AGRICULTURE COMPETITIVENESS IN ZIMBABWE

PRESIDENT'S CONGRESS REPORT

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INTRODUCTION

The main theme of this Congress is "competitiveness" and I wish to cover how our farming sector contributes to Zimbabwe's competitive status internationally.

First let us see how Zimbabwe's economy measures up in a holistic context. The Global Competitive Index published last month ranks Zimbabwe 126 out of the 138 countries involved in the survey. This means we fall into the bottom ten percent and perform poorly on the global stage.

Various factors are measured in deriving the index and these include a) macroeconomic environment, b) institutional efficiency, c) policy instability, d) corruption, e) infrastructure, f) market efficiency, g) access to finance, h) tax rates, i) restrictive regulations, and j) health and education. How our farming sector is impacted directly by the standing of many of these items will be discussed later.

Zimbabwe is currently experiencing very low GDP growth which was recently revised down to 1.2% from 2.7% per annum expected for this year. This is well below the world average of above 3.3% forecast for 2016.

This weak result is chiefly due to a poor performance by the agricultural sector. The fact that agriculture traditionally has contributed less than 20% to the overall GDP belies its importance to the wellbeing of the economy. At one time this sector contributed over 40% of national export earnings and employed more than a quarter of the formal labour force.

The sector that agriculture has the strongest link to is the manufacturing sector. Past research has indicated that roughly 60% of firms in the latter sector have ties to agriculture through supplying inputs for farm production or using farm produced raw materials in a manufacturing process or for some other form of value addition. Poor agricultural performance for several years has led to a situation where factories with farming links are operating at less than 40% of their potential throughput capacity. Numerous other firms of various types have links to the farming sector. These are either upstream, supplying inputs and services to farmers, or providing downstream services. They have all been negatively affected by the reduction in farming output.

The downturn has not only negatively affected firms producing for domestic markets. The agricultural export sector has also been severely prejudiced with a slump in foreign exchange earning capacity. This includes value added processed products of agricultural origin. In turn this development greatly restricts Zimbabwe\s capacity to pay for vital imports.

With this background in mind we can now tackle the subject of Zimbabwe's farming competitiveness in the current period of profound transition with continuously changing environmental conditions. First we must define what we mean by agricultural competitiveness.

Understanding Agriculture Competitiveness

Agriculture competitiveness refers to the ability of agricultural, agribusiness and agro-industrial concerns to produce and offer products that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them. It is the ability to compete or sell in the competitive marketplace. Increasing competitiveness, implies a growing ability to achieve a better price result in globally competitive markets. Whether measured by amount of output or reduced level of inputs, increased competitiveness requires increased productivity. Thus competitiveness objectives can be described in terms of outcomes such as productivity, marketability and price received.

In Zimbabwe it is important to improve agriculture competitiveness if the sector is to play its key role of anchoring economic development, food security and employment. Enhanced competitiveness is also important in restoring Zimbabwe's "bread basket" status and reducing the country's food import bill. A more productive and competitive agricultural sector will strengthen household and national food security. It will ensure enough production for domestic processing and value addition. Less food imports will free taxes collected by Government for priority spending in social sectors, infrastructure and other development programmes. It will also enhance export earnings and improve the country's foreign reserves. Finally, more competitive agriculture will boost employment, improve incomes and reduce poverty.

Measuring Agricultural Competitiveness

There are two ways that competitiveness can be measured. The first involves measuring production costs, profitability, and productivity. This is based on output volumes, yields, unit prices; levels of exports; private investment in the agricultural sector; levels of value addition; and the ability to lower costs and increase input productivity. Generally an increase in competitiveness happens when a firm lowers its costs relative to those incurred by rival firms. Similarly, high levels of investment (both domestic and foreign) and rising yields coupled with sustained high productivity are indications of competitiveness.

The second method measures trade-related competitiveness using real exchange rates, comparative advantage indices, and export or import indices. If a country can fetch high prices for its agricultural commodities, and is able to maintain or increase its market share of that particular commodity in the world market, it is generally understood to be competitive in that particular commodity or industry.

