LEGATUM INSTITUTE

GLOBAL INDEX OF ECONOMIC OPENNESS

Economic Openness

Zimbabwe Case Study

2020

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- Our **Centre for Metrics** creates indexes and datasets to measure and explain how poverty and prosperity are changing.
- Our **Research Programmes** analyse the many complex drivers of poverty and prosperity at the local, national and global level.
- Our **Practical Programmes** identify the actions required to enable transformational change.

ABOUT THE AUTHORS

Dr. Stephen Brien is Director of Policy at the Legatum Institute.

Preksha Dugar is a Research Analyst at the Legatum Institute.

Daniel Herring is a Senior Analyst at the Legatum Institute.

Ed King is a Research Analyst at the Legatum Institute.

Carlos Montes is a Fellow at the Legatum Institute.

Alistair Morrison is a Fellow at the Legatum Institute.

The authors would also like to thank Ernest Moyo and Rebecca Mwabvu, both of the Higher Life Foundation, for their contribution to this work. The views expressed in this report are those of the Legatum Institute and do not necessarily reflect those of HLF.

ACKNOWLEDGEMENTS

A diverse range of experts were engaged in this work. This broad collaboration enabled a comprehensive range of views which the Legatum Institute captured and synthesised. The views expressed in this report, therefore, are those of the Legatum Institute and do not necessarily reflect the individual views of these advisors. The Legatum Institute would like to thank the following advisors who helped with the report: Victor Bhoroma (Economic analyst), Tafadzwa Chikumbu (Transparency International Zimbabwe), Admos Chimhowu (University of Manchester), Wellington Chimwaradze (Unilever), Innocent Chirisa (University of Zimbabwe), Ben Freeth (Mike Campbell Foundation), Evelyn Garwe (Zimbabwean Council of Higher Education), Keith Jefferis (International Growth Centre), Talent Jumo (Katswe Sistahood Foundation), Susan Kaksukunya (DHL Zimbabwe), Godfrey Kanyenze (Labour and Economic Development Research Institute), Gibbs Kanyongo (Duquesne University, Pittsburgh), R. Mukami Kariuki (Country Manager, The World Bank Group), Tendai Jeremiah Malunga (Bureau Veritas), Portia Manangazira (Ministry of Health and Social Care), Jeanette Manjengwa (University of Zimbabwe), Godfrey Maringira (University of Edinburgh), Abedinigo Marufu (Zimbabwe Forestry Commission), Abraham Matamanda (University of the Free State), Vakai Matutu (National Aids Council), Alexander Maune (UNISA), Evan Mawarire (ThisFlag Citizen's Movement), Grasian Mkodzongi (University of Cape Town), Jeffrey Moyo (Thomson Reuters Foundation), Bhekinkosi Moyo (Wits University), Chipo Mubaya (Future Africa), Davison Muchadenyika (The World Bank Group), Deprose Muchena (Amnesty International), Rashweat Mukundu (Africa Adviser at International Media), Tichaona Mushayandebvu (UNIDO), Daniel Mususa (Biomedical Research and Training Institute), Patience Mutopo (Chinhoyi University of Technology), Mutanana Ngonidzashe (Zimbabwe Open University), Memory Nguwi (Industrial Psychology Consultants), Walter Odero (AfDB Country Economist), Robin Palmer (Mokoro), Brian Raftopoulos (Solidarity Peace Trust), Craig Richardson (Winston-Salem State University), Paidamoyo Saurombe (Zimbabwe Lawyers for Human Rights), Beatrice Schlee (Freiburg University), Ian Scoones (Institute of Development Studies), Edward Shizha (Wilfrid Laurier University), Sibangani Shumba (Save the Children), Mark Simpson (Institute of Commonwealth Studies, School of Advanced Study), Joram Tarusarira (University of Groningen), Jee-A van der Linde (NKC African Economics), Chikwature Whatmore (Mutare Polytechnic), Simon Wittich (World Vision), Janet Zhou (ZIMCODD)

TEMPLETON WORLD CHARITY FOUNDATION

This publication was made possible through the support of a grant from Templeton World Charity Foundation, Inc. The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of Templeton World Charity Foundation, Inc.

The Legatum Institute would like to thank the Legatum Foundation for their sponsorship. Learn more about the Legatum Foundation at www.legatum.org.

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CONTENTS

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EXECUTIVE SUMMARY

Zimbabwe has a history, natural resources, wealth, and the resourcefulness of its people that means it is uniquely positioned to become one of the most prosperous countries in Africa. The key to doing so is to unlock the potential in the highly educated population and the rich resources of its lands in terms of the already demonstrated capacity for agriculture and mining.

The nation's prosperity can be driven by an open economy that harnesses ideas and talents to create sustainable pathways out of poverty. Specifically, this will involve a state that acts as an effective enabler of economic growth and ultimate guarantor of the rights of citizens and investors; a dynamic and investment-friendly country open for international business and trade. With a more open economy, sustained economic growth can over the coming decades take Zimbabwe on a path to a solid upper middle-income status, such as Peru today, or even Costa Rica, or Malaysia.

This report on Zimbabwe is part of a series of case studies examining the links between a nation's Economic Openness and prosperity. Its goal is to provide a detailed assessment of economic structures and policies in Zimbabwe, following the structure of the **Open Economies** domain of the Legatum Prosperity Index. The report also identifies the binding constraints to future economic development, as well as the type of actions needed to put Zimbabwe on the road to prosperity, with the ambition of achieving global-median prosperity by 2050 – while recognising that most of these individual improvements are possible only as part of a credible comprehensive reform programme.

The **Open Economies** domain captures the extent to which an economy is open to competition, encourages innovation and investment, promotes business and trade, and facilitates inclusive growth. Prosperity is driven by an open economy that harnesses ideas and talent to create sustainable pathways out of poverty. In an open economy:

- Property rights are protected, so investment can flow.
- Business regulation enables entrepreneurship, competition, and innovation.
- Open markets and high-quality infrastructure support trade and commerce.
- Fiscal and monetary policy are used responsibly to foster employment, productivity, and sustained economic growth.

Areas within this domain range from the strength of property rights and investor protections, the nature of business and labour regulations, the quality of the infrastructure that enables trade (communications, transport, and resources), and the inhibitors on the flow of goods and services between businesses. It also considers how sustainable the economic environment is and how well it is equipped to generate wealth and enhance productivity.

ECONOMIC QUALITY (AFRICA RANK 35TH)

Zimbabwe currently ranks 35th for Economic Quality, having deteriorated significantly since the middle of the decade. On virtually any measure Zimbabwe's economy ranks poorly relative to other African countries – 38th for fiscal sustainability, 53rd for macroeconomic stability, 40th for dynamism and 28th for productivity and competitiveness.

The potential for a prosperous Zimbabwe is to have macroeconomic policy that delivers price stability, with easy access to foreign exchange. Fiscal deficits, monetary growth and interest rates would also be low, allowing individuals and businesses to carry out their normal economic activities and transactions without the fear of dramatic instability.

Fiscal Sustainability (Africa Rank 38th)

Zimbabwe ranks 38th for its Fiscal Sustainability. Since 2013, the government has found it very difficult to control its expenditure and to raise sufficient revenue to cover it.

As a percentage of GDP, Zimbabwe raised 13.5% of GDP in revenue in 2019, mostly through taxes. Total government expenditure is much higher. In June 2017, the World Bank conservatively estimated total public spending - including expenditures by the central government, local authorities, and state-owned enterprises - at roughly 50% of Zimbabwe's GDP.[1]

As a result, Zimbabwe has run persistent fiscal deficits, which soared to an unsustainable 8.4% of GDP in 2017. However, it was reduced significantly in 2019 to 2%.[2] In 2020, the World Bank expects COVID-19 and poverty alleviation efforts to cause the 2020 deficit to widen.[3]

One of the primary problems contributing to the lack of fiscal discipline is the state capture for political and private gain, reflected in large agricultural subsidies and the public sector wage bill. Under the GNU, the government used cash budgeting to maintain fiscal discipline. However, this only lasted until 2016 when unbudgeted agricultural programmes and wage bill overruns increased. This led to Reserve Bank financing and subsequent inflation. Furthermore, a number of items are not included in the government accounts. Most recently, the spending in the 2020 budget did not include about 10% of additional spending for gold incentives and maize subsidies.[4] Until recently, the public sector wage bill share of government expenditure was 90%. It has since been reduced to 37% in 2019, due to inflation reducing the real wages of public sector employees by 80%.[5]

Zimbabwe continues to be in debt distress, with a large and unsustainable external debt of about US$10 billion as at September 2019, of which a large part is in arrears.[6] The public sector debt-to-GDP ratio including legacy debt and farmers' compensation is projected to be 102% in 2020.[7] The arrears on its external debt mean it has been unable to access finance through international institutions. Government expenditure and spending priorities also need to be re-visited.

Key recommendation – Tax structure: Tax income can be improved with a simpler and broader system, by eliminating distortions and excessive burdens of the current tax system. The use of e-government could simplify tax administration and payments, in collaboration with the private sector – using simple assessments and eliminating exemptions and discretion as much as possible.

Key recommendation – Fiscal Discipline: The implementation of fiscal rules could be strengthened by adopting cash budgeting and strictly forbidding extra-budgetary expenditures. Increased parliamentary scrutiny of government investment contracts would also have an impact, as would holding leaders of government departments and agencies directly accountable for maintaining their own budgetary discipline and expenditure limits.

Key recommendation – Government wage expenditure: It will be imperative to establish an affordable level of government employment and wages, taking into account revenues and need to provide adequate compensation to key workers including in schools and health centres. As part of the control measures, it will be necessary to eliminate political patronage from government expenditure.

Key recommendation – Debt Management: Starting debt renegotiation with creditors will be an important part of a credible and comprehensive reform programme. This can also include sharing information in terms of recent borrowing (including recent collateralized borrowing against future gold and platinum export receipts). Building gradually a domestic market for government debt (with transparent issuance) is also a sensible medium-term ambition.

Macroeconomic Stability (Africa Rank 53rd)

Zimbabwe ranks 53rd in Africa for Macroeconomic Stability, having deteriorated significantly since 2014. GDP growth and inflation have both been volatile over the last 10 years.

After ten years of contraction from 1998 to 2008, Zimbabwe's economy grew at an average of 12% per annum from 2009 to 2013 under the multi-currency regime adopted by the GNU. After slowing to a low of 0.6% growth in 2016, there was higher growth in 2017-18, driven by favourable rains, mining, and a public sector wage increase. This was reversed in 2019 when the economy shrank by 6.5% year-on-year amid declines in agriculture (-18%); construction (-14%); mining (-12%) and manufacturing (-6%).[8] The World Bank expects GDP to contract in 2020 by between 5% and 10% partly because of the impact of COVID-19. Over half the population suffered from food poverty in 2019 and this is expected to worsen in 2020.[9] Reliance on agriculture and mining make Zimbabwe particularly vulnerable to external shocks such as periodic droughts and fluctuations in international commodity prices.

The country's volatile economic performance over the last forty years can be attributed in large part to the capture of the state as a patronage vehicle to ensure continued political control. Other factors such as the externally influenced structural adjustment programme in the 1990s, economic sanctions and droughts have also played a part. This mismanagement has been reflected in the Reserve Bank's providing monetary financing for unconstrained government spending which was further compounded by RBZ's leadership issues and appointment structures. This resulted in the second highest hyperinflation in the world - in 2009 and which ended with GNU's decision to adopt a multi-currency regime (de-facto dollarization) and cash budgeting. These policies eliminated hyperinflation and contributed to high economic growth.

However, the monetary financing of the public deficit resumed in 2014, resulting in rapid monetary growth and inflation, as well as the re-introduction of capital and foreign exchange controls. The RBZ monetary financing of the public deficit accelerated in 2016 (peaking in 2018). In the context of accelerating inflation, the government introduced a new domestic currency in February 2019. The government also ended the use of multi-currencies as legal tender. These reforms were unable to stem the spiralling of (official) inflation rate which reached 761% for the year ending August 2020.[10]

With limited access to forex, businesses that rely on imported intermediate goods have been unable to pay for their imports. Exporters in mining and agriculture have struggled to secure the local currency market value for their product. Regional and international businesses are not able to re-patriate profits and dividends.

In the last few months, the government has re-introduced the dollar as legal tender temporarily and has also introduced an auction of foreign exchange that has stabilised the depreciation of the local currency.

One of best ways to increase dynamism would be greater engagement with the diaspora, with the long term goal of attracting back many of those who have left.

Key recommendation – Monetary stability: Establishing and maintaining a clear policy for achieving low inflation will be essential for economic stability. Consider different ways to accomplish stabilisation, e.g. monetary targeting under the supervision of the IMF (which may take some time and require technical resources and international supervision) or the 2009 adoption of multi-currencies which achieved stabilisation- this option could also involve the adoption of the South African Rand, possibly in the context of joining the Common Monetary Area. Joining the Rand would link Zimbabwe more to neighbours with which it has high levels of trade, supporting regional integration, trade, financial flows and economic convergence.

Key recommendation – Liberalise Foreign Exchange: Make foreign exchange available in a liberalised forex market. Easing capital controls would also help.

Dynamism (Africa Rank 40th)

Zimbabwe ranks 40th in Africa for Dynamism, making it difficult to attract and retain talented people. As a result of the economic environment (including lack of capital and burdensome regulations), relatively little dynamism is evident in the formal sector. The most dynamic sector may be the informal sector.

One of the best ways to increase dynamism would be greater engagement with the diaspora, with the long-term goal of attracting back many of those who have left. Over the last 20 years, Zimbabwe has suffered from a major brain drain of talent to more advanced countries such as South Africa, the UK and the USA.[11] As of 2015, it was estimated that there were 3 million Zimbabweans abroad, and that between 2000-2015, 50% of all professionals emigrated.

Key recommendation – Diaspora engagement: Engaging the diaspora is a way to bring back much needed skills, especially those that will have immediate pay-off such as in agriculture and mining. This can be supported by developing an IT-self-reporting skills database for Diaspora-based professionals, which both the public and private sector can tap into.[12]

Labour Force Engagement (Africa Rank 5th)

Zimbabwe has a relatively high labour force engagement, ranking 5th in Africa. However, this is partly because much of this employment is in the low-productivity independent sector, with more than 76% 'informally employed'. Zimstat's 2019 Zimbabwe Labour Market Survey finds that out of a working age population, 57% are outside the labour force (including subsistence farmers).[13] Within the labour force, 16% are unemployed.

Unemployment is rising, particularly among the young and in rural areas suffering from drought conditions.[14] Zimstat estimates the most recent unemployment rate at 27% for 15-24 year olds.[15] The statistics are even more difficult in relation to formal employment. Out of 300,000 young people who enter the labour market each year, less than 10% are absorbed into formal employment.[16] This particularly affects secondary and tertiary students, as there are few opportunities for these groups in formal employment.[17]

Zimbabwe's independent sector has become the backbone of its economy and is now responsible for most economic activity and employment (estimated to account for 60% of GDP, the second-largest independent sector in the world).[18] Throughout repeated crises and falling formal employment, Zimbabwe's independent sector has cushioned people from even more poverty, stimulated the formation of small-scale businesses and provided basic income-generating activities for large parts of the urban and rural populations (in retail, agriculture, artisanal mining, repairs and small-scale manufacturing).

Entry to the independent sector is easy. It adopts labour intensive technologies, is unregulated but competitive. It provides informal processes for acquiring skills, supports family ownership, self-employment, and apprenticeships.[19] There is some evidence that in some cases it also adopts innovations at speed. The independent sector is also the main recipient of remittance funds.

However, given their financing and regulatory constraints, productivity of the independent sector is low (although it varies significantly). It does not own many assets either. According to a World Bank Survey, "informal" businesses in Harare were found to be 88% less productive than formal businesses.[20]

The wider independent sector benefits from the skills of many of the educated Zimbabweans (including graduates) who have been unable to find formal jobs. In some areas independent workers have organised themselves into local interest associations to defend their economic rights, combining their resources to acquire a much stronger voice.

In the past, government has launched repressive campaigns against the independent sector- e.g. 2003 Hawker Act and in May-July 2005 the massive repression of the "Removal of Filth" Murambatsvina campaign, that resulted in losses of homes and businesses of 650,000-700,000 and 2.4 million people affected directly or indirectly.[21]

Productivity And Competitiveness (Africa Rank 28th)

Zimbabwe ranks 28th for Productivity and Competitiveness. One of the main barriers to improved productivity is the lack of diversification in Zimbabwe's economy, where agriculture and mining dominate. According to the Atlas of Economic Complexity, Zimbabwe ranks 130th globally, down from 96th a decade ago, for the diversity of its exports. In particular, there is a decline in textile exports, while tobacco and gold have increased their share of exports. The export of goods and services, at just 19% of GDP, is below many comparative countries in Africa.

Labour productivity is $5,428 per person (2011 US PPP), ranking 34th in Africa, having declined in the last 10 years. Given the large numbers that work in agriculture, value added per worker is low relative to other African countries. Value added per worker is also very low for industry (including construction) but mid-ranking in services.

Agriculture has also been subject to periodic climate related shocks, particularly droughts, which severely affect Zimbabwe's mainly rainfed agriculture.

Agriculture

Agriculture remains the backbone of Zimbabwe's economy. Agricultural activities provide employment and income for 60-70% of the population, supplies a large part of the raw materials required by the industrial sector and contributes about 40% of total export earnings. It had a strong performing agricultural sector after independence and until 2000. Agriculture has also been subject to periodic climate related shocks, particularly droughts, which severely affect Zimbabwe's mainly rainfed agriculture.

Zimbabwe has low agricultural labour productivity. Most of Zimbabwe's population lives on communal lands that have poor soils and are rainfed. Improving the productivity of this land has not been given a strong focus. While A1 reallocated farms were able to recover their production, this has not happened in the same way with A2 resettlements. The combination of lack of skills, poor maintenance, poor access to financing -particularly after the financial crisis of 2015, and uncertainty over property rights has disrupted the production of A2 farmers. Furthermore, productivity in A2 farms has been affected, as some of the land was allocated for political reasons.

Tobacco production has improved productivity. Since 2009 it has tripled production, partly supported by contractor arrangements with producers that provide access to inputs and some extension services. In 2014, 71% of A1 farmers and 35% of "farmworkers" were engaged in tobacco production. This has provided new dynamism to rural towns such as Mvuwi, Chatsworth and Mvurwi, and businesses linked to transport, equipment, seed, fertiliser, etc.[22]

Most government expenditure to support the agricultural sector has focused on income support and subsidies, while less resources have been dedicated to investments in irrigation, roads, and research and development. Agricultural subsidies (largest in the world) [23] have contributed to fiscal deficits and the country's economic instability, e.g. Special Maize Programme, GMB, Tobacco Input Revolving Fund, etc. Support was poorly targeted and not transparent.

Road infrastructure is particularly needed, with many rural areas lacking access to markets and therefore, farmland cannot be used for anything other than subsistence farming.

The following are opportunities for enhancing agriculture:

1. **Implement Malabo commitment** to allocate 10% of national budget to allocation, focusing particularly in supporting the productivity in communal lands through irrigations, rural roads, catalytic investments that can help access technological innovations
2. **Invest in irrigation**. Support farmer-led irrigation in communal areas built by community decision, collective action and local leadership, using pumps and pipes bought locally. Encourage voluntary contribution of community labour for environmental rehabilitation, building stone terraces and other soil and water retention structures, digging wells and planting trees.[24]
3. **Invest in roads**. Build local rural feeder roads linking communal areas that have surplus production with markets in local towns. The removal of all roadblocks will also contribute to improve farmers access to markets.
4. **Scale up climate-resilient agriculture**. Scale up successful initiatives supporting climate resilient agriculture, including Pfumvudza and conservation agriculture (FAO) initiatives. Encourage innovative business models to support the adoption of climate resilient agriculture, micro-irrigations, and solar energy by communal farmers. Use support of contractors and mining companies.

5. **Fund innovation in agriculture**. Support creation of capital fund[25] to incentivise the adoption of climate resilient agriculture and the diversification of production. Scale up successful pilots e.g. FAO conservation programmes based on climate resilient seeds and breeds, and micro-dosing of fertiliser.
6. **Promote catalytic investment/incentives for dissemination of digital support** with bundled services to communal farmers. For example by extending mobile payment system to include the provision of micro-saving, micro-lending, extension services, etc. -as Ghana's Esoko and Vodaphone, Farm.ink in Kenya[26] and the index based agricultural insurance used by Acre in Kenya, Rwanda and Tanzania.[27] Products may need to be offered to groups of farmers to gain acceptability.[28] These investments could be supported by impact investors, foreign assistance, and the Diaspora.
7. **Promote technologies to share productive assets**. Promote services that allow the renting of tractors or other capital equipment for days at a time, without the expense of buying an asset, e.g. Hello Tractor the Uber for small farmers, now active in many African countries.
8. **Strengthen risk management**. Support crop insurance to help farmers in low frequency, high severity regions.[29] Strengthen Early Warning Systems and meteorological services. Link these systems to the planning of employment-based social protection programmes.
9. **Monitor implementation of the agricultural transformation plan** through a network of research universities, to ensure cross-sector priorities of communal areas and climate change resilience.
10. **Promote commercial advisory services**. Catalytic investment to promote quality commercial advisory services for improving the understanding of contractor agreements with large corporations (Chinese Tian Ze and British American Tobacco). Provide a simple framework to encourage partnerships of A1 and A2 farmers with skilled commercial farmers.
11. **Extend Supply Chains**. Provide incentives for contractors to increase the number of small-scale farmers in their supply chains and introduce incentives for improvements in quality and value added.
12. **Support growth of Agro-industry, eco-tourism and aquaculture**. Catalytic investments for agro-industry growth, for services supporting agriculture and housing in rural towns. Ensure these jobs provide off-farm employment for people from communal areas. Provide basic social infrastructure in small rural towns. Invest/lend to catalyse communal investment in eco-tourism and aquaculture as high value activities that contribute to diversification and natural conservation.
13. **Enable growth of cooperatives**. Provide supportive legal framework to develop farmer cooperatives that can provide extension services to farmers, facilitate the introduction of digital tools that support agriculture, coordinate the collective action on micro-irrigations and climate resilience conservation agriculture, provide access to last mile shops for inputs and facilitating access to storage, equipment, finance and marketing services.

Mining

Mining is central to the economy. Zimbabwe ranks in the top 10% of countries for the significance of the mining sector's contribution to national economies.[30] It has substantial reserves of gold and the world's third largest platinum reserves.[31] Mineral exports were responsible for 60% of the country's export earnings as of October 2018, and the mining sector contributing around 16% of national GDP. The mining sector has shifted from a dependency on metal (particularly ferroalloys) to a more diversified basket of metals, minerals, and stone. There has been a particularly large increase in exports of gold.

Small-scale mining is a major source of production - Zimbabwe is said to have more mines than the rest of Africa. About 500,000 people are estimated to work in small-scale mining operations, which were responsible for nearly half of the 24.8 tonnes of gold produced in Zimbabwe in 2017. Small scale mining, or artisanal mining has historically largely been a subsistence activity, complementing small-scale farming as alternatives sources of livelihood. Many work illegally without a mining title, while some artisanal miners work side by side with the larger mining companies. The sector has been exploited by illicit agents, some with support from the state, sometimes using violence.[32]

High inflation, lack of access to foreign exchange, poor investment environment and poor infrastructure have severely affected the mining sector. There has been very little progress in providing value-added to mining operations. This is despite some government attempts, such as banning export of chromite to encourage construction of smelters (this policy failed). Part of the challenge is that small scale/artisanal miners are usually not included in the supply chain of larger mines.

Corruption is hampering the mining industry[33] and international environmental standards cannot be enforced. Zimbabwe has not signed to the EITI, and most of the mining industry is veiled in a cloud of secrecy, particularly in the diamond sector. State-owned enterprises introduce governance 'vulnerabilities',[34] including their role as sole buyers of some minerals. Contracts are not scrutinised, there is undue discretion in awarding licenses, and a lack of monitoring of production, resulting in theft.

There is the complete absence of a transparent regime that ensures that mining generates revenues for the government. Instead there is a complex and incoherent, discretional use of income tax, royalties, specific taxes and tax exemptions that result in mining contributing only 2% of total government revenues in Q1 and 4% in Q2 2020.[35]

The investment environment in Zimbabwe in the last 40 years has been hostile to the development of the mining sector in all fronts, with heavy-handed and unpredictable government interventions in the sector. Mining policies are among the least attractive for investors in the world, with Zimbabwe ranking 75th out of 76 countries in the Policy Perception Index for Mining (compared to a ranking of 22nd for Botswana and 14th for Namibia). The systemic weaknesses apply across sectors: legal system, property rights with indigenisation policies, taxation, regulations, socio-economic agreements, quality of infrastructure (including rail transport and electricity), trade barriers, political stability, security, and availability of skills.

The government's goal of quadrupling the sector's total value to $12 billion by 2023 will require addressing many of these challenges. The following are potential opportunities:

1. **Professionalise leadership of mining sector**. Recruit high level technical and leadership capacity for the government to manage the sector efficiently and with probity. Remove regulatory roles in the sector from all state-owned mining enterprises.

2. **Implement EITI**. Become an implementing country of the Extractive Industries Transparency Initiative, disclosing information on the value chain (including mining agreements, revenues received by all government agencies, gender, and environment impact.)
3. **Establish mining rent framework**. Consult and adopt a simple framework to share mining rents with investors, transparently and through general laws rather than specific contracts. Favour long-term agreements that avoid costly re-negotiations, possibly including sliding-scale royalties based on international prices. Supplemental agreements could include the mining company's commitment for building or rehabilitating infrastructure that they need and commitments to creating value-added in their operations.
4. **Support creation of value added in the sector (Beneficiation)**: Government could require international mining companies to include small scale miners and artisanal miners in their supply chains.[36]
5. **Support to artisanal miners**: Government should commit publicly to the support of artisanal miners and to make them central to the mining strategy: simplifying licensing requirements, providing training (including to comply with environmental legislation).
6. **Protect the environment**. Government selection of mining companies should take into account their environmental and socio-developmental record,[37] including their successful experience negotiating impact benefit agreements with local communities, supporting employment, local infrastructure, climate resilient infrastructure, extension services, eco-tourism, protection of the environment and environmental remedial action.
7. **Modernise the mining cadastre**. Digitalisation and modernisation of cadastre system.
8. **Establish prospecting regime**. Identify reputable mining investors to explore Zimbabwe's mining reserves.
9. **Localise licence powers**. Allow licenses for artisanal/small scale miners to be allocated and managed by local government.
10. **Review and consolidate progress**. Mining Act to consolidate the successful changes introduced in the previous two years and the conclusions of a Mining Sector Diagnostic that reviews legislation, regulations, institutional capacity, and accountability – including environmental monitoring, human rights and rules of community engagement.

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INVESTMENT ENVIRONMENT (AFRICA RANK 37TH)

Zimbabwe is not perceived as providing a friendly environment for investors. Zimbabwe is ranked 37th in Africa for its investment environment.

The potential for a prosperous Zimbabwe is to have public consensus on property rights in different sectors of the economy, where a variety of secure land tenures are recognised, and the rights to them are administered efficiently in an open and transparent manner. There would also be a thriving financial sector, with domestic and international participants, providing access to competitive lending, savings, insurance and capital markets services for all sectors of the economy.

Property Rights (Africa Rank 48th)

Zimbabwe is ranked amongst the lowest countries in the world for property rights. This affects the credibility of Zimbabwe as a destination for international investment.

Zimbabwe ranks 48th on Property Rights, significantly below the regional average. In international indices, Zimbabwe is ranked amongst the lowest countries in the world for property rights. This affects the credibility of Zimbabwe as a destination for international investment.

While registering urban property is relatively straightforward, rural property rights remain contentious. Colonial-era land distribution at the point of independence was highly inequitable. land reform was able to address this critical issue but at the same time the Fast Track Land Reform Programme disrupted agricultural production and employment, forced thousands of white farmers off their farms without compensation, undermined the rule of law and affected Zimbabwe's international standing.

The redistributed land was assigned leases and permits. However, leases for A2 farmers and permits for A1 farmers have been issued only in a few instances. Moreover, the government has reserved its right to cancel leases and permits with only 90-days' notice. This situation undermines security and land rights are generally not accepted as collateral, restricting farmers' access to finance, especially for A2 farms.

The land certification system lacks transparency and there is corruption in some administrative procedures.

Town planning rules and building regulations are rarely followed or enforced, and this creates substantial losses. Land in communal areas is still allocated mainly to male household heads. This practice contravenes the Constitution.

Key recommendation – Property Rights: In order to enforce property rights, the judiciary should be granted the ability independently enforce land rights, contracts and competition rules. Commercial courts should also be strengthened for the resolution of property rights disputes.

Key recommendation – Leases and Permits: As part of the settlement of the land issue, the government should issue guaranteed 99-year leases to A2 farmers and 99-year permits for A1 farmers.

Issue 99-year permits for A1 farmers. The possibility of government breaking the holder's title under such leases and permits should be removed. Where applicable, ground rents should be set at a rate that encourages productive use of the land.

Key recommendation – Land transferability: Regulations that enable the right of A2 farmers to transfer their leasehold title to others should be confirmed and implemented.

Key recommendation – Land administration: In order to make best use of the new land settlement, it needs to be complemented by effective land administration. This could include establishing a land commission to map and register land ownership, including rights to mining; developing cost-efficient and simple surveying and register of lands, and land information management systems. All leases would be available and searchable in the land registry, with details of owners, transfers of ownership, subdivisions, mortgage bonds, transfer duties, sales prices and conditions or restrictions that apply. This would ensure a clear process for transferring title and updating the register.

Key Recommendation – Expropriation: In order to build confidence in the settlement, it will be important to refrain from expropriation of property without compensation. Supporting actions could include implementing a compensation plan for land expropriation and creating a complaints authority - for land use and the granting of leases.

Investor Protection (Africa Rank 15th)

Zimbabwe ranks 15th for Investor Protection. Although now under review, and with even metals deleted from the reserve list, indigenisation laws have infringed the rights of investors and have been administered in an arbitrary way, without transparency.

While there are reasonably good investor protections on paper, the main challenge is adherence to norms and ensuring effective and impartial implementation of the law. Corporate governance is poor, and there are major lapses, particularly in government-run companies. Furthermore, insolvency protection is generally weak, with competence and training a significant issue, as many working in insolvency do not have the professional skills required.

Key recommendation – Investor protections in practice: Strengthening the capabilities of practitioners is critical to ensuring investors are protected. This includes ensuring that insolvency professionals, government officials and businesses receive training on corporate governance. Professional standards should also be enforced, with meaningful sanctions for misconduct.

