of Inflation in the year in Question %
	From	To	From	To			
2009	USD 32.00	USD 44.00	USD 7.50	USD -	USD 51.50	37.50	-7.70
2010	USD 44.00	USD 55.00	USD 7.50	USD -	USD 62.50	21.36	3.20
2011	USD 55.00	USD -	USD 7.50	USD 53.00	USD 108.00	72.80	4.90
2012	USD 55.00	USD 59.00	USD 53.00	USD -	USD 112.00	3.70	3.90

It is acknowledged that farm workers were very poorly paid in the latter period of the hyperinflationary era and that the large increases in the wages in the last 3 years have to an extent been driven in order to catch up to a realistic minimum. However, we submit that the wage is now at a realistic level. It is time for a new chapter going forward where cognizance is taken of the fact that the economy is based on the multi currency system and rates of inflation are within manageable levels.

B. Regionally Competitive Wages but a Regionally Uncompetitive Economy

As has been already demonstrated, notwithstanding the poor performance of the Agricultural sector agricultural minimum wages and allowances have in the last 3 years continued to escalate. Farm workers in Zimbabwe are today some of the best payed in SADC especially when considering the fact that Zimbabwe's economy is only the 13th largest in SADC with only Malawi, Lesotho and Swaziland being smaller. The table below illustrates this point:

	USD Equivalent Monthly Wage and Allowances	GDP 2010	GDP per Capita (PPP)	Unemployment % of Population
Botswana	USD 54.37	USD 14,584,333,333.33	USD 14,000.00	7.50%
Malawi	USD 23.54	USD 5,185,333,333.33	USD 800.00	N/A (no data available)
Zambia	USD 150.53	USD 16,191,666,666.67	USD 1,500.00	14%
Zimbabwe	USD 108	USD 7,474,666,666.67	USD 500.00	90%
Mozambique	USD 74.93	USD 9,658,000,000.00	USD 1,000.00	21%

C. The Current Minimum Wage is in Line With the Minimum Food Basket

According to ZIMSTATS, the Food Poverty Datum Line (i.e. the minimum expenditure necessary for one person to ensure a food basket of 2100 Kilo Calories per month) is US $ 33.02 as at September 2012. In order to verify these statistics a short study of basic groceries was done in an upmarket Harare Supermarket. The table was constructed using those prices to show a very basic monthly basket of groceries which could cater for a farm worker and his or her family being a spouse and 3 children.

Item	Quantities	Price
Maize Meal	5 x 10 kgs	USD 29.00
Cooking Oil	2 liters	USD 3.79
Salt	1 kg	USD 0.50
Sugar beans	4 x 500 g	USD 4.80
Sugar	2 x 2 kg	USD 4.30
Tea	100 bags	USD 1.95
Powdered Creamer	1kg	USD 4.75
Peanut Butter	375 ml	USD 1.87
Assorted Vegtables	4 kgs	USD 4.00
Green Soap	1 bar	USD 1.53
		USD 56.49

When looking at this table the following points should be noted:

- Most farm workers have access to vegetable gardens and in many cases land to grow Maize.
- Many agricultural employers provide Maize and vegetables for their workers.
- In many cases both spouses are employed it is therefore unfair to use the benchmark of a 5 person family in determining the "minimum" wage.
- The reality is that the standard of living of a farm worker today compared to 2008 is much better. It is not uncommon to see farm workers with cell phones, bicycles and even satellite televisions in some cases.

5. The Potential Negative Consequences of a Wage Increase

A. Real Possibility of Business Closures and Retrenchments

There is a real possibility of the closure of agricultural businesses if wages are increased to levels where the viability of productivity is further compromised.

B. Socio Economic Ramifications

Sustainability of the wages is a critical factor not only within the agricultural sector but across all sectors; if a minimum wage is significantly raised to levels that are not affordable to employers, the resultant effect will be job losses. This outcome has a number of socio-economic problems such as financial burden on the farm workers and society putting immense pressure on the government to provide safety nets. The majority of farm workers are females and job losses in this sector will propagate feminization of poverty. Agriculture wages have an effect on other economic sectors.

Timing of the Increase in the Minimum Wage

The seasonal nature of agriculture dictates that any increase in wage must be done prior to the preparation of budgets and the sourcing of finance by the farmer. Generally most budgets for Tobacco, Winter cereals and even summer food crops are prepared and finalised with effect from June to June. Therefore any wage increase should be with effect from June and not mid season as has been the case up to date.

In short wage increases should be harmonised with budget preparations so that provisions can be made to cater for the increase.

Conclusion

In preparing for this exercise, Employers considered the economic and agricultural performance for year 2011 and the economic performance for 2012. It is clear that the economy has not improved but rather the economic indicators show that the economic performance is declining.