THREATS TO COMPETITIVENESS

Funding Challenges

Undoubtedly the most prominent factor contributing to the poor performance of the agriculture sector in Zimbabwe is limited access to finance. The banking sector is reluctant to advance credit to farmers because the issues of long term tenure of land and ownership have yet to be properly resolved. Thus lack of immovable assets to use as collateral has been a barrier for credit provision and farmers have not been able to purchase inputs necessary for increasing productivity. This situation has been made worse by new farmers not having been able to establish a suitable farming track record with banks to access credit.

The current macroeconomic environment and money market liquidity crisis has not been conducive for credit provision. This compounds the problems that farmers have in accessing to working capital in this feature is a major threat to competitiveness in the agriculture industry.

Furthermore high prevailing interest rates in comparison to the returns in agriculture make financing at the current market rates uneconomic. Notwithstanding the fact that the country is using multiple hard currencies the high cost of money in Zimbabwe of up to 30% per annum must be compared to less than 3% that most competitors in international markets have to pay. Regrettably, the high interest rate regime continues to have a negative impact on the productive sectors of the economy as they culminate in high production costs, thus making locally produced commodities less competitive on both the domestic and international markets.

The limited availability of funds also restricts the adoption of effective technologies and the use of agricultural equipment and machinery on farms. Moreover, the funding being advanced by financial institutions is mainly of a short term nature (less than one year) thereby limited funding for plantation and export crops. Coffee, tea, sugar and citrus production are long term commitments that require medium to long term financing for at least 3 to 4 years before getting reasonable returns. The non-availability of finance lessens our farmers' ability to establish large enough areas to satisfactorily cover farm overheads and reduce per unit costs. Lack of economies of scale, soaring input costs, and liquidity challenges have greatly affected agriculture competitiveness in Zimbabwe.

High Production Costs

Rising input costs have deterred growers from buying and using inputs at recommended levels with consequent negative effects on yields and quality. The relatively high prices of basic inputs like fertilizer, chemicals, coal, and fuel has been a major threat to production over the years. High taxes and utility charges have added to the farmers' cost burden. Frequent power and water cuts increase production costs and losses to farmers and the agro-industry. Locally manufactured agricultural inputs have largely been expensive due to reduced factory capacity utilization, low profitability due to uneconomic prices, power supply interruptions, and high interest rates which have made the financing of operations expensive.

Low Productivity

The country lacks incentives to promote investment into agriculture particularly efficient irrigation, storage and marketing infrastructure. Deteriorating infrastructure such as roads for the marketing, storage, and movement of produce, has negatively affected overall production capacity as well as productivity for both farmers and input manufacturing industries. This has led to high costs or scarcity of production inputs.

The country continues to suffer the effects of recurrent droughts due to inadequate investments in the rehabilitation and development of irrigation systems. Moreover the insecurity surrounding the land tenure is a deterrent. There is little new investment and capital input into the industry. Farmers are reluctant to improve and maintain or repair existing infrastructure as they are uncertain about their future which has kept production levels low.

Low productivity is also due to lack of skills as often the crops produced are of a poor quality. The existing institutions for agricultural extension services are currently under-resourced and have not been performing their roles effectively. This leads to a limited transfer of productive farm technology.

Depreciation of SA Rand against US Dollar

Zimbabwe continues to suffer from the negative effects of the US dollar appreciation against major regional trading currencies. This has undermined export competitiveness on the back of relatively high domestic cost structures. The often weak South African Rand has made life difficult for most businesses in Zimbabwe. South Africa is by far our major trading partner, and any changes in its currency in relation to the US dollar is quickly felt. A depreciating Rand makes Zimbabwean exports more expensive against competing products both within South Africa, and against South African exports to other countries in the region. The competition is, unfortunately for Zimbabwe, not restricted to its exports but also to domestic markets where South African imported products with lower prices have all but muscled out locally made products.