Contract Enforcement (Africa Rank 35th)

Zimbabwe ranks 35th for Contract Enforcement, having shown some improvement. In particular, the development of a commercial court offers some hope that there will be greater investment in the commercial expertise of judges. However, there are still major challenges in improving the quality of commercial dispute resolution, and this mainly centres around the training and expertise of judges and arbitrators. Furthermore, according to the World Bank, there are high legal costs. Despite decreasing over the last decade, legal costs in Zimbabwe average more than 27% of the claim value, ranking Zimbabwe 164th globally.[38]

Many parties prefer Alternative Dispute Resolution, due to the faster process and opportunity to get specialist arbitrators.[39] It is becoming more popular for settling disputes between parties based in different jurisdictions.[40]

Key recommendation – Judicial expertise: Given the importance of commercial experience and expertise on the bench, consider hiring experienced judges from overseas jurisdictions, as well as experienced commercial lawyers to sit as judges in commercial courts.[41]

Key recommendation – Alternative Dispute Resolution: Given the potential of ADR as a reasonable and clear means of dispute resolution, consider creating higher standards for arbitrators and consider using overseas arbitrators.

Financing Ecosystem (Africa Rank 48th)

Zimbabwe ranks 48th for its financing ecosystem. Zimbabwe has comparatively well-developed private sector banking, and some capital markets activity (including a stock exchange and bond market), and state-owned development banks have been established (e.g. Agricultural Development and Infrastructure Development Banks).

Larger firms enjoy relatively good levels of financial access. Mobile banking technology has revolutionised access for many households (particularly among the unbanked and in the independent sector). 80% of all transactions are now conducted on mobile phones.[42] The Reserve Bank has established a Microfinance Development Committee to develop a strategy for financial institutions to serve low income and marginalised groups. Having said that, the RBZ needs to play a greater role in regulation of the financial sector.

Beset by repeated macroeconomic crises, bad debts and state interference, Zimbabwe's banks have not yet adjusted to the structural shift, from an economy dominated by large companies, to one driven by independent activity and SMEs, mostly anchored in the agricultural sector. As a result, the most important parts of the economy are starved of finance,[43] and even the microfinance institutions channel most lending to formal sector clients.

Other non-bank sources of private sector finance for long-term projects (the stock market and private equity/venture capital) are underdeveloped, and foreign direct investment is limited by sanctions and Zimbabwe's international arrears. As a result, productivity has declined since most enterprises are unable to invest in updated technology, equipment or infrastructure.

Despite a Government bailout, experience with loan impairments and the lack of lending collateral led commercial banks to continue scaling back lending to agriculture and other parts of the private sector. This cautious lending approach has continued with banks' high March 2020 liquidity ratio (68% vs regulatory minimum of 30%) and low loans to deposits ratio (41.28%) reflecting inherent credit risk and preference for securities and investments, including lending to Government.[44]

A 2% intermediary money transfer tax and suspension of mobile financial transactions in October 2020 threatened to undermine the progress in financial inclusion of marginalised communities achieved by mobile banking.

Key recommendation – Bank balance sheets: It is important that bank balance sheets are healthy enough to meet withdrawals and sustain lending to productive sectors. RBZ should ensure that this should be preceded by an asset quality review across the sector and covering sovereign and related party exposure, non-performing loans, loan provisioning and real assets. To ensure credibility, this should draw on independent expertise.

Key recommendation – Electronic Payments: A standardised system of electronic payments would help their normalisation. The government should consider aligning the legal and supervisory framework for payment and settlement systems with international standards, to catch up with rapidly growing electronic payments. Forums with public authorities and private stakeholders could help facilitate further development of the system.

Key recommendation – Mobile banking: Additional support for mobile banking, especially in relation to rural farmers. For example, strategic investment to support mobile-linked financial innovation that reduces the high transaction costs of micro-credits. Continuing the mobile developments in eco-cash and eco-diaspora.

Key recommendation – Competition: The government should consider facilitating the entry of broader range of financial providers (e.g. crowdfunding, input suppliers, large mining, agricultural or industrial companies, private equity and venture capital and community co-operatives), in order to stimulate competition and provision of innovative products. New products might include drought insurance, wider use of mobile and online services, and also accepting tractors, livestock or crops as collateral.

Key recommendation – Access to risk capital: Access to risk capital can be widened by creating incentives for privately managed venture capital funds to service the most dynamic, productive, and profitable areas of the independent sector.

Key recommendation – Microfinance regulation: Micro Small Medium Enterprises and the self-employed need an expanded offer of competitive credit facilities.[45] The state can play a key role in the regulation of the microfinance industry, and to ensure that financial literacy initiatives are introduced prior to the provision of small loans.[46]

Key recommendation – Lending to independent sector: Banks should allow greater access to finance for the independent sector by lending to partnerships and clusters, and to established enterprises that already work closely with the independent sector (for on-lending to individual businesses).[47]

Restrictions On International Investment (Africa Rank 41st)

Zimbabwe ranks 41st for Restrictions on International Investment. The reported prevalence of foreign-owned companies has been reducing since 2013. FDI is below what it potentially could be, with Zimbabwe not reaching the levels seen in other countries. The economy and government remain the main disincentives for investment, but there are some legal impediments as well. Policy uncertainty and currency risk have been major inhibitors of foreign investment in Zimbabwe. Until recently this has been compounded by an unwelcoming environment – best exemplified by the Indigenisation and Economic Empowerment Act of 2007, which, among other things, required businesses to be 51% Zimbabwean owned.

However, the legislation has been applied selectively and was formally amended in December 2018 to apply only to diamond and platinum mining (and these sectors are also in the process of being removed). The government also announced plans to replace the Indigenisation Act.

The Zimbabwe Investment and Development Agency Act officially came into force in February 2020 and aims to promote and protect foreign investors and their investments within Zimbabwe.

Despite these positive changes on paper, there are still impediments, especially the shortage of foreign exchange. The difficulty with accessing foreign currency means that many investors are unwilling to invest, as it is uncertain whether they will be allowed to take their profits out, or whether their profits will be reduced by high inflation if they are forced to use the Zimbabwean dollar. In the last months, auctions of foreign exchange are improving this situation.

Key recommendation – Foreign investors: In order to end discrimination against foreign investors, the government should complete process to repeal and replace the Indigenisation and Economic Empowerment Law, focussing on investment friendly ways to support local participation in the economy.

Key recommendation – Capital and foreign exchange controls: Reducing the extent of capital controls and ensuring a liberalised foreign exchange market will help strengthen the confidence of investors.

INFRASTRUCTURE AND MARKET ACCESS (AFRICA RANK 32ND)

Market Access and Infrastructure in Zimbabwe is weak, ranking 32nd in Africa. Historically, Zimbabwe was dependent on three main industries: agriculture, mining, and manufacturing. These industries were highly interdependent, requiring an extensive and effective infrastructure of power, water and transport links to support the production and freight of goods across the country.

The potential for a prosperous Zimbabwe is to have enhanced infrastructure that serves urban and rural populations alike in terms of mobile communications, electricity, water and transport. In addition, the county has the potential for a more open trade policy with smoother border facilitation leading to a more diversified group of trading partners and a wider range of value-added agricultural, industrial and mineral exports.

Communications (Africa Rank 21st)

Zimbabwe ranks 21st for Communications, having risen 22 places over the last decade. There has been a major uptake in mobile phone use and increasing use of the internet. Cash shortages and the economic crisis have led to mobile technology becoming the overwhelmingly preferred vehicle for payments and has contributed to financial inclusion and innovation. The education profile of the population, including literacy and years of education, provides a strong skill basis for wider and more extensive mobile internet use.

However, while use of mobile technology has increased across Zimbabwe, coverage and access are poor in places, with only 28% of rural users having access to mobile internet – the main way of people accessing internet services – and 15% of the population have no mobile access at all.[48] Mobile costs (tariffs, handsets, and taxation) are also very high, discouraging data usage.

Zimbabwe relies on 2G coverage more than most countries, and penetration is low in rural communities. Internet speeds are slow – according to Speedtest, Zimbabwe ranks 108th for mobile download speeds (14.01 Mbps). Cost is also very high, discouraging data usage. The Alliance for Affordable Internet ranks Zimbabwe at 52 out of 60 low-income countries in terms of affordability.[49] The average price for a gigabyte of data equates to $75.20.[50]

There has been investment increasing capacity and coverage – for example, The Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) has built a number of new base stations in the country. However, more investment will be needed. In order to enable recommendations we have made in other areas (for example, areas such as e-government and distance learning), a modern and widespread communications network is necessary.

Better regulation would also promote greater competition. For example, reducing charges for mobile licenses, (20 times higher than in South Africa), allowing more voluntary infrastructure sharing would lower the entry costs for new competitors and avoiding favouring state operators. Increased competition would allow greater use of high capacity networks, reducing consumer costs and encouraging down-stream investment.[51]

Key recommendation – Mobile services: Mobile services can be enhanced by providing catalytic investment to support the development of mobile applications (agriculture, banking, insurance) in rural areas. Put a few key government services on-line, for example the registration of companies, submission of taxes and custom declarations. Launch a wide dissemination campaign to inform citizens of how to use digital government services- including in schools and hospitals.

Key recommendation – Competition: Services could be extended with a more complete liberalisation of the mobile sector. This could include reducing substantially the cost of licenses, reducing restrictions and allowing voluntary commercial infrastructure sharing to lower mobile tariffs, more competition and faster roll-out of 3G to rural areas.

Key Recommendation – Infrastructure: The government should encourage mobile operators to upgrade 2G infrastructure in rural areas and to provide services in community information centres, including schools, hospitals, police, and local council offices. Reducing restrictions and (if needed) incentivise commercial infrastructure sharing.

Electricity And Water Resources (Africa Rank 32nd)

Zimbabwe ranks 32nd on Resources. There is inadequate investment in all areas of electricity generation, transmission and distribution. Despite installed capacity of 2000 MW, much of this capacity is unavailable due to low water levels at the Kariba Dam or poorly maintained powerplants. The average age of transmission and distribution infrastructure is 35 years, and 75% of substations have old transformers.

This means that Zimbabwe is reliant on electricity imports and rolling blackouts to manage demand, leading to unreliable access to electricity. The situation has improved recently but blackouts can last up to 18 hours per day, affecting factories, and mines. A major problem is tariff collection – the state-owned electricity company does not collect enough tariffs to cover the costs. Electricity is either stolen or not paid for – with government departments and state-owned companies owing 45% of Zimbabwe Electricity Transmission and Distribution Company's outstanding receivables.[52] Furthermore, prices are controlled making the industry unattractive for investors.

Access to electricity is extremely unequal (80% vs 21% for the urban vs rural populations) and the unreliability, cost and limited reach of mainstream power mean that independent sources of power predominate. Wood remains the main source of fuel in rural areas and 67% of the total population use wood for fuel (leading to deforestation concerns across the country). Given the situation, there is an opportunity for solar energy and investments to be exploited here.

Key recommendation – Electricity system investment: Additional investment could be encouraged by an investment framework that enables both private sector investment in new, large-scale power facilities (such as solar farms) and public-private partnerships to upgrade and improve efficiency of existing core assets such as Kariba South and the four coal-fired power stations.

Key recommendation – Maintenance: Given the need to maintain service, there is a need to undertake "keep the lights on" maintenance and rehabilitation of core electricity generation, transmission and distribution assets.

Key recommendation – Rural electrification: For the poorest farmers, there are multiple benefits from providing communal access to electricity - initially through government provision at a network of rural community hubs such as schools, clinics, post offices and retail centres.

The government should establish a system of community collaboration for the provision and management of alternative energy sources to replace wood burning and paraffin lamps. This could also include licensing that requires mining companies to support electrification in adjacent communities and tobacco companies, such as Tian Ze, to incentivise contract farmers to switch from wood to solar for tobacco curing.

Key recommendation – Market distortions: In order to minimise market distortions, the government should liberalise electricity market pricing and other controls, and gradually remove price and financial support from state-owned companies such as Zimbabwe Electricity Supply Authority (ZESA), making them to compete with new entrants on commercial terms.

Recommendation – Localised solar generation: For communal farmers there should be a focus on supporting small-scale solar projects that serve practical purposes, such as transitioning away from the use of wood as fuel and powering irrigation pumps, cottage industries and mobile phone charging/internet access.

The government should consider relaxing licensing rules for small producers to encourage solar investments. Catalytic investment would allow wealthier farmers and urban residents to build their own solar facilities (with government acting as enabler rather than provider – e.g. encouraging banks to offer loans on attractive terms and imposing minimal import tariffs on solar equipment).

Key recommendation – Electricity Pricing: In order to ensure necessary cost recovery, pricing should reflect international fuel prices and generation and transmission costs.

In the 1980s, Zimbabwe launched an ambitious program to develop its water supply and sanitation infrastructure, emphasising the extension of irrigation to small scale farmers. By the late 1990s, levels of service coverage were among the highest in Sub-Saharan Africa; however, economic decline since the 1990s has reversed progress in the water sector. Little new investment, unenforced pollution regulations and inadequate revenue collection due to poor management structures have led to a sustained decline in the operation and maintenance of irrigation, water and sewerage assets – reducing resilience to drought conditions, causing repeated cholera outbreaks and impacting the viability of all sectors of the economy.

As an agricultural nation that suffers from limited rainfall and periodic droughts, Zimbabwe is highly dependant on water, but most irrigation infrastructure has fallen into disrepair.

As an agricultural nation that suffers from limited rainfall and periodic droughts, Zimbabwe is highly dependent on water, but most irrigation infrastructure has fallen into disrepair. Today just 8% of 2 million hectares of potentially irrigable land is actually irrigated.[53] This is low compared to other sub-Saharan African countries.[54] Its recent medium-term plan proposes $2.6 billion in investment in dams, water storage and irrigation over the next decade.[55]

Wells and boreholes supply 80% of rural water needs; but over 60% of the rural water supply infrastructure is in a state of disrepair.[56] There is also a major problem with water provision in urban areas. The African Development Bank notes that over the last decade there has been a collapse in the quality of water services.[57] Alongside the serious health consequences, this has had major consequences for manufacturers. Rural-urban migration imposes rising demand strains on dilapidated infrastructure suffering from polluted groundwater, outdated waste treatment, cracked pipes, poor refuse collection/disposal and mismanagement by government agencies.

Key recommendation – Rural water provision: The multiplicity of organisations charged with the provision of rural water should be rationalised. The Rural Capital Development Fund could be re-established as the principal vehicle for transferring national government and donor funds to rural water and sanitation projects; clarifying both local authorities' ownership of rural assets and their responsibility for maintenance.

Key recommendation – Water storage and management: Improving monitoring and governance of groundwater resources would be an important step to more reliable service. Strengthened cross-border cooperation could increase the benefits from shared water resources.

Key recommendation – Wells and boreholes: Another short-term benefit can come from decontaminating and repairing the existing wells, boreholes and associated pumps and pipes that supply most rural needs.

Key recommendation – Water tariffs: Set a water tariff with the Zimbabwe National Water Authority (ZINWA) to ensure there is cost recovery as well as equitable access to help it become a customer-oriented, commercially viable entity.[58] Ring-fence revenue from water tariffs.[59]

Key recommendation – Expand Irrigation: In order to serve small farmers, the government should rehabilitate or modify large scale irrigation infrastructure to serve small farmers. In a limited number of cases, respond to local demand by establishing new, small-scale projects that support higher farm productivity.

Transport (Africa Rank 44th)

Zimbabwe ranks 44th for transport. Zimbabwe inherited a relatively sophisticated colonial-era transport infrastructure, but since independence it has made a limited number of enhancements to the legacy road, rail and air network. The country is a strategic corridor between Central and Southern Africa. Nevertheless, Zimbabwe faces serious transport challenges:

The government should focus on streamlining requirements and increase cooperation between Zimbabwean border agencies.

Although primary and secondary roads are still in passable condition, almost 80% of the total network is in need of rehabilitation. In particular, underinvestment and poor maintenance have severely undermined the quality of unpaved tertiary roads in rural areas.[60] Responsibility for roads is fragmented (between the Department of Roads, Urban Councils, the District Development Fund and Rural District Councils). There is a need for a more streamlined set of institutions, well-staffed, and backed by specific expertise.

Government initiatives have historically focused on expensive, large-scale, trophy projects rather than day-to-day transport needed by most of the population. Furthermore, transport state-owned enterprises are heavily indebted as a result of weak management/patronage, corruption and inflated wage costs. Poor maintenance and underinvestment caused by general economic decline mean that transport assets are largely decrepit. This has reduced services and capacity (for example NRZ's annual freight volumes have declined dramatically, displacing freight onto the road network). There are opportunities in public private partnerships and implementation of revenue collecting tolls to be realised here.

There has been the steady loss of international airlinks and little new passenger growth. Many of the airports need upgrades and many runways throughout Zimbabwe need to be lengthened to accommodate larger planes. The financial position of the Civil Aviation Authority of Zimbabwe (CAAZ) and Air Zimbabwe is hampering development, as both have large debts. CAAZ is the only source of funding for aviation facilities in Zimbabwe, and the ability to meet international air safety and communication requirements is low.[61]

Key recommendation – Prioritise road maintenance and rehabilitation: Ensure the ongoing maintenance of rural roads, possibly with community participation. Allocate a high proportion of the transport budget to rural roads to embed this activity as a key government priority.

Key recommendation – Rural connectivity: Consider prioritising transport expenditures to support implementation of a rural roads enhancement programme, connecting towns and villages to all weather roads. Drawing on funding from the government budget and when possible through international donors. A focus on rehabilitating existing rural roads and extension of the network focused on economic and social gain, including support for exports of added value agricultural products.

Key recommendation – Transport funding. There is value in identifying supplementary private-sector sources of rural road finance and capacity (e.g. as a condition of mining licences, from commercial agriculture, industry, ring-fenced allocation of levy income etc). For example, tolling major truck roads and ring-fencing resources to road maintenance.

Key recommendation – Air services. As part of a longer-term development, there is value in reopening air routes, and supporting continent-wide liberalisation of air services. Refine ongoing civil aviation reforms, and finalise process to ensure regulatory and operational functions are separated.[62]

Border Administration (Africa Rank 39th)

Border Administration ranks just 39th, worsening over the last 10 years. There are major inefficiencies in border administration, resulting in high costs and long wait times for importing of goods. The inefficiencies are driven by multiple agencies and processes that goods need to go through to enter the country. In particular, the way the Consignment Based Conformity Assessment (CBCA) programme is implemented adds significant delays and costs. Furthermore, there is little cooperation with foreign border agencies to speed up processes.

This not only results in many independent and informal companies bringing goods into the country without going through the border, the lack of cooperation between agencies and inspections, also raise the cost of importing and exporting goods.

Key recommendation – Single window system: In order to strengthen the single window system, allow importers and exporters to submit paperwork to a single, online service. The government should publish and make available online all fees and forms that are needed, with the aim of reducing informal trade. Introducing electronic border booking system to decongest the border area would replace physical queues with virtual queues.

Key recommendation – Cooperation between Zimbabwean border agencies: The government should focus on streamlining requirements and increase cooperation between Zimbabwean border agencies. Consolidate roles into as fewer border agencies as possible.

Key recommendation – Cooperation with foreign border agencies: The government should aim to reduce the number of total inspections goods face, by certifying inspections in other countries. For example, it could carry out necessary inspections at ports in South Africa and Mozambique and hold regular stakeholder management meetings with foreign border agencies.

Open Market Scale (Africa Rank 8th)

Zimbabwe's open market scale is relatively good, at 8th in Africa. Agricultural production has declined over the last 20 years, and Zimbabwe has moved from exporter to importer of agricultural goods. This change has significantly damaged the country's trade balance, which has long been in deficit: 2018: -US$2.22bn, result of total exports of goods and services US$ 4.04 bn and total imports US$ 6.3bn. On GDP of US$ 31 bn (in 2018 US$), exports of goods and services was 22.9% of GDP while imports were 25.5% of GDP.[63]

The low diversification of imports and exports makes the economy vulnerable to global price volatility: exports are very largely primary commodities (gold, nickel ore, tobacco); while fuel is the largest component of the imports bill.[64]

ZimTrade is a joint private sector-government partnership for trade promotion. It was recently nominated for a partnership World Trade Promotion Organisation award. It would benefit further from capacity building, and the setting up of specific mechanisms, such as for trade disputes. Zimbabwe has longstanding memberships of all the leading regional and global trade organisations, providing good access to foreign markets. These include a trade deal with the EU but no current deal with the US; however, it has strengthened its ties with the SADC countries and diversified its export destinations (particularly through better links with Asian markets such as China,and Singapore). South Africa is overwhelmingly its main trading partner (51.5% of 2018 exports and 39.3% of imports) followed by the UAE, Mozambique, China, Zambia, the UK and Japan.[65]

Key recommendation – Preferential trade terms: Zimbabwe could work intensively on gaining access to the United States under the African Growth and opportunity Act (AGOA).

Import Tariff Barriers (Africa Rank 27th)

Zimbabwe ranks 27th in African in Import Tariff Barriers. Zimbabwe uses tariffs, and disparate tariffs within sectors, to protect local industry, although there has been the lowering of some tariffs in recent years. The cost of this protectionism means some firms in Zimbabwe cannot secure the raw materials, intermediate goods, or equipment they need to function efficiently. The result is greater economic stagnation.

There have been some positive changes in recent years, with a number of products becoming duty-free. The government waives some import taxes on capital equipment (as part of a range of tax incentives). Furthermore, raw materials and intermediate products imported by firms in special economic zones can be imported duty-free. Some tariffs have been reduced to ease imports (particularly in economic development zones). Zimbabwe levies lower duties on imports from SADC countries.

Key recommendation – Import Tariffs: The government should move towards more efficient and lower tariffs across most goods. This would involve reducing tariffs on all raw materials, intermediate goods and capital goods, including lowering maximum tariffs to 15%, and removing the import surcharge.

Key recommendation – Export duty-drawback system: The government should allow exporters to claim back the cost of any imported product to make exporters more competitive.[66]

Market Distortions (Africa Rank 39th)

Zimbabwe ranks near the bottom of the rankings at 39th for Market Distortions. Non-tariff barriers exist, both as a result of deliberate efforts to protect domestic industry and also from ineffective bureaucracy. At present, Zimbabwe's main NTMs are sanitary and phytosanitary measures, aimed at ensuring that stated foods are fortified with specified micronutrients.[67] There have been complaints about the road authorities not recognising foreign certificates of fitness.[68]

Zimbabwe should focus on improving the ease with which goods can be imported, particularly the intermediate goods needed by its most competitive firms.

Other barriers that impact trade include stringent foreign exchange controls on exporters, shortage of forex for importers, limited correspondent banks prepared to deal with Zimbabwean banks and, more generally, the lack of long-term economic and political reforms, state control over companies, insecurity of investment and equipment and skills shortages.

Key recommendation – Non-tariff barriers: The government should consider removing the requirement of import licenses for most commodities. It should also recognise foreign certification, particularly of vehicles transiting through the country.

ENTERPRISE CONDITIONS (AFRICA RANK 45TH)

Zimbabwe ranks 45th in Africa for Enterprise Conditions, making it the country's weakest performing pillar. The regulatory environment discourages business and fuels the growth of one of the world's largest informal/independent working sectors. These independent firms are often excluded from accessing finance, goods and services, limiting their productivity.[69] There has been a steady trend of greater informalisation with a corresponding loss of productivity, such as in the agricultural sector where value added has fallen from 18.7% of GDP in the mid-1990s to 11% in 2016; industry from 26.8% to 22.8%; and manufacturing from 19.5% to 9.6%.[70]

The potential for a prosperous Zimbabwe is for the government to provide an enabling and competitive business environment, reducing barriers to entry, discouraging restrictive practices, breaking monopolies that are contrary to the public interest and stimulating entrepreneurial activities. It would refrain largely from setting or subsidising commercial prices, relying on markets instead, with simplified administrative and labour regulations.

Domestic Market Contestability (Africa Rank 39th)

Zimbabwe ranks 39th in Domestic Market Contestability. The economy suffers from government involvement in a wide range of sectors. Issues of market contestability are directly linked to the political economy of the regime – those connected to the state receive preferential treatment.

There are estimated to be about 100 state-owned enterprises in key sectors such as postal services, railways, banking, media, civil aviation, and insurance. Most operate at a loss and require public subsidies to remain solvent. Cartels, monopolies, and oligopolies, often linked to senior party officials, operate throughout the economy, including foreign exchange, defence, tobacco, fuel, and diamonds. The Competition Commission is not independent and therefore not effective at addressing these issues. Public procurement is also poor, with significant opportunities for conflicts and a lack of auditing.

ZANU-PF actors are both players and referees in the economy. This helps to explain many of the non-competitive features of the Zimbabwean economy: foreign exchange interventions, mismanagement of state enterprises, corruption and monopolies and cartels in many areas of the economy. Making Zimbabwe's markets more competitive requires a fundamental strengthening of governance and the rule of law in the country.

Key recommendation – Barriers to entry: Reducing barriers to market entry will help stimulate competition and innovation. The government should eliminate progressively rules and regulations that create bureaucratic obstacles to new entrants to key sectors (particularly agriculture, eco-tourism and mining).

Key recommendation – Competition policy: Priority should be given to support competition and reduce monopoly power in areas that affect the livelihoods of the poorest, such as agriculture, tourism, construction, and services.

Key recommendation – Appointments to competition commission: Appointments to competition commission should be independent and based on professional merits and personal integrity. Ensure CTC is given adequate resources.

Price Distortions (Africa Rank 54th)

Zimbabwe ranks 54th for Price Distortions. There are numerous price distortions throughout the Zimbabwean economy, with the most prominent being government subsidies for agriculture and fuel. These distortions lead to widespread misallocation of resources throughout the economy. However, in the last few months a number of these subsidies have been eliminated, some through the foreign exchange auctions liberalising the foreign exchange.

Subsidies are often inefficient and unaffordable, with Zimbabwe spending about 7.5% of GDP on subsidies compared to the Sub-Saharan African average of 4.5%. The fuel subsidy for example saw fuel importers paid with foreign currency, which had to end in 2020 due to dwindling supplies of foreign currency.

There is a political imperative to government subsidies, but in a government with limited foreign currency and a propensity to use reserve bank financing, these policies either use up valuable foreign currency or drive up inflation. One of the distortions in the mining sector has been government paying with domestic currency, rather than US dollars. Many miners sell gold illegally because they can obtain a higher price. These regulations have also recently changed.

Where there has been inflation, the government sometimes uses price controls to lower the cost of living. In 2007-9, these price controls contributed to major economic malaise. New price controls announced to counter recent inflation run the same risk. There are some signs of change, with the government seeking to introducing greater fiscal discipline, and eliminating many subsidies.

Key recommendation – Subsidies and price distortions: In order for market participants to have appropriate price signals, subsidies and price distortions should be phased out. Hence, the government should review agriculture subsidies with a view to replacing them with other more direct ways of supporting the productivity of farmers. Remove RBZ monopoly over the purchase of gold. Ensure fuel prices and other commodities reflect international prices.

Key recommendation – Price controls: In order to ensure retailers can access supplies of goods economically, the government should focus on shifting price controls upwards on commodities

Key recommendation – Electricity Pricing: In order to ensure necessary cost recovery, pricing should reflect international fuel prices and generation and transmission costs.

Environment For Business Creation (Africa Rank 44th)

The Environment for Business Creation in Zimbabwe ranks 44th in Africa. Zimbabwe's Environment for Business Creation remains one that discourages growth.

It is difficult for independent businesses to become formal, due to high bureaucratic burden. It takes on average 27 days to start a business and requires nine distinct processes. It can take international businesses over 100 days, requiring up to 13 different certificates and licenses. In contrast, it takes 21 days in South Africa, 28 days in Zambia, and 30 days in Botswana. Independent/informal businesses fall into a low productivity trap, with the inability to raise finance and access government services restricting growth. There are productivity gains to be realised from investing in the country's educated youth.

There have been some signs of reform, although mostly in intent, rather than yet implemented. Most notably, the government has announced a National, Micro, Small and Medium Enterprises policy to create a better enabling policy for MSMEs. The government has also encouraged the use of SEZs to attract global firms to Zimbabwe. In 2018, Zimbabwe introduced 13 new SEZs.[71] There are different focuses, with SEZs in Bulawayo and Harare focusing on reindustrialization, and rural provinces investing in agro-processing and tourist zones.[72]

Key recommendation – Business registration: In order to simplify business regulation the government should ensure effective operations of the one-stop-shop for registering with government, with registration linked to incentives provided by government.[73]

Key recommendation – Strengthen Special Economic Zone governance and business support: A strong policy commitment from the government would help strengthen legal and regulatory framework and improve SEZ management and governance capacity. The government should ensure that all SEZs have access to five basic facilities (water, electricity, gas, telecommunication, and roads). Special commercial regulations to boost investment possibilities should be applied to these zones.

Key recommendation – Use Special Economic Zones to promote sectors that are natural strengths: The government should create further special economic zones in competitive locations. The government should focus on developing SEZs in mining, tourism, and agriculture in the short-term, with a greater focus on manufacturing in the medium-term.[74] There is also the opportunity to expand into agro-industry, as well as the pharmaceutical and construction sectors.

Burden Of Regulation (Africa Rank 41st)

The priority should be to identify legal and regulatory barriers that can be removed to facilitate independent workers' businesses.

Zimbabwe ranks 41st for its Burden of Regulation. This high burden has led to, by some estimates, Zimbabwe having one of the largest shadow economies in the world (60.9%).[75] The size of the shadow economy reflects not only the extreme burden of complying with regulations and taxes, but also the weakness of local institutions (corruption).[76] In a World Bank case study, firms spend 242 hours per year spent filing taxes, with 51 separate tax payments. It is difficult for small businesses to pay tax. Some sectors, such as tobacco, face additional taxes.

There have been some signs of progress, with the government creating the Zimbabwe Investment Development Agency (ZIDA), which is meant to create a one-stop shop for businesses to comply with tax and regulations. There have been improvements to the ease of setting up businesses and making it easier to fill in tax forms. More effort could be focused on simplifying the regulatory regime faced by businesses and improving education for small businesses in addition to supporting small businesses with the adequate financial literacy need to operate optimally. A radical plan of regulatory simplification and transparency in the application of administrative procedures to support the people working in the shadow economy would reap major economic benefits.

