COMMODITY PRODUCER PRICES REVIEW

Zimbabwe's current economic slowdown hasn't been easy for farmers the same way it hasn't been easy for everybody else. The economy is not vibrant and farmers are facing viability constraints. Production and productivity are low due to capital and physical resource shortages which have kept land utilization levels low. There is little new investment and capital input into the industry which has seen farmers experiencing huge post-harvest losses. Also area under production has been kept at minimum levels due to limited access to credit by farmers mainly due to the current liquidity crisis, lack of valuable collateral and the unsustainably high cost of borrowing. Farmers are therefore appealing with government to peg producers' price that cushion and allow them to continue with their activities given the current economic hardships.

Over the past year agriculture manufacturers and input suppliers have announced a number of price increases which are likely to continue for the foreseeable future. As farmers, we are compelled to pass on these increases to stay in business. Last season we experienced great losses as input prices continued to rise while the producer prices didn't increase in real market terms. Below are some of the reasons explaining why a real commodity prices upwards review is necessary?

High Cost of Production

The current cost of production models are unsustainable and hence need to increase the real prices to remain viable. Input costs (quoted in US$) are high in Zimbabwe as compared to other regional countries such as South Africa and Zambia. Farmers continue to suffer ineffective production due to obsolete machinery which underpins production as the machinery needs to be repaired or replaced with new technologies. High costs of agricultural inputs are affecting farmers who are failing to make profits from farming as the producer prices are far below the costs of production. In addition high legal and regulatory costs are a cause of concern, EMA levies, tobacco levies, AMA levies, utility charges, and the wage bill keep ballooning beyond the reach of most farmers. The producer price versus cost of production gap is too high and this has resulted in farmers taking up huge losses. No farmer will want to invest in a crop that does not give profits. Farming is a business, when you invest certainly you will be looking forward to make profits, which is not the case currently in Zimbabwe.

The unreliability of the electrical power supplies for irrigation both reduces yields and raises costs through expensive diesel driven backup units. Thus reducing profit margins considerably.

Moreover, the majority of farmers are farming in a Joint Venture set ups, which is an additional cost. Often farmers in these JVs are being pressed to pay more than what is in the signed agreements. Others have farm rentals and/or 99-year lease registration and cartographer's fees to pay. Paying a farm rental fee of US$3/ha is very high for the larger farms.

Currency and Inflation Movement

Since last season the ZWL$s' value has fallen significantly against the US$ and other key currencies. Prices of inputs have often been pegged in US$ prices and have more than tripled in bond note terms. Foreign Exchange Premiums on the parallel market have continued to increase and this has had negative effects on inflation. Failure to adjust producer prices to capture these inflation and real exchange rate movements will impact heavily on the farmers' returns.

Limited Investment

Given the current prices farmers are unviable and are making losses. There is no money to promote investment on the farms to improve productivity. Equipment is now old and obsolete and needs to be replaced however with the current returns it's almost impossible to do so. Farmers continue to experience great post-harvest losses due to poor post-harvest handling infrastructure on farms. This shows how it has been difficult for farmers to operate profitability in this environment.

There is a shortage of raw materials as most production has either stopped or is not producing enough. There is liquidity crisis which makes it difficult for operators to purchase local raw materials. The economy itself is not vibrant. The wage bill is strenuous on employers whilst they also have to meet other cost such as repair and maintenance of machinery. Without viable producer prices most operations will shut down.

Without the use of the collateral of title deeds or tradable 99-year leases farmers are at the pray of the contractors who determine the final price which is somewhat higher if able to sell freely on the open market thus taking full advantage of supply and demand. We recommend the setting of an operational Commodity Exchange.

Farmers want government to increase current producer price based on a realistic exchange rate to cover up the rising farm input prices and viability challenges that continue to affect the farming business. The table below shows proposed commodity price and their effect to the bottom line. We have also attached crop budgets. The effectiveness of these prices will depend on which currency is used for payment and on time taken to pay after delivery. For farmers to be able to remain viable it is advised that government need to pay for deliveries as soon as they are made in order to reduce the interest charges on borrowed finance. If payment is to be made in ZWL$ it must be pegged at a realistic market exchange rate.

Commodity	Import Parity (SA)	**Proposed Price US$**
Maize	274	**260-280**
Wheat	414 (457 Gulf)	**450**
Soyabeans	570	**550**
Small grains		**330**

Notes

The maize price was too high in the previous season, although much depends on when in the season one gets paid. If one could get paid soon after harvest, and spend the money promptly before losing value, the result was good. However, one consequence of the high price is that GMB / government does not have the cash to pay farmers promptly. Late payments make for less profit.

Another consequence is that the pre-season soya price was not attractive, so there is presently a shortage of soyabeans in the market. Having offered a high price for maize, Government did not offer the corresponding high price for soya, which should have been 2 to 2.2 higher than maize price. Maize import parity is presently USD 274.00 from RSA. It is likely to fall before September, although with the recent unrest in South Africa might work against that. Import parity could fall, but on the other side an incentive for local growers should be offered.

Having set the maize price, soya should follow, and should be at least double the maize price. Import parity (South Africa) is around USD 570.00. At USD 550, yielding 3.0 MT/Ha, a return per $ of 2.0 to 2.2

should be possible. Soya variety development has not kept pace with maize, and maize yield expectations are higher. So to make the same amount of money per farmed ha, soya would have to be priced USD $616 –$ 660. However, this looks high relative to import parity hence we propose $550.

Sorghum price from GMB has of late been higher than maize, recognizing that the crop generally yields lower per ha, plus to encourage its growth in lower rainfall areas. Thus sorghum price should be USD 330.

Wheat should be priced at $450 which is higher than SA import parity and almost the same as Gulf parity this is because commodity prices are forecast to increase in future as we move towards October.

Compiled by: Antonnette Chingwe
Chief Economist