HOW TO IMPROVE AGRICULTURE COMPETITIVENESS IN ZIMBABWE

In developing a competitive agricultural sector Zimbabwe does not need to go through a period of new agricultural development but the focus should initially be to regain former productivity. There is plenty of under-utilized agricultural land in the country that can be brought back into production and therefore land availability is not a limiting factor in the recovery process. If costs of production can be reduced this will result in a significant increase in output and productivity. The consequent greater economies of scale will naturally increase competitiveness throughout the value chains and deflate the prices of basic commodities and processed products. The provision of long term tenure security to farmers by Government that satisfies the banking community will greatly stimulate credit availability and the demand for inputs. In turn increased yields should lower per unit costs by spreading overheads over additional output further raising input usage and increasing on-farm productivity. Below are some measures that can be adopted by the nation to improve competitiveness.

Currency Management

At a macro-economic level in the absence of devaluation as a policy tool, the country has to consider other means of restoring competitiveness. The country's exports are threatened when the US dollar strengthens against the SA Rand. The country should therefore pursue a deliberate import substitution strategy and beneficiation of exports. Short term management of competition from imports may be necessary to allow local producers a period of incubation to build up competitiveness. There is need to reinforce Governments policy of promoting local manufacturers by protecting them from unfair competition from imported finished products such as maize meal, flour, wheat bran, soya cake, crude soya oil, and refined vegetable oils.

Promote Value Addition

Zimbabwe should focus on value addition and the beneficiation of raw materials in order to bridge its trade deficit. A well thought out value addition initiative will enable diversification of our agro-based economy and motivate farmers to produce demand-driven commodities. We should strongly think about aligning agriculture with the country's industrialization efforts.

Position Products and Value Chains for Greater Competitiveness in Markets

There is great need to negotiate and guarantee international lines of credit for the benefit of farmers and agro-industrial firms. Creating an enabling trade environment while encouraging and strengthening primary agro-processing and value addition is also necessary. Understanding an industry or value chain's competitive positioning, and making informed decisions as to strategies for repositioning together with implementing those strategies, is core to achieving greater competitiveness.

Competitive agriculture serves increasingly sophisticated, highly demanding markets, and therefore must respond to market needs better than other suppliers. Local stakeholders in agriculture must learn and understand market entry requirements, market trends, market channels, and product use and be able to adapt value chains to respond to changing market needs and conditions. If the value chain only serves basic market needs, it may be the weakest, lowest quality provider in the destination market, and may be excluded from other more sophisticated markets.

Upgrading value chains can increase the competitiveness of the value chain by moving it in a new direction, such as towards a new market, market segment, or different customers. In deepening the value chain, firms address gaps including unmet market demand and value, opportunities for vertical or horizontal integration, and greater specialization.

Understand and Use Quality Standards and Certifications to Upgrade Competitiveness

The Government should facilitate adherence to internationally accepted quality standards for agricultural inputs and products. It should capacitate regulatory institutions and facilitate participation in international standards development. Meeting quality and performance standards is integral to the success of agricultural value chains. Apart from normal ethical, consumer health, and safety requirements, the market side of the value chains pays increasing attention to standards and certifications, and national and regional markets are imposing increasingly strict requirements for basic market entry. As a result, producers at all levels must meet increasingly stringent requirements relating to product health and safety, intrinsic product qualities (shape, colour, taste, texture, etc.), packaging and labelling, and other accompanying information. Producers can obtain price premiums if they meet these standards, especially if they achieve valued product and production certifications. By achieving international certification or standards, farmers and manufacturers have the opportunity to export to other countries and select the market positioning of their products.

Government Bureaucracy and Improving the Enabling Environment

The enabling environment for business is critical to the development and growth of any vibrant private sector and its firms, including agriculture. Given the integrated nature of value chains, they are particularly susceptible to constraints in the enabling environment, from the most basic supplier of raw materials to the broker who coordinates the shipment of exports to large international markets.

The willingness and ability of key stakeholders in the value chain to upgrade and make strategic choices is dependent on the development of a long term strategy. However, a burdensome regulatory, legal, and policy environment severely hinders the growth of industries, diminishes competitiveness, limits local firms' capital investments, shortens planning horizons, and obstructs foreign investment.

Reforming policies in favour of business promotion can encourage dynamism and efficiency. While Government is often the principal actor responsible for improvement and reforms of regulatory issues, the private sector must also serve as the impetus for change. Civil servants often lack the necessary experience to understand the constraints faced by value chain stakeholders. The private sector can help in deriving solutions by providing government officials with reliable information in an open dialogue process.