Key recommendation – Embrace the independent sector: Announce government policy in favour of supporting rather than coercing or formalising the independent sector (particularly in agriculture, artisanal mining and urban food supply). Engage with independent sector stakeholders to understand the obstacles they face.[77]

Key recommendation – Regulatory Reform: There is value in re-directing government (and international) resources already engaged in regulatory reform to focus intensively on removing regulations that damage the livelihoods and incomes of independent sector businesses and workers. The priority should be to identify legal and regulatory barriers that can be removed/modified to facilitate independent workers' businesses.

Key Recommendation – Facilitate trading: The government should require local authorities to provide facilities and trading areas for vendors and traders to give them ready access to their customers and markets. It should establish administrative codes of conduct to protect independent workers from unscrupulous officials and administrative harassment.

Key recommendation – Simplify Tax: Substantially simplify tax and social security systems and allow exemptions for the independent sector, so that participants are liable for tax only as productivity and profits increase.

Labour Market Flexibility (Africa Rank 52nd)

Zimbabwe ranks 52nd for labour market flexibility. Labour market regulations are also strict, and one of the drivers of informality in Zimbabwe (90% of workers are informal). Improvements have been made in the flexibility of employment contracts and in reducing redundancy costs, but significant challenges remain in wage determination and hiring practices, while redundancy costs remain particularly high.

Outside SEZs (where labour laws do not apply), it is difficult to downsize firms in response to poorer economic conditions.[78] Many employers rely on temporary contracts. Zimbabwe has one of the highest redundancy costs in the world, amounting just over 25 weeks, ranking 44th in Africa. Alongside the macroeconomic factors, Zimbabwe's inflexible labour market rules contribute to a high rate of informality and unemployment. Relaxing redundancy rules further would increase formalisation and also help businesses to adjust to changing economic conditions.

Key recommendation – Redundancy costs: The government can encourage more long-term employment by lowering redundancy costs and making redundancy process easier. Reducing redundancy costs would increase formal employment and also help businesses to adjust to changing economic conditions.

LOOKING AHEAD

For Zimbabwe to prosper, the economy must grow in a steady, sustainable and inclusive way. The government must be fiscally disciplined, with the Reserve Bank independent and aiming to provide a stable price environment to carry on trade and investment. The economy must also be more dynamic, with high employment and increasing productivity.

The Investment Environment should be oriented towards protecting and promoting business. Investors will feel confident about the economic stability of the country, its institutions, the protection of their investments with an independent judiciary, non-discriminatory laws and the rule of law. In particular, there should be clearly defined forms of land ownership, whether leasehold, freehold or communal, and such ownership should be clearly registered.

A developed financial sector would contribute to supporting high levels of savings and financing the nation's investment needs. There also needs to be a business environment suitable to attract international investment. FDI will require the end of foreign exchange controls.

Long-term improvement in Zimbabwe's international trade position is possible, but depends critically on reconciliation with developed world trading partners and wider economic reform within the country (including changing production from commodities to value-added goods that are in demand in the major markets). In the interim, the Government should take immediate steps to help itself by removing well-known blockages to trade.

In order to prosper, Zimbabwe should enable the efficient transfer of goods and services through world-class infrastructure and low-cost access to its own markets. Zimbabwe has the potential to offer smooth transit between Central and Southern Africa across its primary rail, road and air infrastructure. A well-maintained transport network would boost economic growth substantially.

Taking the maximum advantage of trade deals requires a liberal trade policy. This includes greater openness to imports, better border administration, lower import tariff barriers, and fewer non-tariff barriers. It also requires a positive investment environment to support the private sector. Strong export growth will give the country the ability to finance the imports needed for development. Trade agreements contribute to the removal of trade barriers, especially tariffs, leveling the playing field for all countries to compete on international markets.

The state and economy should create a supportive environment for business growth. The state's role in the economy should be minimal, with its role limited to ensuring there is a level playing field amongst participants and ensuring that the barriers to entry in industries is as low as possible. Where there are state-owned enterprises, they should participate in the economy as if they were a private actor.

Regulations will need to be transparent and simple. Better administrative procedures will encourage independent businesses to join the formal sector, where they can benefit from better access to finance, skills and other government support. Employment law should be simplified to encourage independent workers to join the formal sector. Additionally, the brain-drain is reversed, with entrepreneurial and professional talent attracted to Zimbabwe.

Zimbabwe has substantial potential that could be harnessed to ensure its population can compete successfully in the world economy. There are a wide range of opportunities for Zimbabwe to drive economic growth and prosperity in the coming years. The challenge now is to grasp them with determination and rigour with a strong focus on implementation, so as to translate intentions into reality, for the benefit of all in Zimbabwe.

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INTRODUCTION

The Legatum Institute's mission is to create the pathways from poverty to prosperity, by fostering open economies, inclusive societies and empowered people. Our work is focused on understanding how prosperity is created, and providing the research, ideas and metrics to help leaders make informed choices. We believe that prosperity is the result of economic and social wellbeing working together.

Zimbabwe has a history, natural resources wealth, and the resourcefulness of its people that means it is uniquely positioned to become one of the most prosperous countries in Africa. The key to doing so is to unlock the potential in the highly educated population and the rich resources of its lands in terms of the already demonstrated capacity for agriculture and mining.

The report assess the current level of prosperity in Zimbabwe, identifies the binding constraints to future institutional, social and economic development, as well as the type of actions needed to put Zimbabwe in the road to prosperity, with the ambition of achieving global median-prosperity by 2050 – while recognising that most of these individual improvements are possible only as part of a credible comprehensive reform programme.

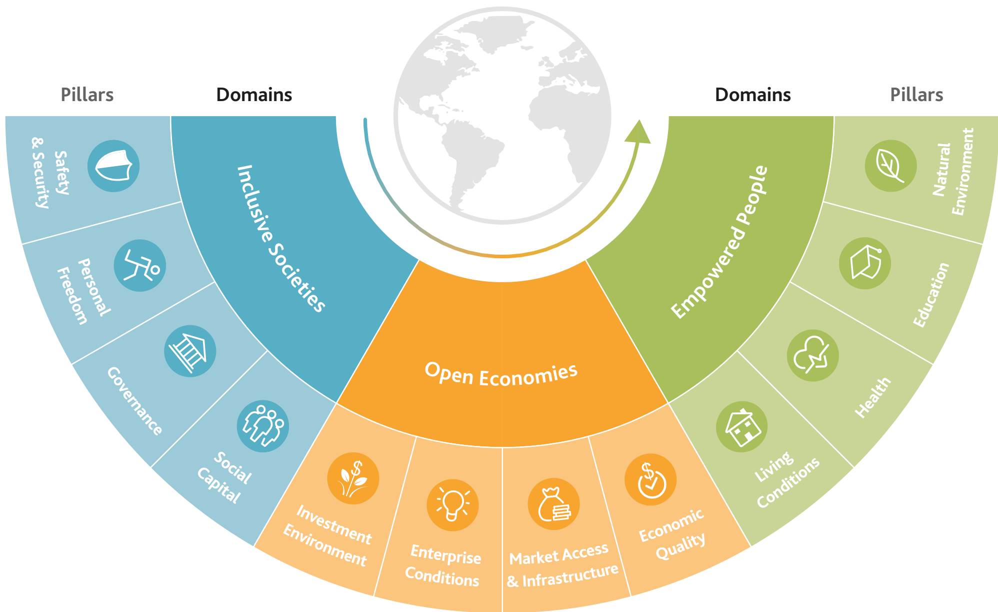
PROSPERITY

True prosperity is when all people have the opportunity to thrive. It is underpinned by an inclusive society, with a strong social contract that protects the fundamental liberties and security of every individual. It is driven by an open economy that harnesses ideas and talent to create sustainable pathways out of poverty. It is built by empowered people, who create a society that promotes wellbeing. True prosperity allows everyone to fulfil their unique potential, playing their part in strengthening communities and nations. Because, ultimately, prosperity is not solely about what we have; it is also about who we become. Prosperity is a multifaceted concept, which the Legatum Institute's Global Prosperity Index™ seeks to measure, explore, and understand. The framework of the Index captures prosperity through three domains, which are the essential foundations of prosperity.

- Prosperity is underpinned by an Inclusive Society, with a strong social contract that protects the fundamental liberties and security of every individual;
- Prosperity is driven by an Open Economy that harness ideas and talent to create sustainable pathways out of poverty
- Prosperity is built by Empowered People, who create a society that promotes wellbeing.

Within each of the three domains there are four pillars that capture the essential themes of prosperity (see figure below).

The Domains and Pillars of Prosperity



ZIMBABWE CONTEXT

Zimbabwe currently ranks 35th out of 54 countries in Africa for prosperity, and 139th of 167 countries globally. The nation has been experiencing an economic and humanitarian crisis. Income per capita has declined from roughly 20% of the global average in the early 1980s to less than 10% today. Zimbabwe has been dependent on three main industries: agriculture, mining, and manufacturing. These industries were highly interdependent, requiring an extensive and effective infrastructure of power, water and transport links to support the production and freight of goods across the country. A persistent lack of investment in these industries and supporting infrastructure has led to their decline. The population has missed out on the economic and social wellbeing gains achieved by its more successful neighbours, and the state has been mired in institutional, economic and political challenges for decades.

Having started its journey as an independent nation with pride and hope, Zimbabwe's society has become divided. Polarisation and political struggles have resulted in violent episodes in the last 40 years that have created deep divisions in the country. Confidence in politicians and the police is low. Political intolerance has become a dominant culture in Zimbabwe, resulting in closed networks and lack of dialogue between different political positions, thus denying its citizens the win-win opportunities, which could turn Zimbabwe into one of the most prosperous country in Africa.

In the early years of independence, Zimbabwe made significant gains in social wellbeing, with policies focused on health and education. However, from the late 1980s to mid-2000s Zimbabwe suffered a major decline in health outcomes. The HIV/AIDS epidemic was the primary reason for this decline, but health outcomes were also affected by a sharp deterioration in the effectiveness of the healthcare system, leading to increased deaths and illness in areas such as maternal and neonatal health. Over recent years, living conditions have worsened, due to the economic crisis and by difficulties in the agricultural sector. The country has little resilience to droughts and other environmental shocks, and Cyclone Idai and the ongoing drought have had a devastating impact, leaving more than half the population food insecure.

CHALLENGE

The potential for Zimbabwe, to achieve mid-prosperity status by 2050 as set out, is very feasible, but requires deliberate choices and sustained effort. While it has already seen improvement, the pathway to mid-level prosperity is a long one. For Zimbabwe, to achieve a level of prosperity in 2050 comparable to that currently of Botswana, South Africa or Namibia, it would need to be in the top-ten most-improved countries for prosperity for the three straight decades. To achieve this, the pathway to prosperity will require transformation on political, economic and social fronts.

Sustaining the recent fiscal and monetary stability will be essential to economic recovery, when enhanced by increased openness to trade and commerce, including restoring investor confidence. The state's role in the economy should shift to ensuring there is a level playing field amongst participants and ensuring that the barriers to entry in industries are as low as possible. As part of this progress, it would need to sustain an annual growth rate of 4% in per-capita GDP over this period.

The economic challenges are not only macro, but also critically relate to the labour market. Increasing the financial and employment security of millions of Zimbabweans is an essential part of delivering prosperity. Given the extensive nature of the independent sector, ensuring that regulations and government services embrace them will be essential.

Such a transformation is not without historic precedent: ten countries have achieved the required economic growth rate over the last 30 years, most notably China and India. In Africa countries such as Rwanda and Ethiopia been showing such trajectories recently.

After the long rule of President Mugabe, the government that came into office after the July 2018 elections launched Vision 2030, with the goal of becoming an "Upper Middle Income Society by 2030, for an empowered and prosperous Zimbabwe". It adopted a Transitional Stabilisation Programme (TSP), which focused on strengthening fiscal management, reducing the monetary financing of the debt and reshaping the command agriculture programme. Notwithstanding the aim to implement the TSP, increased fiscal deficits led again led to hyperinflation in 2019/20. However, during 2020, both the deficit and the hyperinflation were contained.

In November 2020, the Government issued a new plan: National Development Strategy – 1 (2021-25), as a follow-on from the TSP. The purpose of the plan is to set out the prerequisites for Zimbabwe to achieve middle-income status by 2030. While the World Bank welcomed the plan, they also noted that "What matters most is the quality of their implementation and the buy-in from stakeholders."

Achieving such an ambition will require a significant transformation. This report sets out a granular picture of what is required in the economic sphere. The potential is realisable, albeit most likely over a somewhat longer time-frame, and requiring institutional and political reform to underpin the socio-economic transformation.

ASSESSING ZIMBABWE

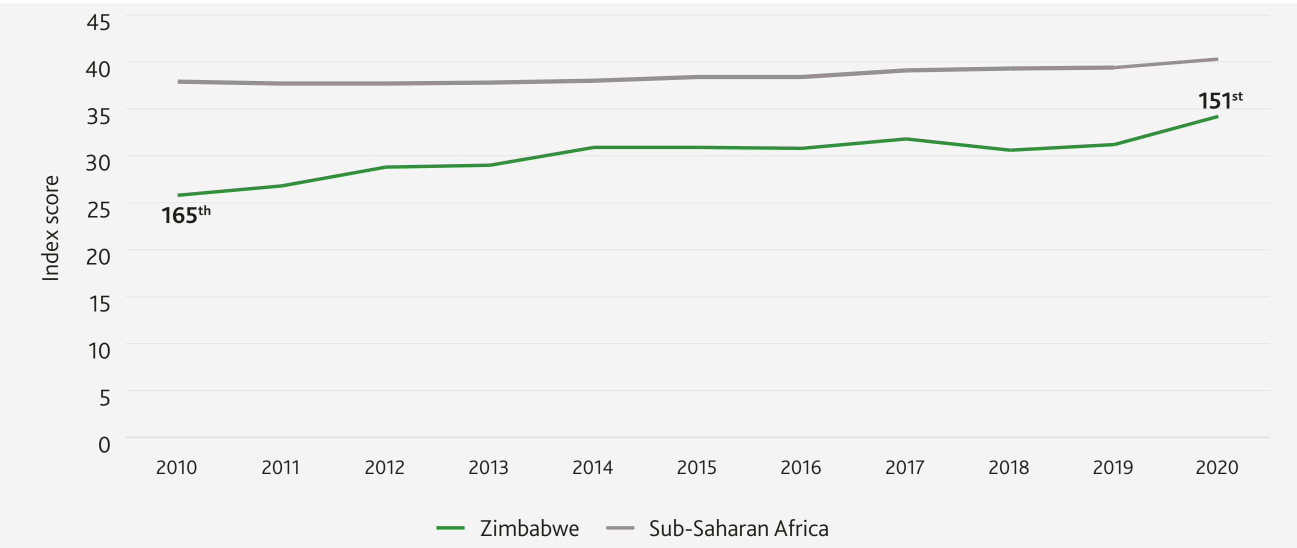
This report is one of three organised around the three domains of prosperity. It focusses on the **Open Economies** domain, which captures the extent to which an economy is open to competition, encourages innovation and investment, promotes business and trade, and facilitates inclusive growth. Prosperity is driven by an open economy that harnesses ideas and talent to create sustainable pathways out of poverty.

Without an open, competitive economy it is very challenging to create lasting social and economic wellbeing where individuals, communities, and businesses are empowered to reach their full potential. Trade between countries, regions, and communities is fundamental to the advance of innovation, knowledge transfer, and productivity that creates economic growth and prosperity. Open economies are more productive. In contrast, in an uncompetitive market, or one that is not designed to maximise welfare, growth stagnates, and crony capitalism thrives, with knock-on impacts elsewhere in society. In an open economy:

- Property rights are protected, so investment can flow.
- Business regulation enables entrepreneurship, competition, and innovation.
- Open markets and high-quality infrastructure support trade and commerce.
- Fiscal and monetary policy are used responsibly to foster employment, productivity, and sustained economic growth.

In analysing Zimbabwe's Economic Openness, we examine past performance, present conditions, and identify how the government might strengthen opportunities and neutralise potential threats moving forward. Zimbabwe ranks 151st globally in terms of Economic Openness and 40th of 54 countries in Africa.

Economic Openness score



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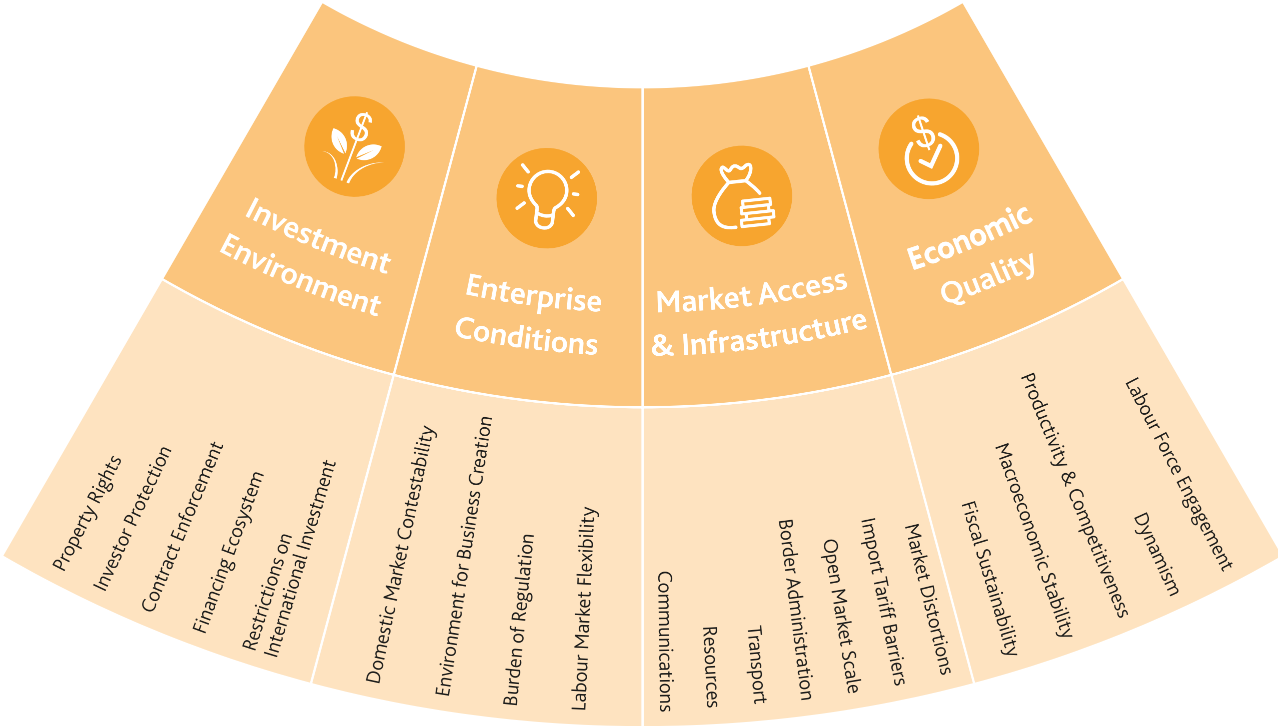
Pillars and Elements of the Open Economies domain



The analysis of Zimbabwe's performance in this report focuses on what we consider to be the key characteristics of economic wellbeing across the world. This domain consists of four pillars, Investment Environment, Enterprise Conditions, Market Access and Infrastructure and Economic Quality:

- **Investment Environment** reflects the extent to which investments are protected adequately through the existence of property rights, investor protections, and contract enforcement. Also measured is the extent to which domestic and international capital (both debt and equity) is available for investment.
- **Enterprise Conditions** encompasses how easy it is for businesses to start, compete and expand. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.
- **Market Access and Infrastructure** captures the quality of the infrastructure that enables trade (communications, transport, and resources), and the inhibitors on the flow of goods and services between businesses.
- **Economic Quality** considers how robust an economy is (fiscal sustainability, macroeconomic stability) as well as how an economy is equipped to generate wealth (productivity and competitiveness, dynamism). It also captures the degree of labour force engagement and the diversity of goods and services.

Full details of each of the four pillars outlined above can be found in our Prosperity Index and a summary of the component parts of each pillar is provided in the relevant section below.

Our analysis indicates a clear link between the extent to which a country's economy exhibits these characteristics and its productive capacity. This link is supported by a long history of academic literature, and can also be seen in the economic histories of those countries that have achieved a high level of economic wellbeing.

Over the last 10 years Zimbabwe's Economic Openness has improved, gaining fourteen places in the African rankings. However, this rate of improvement has been uneven, with improvement in Investment Environment, Enterprise Conditions and significant improvements on Market Access and Infrastructure but a substantial deterioration in Economic quality.

The following chapters examine in detail Zimbabwe's performance across the four pillars and the discrete elements that constitute our measure of Open Economies. We examine past performance, present conditions, and identify how the government might strengthen opportunities and neutralise potential threats moving forward.

As part of our analysis, we have chosen a set of regional and global comparator countries that are at a similar level of development, or because they provide an aspirational benchmark: Botswana, Burundi, Ethiopia, Ghana, Kenya, Malawi, Mauritius, Morocco, Mozambique, Namibia, Rwanda, South Africa, Tanzania, and Zambia.

In carrying out this assessment we have relied on three major sources of information. The first is the Legatum Prosperity Index, which uses global datasets from sources such as the World Bank, World Economic Forum and International Monetary Fund. We use this to benchmark Zimbabwe's African performance on a wide range of indicators. (The rankings in this report are for countries of the African Union, based on the 2020 Prosperity Index.) The second source has been a wide-ranging literature review, where we reviewed academic articles, reports, and news articles to provide a solid evidence-base for this report. Thirdly, we interviewed 50 experts, based in Zimbabwe and around the world. This group consisted of civil servants, journalists, businesspeople, academics, NGO representatives and others. These varied sources of information gave us a broad and rich perspective on the challenges facing Zimbabwe, and some of the opportunities for reform.

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ECONOMIC QUALITY (AFRICA RANK 35TH)

A nation's economy needs to be equipped to generate wealth sustainably and with the full engagement of its workforce. A strong economy is dependent on the production of a diverse range of valuable goods and services and high labour force participation. Trust in the economic system is underpinned by predictability, which is important for both consumers and businesses. For a country's economy to be of high quality, it must be robust to shocks. Volatility has also long been shown to correlate negatively with economic growth.

The ability to produce valuable products, more so than producing the same product faster or at a lower cost, is also vital to economic growth. Acquiring new productive capabilities, thereby creating a comparative advantage, is one of the cornerstones of economic growth. A dynamic economy means that more ideas are entering the market. Prosperity is inclusive; hence, everyone must have the opportunity to participate in the labour market, use and develop their skillset, and reach their productive potential. Not only is this important at the level of the individual, but it means that income inequality can be mitigated – this being a key determinant of happiness and subjective wellbeing.

Zimbabwe ranks 35th for Economic Quality, having deteriorated significantly since the middle of the decade. On virtually any measure, Zimbabwe's economy ranks poorly relative to other African countries - 38th for fiscal sustainability, 53rd for macroeconomic stability, 40th for dynamism and 28th for productivity and competitiveness.

The potential for a prosperous Zimbabwe is to have macroeconomic policy that delivers price stability, with easy access to foreign exchange. Fiscal deficits, monetary growth and interest rates would also be low, allowing Individuals and businesses are able to carry out their normal economic activities and transactions without the fear of dramatic instability.

Elements of Economic Quality

Fiscal Sustainability *– the ability of a government to sustain its current spending, tax, and other policies in the medium-to-long-term. For a government to achieve meaningful fiscal sustainability, the budget balance and debt of the government must be under control, and the country must be deemed low risk by external investors and credit agencies.*

Macroeconomic Stability *– two key elements of the economy – the GDP per capita growth rate, and the volatility of the inflation rate.*

Productivity and Competitiveness *– the efficiency with which inputs can be converted into outputs and the level of diversification in the economy. Competition enhances productivity by forcing firms to innovate new ways to reduce cost and time constraints.*

Dynamism *– the churn of businesses – the number of new start-ups entering, and failed firms exiting, an economy.*

Labour Force Engagement *– the intersection of demography and the workforce, including the rates of unemployment and gender ratios. Participation in the labour force, the level of unemployment, and percentage of the workforce in waged and salaried roles underpin the degree of labour force engagement.*

This section of our report considers these macro-level issues. We also deal separately with the key issues affecting agriculture and mining.

FISCAL SUSTAINABILITY (AFRICAN RANK: 38TH)

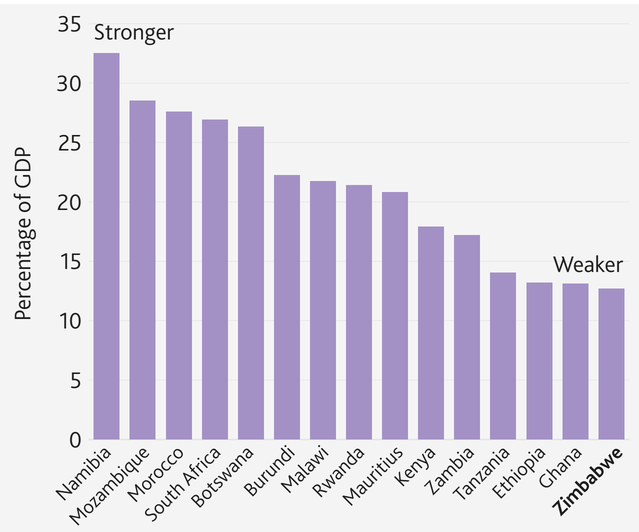
The ability of a government to sustain its current spending, tax, and other policies in the medium-to-long term. For a government to achieve meaningful fiscal sustainability, the budget balance and debt of the government must be under control, and the country must be deemed as low risk by external investors and credit agencies.

Zimbabwe ranks 38th in Africa for its Fiscal Sustainability. It has been affected by a lack of control of fiscal expenditures, particularly on agricultural subsidies and the public sector wage bill. In order to fund its shortfall, the government has relied on monetary financing, contributing to major inflation. However, in the last two years, the fiscal deficit has reduced.

Revenue mobilisation

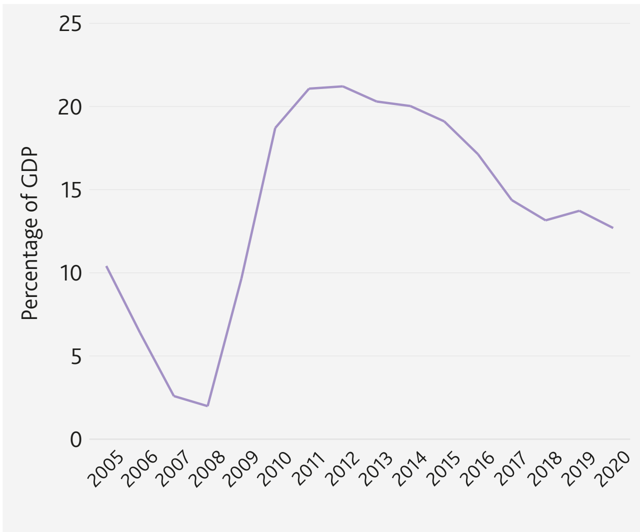
Government revenue collection has fluctuated over time, reaching 21% of GDP in 2011 and 2012, but has declined since then. Zimbabwe collects less than many of other countries in Africa in 2018 (See Figures 1 and 2). Zimbabwe is reliant on indirect taxes, particularly VAT, to raise revenue. On the other hand, ZIMRA reports very little revenue from mining. The government has tried to stabilise tax collection through a 2% the intermediated money mobile transfer tax (which affects negatively financial inclusion) and an increase in fuel excise taxes. The recent economic crisis has caused revenues to fall.[1]

Figure 1: Total government revenue



Source: International Monetary Fund 2019

Figure 2: Total government revenue



Source: International Monetary Fund 2020

Key recommendation – Tax Structure: Tax income can be improved with a simpler and broader system, by eliminating distortions and excessive burdens of the current tax system. The use of e-government could simplify tax administration and payments, in collaboration with the private sector – using simple assessments and eliminating exemptions and discretion as much as possible.

Government expenditure

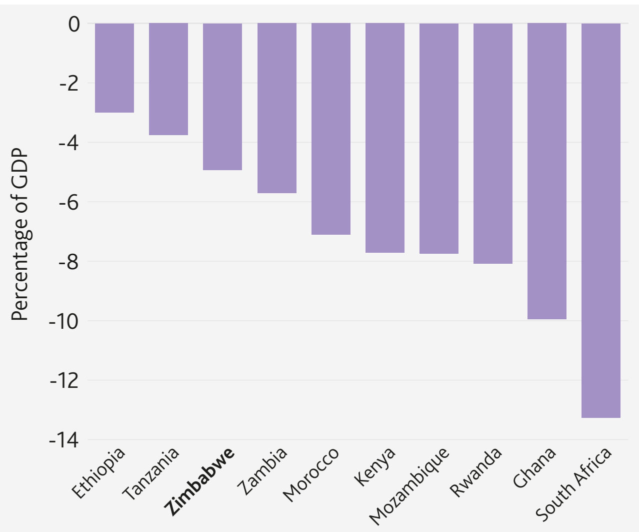
It is difficult to analyse and estimate the financial accounts of the entire public sector in Zimbabwe, and to compare it with other countries.[2] Central government expenditure is reported in the range 15-20% of GDP, lower than other comparative African countries. However, the World Bank "conservatively" estimated total public spending at roughly 50% of Zimbabwe's GDP.[3] This figure includes expenditures by the central government, local authorities, and financial support for an estimated more than 100 state-owned enterprises, many of which suffer from poor financial management.

Recommendation – Fiscal Transparency: Investor and public confidence can be enhanced by publishing a national set of accounts which includes a balance sheet of assets and liabilities and an accrual-based annual operating statement of income and expenses.

The crisis of 2008 resulted in a period of fiscal restraint. With the slogan of "What We Gather is What We Eat", the Government of National Unity Revised 2009 Budget had a focus on fiscal discipline, enforced by the use of cash budgeting.[4] This lasted until 2016, where extra-budgetary agricultural programs and wage bill overruns proliferated.

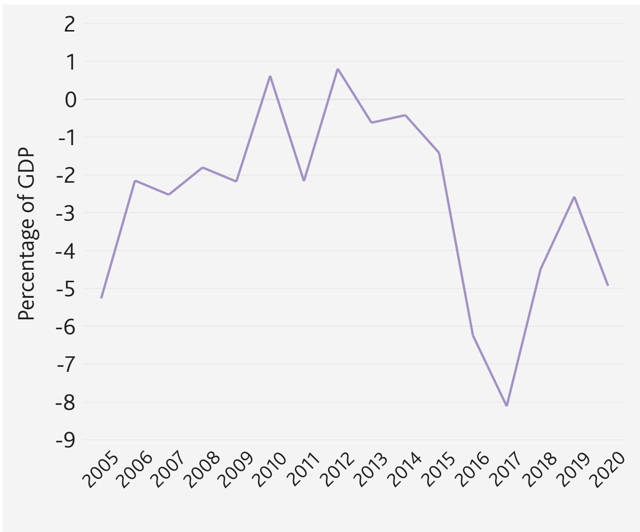
Expenditure targets between 2009 and 2018 "deviated on average by about 45%".[5] Today, the IMF notes that expenditure controls are not fully utilised, and the government is not fulfilling its reporting requirements, owing to weak audit and internal control processes.[6] The fiscal deficit peaked at around 8% of GDP in 2017, having been under three percent annually from 2008 to 2015. These large deficits have been driven by the rapid increase in government subsidies supporting farmers, and government grain procurement at above-market prices.

