

6. AGRICULTURAL COMMODITY MARKETING CHALLENGES AND PRICING POLICY STRATEGIES*

6.1 Introduction

An efficient domestic agricultural commodity marketing system is key to stimulating and sustaining growth and development in the food and agriculture sector. In Zimbabwe, the prospects for economic recovery rest with the successful transformational development of the domestic commodity marketing system to provide greater market incentives for the newly resettled indigenous farmers to participate effectively and consistently in the domestic food and agriculture markets as commercially oriented and profit driven producers. Following the Land Reform Programme, and in the face of a crippling drought and worsening food insecurity, Government has been preoccupied with the immediate policy challenges of capacitating the newly resettled farmers to start agricultural production activities on their new farms, while cushioning consumers from price risk.

Some of the short-term policy innovations and market interventions, such as the reintroduction of price controls and state monopolies in the marketing of food crops, have adversely affected the domestic agricultural and food marketing system. Market uncertainty has also affected agro-business assessment of future prospects for sustained profitability and the competitive advantage of alternative commodities and production systems.

6.2 Key general issues in agricultural commodity marketing

The vision of the Land Reform Programme is an empowered indigenous farming community spearheading the sustainable development of a competitive and commercially oriented domestic agriculture and food sector to ensure food security and national economic growth. Realisation of this vision is presently constrained by the following realities:

- Absence of a competitive domestic food and agricultural commodity marketing system;

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¹ * Original research and draft for this Chapter by Dr R. Mano

- Well intentioned but impracticable state interventions in domestic marketing and pricing systems, motivated by short term food security and budget considerations at the expense of long term issues of efficiency and growth.

6.3 Recommendations

6.3.1 General policy recommendations

Now that the FTLRP is completed, it is necessary to look ahead and envision how Zimbabwe's agriculture sector will look in the future. Government must follow up land reform by remaining in a proactive mode and designing medium to long-term strategies aimed at the success of the Land Reform Programme and the growing independence and economic viability of the new farmers. Taking cognisance of global trends towards the rapid liberalisation of markets but also aware of the need to retain national autonomy and food security through at least minimal regulatory measures, the following general recommendations can be made:

- The GoZ should restore a competitive, pluralistic domestic agricultural marketing and pricing system for all food and agricultural commodities. The competitive marketing system has operated with a reasonable degree of success and efficiency in the domestic markets for almost all major cash crops – cotton, tobacco, soya beans and, horticultural products. It also accounts for incentives that are luring new farmers to express commercial interest in growing these cash crops at the expense of food crops. The Government must fully embrace the principle of competitive pricing of agricultural, and especially food, commodities to ensure that the newly resettled farmers can play a vital role in food security without sacrificing their own wealth creation possibilities.
- The GoZ should progressively remove all forms of controls and policy measures that are presently implicitly taxing indigenous farmers by inhibiting the

efficient opportunity cost pricing of a competitive agricultural commodity marketing and pricing system, such as restrictions in the number of private players allowed to procure and market some specific commodities.

- The GoZ should adopt targeted non-market social welfare policy mechanisms for providing safety nets to protect the vulnerable population against food insecurity and poverty.
- The GoZ should establish a regulatory policy framework to safeguard competition by promoting entry of new traders and outlawing private monopolies and collusive behaviour in the free market pricing and procurement of commodities. The key private sector agents involved in marketing and contract farming (e.g. Cottco, FSI, Delta and others) should develop guidelines for the provision of high standard services and ethical practices vis-à-vis small farmer development support and fairness in their returns to product sales. Such self-regulation should be supported by the GoZ.

6.3.2 Commodity Specific Recommendations

6.3.2.1 Maize and food grains

The GoZ's approach to market facilitation should be phased out and aimed overall at ensuring adequate production in this vital sector as a guarantee of food security. The regulatory and marketing role of the GMB should shift throughout this exercise towards a straightforward concentration on ensuring sufficient stocks of grain for the country.

In the short term, policy should be focused on providing production inputs, chiefly high yielding seed varieties (particularly for maize) and subsidised input credit to targeted groups of producers. Supplies of seed and fertiliser should be imported where necessary and this must be done well ahead of the summer/wet-planting season. These measures

should be supplemented by price incentives, namely early (before the planting season) announcement of a competitive guaranteed producer price and opening up of a competitive market through the removal of the GMB's monopoly.