Farmers' Associations and other business groupings are critical stakeholders in allowing the private sector to play this role effectively. Whether formal or informal, these organizations facilitate the exchange of information among members and can help foster cooperation.

Infrastructure and Reducing Output Losses

The quality of transport and storage infrastructure and services directly impacts on competitiveness. A country that does not do its best to develop and maintain sound roads, rail, infrastructure, silos, cold chain and wholesale storage facilities is diminishing the competitiveness of its agriculture. Zimbabwe falls into this category, especially in regard to transport infrastructure with poor rail and road maintenance and little in the way of development. Getting the product to market in a timely manner, without damage, with minimal transaction cost, and ideally in a form that the end-market can use immediately and value, is central to agricultural competitiveness.

Zimbabwe's has high levels of post-harvest losses, and reducing these losses is often the easiest way to improve profitability and competitiveness. Improved storage allows farmers or traders to extend their selling season because produce doesn't have to be sold when harvested. Farmers can receive higher prices by selling during off-peak periods.

The Effects of High Utility Charges and Taxation in Reducing Competitiveness

To enable competitiveness there is need to deflate the costs of water and electricity specifically for agricultural producers and reducing the tax burden for farmers. Mindful of the fact that approximately 26% of the direct cost of production of wheat is made up by the electricity and water components of irrigation costs lowering these will have a significant effect in promoting competitiveness.

There is also need to reduce Government taxes in form of VAT, Rural Electrification levies, and Rural District Council levies on agricultural inputs and where applicable on the sale of livestock.

The Government should lower taxes on fuel to reduce diesel prices. Reducing the price of diesel fuel will stimulate all sectors of the economy by lowering the costs of transport. The consequent gain in output will yield greater returns in VAT and income tax to the fiscus which will compensate for the loss of tax revenue from diesel.

Improve Economies of Scale and Business Linkages for Small Scale Farmers

Small scale farmers' landholdings are often too small to permit effective use of farm machinery and irrigation and other infrastructure. Being small-scale and resource constrained, smallholders also face barriers in being able to afford inputs and services. Regarding output traders often offer the lowest prices because the collection from and negotiation with thousands of individuals is time consuming and expensive. Also transporters withhold their services, because it is not worthwhile for them to send a truck to collect produce from a single farmer.

Cooperatives, associations, and other vehicles for aggregation offer substantial opportunities for increasing the scale that enables smallholders to obtain inputs and services at reasonably discounted prices. Combining resources and sharing information allows these farmers gain negotiating leverage in obtaining credit and inputs on favourable terms and selling produce at better prices.

Reduce Investment Risks

In Zimbabwe improving greater competitiveness in agriculture is highly dependent on establishing long term ownership security at farm level. Without this requirement farmers will not make investments in expensive infrastructure and adopt better production technologies that ultimately result in them being able to compete more effectively in domestic and export markets. At present farmers and downstream firms face risks that restrict investment and result in business and investment strategies that have short term horizons. Reducing risks will increase investment of exactly the type that will promote long term agricultural competitiveness.

Security of tenure must be provided to all classes of farmers as it is an essential condition for the meaningful participation of private capital in financing agriculture on a sustainable basis. The rural land market which currently does not operate in Zimbabwe must be revived. This will give farmers confidence to make long term investments on farms. The provision of long term tenure security to farmers by Zimbabwean Government that satisfies the banking community will greatly stimulate credit availability and the demand for inputs and make them more productive.

Risks such as climatic variability can be offset to some extent by investments in irrigation development and rehabilitation. Government should encourage investment in agriculture by reintroducing a 100% special initial allowance (SIA) on all agricultural machinery, irrigation equipment, boreholes, water storage infrastructure, farm roads, contours, farm fencing, barns and sheds, silos, and farm worker housing.

Conclusion

There is need for an all-inclusive approach for all stakeholders towards rebuilding Zimbabwe's agriculture competitiveness. There is need for an integrated development approach where Government should facilitate and ensure a conducive policy environment which enables agricultural growth.