Figure 3: Government budget balance 2020



Source: International Monetary Fund 2019

Figure 4: Government budget balance



Source: International Monetary Fund World Economic Outlook 2019

Despite recent improvements to improve fiscal sustainability, such as the targets set out in the Transitional Stabilisation Programme, there are still many challenges.[7] The IMF considered the 2020 budget to be based on optimistic revenue and financing projections.

Key recommendation – Fiscal Discipline: The implementation of fiscal rules could be strengthened by adopting cash budgeting and strictly forbidding extra-budgetary expenditures. Increased parliamentary scrutiny of government investment contracts would also have an impact, as would holding leaders of government departments and agencies directly accountable for maintaining their own budgetary discipline and expenditure limits.

A key challenge is that government expenditure is not able to meet the humanitarian needs of the country.[8] The IMF notes that the funding gap for social programmes is currently around US$545 million. For example, there is a shortfall of US$ 275 million for the harmonised cash transfer programme and US$134 million for health assistance, which is the minimum required to cover public health, primary healthcare, and hospital care.[9]

Key recommendation – Prioritising key public services: Achieving fiscal discipline and ensuring social wellbeing necessitates that government expenditures are focussed on the delivery of key basic services (health, education, roads, basic extension services), with a focus on alleviating poverty, particularly in rural areas. This will also require scaling back low-priority current and capital spending. Outside the poorest areas and essential services, provision should be made using a self-help, public/private partnership model of financing.

Public sector wage bill

The public sector wage bill hit a peak of about 90% of the tax revenue in 2017, leaving very little spending space for maintenance or capital expenditure. The traditionally large wage bill reflects a state sector that grows because of the imperative of political patronage. A 2010 audit estimated there were 14,000 ghost workers on the Zimbabwe payrolls, while a 2015 study estimated 3,500.[10] There have also been efforts to weed out ghost workers by introducing biometric registration.[11] In the last two years, high inflation has eroded public sector real compensation by more than 80%, from about US$5,000 per year in 2016 to less than US$1,000 in 2019.[12] Consequently, the wage bill as a share of government revenue has declined sharply.

Key recommendation – Government wage expenditure: A key component to ensuring fiscal discipline will be containing government wage expenditures – especially personnel numbers. It will be imperative to establish an affordable level of government employment and wages, taking into account revenues and need to provide adequate compensation to key workers, including in schools and health centres. As part of the control measures, it will be necessary to eliminate political patronage from government expenditure.

Debt

The 2019 IMF Article IV consultation classifies Zimbabwe as being in “debt distress”, with a large and unsustainable public and publicly guaranteed external debt of almost US$10 billion in 2019, 50% of GDP, of which a significant part is in in arrears.[13] The IMF notes that while domestic debt has grown in nominal terms, its real value has declined due to inflation. The large arrears on its external debt means it has been unable to access finance through international institutions.[14] Zimbabwe has recently contracted large commercial loans that are securitised by future mineral exports, meaning it has “unsustainable public and publicly guaranteed external and total debt and large external arrears”.

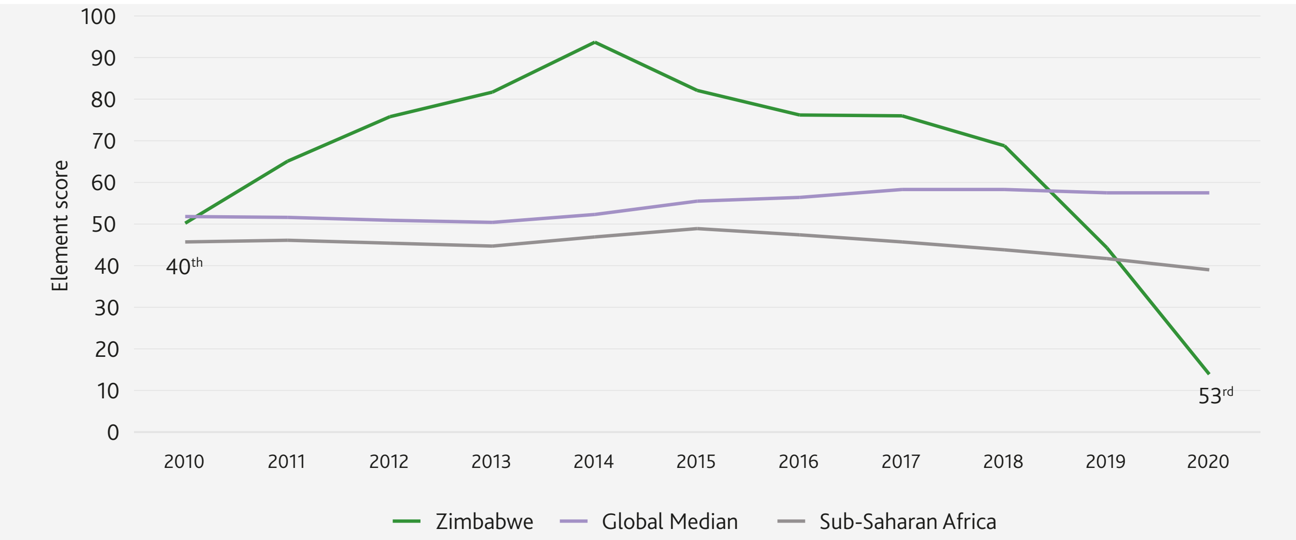
Key recommendation – Debt Management: Starting debt renegotiation with creditors will be an important part of a credible and comprehensive reform programme. This can also include sharing information in terms of recent borrowing (including recent collateralized borrowing against future gold and platinum export receipts). Building gradually a domestic market for government debt (with transparent issuance) is also a sensible medium-term ambition.

Implementing these recommendations will further provide a more solid and stable foundation for Zimbabwe's economy to be driven by commercial potential, rather than fluctuations in government spending needs.

MACROECONOMIC STABILITY (AFRICAN RANK: 53RD)

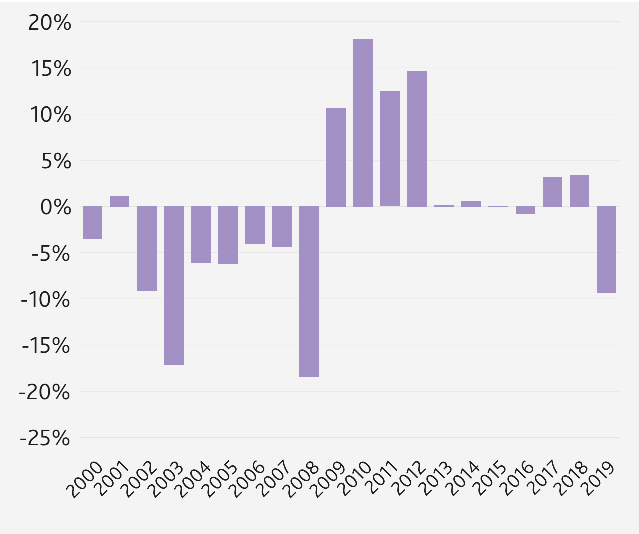
Macroeconomic stability acts as a buffer against currency and interest fluctuations. Low and stable inflation, low long-term interest rates, and currency stability all contribute. An efficient and relatively stable foreign exchange market is key to enabling the transfer function in international trade, provision of short-term credit to importers and for hedging against exchange rate risk. Macroeconomic instability, including a large fiscal deficit and high inflation results in currency fluctuations and large debt burdens, and can cause economic crises and collapse in GDP.

Figure 5: Macroeconomic Stability score



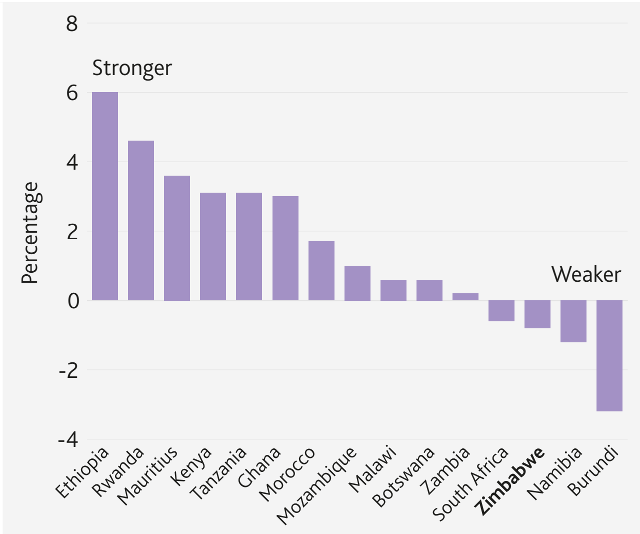
Zimbabwe ranks 53rd in Africa for Macroeconomic Stability, having deteriorated substantially since 2014. Zimbabwe experienced 10 years of economic contraction from 1998 to 2008 (as shown by Figure 6). Subsequently, the economy grew at an average of 12% per annum, from 2009 to 2013, and then slowed to a low of 0.6% growth in 2016. Better growth in 2017/18 was reversed in 2019, when the economy shrank by 6.5% year-on-year, amid declines in agriculture (-18%); construction (-14%); mining (-12%) and manufacturing (-6%).[15] As a result, the five-year negative trend in GDP per capita is one of the most severe in Africa (Figure 7). The World Bank expects GDP to contract in 2020 by between 5% and 10%, partly as a result of COVID-19.[16]

Figure 6: Real GDP per capita growth (constant 2010 US$)



World Bank World Development Indicators 2019

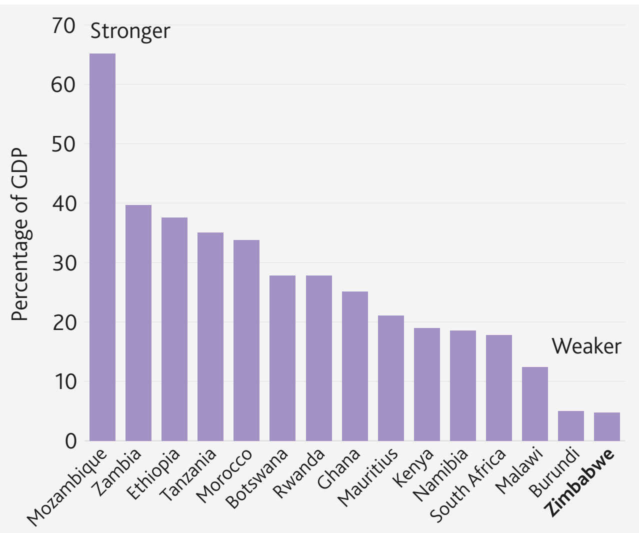
Figure 7: 5-year average GDP per capita growth rates (2015-19)



Source: World Bank World Development Indicators 2019

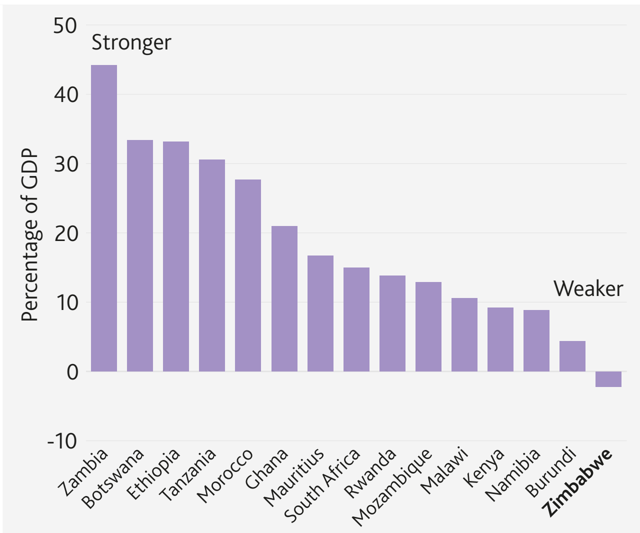
The IMF reports that private sector credit as a share of GDP has contracted for five consecutive years. These circumstances have led to a level of capital formation that is low compared to other countries, thereby hindering economic growth.[17] Bank assets shrank from 58% of GDP at end-2018 to 24% in September 2019, as a result of the parity conversion to the Zimbabwe Dollar.[18] This has reduced the banks' abilities to support investment and growth. High inflation, capital and foreign exchange controls, lack of confidence in the banking sector, negative real interest rates and low income and an informal economy have contributed to reduce Zimbabwe's savings rate. World Bank data suggests that gross savings has been declining, and are now -3.4% of GDP, ranking 163rd in the world (Figures 8 and 9).

Figure 8: Investment rate



Source: World Bank Development Indicators 2019

Figure 9: Savings rate



Source: World Bank Development Indicators 2019

Monetary developments

Zimbabwe has had a history of very high inflation and currency devaluations. At independence, the Zimbabwean dollar had a similar value to the US dollar. Over time, hyperinflation reduced the Zimbabwe dollar to one of the lowest-valued currency units in the world. It was re-denominated three times (in 2006, 2008 and 2009), with denominations up to a ZW$100 trillion banknote issued.

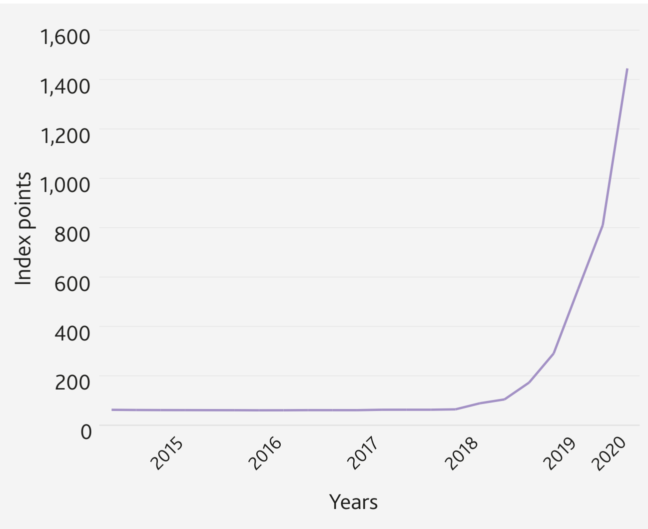
Use of the Zimbabwean dollar as an official currency was abandoned on 12 April 2009. In place of the Zimbabwean dollar, currencies including the South African rand, Botswana pula, pound sterling, Indian rupee, euro, Japanese yen, Australian dollar, Chinese yuan, and the United States dollar were used.

De-facto "dollarization" under the Government of National Unity helped to bring inflation under control and supported economic growth. However, the resumption of monetary financing of government expenditure especially since 2016, resulted again in rapid monetary growth, inflation, and the re-introduction of capital and foreign exchange controls.

On 24 June 2019, the Reserve Bank of Zimbabwe (RBZ) abolished the multiple currency system and replaced it with a new Zimbabwe dollar based on the RTGS Dollar. However, money growth was high; and this reform was unable to stem spiralling inflation, which reached 521% by the end of 2019, as monetary financing of the public deficit continued in the second half of 2019.[19]

Throughout the first half of 2020, extensive measures were adopted to try to avoid the depreciation of the local currency, including severe constraints in the foreign exchange market, closure of the stock market and restrictions on mobile payments. These efforts were largely ineffective, inflation reached 761% for the year ending August 2020.[20] However, more recently the temporarily reintroduction of the US Dollar as legal tender, foreign exchange auctions, reduction of subsidies and other measures appear to have started to stabilised the value of the local currency and inflation.

Figure 10: Consumer Price Index



Source: Zimstat 2020

Inflation and monetary stability

Rising inflation has affected the poor particularly badly, with higher prices for maize, fuel, and electricity. It also substantially reduced the wages for health and education workers, worsening already poor retention of skilled personnel.[21]

The primary drivers of monetary instability have been the lack of fiscal discipline on the part of the government and the lack of independence for the Reserve Bank of Zimbabwe (RBZ). The Bank has provided extensive monetary financing for quasi-fiscal government expenditures (gold incentives, grain subsidies, etc), rather than supporting price stability and economic growth.

Key recommendation – Monetary stability: Establishing and maintaining a clear policy for achieving low inflation will be essential for economic stability. Consider different ways to accomplish stabilisation, e.g. monetary targeting under the supervision of the IMF (which may take some time and require technical resources and international supervision) or the 2009 adoption of multi-currencies which achieved stabilisation — this option could also involve the adoption of the South African Rand, possibly in the context of joining the Common Monetary Area. Joining the Rand would link Zimbabwe more to neighbours with which it has high levels of trade, supporting regional integration, trade, financial flows and economic convergence.

The mandate of the Reserve Bank of Zimbabwe is not clearly defined and the reliance on foreign exchange controls has contributed to a lack of transparency and an environment supportive of corruption practices. The same risks apply to the framework for lending operations to the banking sector. The government introduced a Monetary Policy Committee (MPC) in September 2019 to deal with some of these issues and to improve the consultative process.[22] More recently, the introduction of a foreign exchange auction is contributing to make the foreign exchange more available and has reduced the differential between the official and parallel exchange rates.

Recommendation – Reserve Bank Mandate: An independent and transparent RBZ would provide increased confidence of monetary stability. This could be achieved by re-affirming that the mandate of the RBZ is to focus on monetary stability and low inflation, and not to provide extra-budgetary monetary financing of expenditures – reinforced by publishing its balance sheet and monetary statistics in a timely manner. It could be further insulated from political interference, particularly in the appointment, removal and remuneration of the Governor and senior officials, its budget, and policy-making processes.

Foreign exchange policies

The Reserve Bank of Zimbabwe has intervened extensively in the foreign exchange market. Zimbabwe suffers chronically from foreign currency shortages, attributable partly to the fiscal deficits, lack of confidence in financial institutions and strict foreign exchange controls.

The forex problems accelerated since the re-introduction of the local currency in June 2019. Until recently, the official exchange rate has not followed the depreciation of the parallel exchange rate, and this has resulted in severe foreign currency shortages. Producers rely on the parallel market for liquidity to import essential raw materials and pay for external obligations, and the premium in that market has increased.[23]

At some point the value of the local currency plummeted (with US$1 fetching ZW$90 on the parallel market in June 2020), thus pushing inflation to very high levels.

More recently, in November 2020, the RBZ auctions of exchange rate have managed to stabilise the depreciation of the local currency and the gap between official and parallel exchange rates has been reduced. The US Dollar has also been used temporarily as legal tender in the country since March 2020.

Consequences of an inefficient foreign exchange market

- Exporters are frustrated at the difficulties they face in getting foreign currency when they need it and do not trust the Reserve Bank of Zimbabwe assurances on their foreign currency account balances held in local banks. To meet operational needs and because the foreign exchange market is not reliable, export proceeds are often held in offshore accounts. In May 2019, the Treasury highlighted exporters' holdings exceeding US$1 billion in their offshore accounts.[24]
- Manufacturers require an average of US$300 million per month to import raw materials and settle foreign debts. Inefficiencies result in, for example, the Zimbabwe Fertiliser Company, not able to "meet domestic demand because of the lack of foreign currency to import raw materials."[25]
- Official diaspora remittances are about US$1billion. However, these flows are understated because they are now being channelled through informal actors and not the financial sector.[26] If the foreign exchange was liberalised, the Diaspora would use formal channels to send money back home and recipients would exchange their foreign currency for Zimbabwean dollars through banking channels. In practice, however, international money transfer companies have to work round the clock to import US dollars for cash withdrawals. Once withdrawn, the foreign currency finds its way to the thriving and open parallel market.

Key recommendation – Foreign Exchange: Making foreign exchange available in a liberalised forex market would help attract investment. Easing capital controls would also help

Stabilising the macroeconomic environment will help provide the basis for greater international investment and business confidence.

DYNAMISM (AFRICAN RANK: 40TH)

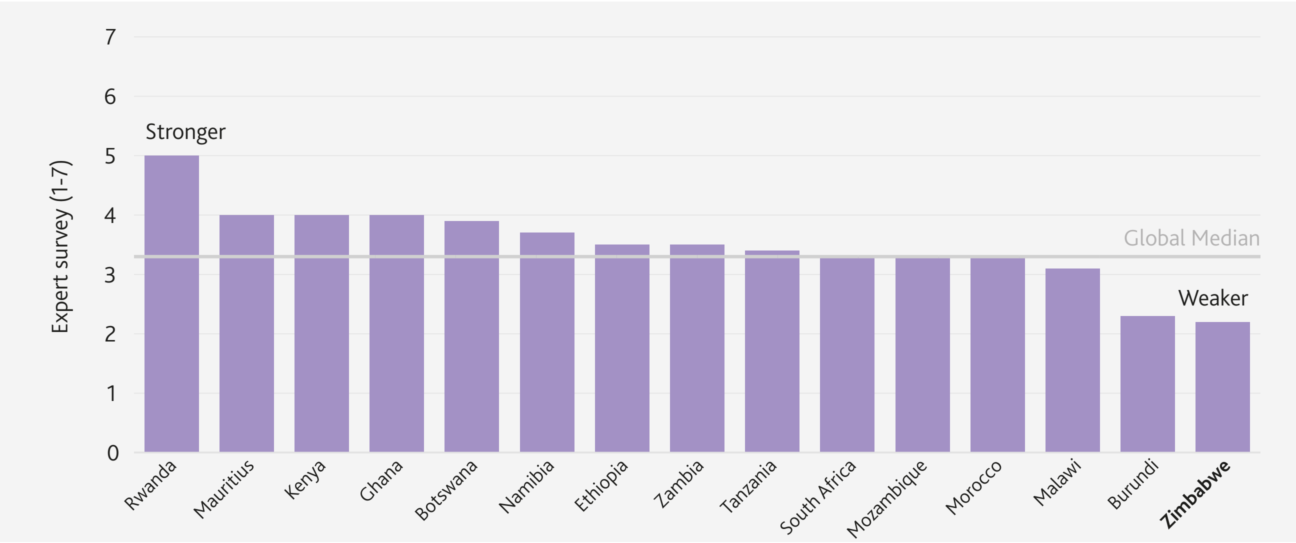
A dynamic economy benefits from a high churn of businesses, as measured by the number of new start-ups entering, and failed firms exiting.

Zimbabwe ranks 40th in Africa for Dynamism, making it difficult to attract and retain talented people. As a result of the economic environment (including lack of capital and burdensome regulations), relatively little dynamism is evident in the formal sector.

Business dynamism is low for several reasons besides the macroeconomic environment. Many small businesses cannot access capital from either local or foreign sources. Furthermore, many wealthy Zimbabweans are unwilling to invest in start-ups.[27] Banks are also hesitant to finance start-ups (see Investment Environment section). The regulatory environment makes it difficult for firms to enter the formal economy (see Enterprise Conditions). Finally, poor infrastructure impedes firms' ability to grow and easily access markets.

Positive indicators of the potential for dynamism in Zimbabwe include good education levels, resource endowment, and the entrepreneurialism of the independent sector. For example, a recent study highlighted the innovation that exists within the independent metal fabricating industry.[28] Much of this innovation is driven by wider economic challenges and the need to provide goods to farmers at low prices. According to the study, the "intense communication with farmers under changing industrial structures has been the bastion of innovation."[29] This study also suggested that the longevity of the business, and education of its owners, impacted positively on the innovativeness of the firm.

Figure 11: Capacity to attract talented people



Source: World Economic Forum Global Competitiveness Index 2020

A major constraint on greater dynamism has been Zimbabwe's difficulties in retaining and attracting talented people, for which it has been ranked 52nd in Africa by the World Economic Forum.[30] Over the last 20 years, Zimbabwe has seen a major brain drain of talent to advanced countries such as the UK, US and South Africa.[31] As of 2015, it was estimated that there were three million Zimbabweans abroad, and that between 2000-2015, 50% of all professionals had emigrated. Some of the main reasons for leaving include low pay and job satisfaction, collapse of funding, and declining currency exchange regimes.[32] The political situation and violence play a role as well.[33]

Given Zimbabwe's natural strengths in mining and agriculture, there is potential to increase innovation in these sectors. There is also potential in ecotourism and in the commercial and other activities of the independent sector.

One of the best ways to increase dynamism would be greater engagement with the Diaspora, with the long-term goal of attracting many of those who have left.

Key recommendation – Diaspora engagement: Engaging the diaspora is a way to bring back much needed skills, especially those that will have immediate pay-off such as in agriculture and mining. This can be supported by developing an IT-self-reporting skills database for Diaspora-based professionals, which both the public and private sector can tap into.[34]

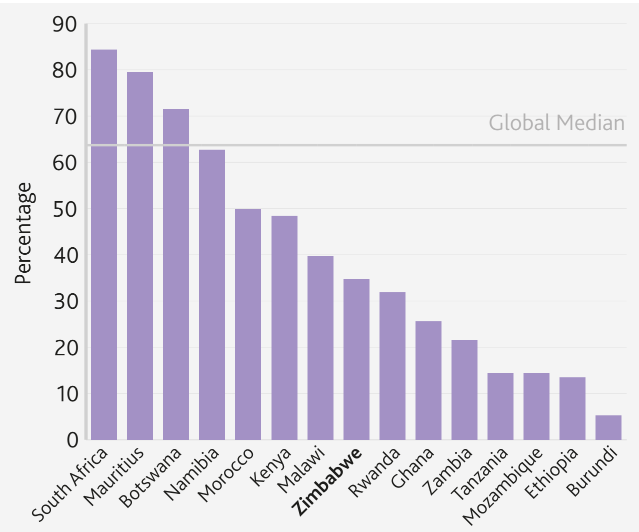
LABOUR FORCE ENGAGEMENT (AFRICAN RANK: 5TH)

The demographics of the workforce, including the rates of unemployment and gender ratios. Participation in the labour force, the level of unemployment, and percentage of the workforce in waged and salaried roles underpin the degree of labour force engagement.

Zimbabwe shows a high rank for labour force engagement in Africa. However, 76% of the people employed are employed 'informally' and a high proportion in sectors of low productivity. Unemployment is also rising, particularly among the young and in rural areas suffering from drought conditions.[35]

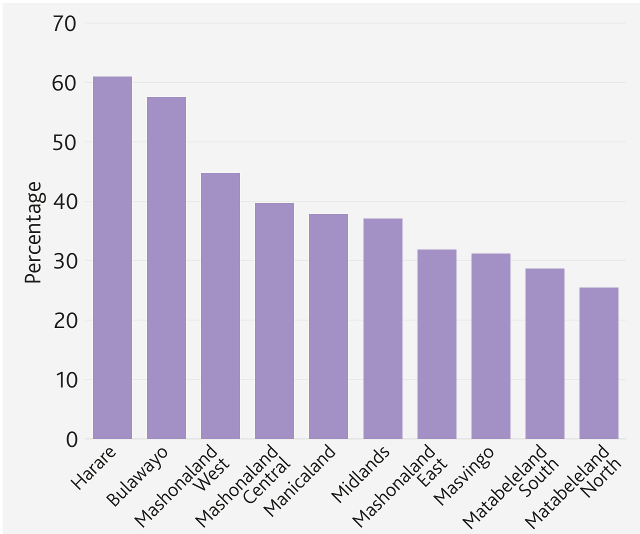
The overriding characteristic of Zimbabwe's labour market is its high degree of informality. It is ranked 21st in Africa for the proportion of workers who are waged and salaried (see Figure 12). According to Zimstat's 2019 Zimbabwe Labour Market Survey (summarised in the table below), 57% of the working age population (aged 15+) are outside the labour force.[36] Note that this excludes "persons engaged wholly or mainly in subsistence foodstuff production."[37] 43% of the working age population are part of the labour force, with a labour participation of 60.4% in urban areas and only 33.0% in rural areas (see Table 1).[38,39]

Figure 12: Waged and salaried workers



Source: International Labour Orgasanition

Figure 13: Labour force participation rates by province



Source: Zimstat

Table 1: Working age population (Zimbabwe 2019 LFCLS and own calculation)

Category	Number	% of population aged 15+
Population aged 15+	**8.10M**	**100%**
Outside Labour force	**4.64M**	**57%**
Subsistence farming estimate	3.62M	45%
Other	1.01M	13%
Labour force (excl subsistence farmers)	**3.46M**	**43%**
Unemployed	0.57M	7% (16% of 3.46m)
Total employed (excl subsistence farmer)	2.90M	36%
Formal	*0.93M*	*11%*
Informal	*0.98M*	*12%*
Household	*0.99M*	*12%*

Zimbabwe's low reported unemployment rate remained around 5% for many years, and is now reported at 16%.[40] Female unemployment is high, particularly for those with higher levels of attainment.[41] This is due to women dropping out of the labour force to raise children, and cultural attitudes against the promotion of women in the workforce.[42] Youth unemployment is also high, at 27% for 15-24-year olds.[43] Out of 300,000 young people who enter the labour market each year, less than 10% are engaged informal employment.[44] This unemployment affects particularly secondary and tertiary students, as there are few opportunities for them in formal employment.[45]

For most classified as employed, wages are low, with about 80% of the population earning less than US$100 per month (see table below) – a similar situation to that prevalent twenty years previously.[46]

Table 2: Income range (2019 US dollar)

Monthly income range (2019 US dollar)	Percentage
~$0	13%
$0-$40	50%
$40-$115	21%
$115 and above	16%

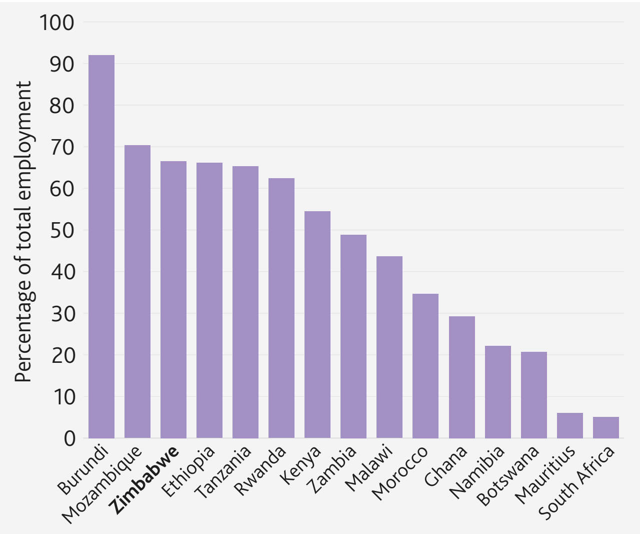
PRODUCTIVITY AND COMPETITIVENESS (AFRICA RANK: 28TH)

The efficiency with which inputs can be converted into outputs and the level of diversification in the economy. Competition enhances productivity by forcing firms to innovate in order to boost efficiency, overcome constraints, enter new markets, and improve products or services.

