The Herald **Business**

Harare, Zimbabwe, Wednesday 21 August 2019

MARKET INSIGHT

CURRENCIES

		BUY	SELL
USA Dollar	USD	10.00	10.40
SA Rand	ZAR	0.64	0.68
British Pound	GBP	11.97	12.71
Euro	EUR	10.96	11.64
Chinese Yuan	CNY	1.40	1.49
UAE Dirham	AED	2.69	2.86

COMMODITIES CORNER

2019 Tobacco Volumes Resilient, Average Price Down 32% on 2018 Level

AS the 2019 Tobacco Marketing season draws to a close, official statistics from the Tobacco Industry Marketing Board for the current season indicate that as at 9 August 2019, the country had recorded sales of 249 million kilograms of the golden leaf at an average price of US$2.01 per kg. This brings to US$500 million the total revenue received from tobacco sales across the country's various auction floors.

Zimbabwe recorded tobacco revenue of US$737 million in the 2018 marketing season from sales of 253 million kilograms, which attracted an average price of US$2.92 per kg. The average price per kilogram of tobacco in the 2017 marketing season was US$2.96.

The trend of declining tobacco prices is concerning, more-so in the current marketing season where a sharp decline of 32% was recorded on the 2018 price level. Notwithstanding the adverse weather conditions experienced in the 2018/2019 season and other policy-related issues, going forward, deliberate effort needs to be directed towards improving the quality of the local golden leaf in order to boost export earnings from the sector.

A total of 170,000 tobacco growers were registered for the 2018/2019 season. Sound production policies and marketing incentives need to be put in place early before commencement of the 2019/2020 season to encourage these growers to return to the fields this coming season.

Maize and Small Grains Priced Competitively

MAIZE and small grains are currently being bought by Silo Food Industries, an offshoot from the GMB, at RTGS2100 per tonne. This translates to US$210.00 per tonne at the current interbank exchange rate of RTGS10.04 to the US dollar, which compares quite favourable with current world prices for the staple.

Align wage increases to tax revenue growth: IMF

Business Reporter

WAGE increases for civil servants should be aligned to growth in tax revenues to ensure it does not create an unsustainable burden on the National Budget, IMF's resident representative to Zimbabwe, Patrick Imam (pictured right), has said.

Mr Imam said wage increases have to be financed in a sustainable way which is not "printing of money" as in the past.

For years, Zimbabwe grappled with a high wage bill above 90 percent of its total revenue collections, living little for capital and social spending. This, Mr Imam said, stemmed from significant pay increases above inflation.

The former Government, which consistently ran a huge budget deficit, also resorted to the issuance of Treasury Bills among other inflationary financing methods to pay its ballooning wage bill.

"The Government wage bill increased significantly between 2010 and 2016, driven by higher compensation. The wage bill more than doubled from about 40 percent to nearly 90 percent of tax revenue over this period, primarily, driven by significant pay increases above inflation.

"But unlike in other countries, the issue in Zimbabwe was not the public employment level, which was in line with peers, but rather the public sector wage premium, which was significantly above peers," explained Mr Imam.

In an interview, Mr Imam said higher wages, together with large agricultural subsidies and transfers to State Owned Enterprises, are the major contributors to unsustainable fiscal deficits during 2015-2018, which caused the breakdown of the dollarised regime.

He, however, said: "going forward, civil servant wages will have to increase, as the Government already announced in its supplementary budget."

"However, it's important that it be financed in a sustainable way. In the past years, wage increases were financed by printing money, which in the end was self-defeating as it eroded the purchasing power of the wage increase.

"It is therefore important that wage increases be aligned with growth in tax revenues to ensure it does not create an unsustainable burden on the budget," he explained.

Mr Imam said contrary to sentiment that the country's Government workforce is too huge, Zimbabwe's public employment levels are actually "in line with peer countries".

"In fact, in the future, demographic pressures will require an expansion of public employment in health and education. Ultimately, improvements in these employment ratios and in the quality of service delivery will require even higher public employment growth and spending," he added.

He explained that although recent reforms under the Transitional Stabilisation Programme are aimed at bringing the Government wage bill back to sustainability, the employment numbers "were not the issue" as the adjustment was mainly on the compensation side.

"There were no major layoffs for instance. It is true that despite several nominal wage adjustments since January of last year, high inflation has eroded public sector compensation and the wage premium over the private sector.

"The result of the adjustment is that the public sector wage premium has been eliminated and may even be too low," said Mr Imam.

Going forward, civil servant wages will have to increase, but Government has insisted it will not print money to fund operations.

Cotton output plunges 52pc

Business Reporter

ZIMBABWE'S cotton output is set to decline by 52 percent this year after a severe drought that was experienced last season, according to Agriculture and Marketing Authority.

Output will be the lowest in two seasons to about 68 000 tonnes, 142 000 tonnes last year and 74 000 tonnes in 2017, AMA acting chief executive Ms Nancy Zitsanza said while giving oral evidence before the Parliamentary Portfolio Committee on Lands, Agriculture, Water, Climate and Rural Resettlement yesterday.

"Production was affected by the drought, which we experienced this past production year," she said.

The drought also affected maize output which dropped by 54 percent to 776 635 tonnes. About 357 000 cotton farmers were registered by six companies that funded production last season.

In terms of funding contribution, Cottco, which is administering the Presidential Free Inputs Scheme contributed about 75 percent or $39 million, making it the largest sponsor.