Strategies to build farmer skills are recommended in the medium term. This would be aimed at further increasing, stabilising and improving the standard of production. This period should see a phasing out of government designed special support programmes and their replacement with market/commercially based schemes within the context of a liberalised and competitive domestic market. While general support measures are removed, specific vulnerable groups will need to be identified and supported according to a social welfare approach. The role of the GMB should be further streamlined towards the core business of stabilisation of domestic grain markets through management of the national strategic grain reserves and a buffer stock for sustaining domestic food prices within a specified and flexible price band.

The long-term focus should be on the further improvement of the volume and quality of the grain crop through the introduction of, and skills building around, new technology. There should be complementary provisions using targeted safety nets to ensure food security among the vulnerable groups. The GMB may be required to intervene in the market through a programme of domestic price stabilisation and food security assurance. This will involve using its buffer stock, on behalf of consumers, to release onto the market when local prices escalated beyond a reasonable 'ceiling price', and buying excess grain, in support of producers, when prices fall below a guaranteed 'floor price'. This programme should receive both adequate funding and a level of capacity building within the GMB. Marketing mechanisms should be decentralised, supported by improvements in transport and communications infrastructure. At the same time, market based instruments, such as spot and forward contracts, ought to be brought into greater use.

6.3.2.2 Oilseed crops

The oilseed crop plays an important role in boosting the nutritional status of the population and is also a provider of stock feeds. Although oilseeds, such as soya beans, groundnuts and sunflower, are potentially very profitable and play a role in the leguminous phase of crop rotation cycles, their production was dropping before the FTLRP and has continued to decline since, partly due to the cost and non-availability of inputs – seeds and agro-chemicals. The recommended strategies, therefore, are aimed at restoring production to a level at which it would at least meet domestic demand in terms of volume and quality.

In short term, it is recommended that production incentives be provided in the form of guaranteed producer prices in line with regional import and export parity prices, thus inevitably pushing the consumer price of oilseed products (chiefly cooking oil) to more realistic levels. This should be backed by extension work among the new farmers around oilseed growing techniques, including proper crop rotation.

With an eye to the medium and long term, the supply of quality seed needs to be improved through a combination of seed imports and the promotion of production of seed by new farmers in Zimbabwe. Medium term strategies should be aimed at stabilising the sector and providing market predictability.

The long term strategy should be based on opening up markets through competition while, at the same time, regulating the industry through laws on the management of agricultural land, and the establishment of a regulatory framework for co-ordination, co-operation and collaboration in addressing public issues of research and promotion of quality output through a common grading system.

6.3.2.3 Cotton

The GoZ should develop an appropriate regulatory system to address price collusion and unfair trade practices affecting cotton. The cotton sector is no longer controlled by a state marketing body as it was in the past. Instead, several private companies are the major buyers of the cotton crop and there is evidence to suggest that these two collude in setting the producer price of cotton. Nevertheless, they do also provide valuable support to the industry through input credit schemes to farmers offered in exchange for the contractual obligation to deliver their cotton output to the firms. The recent entry of new players on the market offering 'predatory' higher prices for the crop (without making a commitment to providing inputs) has tended to entice farmers to break the terms of their contracts with the established companies and sell to the new players at better prices. If they are to continue to offer an inputs service to the industry, the two established companies need some protection from this predatory competition.

In the short term, this protection of buyers which, at a secondary level, also protects the producers, should be complemented by government input support to lessen the dependence of growers on the established cotton buyers in the medium to long term. In addition, regulations for quality assurance should be established by setting minimum standards in cotton ginning technology.

In the medium term, and as more players enter the industry at all levels, regulation should be increased through the establishment of a 'Cotton Council' with a legal mandate to make and enforce regulations to improve co-ordination of firms towards financing such common goods as research and promotion of production, and to ensure fair competition among the multiplicity of players within the industry. In addition, public funding needs to be provided for training and capacity building among new farmers to enable them to produce cotton efficiently on a large scale.

Long term strategies would seek to open up the market for cotton within the context of a more liberalised macro-economy in which foreign currency prices were set at opportunity cost levels, and a more sophisticated cotton industry in which tax incentives are offered for greater value addition to cotton products towards the export of cloth and finished clothing. Legislation will be necessary on two levels:

1. It must promote fair competition by inhibiting the collusion of large firms in the pricing and procurement of cotton; and
2. It should provide guidelines on input credit for output delivery contracts to protect the interests of all players, including the right of farmers to obtain the most competitive price for their produce.