Zimbabwe ranks 28th for its Productivity and Competitiveness. One of the main barriers to improved productivity is the lack of diversification in Zimbabwe's economy, which agriculture and mining dominate.

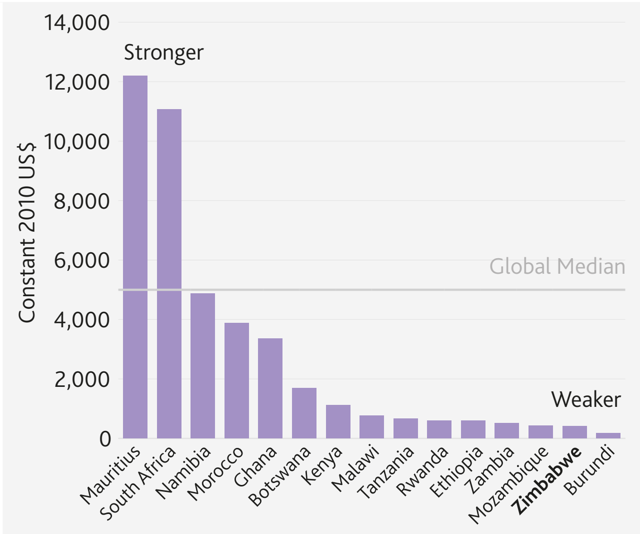
The diversity of the economy is low, in particular with respect to tradeable goods that are internationally competitive. Manufactured goods represent a very low share of exports

Figure 14: Employment in agriculture



Source: World Bank Development Indicators 2020

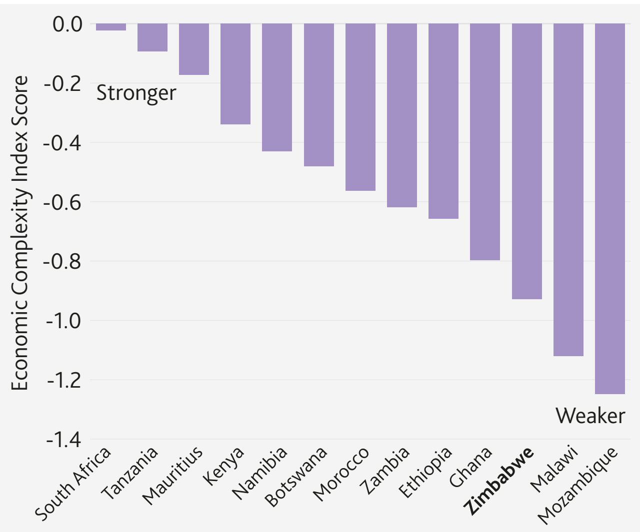
Figure 15: Agriculture, forestry, and fishing, value added per worker



Source: World Bank Development Index 2019

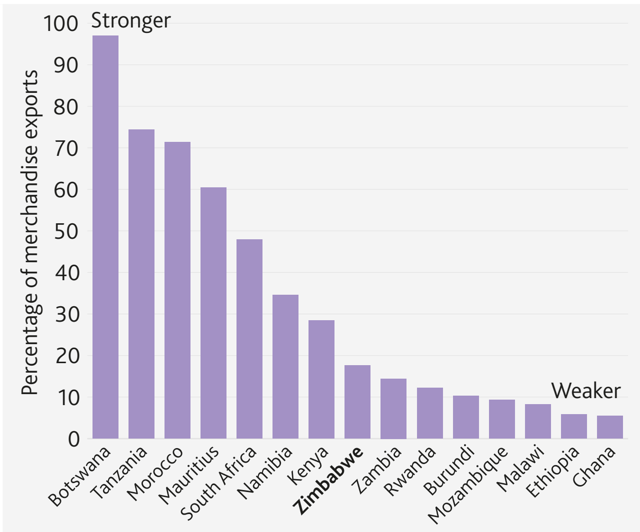
(Figure 17). According to the Atlas of Economic Complexity, Zimbabwe ranks 130th, down from 96th, for the complexity of its exports (See Figure 16). There has been a decline in textile exports, while tobacco and gold have increased their share of exports.

Figure 16: Economic Complexity Index score



Source: The Atlas of Economic Complexity 2020

Figure 17: Manufactured exports



Source: World Bank Development Indicators 2020

Labour productivity in 2019 was just US$3,892 (at US PPP 2011), ranking 34th in Africa.[47] Given that a large number of people work in agriculture, where productivity is very low, value added per worker is low. Industry value added per worker is also very low (including construction) but it is higher in services.

The following sections address the key productivity challenges in agriculture and mining.

AGRICULTURE

Agriculture remains the backbone of Zimbabwe's economy. Agricultural activities provide employment and income for 60-70% of the population, supplies a large share of the raw materials required by the industrial sector and contributes 40% of total export earnings. It represents 10% of GDP (down from 20% of GDP) and 40% of exports.

Tobacco production has experienced a boom, tripling its production since 2009, partly supported by contractor arrangements with producers that provide access to inputs and some extension services. In 2014, 71% of A1 farmers and 35% of "farmworkers" were engaged in tobacco production, producing on average 1,750 kilograms and 704 kilograms, respectively.[48] Animal products are a large share of the agricultural value added (44% in 2015). Currently, the main agricultural exports are tobacco, sugar, and cotton (71%, 13%, 7%), mostly directed to neighbouring countries (South Africa 70% and Mozambique 19%).

Zimbabwe's agricultural value added per capita is low. Productivity varies across different types of farms. Evidence collected by Prof. Ian Scoones[49] suggests that A1 farms (smaller farms) have been able to recover their productivity and show some dynamism. The fast-track land reform of 2000 disrupted the production in farms previously operated by white farmers and A2 resettlement farmers do not seem to have recovered the productivity of these farms The combination of lack of skills, poor maintenance, poor access to financing- particularly after the financial crisis of 2015, has disrupted their activities.

Agriculture is affected by droughts and other climate impacts. Additional factors that contribute to poor agricultural performance include: high inflation; scarcity of foreign exchange; a poor investment environment and a weak financial sector; barriers to doing business; lack of transparency and corruption in the administration of land reform; and weak state capability to support the agricultural sector.

Table 3: Agricultural Tenure types[50]

Land Category	Total Area	Individual Size	Ownership	Tenure Type
Communal	16.4m ha	12ha (includes grazing & forest)	1,300, 000 farmers	Traditional Usufruct
A1	5.8m ha	6 ha (excluding grazing)	145,775 farmers	Statutory Permits occupy and use land in perpetuity
Old Resettlement	3.5m ha	46ha (including grazing)	76,000 farmers	Permits
A2	2.0m ha	318 ha	16,386 farmers	99-year leases + offer letters
Small Commercial Farms	1.4m ha	148 ha average	9,655 farms	Leasehold to buy and freehold.
Large Scale Commercial farms	1.4m ha	2,200 ha	+/-300 white farmers and black farmers	Freehold + Short-term lease

In the last 20 years, the focus of the government has not been on improving the productivity of communal lands, but on the redistribution and support to the most fertile land previously occupied by white farmers.

Government has intervened extensively in the operation of agricultural markets, with the intent of providing support to farmers and consumers (minimum prices, subsidies to consumers, subsidies on inputs). The government supported the sector through the 2011-2015 droughts, providing the largest agricultural subsidies in the world.[51] However, this support was poorly targeted[52], lacked transparency and directly contributed to serious macro-economic stability in 2019-2020.

Most government support does not appear to have contributed to a sustained improvement of agricultural productivity, with the exception of tobacco. It has focused on price support and subsidies, while less public investments have supported irrigation, roads, and research and development.[53]

Innovation and Support

The Ministry of Lands, Agriculture, Water, Climate and Rural Resettlement co-chairs the National Conservation Agriculture Task Force with FAO, and meets regularly with farmers, extensionists, researchers and the private sector to discuss, refine and advance research on conservation agriculture. An estimated 300,000 Zimbabwe farmers have now adopted conservation agriculture.[54] There have been successful pilots of market-based conservation, for example, the FAO conservation programmes based on climate resilient seeds and breeds, micro-dosing of fertiliser, diversification of production.

In Zimbabwe, FAO-WFP and UNICEF have implemented e-vouchers supporting soil testing and extension services. These e-vouchers were distributed to farmers based on certain criteria, and they allowed farmers to determine the inputs they needed.[55]

Recommendation - Scale up climate-resilient agriculture. Scale up successful initiatives supporting climate resilient agriculture, including Pfumvudza and conservation agriculture (FAO) initiatives. Encourage innovative business models to support the adoption of climate resilient agriculture, micro-irrigations, and solar energy by communal farmers. Use support of contractors and mining companies.

Recommendation – Promote commercial advisory services: Catalytic investment to promote quality commercial advisory services for improving the understanding of contractor agreements with large corporations (Chinese Tian Ze and British American Tobacco). Provide a simple framework to encourage partnerships of A1 and A2 farmers with skilled commercial farmers.

Recommendation - Support growth of Agro-industry, eco-tourism and aquaculture. Catalytic investments for agro-industry growth, for services supporting agriculture and housing in rural towns. Ensure these jobs provide off-farm employment for people from communal areas. Provide basic social infrastructure in small rural towns. Invest/lend to catalyse communal investment in eco-tourism and aquaculture as high value activities that contribute to diversification and natural conservation.

Productivity and scale

The productivity of communal farms remains low. The productivity of A1 farmers appears to have increased significantly in the last few years. However, the productivity of A2 farmers has not recovered. There has been some loss of economies of scale. The government sought to reduce the size of large-scale commercial farming, increasing the number of commercial farmers from around 4,000 to over 300,000.[56] The uncertainty over property rights have affected investment plans of A2 farmers and restricted bank financing of their productive activities, disrupting production.

Some A2 land was not allocated according to who would make the most productive use of the land, but rather for political reasons, many of whom "lacked sufficient capital to invest meaningfully in commercial agriculture, did not have relevant farming experience, and were unable to put the bulk of their land into production for several years."[57]

Recommendation – Promote technologies to share productive assets: Promote services that allow the renting of tractors or other capital equipment for days at a time, without the expense of buying an asset, e.g. Hello Tractor the Uber for small farmers, now active in many African countries.

Recommendation – Enable growth of cooperatives: Provide supportive legal framework to develop farmer cooperatives that can provide extension services to farmers, facilitate the introduction of digital tools that support agriculture, coordinate the collective action on micro-irrigations and climate resilience conservation agriculture, provide access to last mile shops for inputs and facilitating access to storage, equipment, finance and marketing services.

Logistics

Many rural areas also lack easy transport access to markets, and therefore farmland cannot be used for anything other than subsistence farming.

Recommendation – Invest in roads: Build local rural feeder roads linking communal areas that have surplus production with markets in local towns. The removal of all roadblocks will also contribute to improve farmers access to markets.

Recommendation – Extend Supply Chains: Provide incentives for contractors to increase the number of small-scale farmers in their supply chains and introduce incentives for improvements in quality and value added.

Environmental Challenges

Agriculture in Zimbabwe is vulnerable to erratic rainfall and droughts, which severely affect its mainly rainfed agriculture -average loss of drought is estimated as 7.3% of agriculture GDP.[58] Zimbabwe has a National Climate Change Response Strategy with Action Plans and a National Adaptation Plan. However, few measures have been taken so far to mitigate or adapt to these risks compared to other countries.

Recommendation – Invest in irrigation: Support farmer-led irrigation in communal areas built by community decision, collective action and local leadership, using pumps and pipes bought locally. Encourage voluntary contribution of community labour for environmental rehabilitation, building stone terraces and other soil and water retention structures, digging wells and planting trees.

Recommendation – Develop climate-resilient agriculture: Scale up successful initiatives supporting climate resilient agriculture, including Pfumvudza and conservation agriculture (FAO) initiatives. Encourage innovative business models to support the adoption of climate resilient agriculture, micro-irrigations, and solar energy by communal farmers. Use support of contractors and mining companies.

Recommendation – Strengthen risk management: Support crop insurance to help farmers in low frequency, high severity regions. Strengthen Early Warning Systems and meteorological services. Link these systems to the planning of employment based social protection programmes.

Tax and Regulation

Agriculture also faces significant regulatory burdens and high taxes.[59] According to Edward Dune, Chief Executive of the Zimbabwe National Farmers Union (ZNFU), the tax burden is too high: "There is the rural development tax which is paid to the local government authorities, the tobacco levy on the tobacco farmer and the livestock levy".[60] Additionally, there is a 10% withholding tax on produce.

Tobacco farmers face a number of taxes as well: "0.75% government tax on all tobacco delivered to auction, and a 0.8% levy charged by the Tobacco Industry and Marketing Board for the gross value of tobacco sold at the auction" as well as the Ministry of Agriculture deducting "$0.875 per kilogram from the gross value of tobacco sold at the auction".[61] Economist and founder of Bullion Group, Persistence Gwanyanya, has commented on how it is unfortunate that while farmers pay these taxes, they do not bring about any tangible benefits to them.[62]

However, the government has made some progress in reducing taxes for the agriculture sector which includes exclusion of tobacco farmers from producing tax clearance certificates, suspension of duty on agriculture capital imports and zero VAT on farmer inputs.[63]

MINING

Mining is central to the Zimbabwean economy. Zimbabwe is ranked 19 of 182 countries on the Mining Contribution Index.[64] The mining sector faces many of the same challenges as other sectors in Zimbabwe, and output has slowed in recent years. The economic crisis and collapse in 2009 and the first half of 2020 has made it almost impossible for mining to operate, as it curtailed access to foreign exchange for operations and for remittance of profits.

Zimbabwe is considered to have substantial reserves in gold and the world's third largest platinum-group-metal reserves.[65] The perceived mineral potential of Zimbabwe (assuming best practice policies are adopted) is ranked 53 of 76 countries, a higher ranking than successful exporting neighbouring economies such as Botswana and Namibia. Mineral exports were responsible for 60% of the country's export earnings as of October 2018, and the mining sector contributing around 16% of national GDP.[66]

The mining sector has shifted from a dependency on metal (particularly ferroalloys) to a more diversified basket of metals, minerals, and stone.[67] For example, production of gold increased from 14.7 metric tons in 2012 to 22.7 tons in 2016.[68] Platinum metals increased from 22.12 tons to 30.4 tons over the same time period.[69] The government has also outlined ambitious plans to quadruple the sector's total value to US$12billion by 2023, as it looks to take advantage of abundant natural resources such as the country's Great Dyke, the second-largest platinum deposit in the world with around 2.8 billion tonnes of ore belonging to the platinum group metals.

Artisanal Mining

Accurate data on the mining sector is difficult to come by, given that much of the mining is informal, avoids government oversight, or is controlled by the military. Zimbabwe is said to have more mines than the rest of Africa. About 500,000 people are estimated to work in small-scale mining operations, which were responsible for nearly half of the gold produced in Zimbabwe.[70]

Many of these miners are artisanal miners. Artisanal mining in Zimbabwe has historically largely been a subsistence activity, complementing small-scale farming as alternatives sources of livelihood. Traditionally artisanal miners have mainly undertaken alluvial gold panning and gemstone mining. Artisanal miners work on a scale smaller than that of small-scale miners and, though they are expected to be registered, many of them work illegally without a mining title. Sometimes artisanal miners work side-by-side with the larger mining companies.

There has been very little progress in providing value added to mining operations. This is despite some government attempts, such as banning export of chromite to encourage construction of smelters (this policy failed). Part of the challenge is that small scale/artisanal miners are usually not included in the supply chain of larger mines.

Recommendation - Support beneficiation in mining (value added): Government could require international mining companies to include small scale miners and artisanal miners in their supply chains.[71]

Recommendation – Support to artisanal miners: Government should commit publicly to the support of artisanal miners and to make them central to the mining strategy: simplifying licensing requirements, providing training (including to comply with environmental legislation).

Environmental Impact

The environment is not being well protected from the impact of mining, and sustainability issues are ignored. Small scale mining also contributes to these problems, particularly through mercury pollution, cyanide pollution, acid mine drainage, river siltation, erosion and deforestation, landscape destruction and cultural damage.[72]

Recommendation – Protect the environment from impact of mining: Government selection of mining companies should take into account their environmental and socio-developmental record,[73] including their successful experience negotiating impact benefit agreements with local communities, supporting employment, local infrastructure, climate resilient infrastructure, extension services, eco-tourism, protection of the environment and environmental remedial action.

Mining Revenues

There is an absence of a transparent regime that ensures that mining generates revenues for the government. Instead there is a complex and incoherent, discretional use of income tax, royalties, specific taxes, and tax exemptions that result in mining contributing only two percent of total government revenues in Q1 and 4% in Q2 2020.[74]

Recommendation – Establish mining rent framework: Consult and adopt a simple framework to share mining rents with investors, transparently and through general laws rather than specific contracts. Favour long-term agreements that avoid costly re-negotiations, possibly including sliding-scale royalties based on international prices. Supplemental agreements could include the mining company's commitment for building or rehabilitating infrastructure that they need.

Transparency and corruption

Corruption is hampering the mining industry, and international environmental standards are not enforced.[75] Zimbabwe has not signed to the Extractive Industries Transparency Initiative. An IMF report has reported that most of the mining industry is covered in secrecy, particularly in the diamond sector. Mining contracts are not scrutinised, there is undue discretion in awarding licenses, and a lack of monitoring of production resulting in theft. Contracts are often negotiated in secrecy and with conditions that are specific to each agreement. The role of state-owned enterprises (MMCZ, ZCDC, FPR -a RBZ subsidiary-) introduces governance 'vulnerabilities.'[76] In addition, there is an increasing presence in the sector of Russian and Chinese companies that often are also not transparent.

Recommendation – Implement EITI: Become an implementing country of the Extractive Industries Transparency Initiative, disclosing information on the value chain (including mining agreements, revenues received by all government agencies, gender, and environment impact).

Mining Rights

The cadastre system is poorly managed and not digital, which also makes it open to corruption. This leads to small scale miners encroaching on other legally registered claims.[77] Given the high value nature of mining, the sector has been exploited by illicit actors, often connected to the regime, to extract value.[78]

Recommendation – Modernise the mining cadastre and licencing: Digitalisation and modernisation of cadastre system.

Mining Investment

The investment environment in Zimbabwe in the last 40 years has been hostile to the development of the mining sector in all fronts, with strong and unpredictable government interventions in the sector. The systemic weaknesses apply across sectors: legal system, property rights with indigenisation policies, taxation, regulations, socio-economic agreements, quality of infrastructure (including rail transport and electricity), trade barriers, political stability, security, and skills in the labour force. Mining policies are the least attractive for investors in the world, with Zimbabwe ranking 75th out of 76 countries in the Policy Perception Index for Mining of the Fraser Institute (compared to a ranking of 22nd for Botswana and 14th for Namibia). This ranking is so poor that it negates the relatively high mineral potential of the country and contribute to very poor investment attractiveness.

Recommendation – Professionalise leadership of mining sector: Recruit high level technical and leadership capacity for the government to manage the sector efficiently and with probity. Remove regulatory roles in the sector from all state-owned mining enterprises.

Recommendation – Establish prospecting regime: Identify reputable mining investors to explore Zimbabwe's mining reserves.

Credit (gettyimages.co.uk)

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INVESTMENT ENVIRONMENT (AFRICA RANK 37TH)

Investment is critical for both developing and sustaining an economy. Ideas and businesses need investment to develop and grow effectively. Long-established businesses and new entrepreneurs alike need investment, and investors need the protection and confidence to back them. A strong investment environment will not only ensure that good commercial propositions are investible, but also that adequate capital of the right type is available for such propositions.

A business proposition is made investible when the assets of the business are protected through property rights, the interests of the investors are protected, particularly in the context of insolvency, and commercial arrangements of the business can be upheld through courts of law. For capital to be available for investible propositions, there needs to be a pool of savings and a range of intermediaries such as banks, stock exchanges, private equity, and venture capital. In addition, tapping into global markets for international investment is a helpful booster for domestic capital, and in addition, tends to bring with it management expertise and fresh ideas.

Despite urgently needing foreign currency, Zimbabwe is not a friendly environment for investors. Zimbabwe is ranked 37th in Africa for its investment environment. Nonetheless, it has improved somewhat over the last ten years.

The potential for a prosperous Zimbabwe is to have public consensus on property rights in different sectors of the economy, where a variety of secure land tenures are recognised, and the rights to them are administered efficiently in an open and transparent manner. There would also be a thriving financial sector, with domestic and international participants, provides access to competitive lending, savings, insurance and capital markets services for all sectors of the economy.

Elements of Investment Environment

Property Rights *– how well property rights over land, assets and intellectual property are protected. In addition to the protection of these rights, there must be lawful, efficient, and effective systems in place to register and regulate property.*

Investor Protection *– the degree of investor protection, including the quality of corporate governance, minority shareholder rights, and strength of insolvency regimes.*

Contract Enforcement *– the efficacy and efficiency of a country's system to enforce the rights of a contract holder. In addition, alternative dispute resolution mechanisms must be accessible and efficient.*

Financing Ecosystem *– the availability of money for investment from sources such as banking and bank debt, to corporate debt and more sophisticated financial markets.*

Restrictions on International Investment *– the impact of policies that enhance or deter the volume and quality or type of international investment into a country.*

PROPERTY RIGHTS (AFRICA RANK: 48TH)

Property Rights are the key institution that make it possible to accumulate wealth and effectively participate in commerce. Where Property Rights are weak, people avoid taking risks, and this has a substantial impact on investment and the levels of effective entrepreneurial activity and wealth accumulation. The risks to Property Rights range from expropriation to limits on repatriations of profits and restrictions on the sale or transfer of assets. Our measure of Property Rights captures how well rights over land, assets, and intellectual property are protected.

Zimbabwe ranks 48th on Property Rights, significantly below the regional average. The lack of clear property rights over land is restricting the growth in Zimbabwe's agricultural sector. In particular, the lack of land security makes it difficult to use land as collateral with lenders, limiting the development of some of Zimbabwe's best farmland.

Land ownership following independence was morally indefensible. However, the result of the land distribution programme has been a more equitable distribution of land. However, the reform has caused significant distress, disruption of agricultural production, and forced thousands of white farmers off farms. Productivity has been affected, and a key challenge remains security of tenure.

ZANU-PF has continued to disrupt the operations on commercial farms, "including those owned by foreign investors and those covered by bilateral investment agreements."[1] Land is also used as a way of controlling the electorate. For example, ZANU-PF allocated 1,300 hectares of land in Bulawayo and Harare to young people to win loyalty, breaching numerous health and safety regulations.[2]

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History of Land Reform

The issue of land ownership has been contentious for a long time in Zimbabwe.

Prior to the Fast Track Land Reform Programme, between 1980 and 1999, agriculture contributed over 30% of national exports,[3] 18% of GDP,[4] and employed 30% of the formal labour force and 70% of the population.[5]

However, during this time agricultural land was largely held by white farmers:

'About 5,600 white commercial farmers had access to 15.5 million hectares of land, while over 780,000 smallholder farmers had to subsist on 16.4 million hectares of land. Whereas the average size of a commercial farm was over 1,000 hectares, the average size of a communal farm was less than 10 hectares.'[6]

Land reform was driven by a desire to rectify the inequitable distribution of land, a situation viewed as morally indefensible.

From 1980, there was market-based compensation, called the "willing seller, willing buyer" principle embodied in the Lancaster House Constitution.[7] This meant the government began purchasing land for resettlement from white commercial farmers and multi-national companies where they were willing to sell.[8]

Beginning in the 1990s, some land was compulsorily acquired, although compensation was still paid.[9] However, progress was slow, and much land was still in the hands of white farmers.

In 2000, as a result of pressures including invasions from black farmers and war veterans, and the decision of the UK not to finance the compensation of expropriated land, President Mugabe instituted the "Fast Track Land Reform Programme to redistribute land to black farmers without compensation. The government began to forcibly take over white-owned farms without compensation.[10]

The Land Acquisition Act of 2002 initiated the Fast Track Land Reform Programme (FTLRP). Two models, A1 and A2, were used to redistribute land owned by white farmers and state land. The models differed on size and profitability. A1 model farms were allocated to poorer, landless Zimbabweans to grow their own produce or graze animals. On the other hand, larger commercial farms were allocated A2 land.[11]

In 2005, the government amended the constitution to transfer ownership of land to the government. Instead of gaining title, occupiers of land now receive leases to land. One of these options is the 99-year lease. The intention of the 99-year lease was to offer security to farmers through a legally binding agreement between the farmer and the government.

Later, some white farmers appealed the land reform process, eventually bringing it before the SADC Tribunal. The Tribunal ruled in favour of the human rights of the white farmers. However, this was dismissed in the Zimbabwean courts, who concluded that the Tribunal's judgement could not be upheld in Zimbabwe.[12]

More than 7 million hectares had been redistributed. Up to 2015, 4,500 white farmers were dispossessed, and some 300,000 black farm workers lost their jobs.[13]

The 2013 Constitution provides for compensation of farmers whose land was seized by the state for improvements (clause 295). In March 2016, the government said it would start compensating evicted farmers.[14]

In June 2020, the government agreed to compensate 4,000 white commercial farmers who lost their farms during land reform. The agreement set that they will be getting US$3.5 billion compensation for infrastructural improvements that the farmers did on farms. Given Zimbabwe's economic situation, full repayment to farmers will be challenging.

Key Recommendation – Expropriation: In order to build confidence in the settlement, it will be important to refrain from expropriation of property without compensation. Supporting actions could include implementing a compensation plan for land expropriation and creating a complaints authority - for land use and the granting of leases.

There is some ongoing uncertainty over ownership or rights to use of land. There have been “multiple illegal allocations” as well as unclear boundaries of land and an incomplete cadastre.[15] Many landowners do not have formal documentation. The Zimbabwe Land Commission, established in 2016, has the mandate to solve disputes over land administration.

Key recommendation – Property Rights: In order to enforce property rights, the judiciary should be granted the ability independently enforce land rights, contracts and competition rules. Commercial courts should also be strengthened for the resolution of property rights disputes.

The government owns all land and issues long term leases, but it reserves the right to revoke these leases at any stage. There is a wide variety of different tenure types in use, including traditional usufruct, permits, leases and some freehold.[16] The government has been slow to give out the leases. For example, the Ministry of Lands, Agriculture, Water, Climate and Rural Resettlement has received 1,400 applications for 99-year leases since 2006, but it has issued just 163.[17]

Key recommendation – Leases and Permits: As part of the settlement of the land issue, the government should issue guaranteed 99-year leases to A2 farmers and 99-year permits for A1 farmers. The possibility of government breaking the holder’s title under such leases and permits should be removed. Where applicable, ground rents should be set at a rate that encourages productive use of the land.

It is difficult to transfer a lease to another person. Zimbabwe does not have a formal land-sale market for agricultural land. Commercial farmland that is leased for 99-year periods can be transferred only upon government approval.[18] This affects productivity, particularly of A2 farmers (see section on Agriculture).

Key recommendation – Land transferability: Regulations that enable the right of A2 farmers to transfer their leasehold title to others should be confirmed and implemented.

There is also some conflict between small-scale and artisanal miners, and farmers. For example, livestock can fall into pits left behind by miners, rubbish and mercury in the water can also lead to sickness.[19] Furthermore, some miners set alight tracts of grazing land to clear for mining. This is an issue that needs to be addressed in the review of the Mines and Mineral Act.

Categories of Land Tenure

Communal Areas: The communal areas comprise 42% of the land of the country (66% of agricultural land). Over 70% of the population resides in communal areas.[20] These former tribal lands are, by law, state-owned.[21] The Communal Areas Act gives power to the President to occupy and use land. Communal areas have de facto rights delegated to communities (including chiefs), under the oversight of rural district councils. The usufruct system gives these communities the right to the beneficial use of the land. Although land in communal areas cannot be legally sold, some traditional authorities increase their tax revenue by selling parcels of grazing land to newcomers for residential and farming purposes.[22]

The access of women to communal land is poor.[23] In the face of discriminatory customary laws, Zimbabwean women have a weak position to assert equal rights to inherit and hold land.[24]

A1 Farms: The second most common type of landholding is the A1 model. These are small plots allocated, in villages and in small, self-contained parcels up to 5 hectares, to landless and poor farmers for growing crops and grazing land. The property right is underpinned by Statutory Permits to occupy and use the land in perpetuity; it is inheritable but cannot be sold. However, due to high demand for land, holdings in communal areas and A1 resettlement land are often transferred extra-legally.[25]

Resettlement areas: In the 1980s, resettlement areas were established to de-congest communal areas and covered around 10% of the country. Use of the land was initially given by a restrictive permit system.[26] However, while following 2000, offer letters (substituted by land permits) and 99-year leases were proposed, with a 25-year concession proposed for wildlife conservancies.[27]

A2 Farms: The land reform programme allocated larger A2 farms, in parcels of 2 to 2,000 hectares, to black commercial farmers who could demonstrate that they had the experience and access to resources necessary to farm successfully. Offer letters are given to many owners of land that are eligible to apply for a 99-year lease. (Some white farmers who remained were given shorter 5-year leases.)[28] The intention of the 99-year lease was to offer security to farmers through a legally binding agreement between the farmer and the government.[29,30]

Furthermore, the leases are not secure forms of tenure, and therefore are unable to be used as collateral for lending.[31] The lease agreement gives the government the option of breaking the lease with just 90 days' notice.[32] This gives corrupt civil servants significant opportunities to extract bribes from landowners.[33] Lessees are prohibited from transferring their rights without the permission of the relevant minister.[34]

Large Commercial Farms: Following independence, many large commercial farms retained freehold title.[35] Other land was designated freehold or as state land.

Protected areas: Government also established 15% of the country's land as protected forests (2%) and national parks (13%).

Urban Property: 37% of Zimbabwe's population lives in urban areas, and the vast majority reside in informal settlements without tenure security.[36] Town planning rules and building regulations are rarely followed or enforced, and this creates substantial losses.