The Government introduced the scheme to save the industry that faced imminent collapse after farmers abandoned cotton production citing poor prices and low levels of funding.

Introduced in 2015, the input scheme has helped production to increase from 28 000 tonnes, the lowest output in nearly two decades to about 142 000 tonnes last season. At peak, Zimbabwe produced 352 000 tonnes of raw cotton in 2012.

Other five players contributed 25 percent of funding, said Ms Zitsanza.

However, she failed to provide proof of inputs procurement the committee had requested.

"You issued the licences based on what was disbursed . . . but we want to see the proof of procurement," said committee chairman, Cde Justice Mayor Wadyajena, Member of Parliament for Gokwe Nembudziya.

Ms Zitsanza was latter directed to compile and provide the information to the committee by Wednesday next week.

Speaking before the same committee, Cotton Producers and Marketers' Association chairman Mr Steward Mubonderi, highlighted some of the challenges affecting the industry. These included the mobile payment system being used to pay the farmers.

He said the punitive rates charged by errant businesses were heavily eroding farmers' earnings. Mr Mubonderi also appealed that cash be made available to farmers in areas where there is no mobile network.

He also expressed concern over lack of research and development of new seed varieties, arguing this was affecting productivity.

Mr Mubonderi said the current open pollinated varieties (OPV) were last introduced over a decade ago yet other cotton producing countries have already adopted hybrids varieties with high yields potential.

Cottco has since indicated it will, this year, introduce hybrid varieties.

"We need more varieties to suit various regions, rainfall patterns and soils so that production increases," he said.

Further, he suggested that Zimbabwe, should seriously consider producing Genetically Modified Organisms to increase production.

Turning to side marketing, Mr Mubonderi blamed AMA for lack of proper regulatory controls, warning "this is the (same) cancer" that once killed the industry.

He said there were a lot of loopholes being used by cotton companies to engage in side marketing activities due to lack of proper regulatory enforcement.

On declining production on the back of erratic rains, Mr Mubonderi said irrigation was the way to go.

Presentations from cotton companies could not be adequately heard after most of them failed to provide documents that the committee had requested. Alliance, Chishawasha and Southern Cotton were asked to submit the documents while Zimbabwe Cotton Consortium was asked to resubmit. China Africa was not represented.

As for Alliance, the committee demanded the chairman of the company attend the next meeting.

"We don't want a one-man show here," Cde Wadyajena told Alliance head of operations Mr Peter Chapoterera.

"Ask him the date which he is flexible with . . . so that he has no excuse."

Power shortage haunts Fidelity

Golden Sibanda

FIDELITY Printers and Refiners, a gold buying and printing unit of the Reserve Bank of Zimbabwe (RBZ), says unpredictability of power supply due to limited internal generation capacity, has negatively impacted on its operations.

General manager Fradreck Kunaka, said yesterday, that power cuts that sometimes stretch for over 12 hours a day, had significantly constrained operations, although the situation had recently improved.

Zimbabwe, which requires about 1 800 megawatts at peak demand, has constrained internal generation capacity of 800 to 900MW and so faces acute shortages after production was cut at Kariba due to low water levels.

Kariba has rated capacity of 1 050MW, but is now restricted to 257MW due to water rationing after the drought last season while Hwange Power Station, which has rated output of 920MW, can only manage about 800MW at best, but churns out just below half due to unmaintained equipment. Kariba and Hwange are Zimbabwe's two biggest power plants.

"Power has significantly affected operations because sometimes we only get power in the evening, but there have been improvements since last week. If we are not getting power that means constrained ability to do operations," Mr Kunaka said in an interview.

He made the remarks after a tour of the company by Industry and Commerce Deputy Minister Raj Modi, who pledged Government commitment to resolve challenges facing industry. The deputy Minister also toured a firm called Beams and Rays in Msasa.

Mr Kunaka said the State power utility Zesa Holdings would do industry good if it devised a predictable load shedding schedule that targets specific industrial zones on a scheduled timetable basis. Fidelity Printers and Refiners has been using fuel to run generators that powered its machinery, before the power situation drastically deteriorated, but this quickly became too expensive when the load shedding worsened and extended over 12 hours.

Both the company's gold refining operations and its commercial and security printing activities have suffered the brunt of power shortages in the country, which Government is seized with and saw it recently conclude a power import deal with Eskom of South Africa for 400MW.

"Generators have become too expensive. It makes our products unsellable and the margins too low," Mr Kunaka told Deputy Minister Modi.

The gold buying and security and commercial printing unit of the central bank has since made a decision to invest in solar, which Mr Kunaka said was a cheaper source of energy, but requiring significant capital outlay. He also bemoaned lack of adequate supply of council water saying the company had resorted to buying water required for key operations such as cooling machines and ablution facilities. Mr Kunaka said because of drought last season, boreholes at FPR premises had run dry.

Deputy Minister Modi said he toured FPR's operations as part of his routine schedule to familiarise with the operations and understand the nature and extent of challenges facing domestic industry.

In his comments soon after the tour, Minister Modi said the challenges facing Zimbabwe's economy were merely a phase that required practical solutions to resolve. He said "problems are there to be solved".

"The ideal (behind the tour) was to familiarise with people running businesses and to get information on challenges they are facing and see what Government can do as well as let them know what is in the pipeline," he said.

Deputy Minister Modi said the challenges were common across the economy and revolved around shortage of foreign currency and adequate or consistent supply of electricity.