6.3.2.4 Tobacco

Although it has traditionally been Zimbabwe's leading foreign currency earner, tobacco is a vulnerable crop on at least two levels:

1. Zimbabwe, as a producer country, has no control over what happens in tobacco production in other parts of the world where a larger and cheaper or better quality crop might be grown in any given year or from which major buyer countries might choose to buy their tobacco for reasons of price, quality, taste or politics in a particular season; and
2. The industry worldwide is under threat from the anti-smoking lobby, particularly since the lobby recently gained official backing from the WHO.

The first of these areas of vulnerability has been exacerbated by the lack of stability and a drop in production in the tobacco industry that has been an inevitable short term spin-off of the Land Reform Programme. The latter suggests the need in the longer term to look for viable alternatives to tobacco as a cash crop and foreign exchange earner.

Short-term strategies should be aimed at the recovery of the industry's supply capacity through:

- Subsidised training of new tobacco farmers in planting, husbandry, harvesting and handling, grading, and curing techniques;
- A transitional policy of state management of tobacco curing facilities which have tended to end up under the control of the farmer resettled on the particular piece of land on which they were already sited; and
- Mobilisation of an industry supported investment fund to issue soft loans for the financing and capitalisation of tobacco farms.

There should be a periodic review of the foreign exchange rate to eliminate implicit taxation of tobacco farmers.

Recommendations for the medium term centre on the stabilisation of the tobacco sector within the context of a stabilised domestic macroeconomic and institutional environment. Production should be strengthened through provision of non-monetary incentives to the commercial banking sector to offer capital development loans, resolution of outstanding ownership and tenure issues and state supported vocational training. Marketing interventions should be directed globally to restore market interest in the Western countries and expand the number of buyers from non-traditional markets such as Asia.

Long term strategies must respond to the threat of the loss of the market for tobacco posed by the anti-smoking lobby and proposed ban on trade in tobacco. Responses on 3 levels are suggested:

1. Refraining from ratification of the protocol banning trade in tobacco;
2. Demanding compensation based on an economic impact assessment of the impact of the ban on Zimbabwe's development prospects and the cost of adjustment; and

3. Adjusting to the new situation by moving into alternative commodities.

6.3.2.5 Livestock

The current private, competitive livestock marketing system was, in the past, driven by its utilisation by producers in the LSCF. However, both the marketing and the processing systems in place are being seriously under-utilised in the first phase of the land reform era because of major declines in livestock production. In order to boost production to supply the domestic market and to make optimal use of the facilities that exist, Government should put greater emphasis on creating an enabling economic and policy environment for the commercial banking sector and the cattle industry to provide innovative financing products to the new farmers.

In the short term, the market needs to be co-ordinated in such a manner as to ensure its own supply. This should encompass the restoration of the industry by re-establishing the national herd through establishment of livestock breeding programmes at government research stations, state funded soft loans for livestock production, import of breeding stock and a state ban on the slaughter of breeding stock. Price incentives need to be put in place for herd building and breeding activities. These should comprise removal of price controls on beef livestock products in favour of competitive, free market pricing, and tax breaks on all commercial sales of breeding stock to A1 and A2 farmers.

Medium term strategies need to focus on sustained investment in and efficient marketing of livestock for sustainable development of the industry. Specific policy recommendations are:

- Fair competition laws to deepen competition in all livestock markets;

- A shift in emphasis from the highly regulated and no longer assured EU market for Zimbabwe's beef products to more accessible regional markets, supported by removal of some of the regional prohibitions to the movement of livestock and livestock products; and
- Privatisation of the CSC in a manner that avoids one or a few companies being awarded all the facilities and thus being enabled to form a monopoly.

The long-term strategies should seek to create an autonomous livestock sector, regulated by a new state authority representing all stakeholders and working to promote new partnerships among producers, the private sector, and the GoZ. This agency should be a self-financing institution, which also disseminates information on livestock markets and trade. The conditions for such developments would be a stable macroeconomic environment in which major, long term investment where possible and relaxation of the original restrictions on farm sizes under the FTLRP to promote economic rationalisation of livestock production.