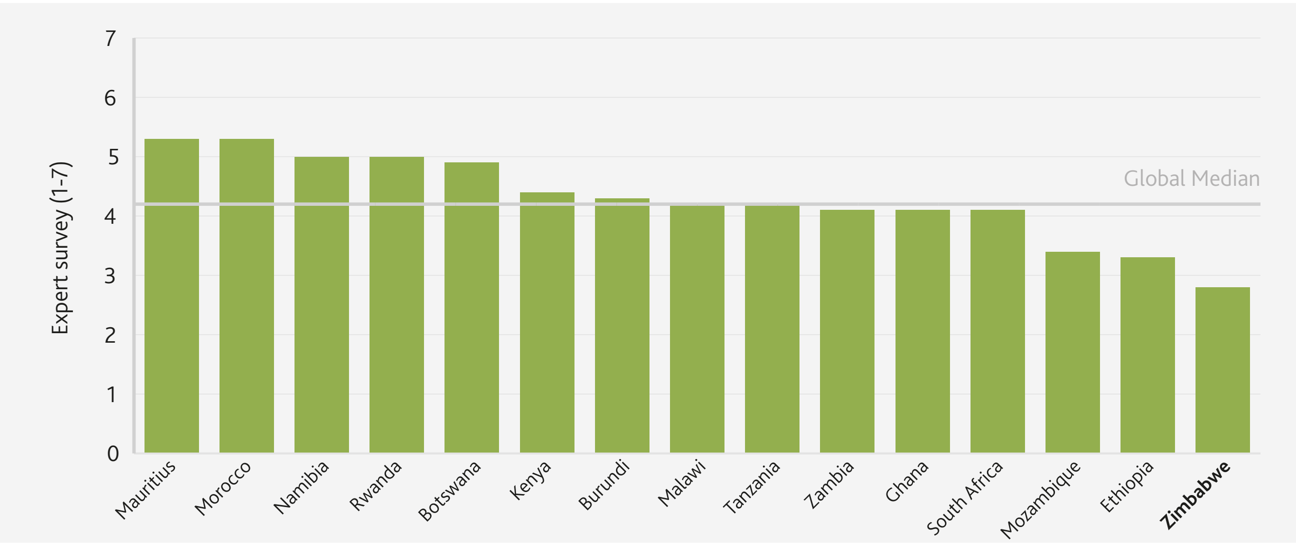
Property administration

Within the formal system, registering property in urban settings is relatively straightforward. On average, there are five procedures to register property, taking 29 days. This is less burdensome than the regional average of 6.1 procedures and over 51 days.[37]

There have been some improvements to land registration. For example, in 2019 Zimbabwe made property registration easier with a reduction in the property transfer time, whilst increasing transparency by publishing official statistics on land disputes for previous calendar years.[38]

There is corruption in some land administrative procedures, including a lack of clarity for granting land use permits, leases, and permission for sublease.[39] There is also lack of transparency in decision making, and lack of control over the process. These weaknesses lead to arbitrary decision-making.[40]

Figure 18: Protection of property rights



Source: World Economic Forum Global Competitiveness Index

Key recommendation – Land administration: In order to make best use of the new land settlement, it needs to be complemented by effective land administration. This could include establishing a land commission to map and register land ownership, including rights to mining; developing cost-efficient and simple surveying and register of lands, and land information management systems. All leases would be available and searchable in the land registry, with details of owners, transfers of ownership, subdivisions, mortgage bonds, transfer duties, sales prices and conditions or restrictions that apply. This would ensure a clear process for transferring title and updating the register.

Intellectual property

Zimbabwe generally follows international patent and trademark conventions and is a member of the World Intellectual Property Organization (WIPO).[41] However, there is a lack of expertise and resources to enforce obligations. Pirating of videos, music and software is common.[42]

INVESTOR PROTECTION (AFRICA RANK: 15TH)

Investor Protection is key for any country wishing to enjoy sustained economic growth, as they are a necessary enabler of the flow of capital to ventures.[43] Our measure of Investor Protection covers a range of indicators that gauge Investor Protection, from expropriation risk to minority shareholder rights.

Zimbabwe ranks 15th for Investor Protection. Corporate governance practices are relatively poor and there are major lapses, particularly in state owned companies. Furthermore, insolvency rules are weak. Across Investor Protections one of the big challenges is competence and training, as many working in insolvency do not have the professional skills required.

There are some good laws in place to protect investors, but the main challenge is to ensure effective and impartial implementation of these laws.

Auditing and reporting

Zimbabwe has reasonably good auditing and reporting standards on paper, ranking 7th in Africa. The core requirements for accounting, auditing, and financial reporting are defined in the Companies Act.[44] The Act requires companies to apply international accounting standards, which are adopted by the Public Accountants and Auditors Board (PAAB).[45] There is also the Public Accountants and Auditors Act, which authorises PAAB "to be the regulatory and standard-setting body for the auditors and professional accountancy organisations that regulate auditors."[46]

Zimbabwe has a strong Chartered Accountant board which compares well in the region. The SADC region is serviced by broadly the same audit firms – this brings some level of standardisation and reliability. In general, these firms are run by Zimbabweans.

Corporate Governance

The corporate governance of many private companies, and particularly state-owned enterprises is poor. For example, a 2014 report about managers of state owned enterprises reported that they paid themselves $535,000 per month.[47] In response to that and under pressure from the IMF, the government implemented a new corporate governance framework in 2014.[48] The new code had various requirements, including capping salaries for the heads of public enterprises, limiting their positions to 8 years, and an attendance requirement by representatives of government, treasury, auditors and comptrollers.[49]

Despite these changes, corporate governance is generally poorly practiced, either due to corruption or incompetence. The State of Zimbabwean Corporate Leadership Survey 2019 noted that corporate governance and top-heavy structures were the largest obstacles constraining the success of organisations.[50]

A 2020 paper noted a number of risks to good performance of state owned enterprises: many executives did not treat employees well, while taking large salaries for themselves, lack of management experience, and risk of corruption.[51] A survey of state owned enterprises in 2015 found that many enterprises did not measure themselves against or implemented the new code of corporate governance.[52]

The new Companies Act 2020 contains provisions specifically relating to corporate governance.[53] The Act gives greater power to minority shareholders through allowing dissenting minority shareholders to "realise their shareholding if they disapprove of the resolution approving the fundamental change".[54] The effectiveness of this provision remains to be seen.

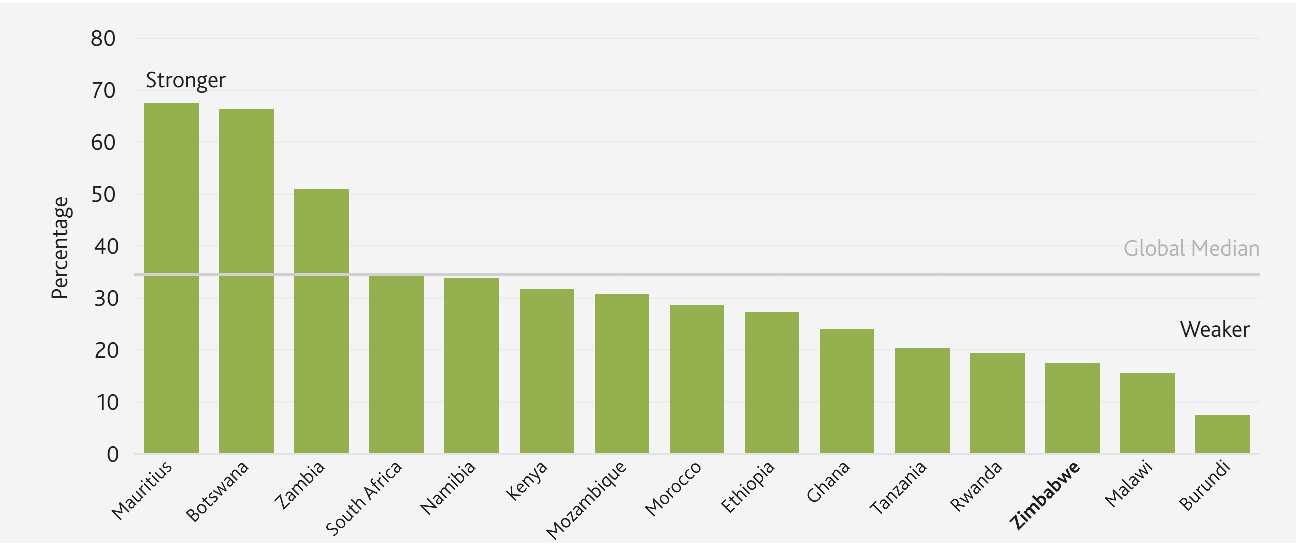
Insolvency

Zimbabwe has a relatively weak insolvency framework, ranking 29th in Africa,[55] and ranks 33rd in Africa on insolvency recovery rate. Investors can expect to recover just 18 cents on the dollar through insolvency.[56] Furthermore, most companies that go through insolvency proceedings are unable to be salvaged and are wound up.[57] The vast number of insolvency cases, due to the worsening economic situation, has overwhelmed the system.[58]

Up to 2018, many of Zimbabwe's insolvency laws had remained unchanged for decades.[59] There has, however, been a new Insolvency Act, and the new Companies Act incorporates many of the provisions of this Act by reference.[60] There have been some legislative improvements, including in 2019 when Zimbabwe introduced a new reorganisation procedure, that allows creditors to vote on the reorganisation plan, while making it possible for debtors to obtain post commencement finance.[61] There is some degree of specialisation within the court system too, with insolvency proceedings delegated to the High Courts in Harare and Bulawayo.[62]

The primary challenge in Zimbabwe is the implementation of laws. As in other areas there are corruption challenges, with many insolvency practitioners concerned about impartiality of judges in high profile cases.[63] There is also often a lack of transparency over discipline of liquidators or judicial managers. While the Council of Estate Administrators has authority to sanction liquidators, it is difficult to find examples where a liquidator has been sanctioned.[64] There are also issues about the competence of people involved in these processes.

Figure 19: Insolvency recovery rate



Source: World Bank Doing Business Index 2019

Key recommendation – Investor protections in practice: Strengthening the capabilities of practitioners is critical to ensuring investors are protected. This includes ensuring that insolvency professionals, government officials and businesses receive training on corporate governance. Professional standards should also be enforced, with meaningful sanctions for misconduct.

Improvements in practice will be the most valuable progress in the short to medium term, and will allow investors to benefit from the protections that are intended for them.

CONTRACT ENFORCEMENT (AFRICA RANK: 35TH)

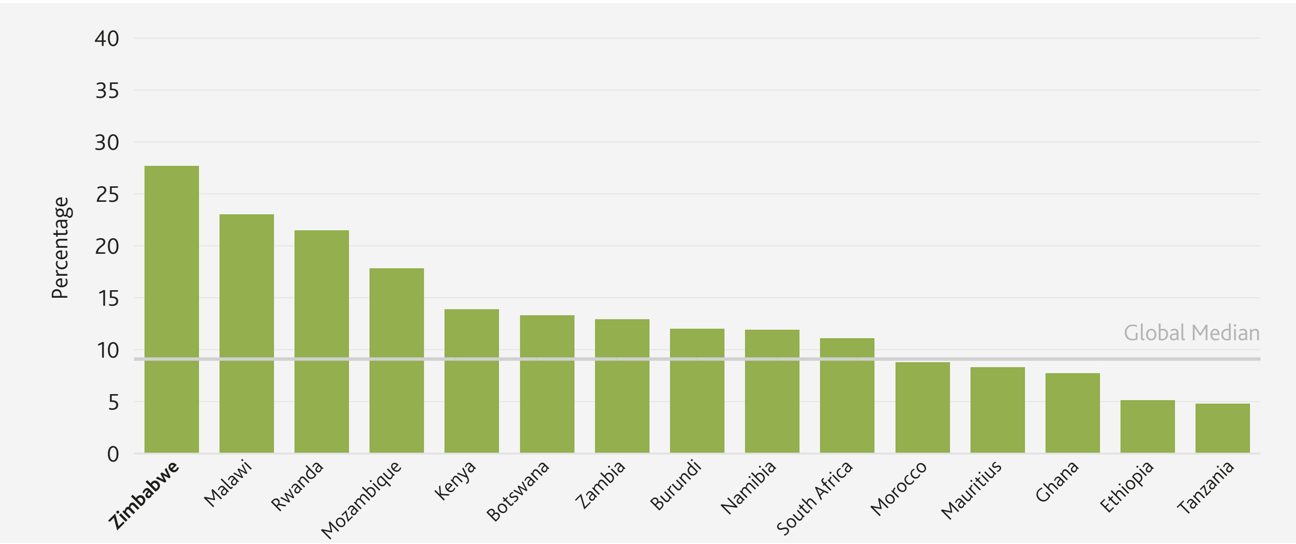
Contract Enforcement is a critical complement to trust, allowing economies of scale to grow beyond one's immediate circle of associates and family. Delays and costs in resolving contract disputes benefit neither party. Our measure captures both the efficacy and efficiency of a country's system to enforce the rights of a contract holder.

Zimbabwe ranks 35th for Contract Enforcement. The recent introduction of a commercial court offers the possibility that there will be a greater investment in the commercial expertise of judges. However, there are still major challenges in improving the quality of commercial dispute resolution, especially on the training and expertise of judges and arbitrators.

According to the World Bank, the time it takes to resolve cases in Zimbabwe is relatively short, taking an average of 136 days to resolve commercial cases, ranking 29th globally.[65] Improvements have included court automation through electronic payment, electronic service processes, and automatic assignment of cases to judges.[66] The creation of a specialised commercial court was also an important step, which is intended to "include simplicity of processes, minimization of costs and time, full integration of electronic case management systems, complete digitalisation of records, across the board training, enhanced professionalism and adaptability".[67]

However, legal costs are very high, averaging more than 27% of the claim value, ranking Zimbabwe 164th globally.[68] Legal fees are regulated by the Law Society in Zimbabwe,[69] but the Law Society is unable to keep track of all fees charged.[70]

Figure 20: Legal costs



Source: World Bank Doing Business Index 2019

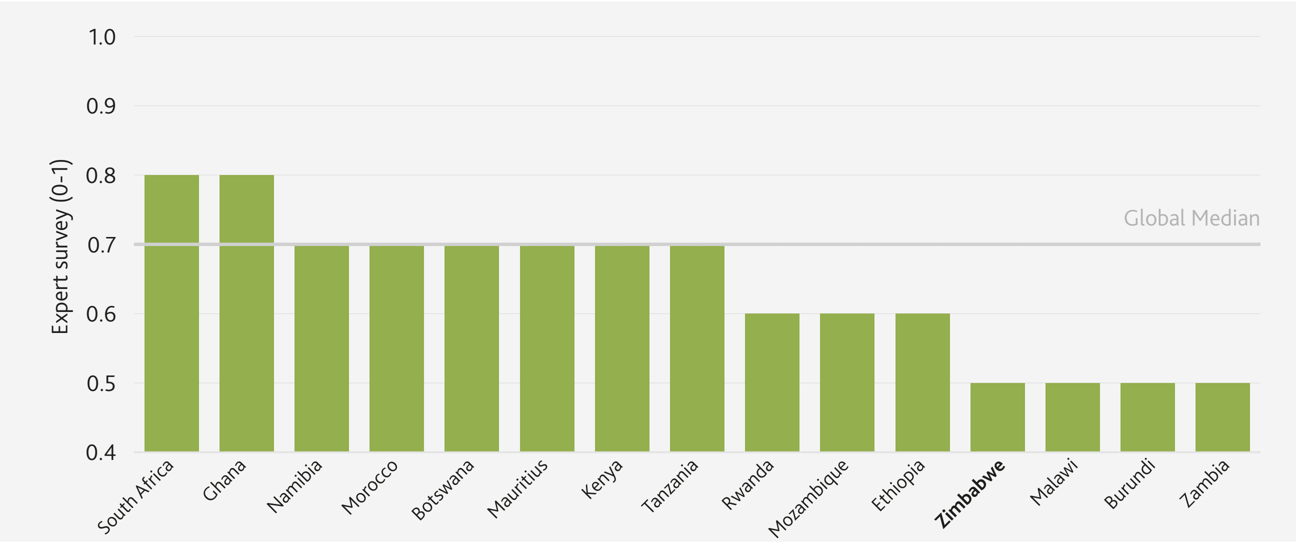
The main challenge in the legal system is the quality of the judiciary, with many judges having issues of corruption or lacking adequate professional training and experience. Many judges lack experience of commercial law. For example, Harare lawyer, Muchadeyi Masunda has stated: "Most of the judges in the country have not really gone through the mill in legal practice, hence the delivery of judgments is taking much longer due to lack of commercial experience."[71] There has been some attempt to improve this; for example, 55 magistrates went through training for resolving commercial disputes. The Commercial Court is also aiming to move to being paperless by June 2021.[72] The hope is that this will reduce the administrative load, reduce filing errors, and remove opportunities for corruption.[73]

Key recommendation – Judicial Expertise: Given the importance of commercial experience and expertise on the bench, consider hiring experienced judges from overseas jurisdictions, as well as experienced commercial lawyers to sit as judges in commercial courts.[74]

Alternative Dispute Resolution

There is a lack of capacity to carry out Alternative Dispute Resolution (ADR) effectively, and its quality is rated 151st in the world by experts.[75] Even though there is a specialised diploma in dispute resolution, there are low standards for registration, with it being "preferring to register anybody with a social science degree even if they were not competent in ADR".[76] As a result, there are a large number of arbitration decisions that are overturned in courts because they missed fundamental issues.[77]

Figure 21: Alternative dispute mechanisms



Source: World Justice Project (Rule of Law Index)

Nevertheless, many parties prefer ADR due to the faster process and opportunity to get specialist arbitrators.[78] It is becoming used for settling disputes between parties based in different jurisdictions.[79] ADR is being recognised by some legislation in Zimbabwe, including the Civil Matters (Mutual Assistance) Act and the Arbitration Act.

Key recommendation – Alternative Dispute Resolution: Given the potential of ADR as a reasonable and clear means of dispute resolution, consider creating higher standards for arbitrators and consider using overseas arbitrators.

As with insolvency, practical rather than regulatory changes will provide the greatest impact for investors – to give them the sense that the system facilitates commercial activity.

FINANCING ECOSYSTEM (AFRICAN RANK: 48TH)

The Financing Ecosystem ensures the availability of money for investment from sources including banking services, debt, and sophisticated financial instruments. A wide range of financing options for businesses is also desirable, as each of the basic financing options are better suited for businesses at differing stages of maturity with different revenue and risk profiles

Zimbabwe ranks 48th in Africa for its financing ecosystem, with economic instability limiting the development of the finance sector. Private sector credit as a percentage of GDP has been shrinking for a number of years. Banks have become increasingly risk-averse, due to the economic environment, capital controls and non-performing loans compounding their problems. There is a lack of long-term credit available for business.

The deteriorating economy has put the banking and microfinance institutions under strain. Both private equity and the stock market are underdeveloped, and the government's decision to close temporarily the stock market in June 2020 has not helped.

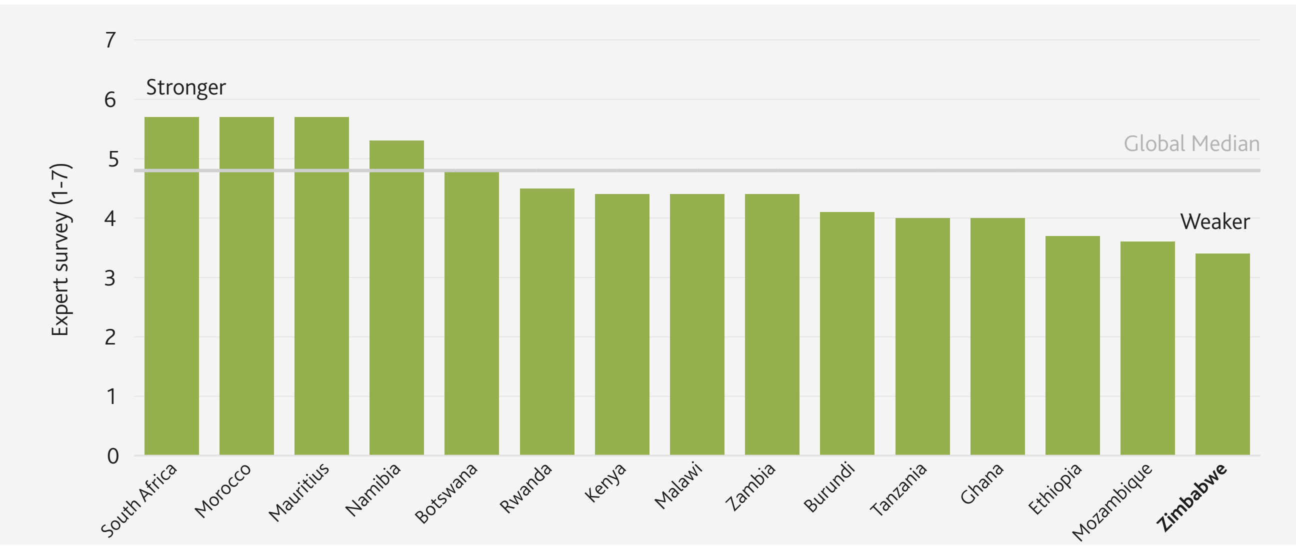
The government's attempts to control the value of the Zimbabwean dollar have weakened banks and restricted the availability of capital. Its attempts to control mobile money and close the stock exchange have further reduced confidence in the economy. Zimbabwe's economy is largely made up of SMEs, but these do not have much access to credit. The introduction of foreign exchange auctions has been a positive development.

Health of banking sector

The banking sector has been stressed by repeated economic crises.

The hyper-inflation of the late 2000s put many banks under strain. Dollarization in 2009 allowed the rebuilding of balance sheets and lending picked up. Lending to farmers was still at high interest rates. There was also an increase in the bank deposits and net credit rose to over 10% of GDP from 2011-14.[80]

Figure 22: Soundness of banks



Source: World Economic Forum Global Competitiveness 2019

The confidence following from this period led to less due diligence, which meant that many loans issued could not be repaid.[81] The share of non-performing loans increased, and the government had to address the financial crisis with the creation of the Zimbabwe Asset Management Corporation in July 2014 to take over banks' non-performing loans.[82]

In 2019, the IMF noted that banking sector capacity had been reduced, due to the conversion of banks' assets and liabilities to Zimbabwean dollars from US dollars at an exchange rate of 1:1 in February 2019. This caused "a sharp shrinkage in banking sector assets (from 58% of GDP at end-2018 to 2% at end-September 2019) and bank deposits converted into US$ (from 6 to 1.6 billion over the same period)."[83] In this situation, the soundness of banks in Zimbabwe is regarded as a substantial problem by international experts, ranked 49th in Africa (see Figure 22).

According to the Zimbabwe Reserve Bank, the performance of the banking sector was "largely satisfactory" in the first quarter of 2020. However, there is a risk that the declining macroeconomic environment, will lead to more defaults and lower bank lending.

Recommendation – Banking Supervision: Clarify the role of banking supervision in RBZ's mandate. Ensure RBZ has the technical resources in place to safeguard and regulate the financial sector and resolve issues efficiently.

Key recommendation – Bank balance sheets: It is important that bank balance sheets are healthy enough to meet withdrawals and sustain lending to productive sectors. RBZ should ensure that this should be preceded by an asset quality review across the sector and covering sovereign and related party exposure, non-performing loans, loan provisioning and real assets. To ensure credibility, this should draw on independent expertise.

Mobile Money

Mobile money is one of the bright spots in the financial sector in Zimbabwe. Mobile money is increasingly used in the Zimbabwean economy and particularly in rural areas and the independent sector. In 2016, the central bank issued a statement requiring greater use of point of sale machines, which was enabled by a national switch called ZimSwitch, which was later further developed to introduce Zimswitch Instant Payment Interchange Technology (ZIPIT).[84] ZIPIT was then integrated with all the mobile network operator's mobile money services to enable consumers to move funds between wallets to accounts at a reasonable price.[85] In addition, new regulations governing digital transactions have also led to the creation of Zimbabwe's first decentralised currency system, Zimbocash, further showing Zimbabwe's fintech potential.[86]

Zimbabwe's economic crisis has contributed to severe cash shortages. Due to this lack of cash, mobile money has been used as an alternative, particularly for people without access to banks. According to central bank data, more than 80% of all transactions are conducted on phones.[87] In 2020, mobile money companies, particularly, EcoCash, were accused by the government of undermining the Zimbabwean dollar. The government alleged that mobile payment platforms were major drivers of a large foreign currency trade outside formal banking channels, with multiple listed stocks such as Old Mutual providing proxy for the foreign exchange implied by their prices on foreign bourses such as the London Stock Exchange.[88] This has prompted the government to attempt to suspend mobile payments.[89]

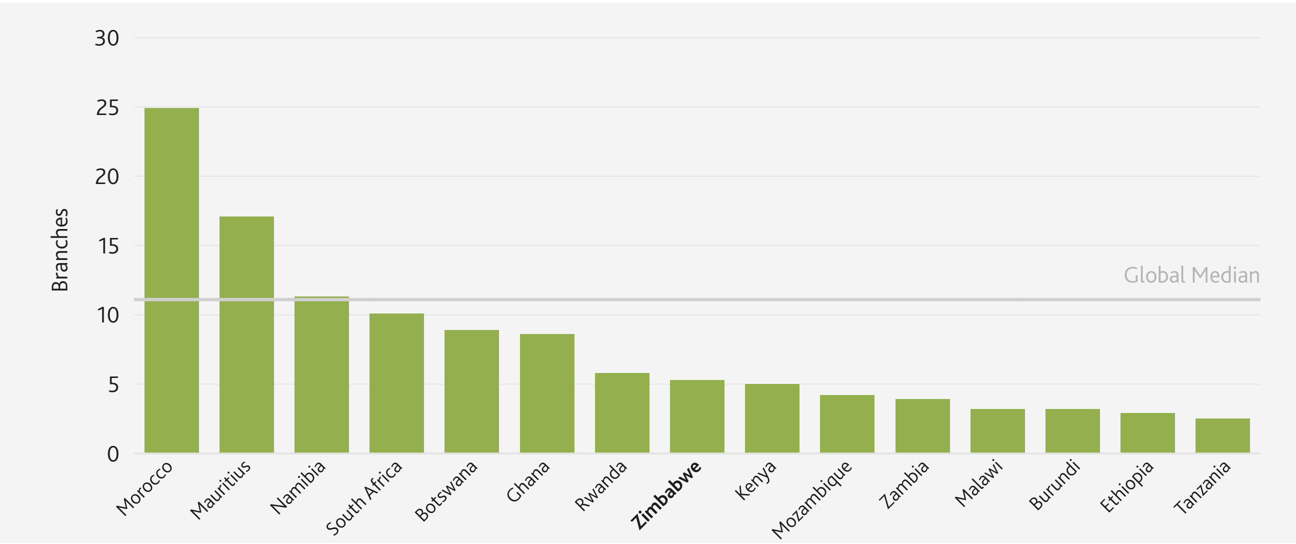
Key recommendation – Electronic Payments: A standardised system of electronic payments would help their normalisation. The government should consider aligning the legal and supervisory framework for payment and settlement systems with international standards, to catch up with rapidly growing electronic payments. Forums with public authorities and private stakeholders could help facilitate further development of the system.

Key recommendation – Mobile banking: Additional support for mobile banking, especially in relation to rural farmers. For example, strategic investment to support mobile-linked financial innovation that reduces the high transaction costs of micro-credits. Continuing the mobile developments in eco-cash and eco-diaspora.[90]

Scope of banking and finance

There are 13 commercial banks, 5 building societies and 1 savings bank. Additionally, there are 225 credit-only microfinance institutions (MFIs), 8 deposit-taking MFIs, and 2 development financial institutions.[91] The number of commercial bank branches is low (see Figure 23), with access more difficult in rural areas.

Figure 23: Commercial bank branches per 100,000 adult population



Source: International Monetary Fund Financial Access Survey 2019

Given the need for long-term finance to rehabilitate Zimbabwe's infrastructure, agriculture, mining and industry, equity capital is particularly important.[92] Zimbabwe's banks provide very little long-term financing. Lines of credit from banks are available only at very high costs, as banks struggle to manage risks. As a result, most firms have old infrastructure as they cannot afford to update this infrastructure.

The Government of National Unity (2009-2013) tried to facilitate access to cheaper funding for the private sector. For example, the 2011 US$100 million Zimbabwe Economic and Trade Revival Fund (ZETREF) with Afreximbank was intended to provide funding for the manufacturing sector. However, the success of these programmes was limited. In the first phase of the programme, ZETREF saw only 38.5% of the available balances being disbursed. The Distressed Industry and Marginalised Areas Fund (DIMAF) only disbursed one third of the $40 million that was made available.[93]

The other sources of private sector finance for long-term projects are also underdeveloped in Zimbabwe. The private equity industry is nascent, but it does offer some potential.[94] The stock market is also underdeveloped and was recently suspended temporarily by the government, as it accused the stock market of helping to undermine the currency.

Key recommendation – Competition: The government should consider facilitating the entry of broader range of financial providers (e.g. crowdfunding, input suppliers, large mining, agricultural or industrial companies, private equity and venture capital and community co-operatives), in order to stimulate competition and provision of innovative products. New products might include drought insurance, wider use of mobile and online services, and also accepting tractors, livestock or crops as collateral.

Key recommendation – Access to risk capital: Access to risk capital can be widened by creating incentives for privately managed venture capital funds to service the most dynamic, productive, and profitable areas of the independent sector.

Credit (gettyimages.co.uk)

The Zimbabwe Stock Exchange

The Zimbabwe Stock Exchange (ZSE) is the country's sole stock exchange. Open to foreign investors since 1993, the exchange has about a dozen members and currently lists 63 equities. Since August 2009, the sale of listed securities on the ZSE has been subject to 1% withholding tax on the gross sale, however, exempt from the general capital gains tax of 20%. Additionally, both resident and non-resident shareholders are liable to 10% special tax on dividends earned from companies listed on the ZSE, which is 500 basis points below the general rate of 15% on unlisted companies.[95]

Currency depreciation has had a large impact on the overall capitalisation of the ZSE. Since 2009, Zimbabwean stocks had been trading in US dollars. It, therefore, offered limited currency risk to foreign investors as the parity peg kept the exchange rate between the local currency and the US dollar at an equal value of 1:1; however, the Zimbabwean Dollar lost 85% in value against the greenback when the government dropped a parity peg to the US dollar in February 2019. Despite rising by 50% in Zimbabwe Dollar terms to Z$30.4B, market capitalisation fell by US$18 billion - in January 2019, before the drop of the parity peg, the ZSE was valued at US$20.8 billion (an all-time high) but had fallen to US$1.9 billion at the end of October 2019.

Equities are used as a safeguard against the currency

Zimbabwe's benchmark industrial index has risen more than sevenfold this year. Investors have used the domestic bourse as a haven from the country's collapsing currency and - the highest inflation rate in a decade.

Investors with cash in Zimbabwe prefer to buy shares to avoid their money losing value. Movements in domestic stock prices track the parallel currency markets on the streets of Harare, where in June 2020, the Zimbabwe dollar changes hands at about 100 per U.S. dollar, compared with the official rate of 57.35. *"People are looking at a hedge against inflation; that's why they are switching from Zimbabwe dollars to equities," said Lloyd Mlotshwa, head of equities at Harare-based IH Securities. "The stock exchange serves as a proxy to parallel market rates."*[96]

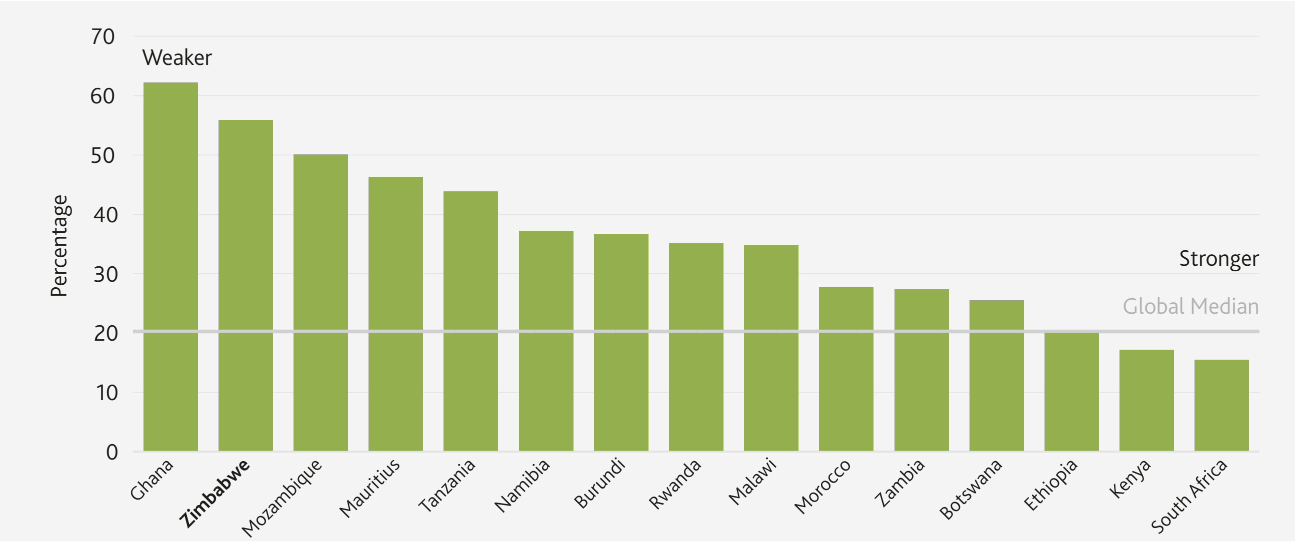
This led to the government suspending trading unilaterally both on the ZSE, and on mobile phone-based payments in an effort to protect the local currency and to address "criminality and economic sabotage."[97]

Government spokesman Nick Mangwana said this move was part of efforts to arrest the slide of the Zimbabwe dollar, which has sharply devalued since its reintroduction last year after a decade of dollarization.[98]

Access to finance for Small and Medium Enterprises (SMEs)

Zimbabwe's economy is dominated by SMEs. This has followed a structural shift in the economy, from one dominated by large companies to one driven more by SMEs, mostly anchored in the agricultural sector. In February 2020, Trade & Development Bank (TDB) estimated Zimbabwe's SMEs contributing to more than half of the country's GDP, employing over 75% of the workforce and comprising 70% of Zimbabwe Revenue Authority's database of registered taxpayers. However, despite their enormous contribution to the economy, they receive less than 4% of loans from Zimbabwean banks.[99] Access to finance is rated as very difficult by many of Zimbabwe's SMEs.

Figure 24: Access to finance (% of firms identifying access to finance as a major or very severe obstacle)



Source: World Bank Enterprise Survey 2016

Banks are increasingly competing with microfinance institutions. Microfinance institutions are often seen as preferable lenders because they have more flexible conditions, including accepting motor-vehicles or other moveable assets (e.g., livestock) as collateral.[100]

The Microfinance Act of 2013 (following January 2019 amendments) put the sector into two categories: Credit-only microfinance institutions (namely companies that provides loans and credit to small-scale borrowers); and deposit-taking microfinance institutions, (namely companies that accept deposits from small-scale businesses and members of lower-income groups).

The Zimbabwean Association of Microfinance Institutions noted that "agriculture [35%] and the productive sector [29%] accounted for 64% of the loan book … a significant shift of the microfinance business away from the traditional consumption loans (24%)".[101] This is in line with government policy to favour production lending.[102] There is also a high percentage of NPLs, with 14.6% of the total loan portfolio being NPLs as of June 2019, attributed to the macroeconomic environment.

Key recommendation – Microfinance regulation: Micro Small Medium Enterprises and the self-employed need an expanded offer of competitive credit facilities. The state can play a key role in the regulation of the microfinance industry, and to ensure that financial literacy initiatives are introduced prior to the provision of small loans.[103]

Key recommendation – Lending to independent sector: Banks should allow greater access to finance for the independent sector by lending to partnerships and clusters, and to established enterprises that already work closely with the independent sector (for on-lending to individual businesses).[104]

Increasing access to capital for both growing businesses has the potential to enable many entrepreneurs develop and grow the businesses of the future that will provide employment for many talented Zimbabweans.

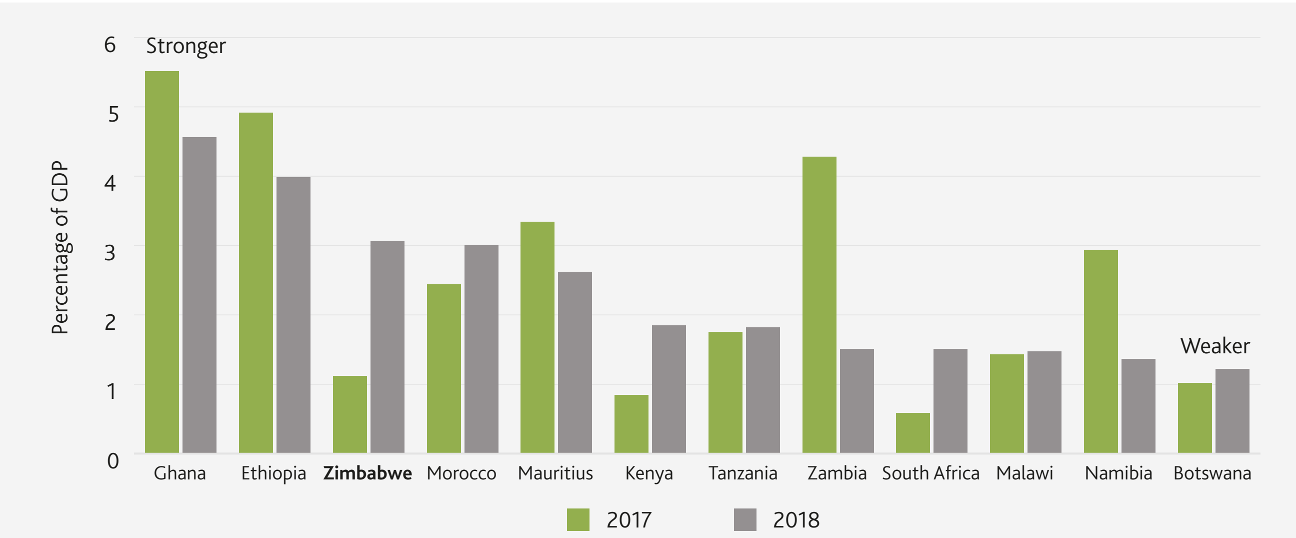
RESTRICTIONS ON INTERNATIONAL INVESTMENT (AFRICAN RANK: 41ST)

International investment shows a positive overall effect on economic growth. Research suggests that international investment is often more productive than domestic. The benefit of foreign direct investment (FDI) is not only the inflow of capital, but also the infusion of managerial skills that accompanies such investment. FDI brings competition in the form of product and service innovation, new working practices, and new efficiencies in productivity.

Zimbabwe ranks 41st for Restrictions on International Investment. The state of the economy and governance remain the main disincentives for investment, but there are also legal impediments. Despite many restrictions being removed recently by the government, a few of them remain. Most importantly, there are major capital and foreign exchange controls, although recent foreign exchange auctions are addressing foreign exchange shortages. Until recently, the difficulty accessing foreign exchange restricted foreign investors significantly.

Policy uncertainty and currency risk have been a major inhibitor of Foreign Investment in Zimbabwe. Until recently this has been compounded by restrictive legislation, especially the Indigenisation and Economic Empowerment Act.

Figure 25: FDI inflows



Source: World Bank Doing Business Index 2018

Legal Framework

The Constitution guarantees the right for any citizen or foreigner to "hold, occupy, use, transfer, lease or dispose all forms of property, either individually or in association with others."[105] It also guarantees access to impartial justice and against compulsory acquisition of land without adequate compensation.[106]

FDI inflows

FDI inward flows are relatively small. As a percentage of GDP they amounted to 3% in 2018. Its highest value was 7% in 1998, while its lowest value was -0.45% in 1987.[107] Annual FDI was 1.6% of GDP during 2004–2017, compared to the SSA average of 2.6% and well below countries like Zambia who attracted 6% of GDP during 2004–2017.[108]

FDI is directed towards the mining sector (diamonds, gold, nickel, platinum), infrastructure, the wood industry, healthcare, water and sanitation, financial services, tourism, manufacturing, and agriculture. China, drawing on its longstanding relationship supporting the liberation war, has long surpassed the United Kingdom as the largest investor in Zimbabwe (accounting for more than 70% of total FDI in 2019).[109]

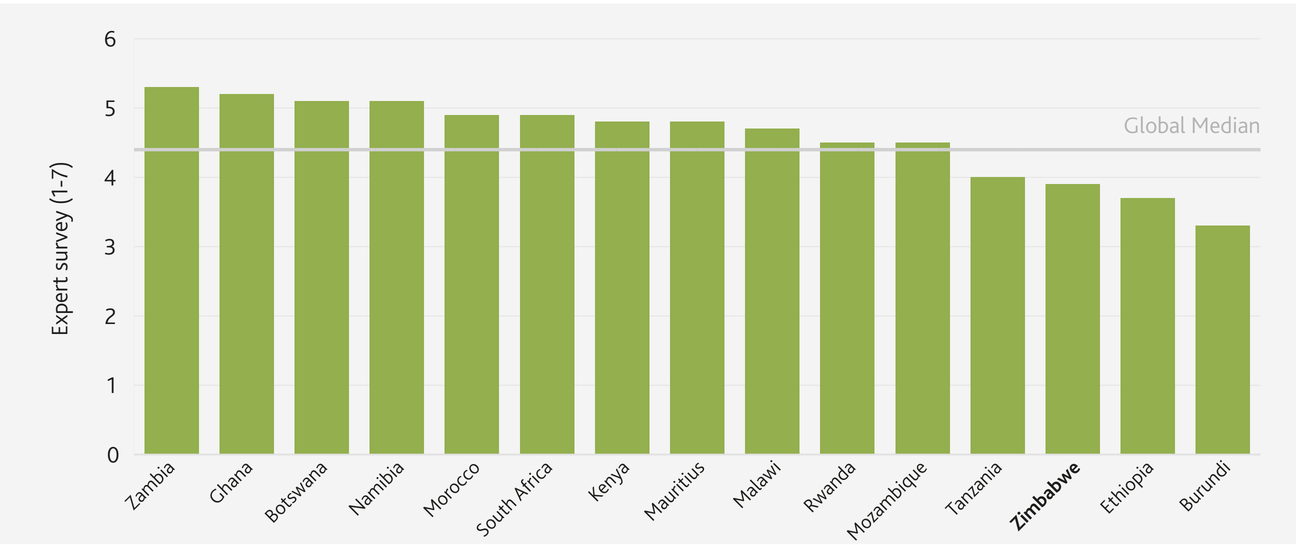
History of FDI

There are multiple reasons for the poor performance of FDI in Zimbabwe. In particular, Zimbabwe has suffered from lack of policy and institutional credibility.

However, there have also been several restrictions where, even if a foreign investor is willing to invest, it is difficult to bring foreign capital into the country. This has been driven both by a desire to prevent foreign ownership, as well as the need to control the flow of foreign currency to support the Zimbabwean dollar.

Historically there were broadly three ways in which investors come into Zimbabwe:[110] by partnering with a local company - also called brownfields investments (exchange control department of RBZ); by starting a new company - also known as greenfield investments (Zimbabwe Investment Authority, ZIA); or by acquiring shares in a Harare listed company (Zimbabwe Stock Exchange).

Figure 26: Prevalence of foreign ownership of companies



Source: World Economic Forum Global Competitiveness Index

Investors were advised to approach the relevant ministries first in order to establish the specific requirements for the sector concerned and thereafter approach the ZIA to apply for an investment licence (or, in the case of brownfield investments, secure an exchange control licence from the RBZ and then seek an investment licence from ZIA).[111]

The Indigenisation and Economic Empowerment Act

The Indigenisation Act was passed into law in 2008, and compelled public companies and other businesses to cede 51% of their equity to local shareholders.[112] The Act provided for some adjustment of the 51% ownership requirement through committees established to determine the minimum Zimbabwean shareholding interest. However, according to one lawyer, "the committees' recommendations have never been publicly disclosed. It would appear that mining companies (together with banks) were targeted as 'priority' targets of the government in its enforcement of the indigenisation legislation."[113] This legislation was applied with considerable discretion and lack of transparency and the legislation encouraged corruption.

The purpose of the law was to increase the Zimbabwean ownership of companies and resources. For example, some foreign-owned companies disinvested from the local market, while others transferred meaningful amounts of their ownership of equity to community trusts or local consortiums. However, in recent years, "a number of investors who have managed to invest in mining, banking and manufacturing have been exempted from the indigenisation policy," [114] leading to the confusion over the application of the law.[115]

In 2018 the Indigenisation Act was amended to limit its application only to companies involved in the diamond or platinum extractive industries and the 12 economic sectors reserved for Zimbabwean citizens.[116] The Act is also in the process of being modified to exclude diamond and platinum. In August 2019, Finance and Economic Development Minister announced that the Indigenisation Act is to be replaced by a more "business-friendly" Act. Investment uncertainty will continue until the new Act is passed.[117]

Promoting FDI

The government recently set out the Zimbabwe Investment Guidelines and Opportunities document, providing a framework for re-engagement with international financial institutions and a strategy to attract FDI.

In addition, the Zimbabwe Investment and Development Agency Act officially came into force on February 7, 2020. The objectives of the Act are to provide for, "the promotion, entry, protection and facilitation of investment". ZIDA will provide a one-stop investment services centre to support investors, reducing red tape. The Act seeks to protect foreign investors and their respective investments within Zimbabwe, which should give foreigners the comfort to bring and or keep their capital in the country.

Key recommendation – Foreign investors: In order to end discrimination against foreign investors, the government should complete process to repeal and replace the Indigenisation and Economic Empowerment Law, focussing on investment friendly ways to support local participation in the economy.

Capital and Foreign Exchange Controls

Zimbabwe has had chronic foreign currency shortages, and operates a variety of exchange and capital controls under which private individuals, traders and companies must seek permission from the government to buy, sell and hold foreign currencies. Successive currency crises have severely impaired the ease with which foreign business entities can deploy and repatriate funds.

In particular, the return of the Zimbabwe dollar meant that it is increasingly difficult to access foreign exchange currencies.

Investors and local businesspeople have cited strict capital controls as antithetical to FDI. For example, African insurance group Hollard Companhia de Seguros commented on challenges faced by companies looking to invest in Zimbabwe, and how it is hard to provide guarantees on profit repatriation. They mentioned that strict capital and foreign exchange controls was shutting out other investors, and that ultimately, “the free flow of capital was paramount,”[118]

However, the situation on foreign exchange shortages has improved recently with foreign exchange auctions, the official exchange rate is now close to the parallel exchange rate.

Key recommendation – Capital and foreign exchange controls: Reducing the extent of capital controls and ensuring a liberalised foreign exchange market will help strengthen the confidence of investors.

International agreements

Zimbabwe is a part of international agreements protecting FDI, including the New York Convention on the Recognition and the Enforcement of Foreign Arbitral Awards (1958) and the Convention on the Settlement of Investment Disputes Between States (1965). This means that investors can appeal for settlement by arbitration according to the United Nation’s Commission on International Trade Law’s rules.[119]

However, this has not occurred in practice. While local courts both recognize and enforce foreign arbitral awards issued against the government, there remains a history of extrajudicial action against investors from abroad, with senior politicians declining to support enforcement (for example the Campbell/SADC Tribunal and the von Pezolds).[120]

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INFRASTRUCTURE AND MARKET ACCESS (AFRICA RANK 32ND)

An environment supportive of trade and commerce allows new products and ideas to be tested, funded, commercialised, and delivered easily to customers. Equally important is the role that trade provides in communicating new ideas and raising productivity. Where markets have sufficient infrastructure and few barriers to the exchange of goods and services, trade can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, and commercialised. Competition from international trade ensures that even when a business does not export, it is forced to respond to new ideas from the increased competition in domestic markets.

Market Access and Infrastructure in Zimbabwe is poor, ranking 32nd in Africa. Historically, Zimbabwe was dependent on three main industries: agriculture, mining, and manufacturing. These industries were highly interdependent, requiring an extensive and effective infrastructure of power, water and transport links to support the production and freight of goods across the country.

An important enabler of development and the rehabilitation of those industries will be the rehabilitation of Zimbabwe's infrastructure. Problems in this area are fundamentally driven by a lack of investment in maintenance or new infrastructure.

The potential for a prosperous Zimbabwe is to have enhanced infrastructure that serves urban and rural populations alike in terms of mobile communications, electricity, water and transport. In addition, the county has the potential for a more open trade policy with smoother border facilitation leading to a more diversified group of trading partners and a wider range of value-added agricultural, industrial and mineral exports.

Elements of Infrastructure and Market Access

Communications *– the means of communication and how widespread access to communication is. Infrastructure for communications must necessarily be in place for strong communications within a nation, as well as the actual take up and use of communications by the population.*

Resources *– the quality, reliability, and affordability of the energy network within a country, as well as the access to, and use of, water resources.*

Transport *– the ease and efficiency with which people and goods travel between and within countries. This is a measure of the quality, diversity and penetration of all forms of transport; air travel, shipping and seaport services, and road and rail infrastructure.*

Border Administration *– the time and administrative cost of a country's customs procedures, alongside the efficiency of this process.*

Open Market Scale *– the size of the market to which providers of goods and services have privileged access.*

Import Tariff Barriers *– the fees associated with trading products and services across borders, raising an income for government and making foreign goods more expensive.*

Market Distortions *– how competitive markets are disrupted by non-tariff barriers to trade and the extent of market liberalisation of foreign trade.*

COMMUNICATIONS (AFRICAN RANK: 21ST)

The communication sector today is more important than ever, as it connects citizens to services and opportunities, allowing them to build a better future. Whole societies have been transformed by this evolution in communications technology, which has enabled those without access to banks to store and send their money safely, and to provide information on everything from weather to current market prices to farmers.

A good communication infrastructure makes government services available to the most remote communities. Digital platforms allow citizens not only to easily access government services but also weather information, extension services, mobile banking, on-line jobs, education, and telemedicine; no matter where they live. It provides a digital road to end the isolation of rural communities. Agriculture, education and health also rely on the existence of a strong Communication sector.

The quality of communications infrastructure is directly linked to economic growth. The development of better communications infrastructure can create many new jobs, often for the poorest and least educated people in a society, and internet usage is directly linked to increased earnings. A strong communication infrastructure is also a key foundation for the development of a state that is at the service of all its citizens and helps to build its integrity and effectiveness.

Zimbabwe ranks 21st on Communications, having risen 22 places over the last decade. There has been a major uptake in mobile phone use and increasing use of the internet. However, coverage and access are poor in rural areas, the market is heavily regulated and mobile tariffs are very expensive. The education profile of the population provides a strong skill basis for mobile internet use.

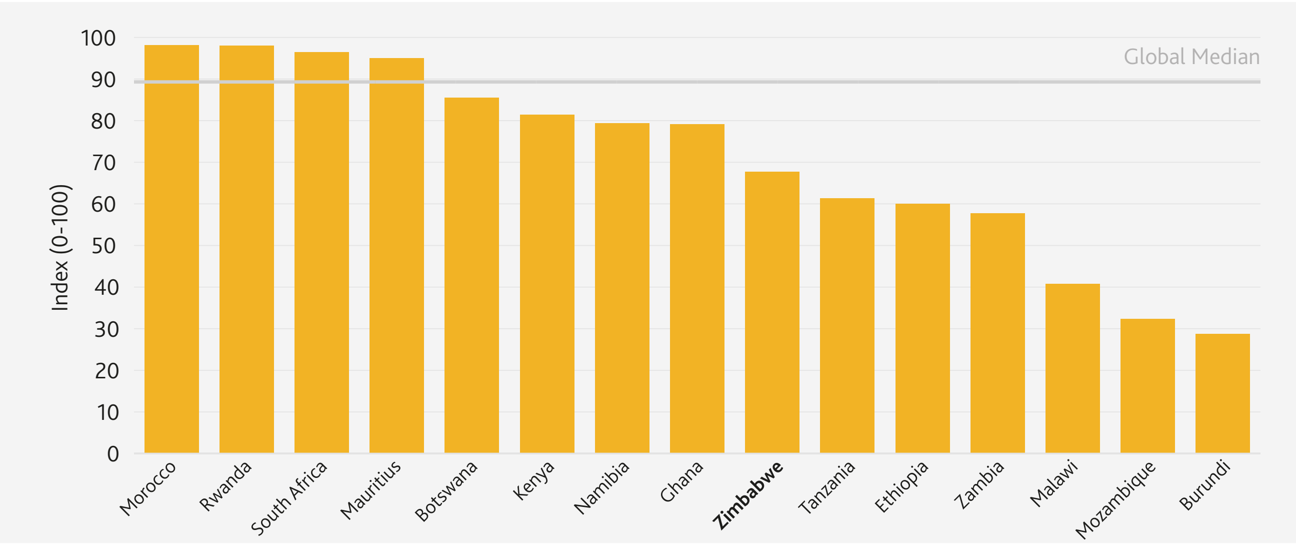
Mobile Coverage

Network coverage is improving, ranking 24th in Africa, up from 46th 10 years ago. 2G coverage is much wider than 3G and LTW.[1] There are 4,828 2G base stations in Zimbabwe, followed by 3G with 2,696 and LTE with 951.[2] According to The Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ), 15% of the population does not have access to any form of telecommunications. Only 28% of rural users have access to mobile internet — the main way of people accessing internet services.[3] Internet broadband coverage is also concentrated mainly in wealthier urban areas, rather than rural or less affluent areas.[4]

There has been increased investment in the mobile sector, although it is missing in many rural areas. Upgrading 2G infrastructure has faced problems. There is little incentive for private investment for new technology for rural areas, which still feature basic 2G mobile transmitters.[5] POTRAZ is working to improve rural connectivity, focusing on connectivity for schools, hospitals, police stations, and local council offices.[6] POTRAZ is aiming to establish community information centres to provide internet access in poorer communities.[7] There were 98 centres operating as of July 2019. The African Development Bank estimate that US$413.7 million is needed for the 2018-2030 period for the ICT development programme, which also covers institutional initiatives and capacity building.[8]

Key Recommendation – Infrastructure: The government should encourage mobile operators to upgrade 2G infrastructure in rural areas and to provide services in community information centres, including schools, hospitals, police, and local council offices. Reducing restrictions and (if needed) incentivise commercial infrastructure sharing.

Figure 27: 2G, 3G and 4G network coverage



Source: Groupe Spéciale Mobile Association 2018

Internet Usage

Internet penetration is still relatively low—according to the ITU it is just 27%.[9] Internet penetration is just 10% in rural communities. As of July 2018, Afrobarometer found that 49% of urban Zimbabweans used the internet regularly, while only 11% of rural Zimbabweans did. Overall, 62% of Zimbabweans reported never using the internet, compared to 14% that responded saying every day.[10]

In line with global trends, mobile and internet usage are both increasing. In the final quarter of 2019, there were 13.2 million active mobile subscriptions (out of a population of 14.4 million).[11] With a high number of people accessing the internet on their mobile, fixed line is decreasing in use.[12]

Expensive and poor quality

Zimbabwe has one of Africa's most expensive telecommunications markets.[13] The average monthly price for fixed broadband services in Zimbabwe was $129 in 2018,[14] almost twice the sub-Saharan African average.[15] The Alliance for Affordable Internet ranks Zimbabwe at 52nd out of 60 low-income countries in terms of affordability.[16] Zimbabwe also ranks 230th on Cable's 2019 mobile data price comparison. The average price for a gigabyte of data equates to $75.20.[17] Mobile costs (tariffs, handsets, and taxation) are very high, discouraging data usage. Deteriorating energy and transport infrastructure also affect costs. Econet in 2019 said that 1,300 of its base stations, a quarter of the total, were running on diesel generators, adding to the operating costs.[18]

Internet quality is poor. There has been investment in fibre networks and connection to two undersea cables which provide faster internet access than the traditional satellite links Zimbabwe used to have.[19] Zimbabweans face slow download and upload speeds relative to peers. Fixed broadband speeds are also slow, with Zimbabwe ranking 135th globally for its fixed broadband download speeds (14.4 Mbps).[20]

According to Speedtest, Zimbabwe ranks 108th for mobile download speeds (14.01 Mbps), which is much slower than the global average.[21] Each mobile operator has unreliable download and upload speeds, with particularly slow times in key locations such as Harare city centre.[22] In some places, it is common for downloads or uploads to fail.[23]

Key recommendation – Mobile services: Mobile services can be enhanced by providing catalytic investment to support the development of mobile applications (agriculture, banking, insurance) in rural areas. Put a few key government services on-line, for example the registration of companies, submission of taxes and custom declarations. Launch a wide dissemination campaign to inform citizens of how to use digital government services- including in schools and hospitals.

Regulatory Regime

The main internet service providers (ISPs) include Africom, Aptics, Aqcuiva, Dandemutande, EcoNet, Liquid Telecom, Pecus, Powertel, Teleontract and TelOne.[24] The competitive environment is dynamic, and larger ISPs have been strengthening their position by acquiring smaller companies, while emerging ISPs are based in cities such are Harare, Mutare and Bulawayo add to the competitive environment.[25]

However, there is still ineffective regulation. Regulation of the ICT sector is split between POTRAZ and Broadcasting authority of Zimbabwe (BAZ), which report to the Ministry of ICT and Ministry of Media Information and Publicity respectively.[26] These two organisations overlap in responsibilities, and there are no indications of collaborative efforts between the two.[27]

The regulator does not encourage competition or innovation. It imposes a high mobile license fee (20 times higher than in South Africa) and tends to favour state operators. There are also limits on the number of network licences that are issued, limiting competition.[28]

The government owns some of the major players in telecommunications, who often receive preferential treatment. These are state-owned TelOne, the only fixed line operator, and mobile operator NetOne (the government has a 60% share).[29] State-owned PowerTel rolls out fibre optic networks. While the government has stated its intention to privatise these companies, this has not yet happened.

The need is for liberalisation of the sector and better regulation to attract investments and more competition. On the regulatory side, there are easy wins. For example, reducing substantially the cost of mobile licenses and reducing restrictions would lower the entry costs for new competitors. Liberalisation should achieve more competition, lower mobile tariffs and a faster roll-out of 3G to rural areas.

Recommendation – Strengthen Telecommunications Regulator: Ensure independence and professional capacity. Focus on fostering competition and expand services to rural areas. Allocate radio frequencies (spectrum) to achieve these priorities. Ensure level playing field

Key recommendation – Competition: Services could be extended with a more complete liberalisation of the mobile sector. This could include reducing substantially the cost of licenses, reducing restrictions and allowing voluntary commercial infrastructure sharing to lower mobile tariffs, more competition and faster roll-out of 3G to rural areas.

Enhancing communications coverage across the nation has the potential to include many more in commercial activities, and to connect communities.

ENERGY AND WATER RESOURCES (AFRICAN RANK: 32ND)

Access to reliable and affordable resources, including water and energy, is crucial for a well-functioning economy. An unreliable energy supply can limit the growth of a potential business and act as an obstacle to effective trade. Our measure of Resources aims to capture the quality, reliability and affordability of a country's energy network, as well as the access to and use of water resources.

Zimbabwe ranks 32nd on Resources. The inadequate investment in all areas of electricity generation, transmission, and distribution means that Zimbabwe is reliant on electricity imports and rolling blackouts to manage demand, leading to firms facing a lack of reliable access to electricity. A key problem is that the state-run electricity company does not collect enough tariffs to cover its costs. As an agricultural nation, Zimbabwe is highly dependent on water, but there is little irrigation infrastructure. There is also a major problem with water provision in urban and rural areas for manufacturing.

Electricity and water provision are major enablers of government services and businesses, particularly manufacturing. To develop in other areas, it is crucial that Zimbabwe provide an affordable and reliable source of electricity and water.

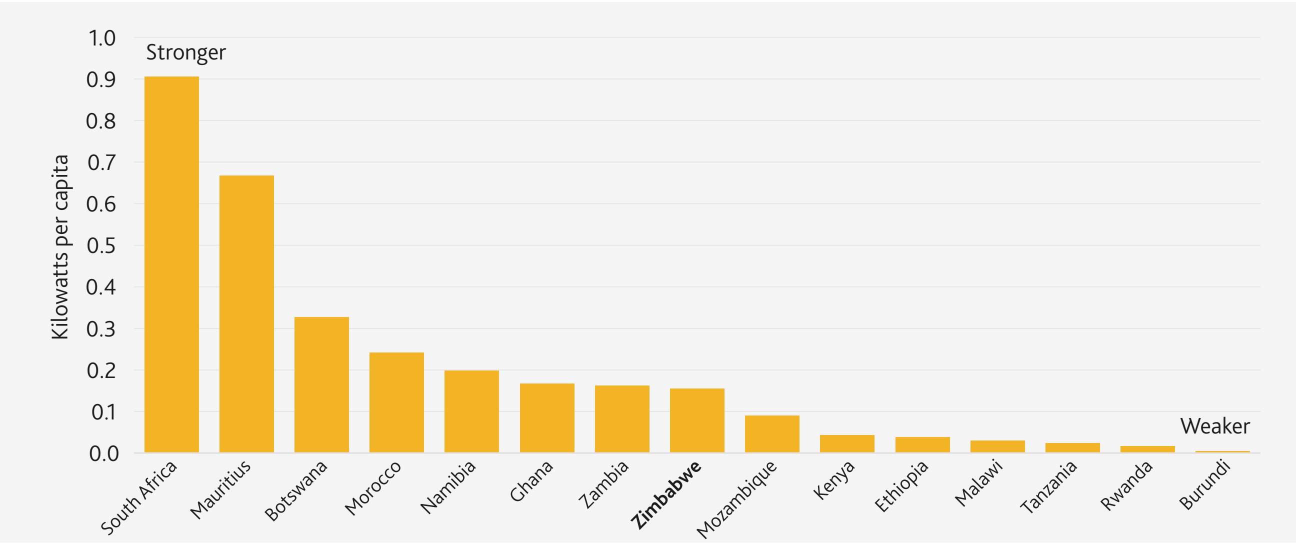
Electricity capacity

Zimbabwe does not produce enough electricity for its own needs. Zimbabwe has an installed electric capacity of 0.1 kilowatts per capita, ranking the country 120th globally.[30] The major source of power is the Kariba dam, with a capacity of 1,050MW,[31] and there are also four coal-fired thermal plants.[32] According to the African Development Bank, Zimbabwe had a total dependable capacity of 1,982MW in January-October 2018.[33] This is compared to a peak demand of roughly 1,724MW in 2018.[34] However, recently only about 60% of the installed capacity is available. According to ZESA Holdings, the country is producing just half of the 1,700MW peak demand.[35]

The reasons for this are twofold. Firstly, there is a lack of investment and maintenance in plants. For example, the Hwange coal-fired power plant has an installed capacity of 920MW but generates far less than this due to inadequate maintenance.[36,37] Secondly, the Kariba dam is often affected by droughts, and in December 2019 it produced less than 190MW due to low water levels.[38] To make up for the shortfall, Zimbabwe imports electricity, mostly from South Africa and Mozambique.[39,40]

There is also aging infrastructure, which needs major investment. The average age of transmission and distribution infrastructure is 35 years, and 75% of substations have old transformers.[41] There have been some recent investments into electricity generation. For example, China has recently invested $1.2 billion into the Hwange thermal power plant, which will add 600 megawatts of production.[42] Previous projects have failed to deliver significantly increased capacity. Projects either failed to deliver anything more than marginal gains or failed to get off the ground at all.[43]

Figure 28: Installed electric capacity



Source: United Nations Energy Statistics Database

Key recommendation – Electricity system investment: Additional investment could be encouraged by an investment framework that enables both private sector investment in new, large-scale power facilities (such as solar farms) and public and private partnerships to upgrade and improve efficiency of existing core assets such as Kariba South and the four coal-fired power stations.

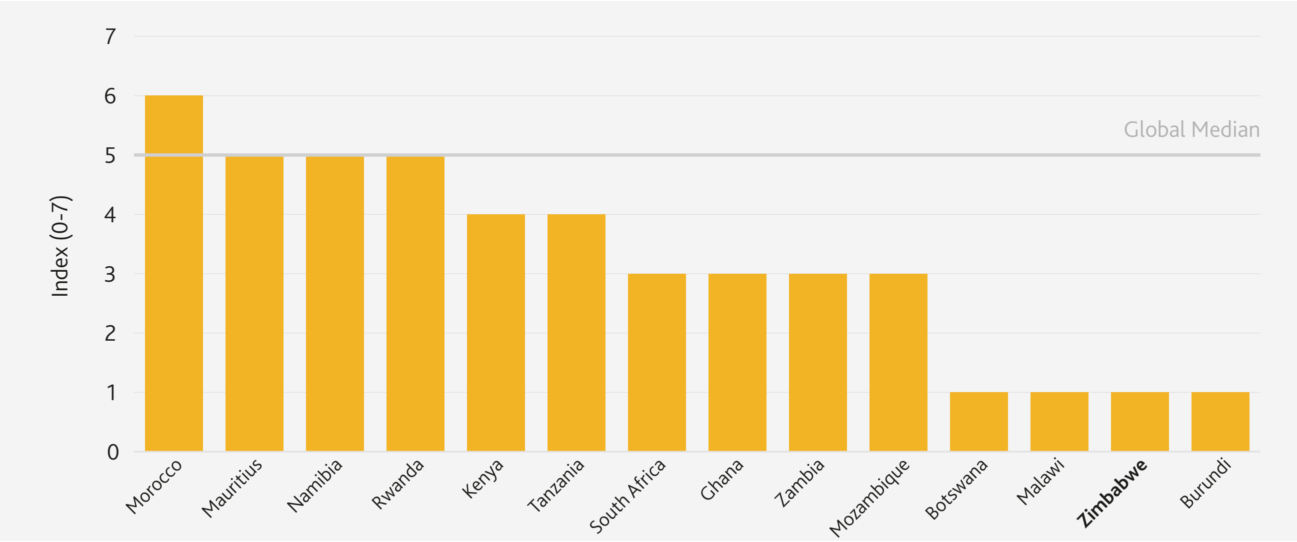
Electricity reliability

Reliability of electricity is poor in Zimbabwe, and power outages are regular.[44] Zimbabwe ranks 166th globally on the reliability of its electricity supply.[45] This poor reliability has been caused by insufficient capacity and ailing infrastructure. The main origin of Zimbabwe's electricity crisis is drought, leading the Kariba power plant dam, (where Zimbabwe gets 57% of its electricity from), to produce 34% of what it usually can.[46]

As a result, there were major power-cuts in 2019. To manage supply, ZESA has implemented rolling blackouts that can last up to 18 hours per day.[47] There are major economic consequences in factories and mines. According to the Confederation of Zimbabwe Industries and Zimbabwe National Chamber of Commerce, between June and August 2019 power cuts cost manufacturers over $200 million in lost production.[48] While some companies can afford to purchase diesel generators, the rising cost of fuel and inflation make it unaffordable for most businesses.[49] This also imposes additional costs. The reliability of electricity appears to have improved recently.

Due to the economic situation, Zimbabwe Electricity Supply Authority (ZESA) also owed South Africa's power utility, over $33 million, leading to South Africa cutting off power and causing power cuts in Zimbabwe in 2019.[50] Although the debt has now been re-paid, this has led the government to ration electricity via a load-shedding plan, and by increasing tariffs – all of which are causing further affordability issues.

Figure 29: Reliability of electricity supply



Source: World Bank Doing Business Index 2019

Key recommendation – Maintenance: Given the need to maintain service, there is a need to undertake "keep the lights on" maintenance and rehabilitation of core electricity generation, transmission and distribution assets.

Electricity Access

Access to electricity is poor, with 60% of the population lacking access to grid-supplied electricity.[51,52] It is particularly poor outside the cities, where an estimated 90% of rural areas do not have access.[53] Access to electricity is extremely unequal in urban and rural areas. The Zimbabwe National Energy Policy Report has found that rural communities meet 94% of their energy requirements for cooking from traditional fuels, primarily fuelwood.[54]

Key recommendation – Rural electrification: For the poorest farmers, there are multiple benefits from providing communal access to electricity - initially through government provision at a network of rural community hubs such as schools, clinics, post offices and retail centres.

The government should establish a system of community collaboration for the provision and management of alternative energy sources to replace wood burning and paraffin lamps. This could also include licensing that requires mining companies to support electrification in adjacent communities and tobacco companies, such as Tian Ze, to incentivise contract farmers to switch from wood to solar for tobacco curing.

Recommendation – Localised solar generation: For communal farmers there should be a focus on supporting small-scale solar projects that serve practical purposes, such as transitioning away from the use of wood as fuel and powering irrigation pumps, cottage industries and mobile phone charging/internet access.

The government should consider relaxing licensing rules for small producers to encourage solar investments. Catalytic investment would allow wealthier farmers and urban residents to build their own solar facilities (with government acting as enabler rather than provider – e.g. encouraging banks to offer loans on attractive terms and imposing minimal import tariffs on solar equipment).

Electricity Tariffs and Regulation

There is a state monopoly on electricity generation, transmission, and distribution. The state-owned Zimbabwe Electricity Supply Authority (ZESA) is the only electricity generator supplier, transmitter, and distributor of electricity.[55] ZESA Holdings is the holding company for four subsidiaries, including the Zimbabwe Power Company (ZPC) and the Zimbabwe Electricity Transmission and Distribution Company (ZETDC).[56]

Pricing of power in Zimbabwe is regulated by Zimbabwe Energy Regulatory Authority (ZERA), who through consultation with Ministry of Energy and Power Development (MEPD), sets the tariff and prices. Additionally, there are mechanisms in place for licenced operators to appear to ZERA for review. Zimbabwe's energy was perceived to be under-priced.[57] However, there has been a recent tariff review in September 2020.

The electricity sector does not collect enough tariffs to cover the generation of electricity. There are also high transmission and distribution losses, suggesting substantial consumption that is unmetered, especially in former commercial farming areas.[58]

These financial challenges have resulted in high levels of debt. ZETDC's liabilities are over $1.5 billion, and there are over $1.2 billion in receivables. Around 45% of this money is owed by government organisations or parastatals.[59] ZETDC's lack of ability to collect tariffs means it is unable to pay ZPC, and over 60% of its loans are now overdue.[60] More recently, the government has introduced a number of increases on electricity tariffs with the aim of reducing subsidies.

Key recommendation – Electricity Pricing: In order to ensure necessary cost recovery, pricing should reflect international fuel prices and generation and transmission costs.

Key recommendation – Market distortions: In order to minimise market distortions, the government should liberalise electricity market pricing and other controls, and gradually remove price and financial support from state-owned companies such as Zimbabwe Electricity Supply Authority (ZESA), making them to compete with new entrants on commercial terms.

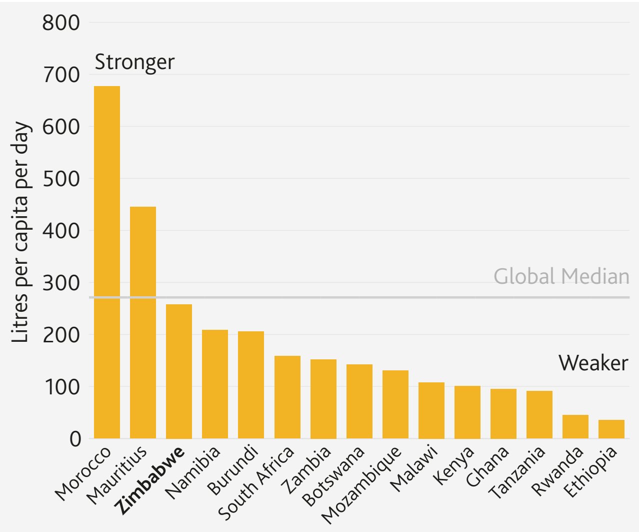
Water management

Zimbabwe's water management is split into seven catchment areas which are each administered by elected catchment councils and are based on the six large river basins in the county.[61] The councils also receive technical support from ZINWA to develop policies, laws and regulations, ensure efficient use of water allocations to all users, fix the criteria for water allocation, and the issue of permits by the catchment councils.[62] Below the councils there are then sub-catchment councils which are the operational arm of the catchment councils.[63]

> **Key recommendation – Rural water provision:** The multiplicity of organisations charged with the provision of rural water should be rationalised. The Rural Capital Development Fund could be re-established as the principal vehicle for transferring national government and donor funds to rural water and sanitation projects; clarifying both local authorities' ownership of rural assets and their responsibility for maintenance.

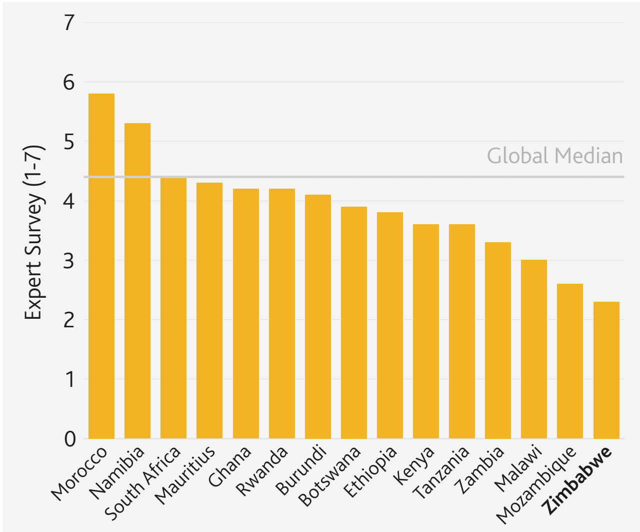
In urban areas, water provision is also poor. The African Development Bank notes that over the last decade there has been a collapse in the quality of water services.[64] Alongside the serious health consequences, this has had major consequences for manufacturers

Figure 30: Water production



Source: International Benchmarking Network for Water and Sanitation Utilities 2020

Figure 31: Reliability of water supply



Source: World Economic Forum Global Competitiveness Index 2019

> **Key recommendation – Water storage and management:** Improving monitoring and governance of groundwater resources would be an important step to more reliable service. Strengthened cross-border cooperation could increase the benefits from shared water resources.

> **Key recommendation – Wells and boreholes:** Another short-term benefit can come from decontaminating and repairing the existing wells, boreholes and associated pumps and pipes that supply most rural needs.

Water Tariffs

ZINWA is responsible for water planning and manages water resources on the basis of catchment areas. They also manage the water permit system, water infrastructure oversight and pricing of water.[65]

Recommendation – Strengthen Regulatory Environment: Appoint professional managers in ZINWA as required.

Key recommendation – Water tariffs: Set a water tariff with the Zimbabwe National Water Authority (ZINWA) to ensure there is cost recovery as well as equitable access to help it become a customer-oriented, commercially viable entity. Ring-fence revenue from water tariffs.[66]

Irrigation

Enhanced Irrigation is critical for Zimbabwe's success to enhance agricultural productivity, increase throughput for industry and generation of export revenues. Approximately, 70% of Zimbabweans live in rural areas and are heavily dependent on rain-fed agriculture.

Historically, there was large-scale investment in irrigation. Before 1980, the government invested heavily in dams and irrigation infrastructure, which benefited large-scale commercial farmers.[67] From 1980, the government extended the benefits of irrigation to many smaller scale farmers.[68]

The ongoing economic crisis has led to low investment in irrigation infrastructure. Many commercial farmers emigrated to other countries, and the declining economy has made it difficult to acquire farm equipment.[69] Furthermore, the loss of specialist knowledge has meant that many irrigation schemes have fallen into disrepair.[70]

Today just 5% of 2 million hectares of potentially irrigable land is irrigated.[71] This is low compared to other sub-Saharan African countries.[72] Of irrigation schemes, around half are farmer-managed, 32% are government managed and 18% are jointly managed.[73]

The government has recognised the need for greater investment in irrigation, as stated in its recent medium-term plan, which proposes $2.6 billion in investment in dams, water storage and irrigation over the next decade.[74]

Key recommendation – Irrigation: In order to serve small farmers, the government should rehabilitate or modify large scale irrigation infrastructure. In a limited number of cases, it would make sense to respond to local demand by establishing new, small-scale projects that support higher farm productivity.

Significant focus on water and electricity resources (and reliability) will provide the platform for greater productivity in all major sectors of the economy.

TRANSPORT (AFRICAN RANK: 44TH)

Transport underpins the ability for products and people to move efficiently, easily and reliably between and within countries. Without the ability to move goods, people cannot trade. A lack of transport infrastructure will constrain development.

Transport infrastructure is a crucial driver of inclusive and sustainable development, creating opportunities for the poor, stimulating competition, and connecting people to markets, jobs, education and health services. Mobility not only enables the transport and supply of goods but also allows interactions, generating the knowledge that fosters long-term growth.

Where there has been a lower level of investment, establishing basic connectivity rapidly increases economic growth

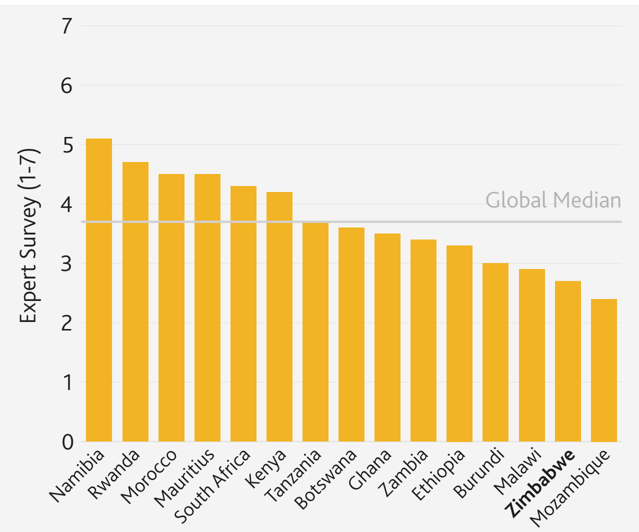
Zimbabwe ranks 44th for transport. There are major issues with the maintenance and upkeep of transport infrastructure. Most immediately critical is Zimbabwe's road infrastructure, particularly the network of rural roads that connect Zimbabwe's farms to other areas of the country.

While Zimbabwe, prior to and immediately following independence, has had a relatively good transport infrastructure, lack of investment over the last 30 years have led to a relatively extensive but dilapidated transport network. Rail also suffers from capital and cannot meet the demand for freight services.

Roads

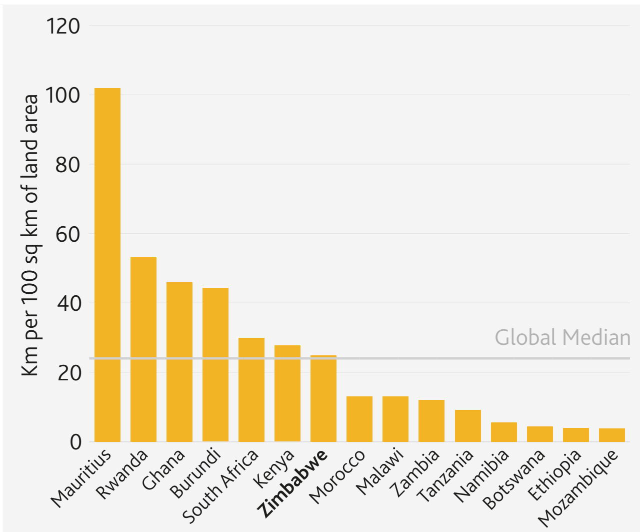
Roads are extremely important in any country, and in Zimbabwe 80% of trade (by volume) is transported by the country's road network.[75]

Figure 32: Quality of roads



Source: World Economic Forum Global Competitiveness Index 2019

Figure 33: Road density



Source: Food and Agriculture Organisation 2019

Until 40 years ago, Zimbabwe had one of the best road networks on the continent.[76,77] The current road network continues to be relatively extensive, with a road density of 24.9 kilometres per 100 square kilometres of land area (which is 82nd in the world).[78]

Primary roads make up about 5% of the network and are mainly responsible for connecting Zimbabwe with its neighbours.[79] This includes part of the Pan-African highway, which is responsible for the movement of goods into and out of the country.[80] 3% of Zimbabwe's roads are part of the regional trunk road network, that link the country with wider southern Africa.[81]

Secondary roads account for 15% of the network, they connect the smaller form of roads, as well as major industry areas and minor border posts to each other, as classified within the Roads Act.[82] Tertiary roads comprise 70% of the network. The tertiary roads link rural areas to schools, health centres, markets, and other government services.[83] The remainder are urban roads.[84] There are a low number of paved roads. About 18% (17,846km) of the total length of the roads in Zimbabwe is paved, followed by 48% gravel roads and 28% soil roads.[85]

Underinvestment and poor maintenance have severely undermined the quality of tertiary roads in rural areas. Since the 1990s, investment in maintenance has been low and road quality has declined.[86] The World Bank has noted that around 70,000 km of roads, or 80% of the network, needs rehabilitation.[87] A recent World Bank study found that along paved roads there were edge breaks along 64% of the network, longitudinal cracks in 52% of the network, transverse cracks in 47% of the network and ravelling (disintegration of the asphalt layer) in 28% of the network.[88] On unpaved roads, many have inadequate thickness of gravel.[89] The World Bank notes that 37% of gravel and soil roads can be categorised as either "poor" or "very poor".[90]

Road quality has deteriorated, as more freight has moved from rail to road due to the poor state of the rail infrastructure.[91] The total costs of rehabilitation of the road network is estimated at US$27.3 billion.[92]

Recommendation – Prioritise road maintenance and rehabilitation: Ensure the ongoing maintenance of rural roads, possibly with community participation. Allocate a high proportion of the transport budget to rural roads to embed this activity as a key government priority.

Key recommendation – Rural connectivity: Consider prioritising transport expenditures to support implementation of a rural roads enhancement programme, connecting towns and villages to all weather roads (see map below), drawing on funding from the government budget, and when possible through international donors. A focus on rehabilitating existing rural roads and extension of the network can emphasise economic and social gain, including support for exports of added value agricultural products.

Rail

The rail network is 3,100 km, with all but 340 km operated by government-owned National Railways of Zimbabwe (NRZ).[93] The network is the same gauge as other Southern African countries, and they allow through traffic from Zambia and South Africa.[94] Rail lines connect major mining areas, industrial centres and major agricultural centres. They also provide the means to export minerals to South African ports.[95]

Closure of mines and economic crisis affected the key distribution role of NRZ and its business model. The challenges for rail lie in deteriorating infrastructure, including "deteriorating tracks, obsolete signaling systems and rolling stock, theft of operating equipment, low locomotive and wagon availability".[96] Lack of effective rolling stock means that the railways are unable to meet the current demand for freight services.[97] There have also been reports of vandalism of infrastructure in the last decade.[98] Freight has been displaced onto the road network.

The fundamental problem is lack of capital. It has been estimated that NRZ requires a capital injection of around US$400 million to return to profitability.[99]

Recommendation – Transit infrastructure: There is benefit from commercialising transit infrastructure, such as upgrading transit rail and road routes through transit toll income and public/private partnerships with users. Transit regulations could be streamlined to ensure frictionless transit and incentivise use of rail rather than road to transport bulk commodities

Air transport

Zimbabwe has six international and four domestic airports.[100] Passenger growth has improved in comparison to the previous decade, 1.66 million in 2017.[101] There has been a reducing number of air links to Zimbabwe, with the number of airlines coming into Zimbabwe falling.

The financial position of the state-owned Civil Aviation Authority of Zimbabwe (CAAZ) and Air Zimbabwe is hampering development, as both have large debts in arrears. CAAZ is the only source of funding for aviation facilities in Zimbabwe, and the ability to meet international air safety and communication requirements is low.[102] Many of the airports need upgrades and many runways throughout Zimbabwe would need to be lengthened to accommodate larger planes. In part due to this under investment, there is an underdeveloped domestic air network.[103]

Key recommendation – Air services. As part of a longer-term development, there is value in reopening air routes, and supporting continent-wide liberalisation of air services. Ongoing civil aviation reforms should be pursued, together with the process to ensure regulatory and operational functions are separated.[104]

Transport Infrastructure Management

Transport infrastructure in Zimbabwe is managed by many overlapping authorities, and the cost constraints on the government to fund maintenance and expansion of infrastructure has meant that their attention has turned towards finding ways to mobilise public funds.[105]

The 2018 Infrastructure Action Plan highlighted that there was inadequate maintenance funding, large operating losses by state owned enterprise, lack of management expertise for managing and regulating infrastructure, the loss of skilled workers, and loss of international and donor funding.[106]

The African Development Bank notes a concern with a lack of capacity, on roads in particular:[107]

> "[P]roblems with the capacities of line agencies to oversee the design and implementation of the programme that, in turn, may result in cost overruns in the programme, delays in start-up and completion of work, or use of sub-standard materials or civil works activities that are not in accordance with the required technical specifications of a project. These shortcomings may result in a waste of public funds, or premature deterioration of roads that are rehabilitated, and sharply higher maintenance costs."[108]

In the same report, the ADB calls for creating regulatory agencies for each transport area.[109]

Infrastructure Management Structure

The Ministry of Transport and Infrastructural Development is responsible for formulating transport and infrastructure strategies for maintaining road and rail networks and collaborating with regional organisations to make sure that transport meets international standards.[110]

For road transport, there are four authorities which manage the subsector: Department of Roads, which constructs, maintains and rehabilitates major roads through government funding; District Development Fund (whose remit includes irrigation, et al. in rural areas) works with rural district councils to oversee the roads in its districts; Rural District councils and Urban District councils have autonomy in managing their infrastructure and work with the Roads Fund and ZINARA (the roads agency) respectively to fund maintenance and expansion.[111]

For rail transport, the National Railways of Zimbabwe (NRZ) and Beitbridge Bulawayo Railway (BBR) manage the rail network. The NRZ maintains rail infrastructure, but is also tasked with providing and operating water transport and pipelines and for the movement of goods within Zimbabwe.[112] The BBR operated 330km of the network under a rail concession arrangement which has been in place for 30 years.[113]

For air travel infrastructure, the Government of Zimbabwe established the Civil Aviation Authority of Zimbabwe (CAAZ) in 1999, which regulates the infrastructure of the sector. However, in 2018 the Civil Aviation Amendment Act separated CAAZ into two entities- including a private company Airports Company of Zimbabwe Limited. All airports and aerodromes were to be transferred to the Airports Company, along with any liabilities and obligations attached to these assets. [114]

Recommendation – Strengthen transport sector leadership. Select leadership team with high integrity and professional knowledge. Initial focus on strengthening and reforming institutions (including agencies and state-owned enterprises) that can manage transport planning, integrated road network planning, financing, contracting, building capacity of local contractors, expand use of intermediate equipment technology and labour-intensive methods.

Key recommendation – Transport funding. There is value in identifying supplementary private-sector sources of rural road finance and capacity (e.g. as a condition of mining licences, from commercial agriculture, industry, and ring-fenced allocation of levy income). For example, tolling major truck roads and ring-fencing resources to road maintenance.

Improving transport links, especially for more rural parts of the country, will provide the backbone for commercial development in agriculture and other sectors.

BORDER ADMINISTRATION (AFRICAN RANK: 39TH)

The time and administrative cost of a country's customs procedures, alongside the efficiency of this process. Inefficient and slow bureaucratic trade barriers limit the effectiveness, efficiency, and dynamism of economies, with greater barriers often connected to corruption and cronyism.

Border Administration ranks 39th in Sub-Saharan Africa. There are major inefficiencies in Border Administration, resulting in high costs and long wait times for importing of goods. The inefficiencies are driven by multiple uncoordinated agencies and processes that goods need to go through to enter the country. In particular, the Consignment Based Conformity Assessment (CBCA) programme adds significant delays and costs. Furthermore, there is little cooperation with foreign border agencies to speed up processes.

Given the high burden of bringing goods into Zimbabwe, many independent businesses avoid the border. This is due to "high trade costs, complex customs and burdensome administrative procedures and a lack of trade-related information."[115] This is a problem across SADC, where it was estimated that the value of informal cross-border trade was worth $17.6 billion.[116]

Additionally, companies who previously transported goods through Zimbabwe have stopped, partly due to high costs (around $250 in taxes to carry goods through Zimbabwe).[117] This has led to companies using the Kazungula border instead (between Zambia and Botswana).[118] Transiting through Zimbabwe has also been made less appealing by having to buy fuel in foreign currency and the poor quality roads, which often damage lorries.[119]

Zimbabwe's border challenges are due to both a lack of administrative capacity and protectionism. It takes 124 hours on average to comply with border procedures (see Figure 34). The lack of electronic processes also increases the opportunity for corruption.

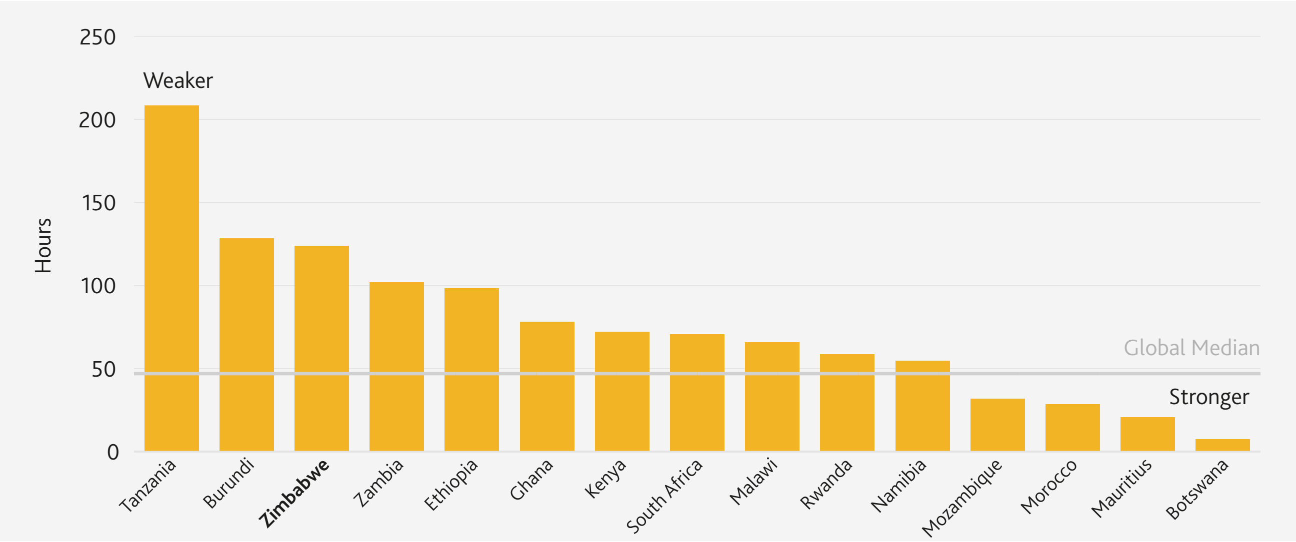
Key recommendation – Single window system: In order to strengthen the single window system, allow importers and exporters to submit paperwork to a single, online service. The government should publish and make available online all fees and forms that are needed, with the aim of reducing informal trade. Introducing electronic border booking system to decongest the border area would replace physical queues with virtual queues.

There are multiple agencies operating at the border with limited capabilities and no consistent guidance for how these agencies should act, nor a coordinating body.[120] Non-automatic licencing involving multiple authorities apply to a range of goods subject to the country's sanitary and phytosanitary regime.[121] Some other complaints include the wrong duties being applied due to a delay in communication between Zimbabwe Revenue Authority head office and Kariba border post, customs being impounded for false invoicing, and the closure of the Beitbridge border post.[122]

There is also a lack of cooperation between border agencies. For example, there are no memorandums of understanding between border agencies, although there is one between the South African Revenue Service and ZIMRA on clearance of traffic at the Beitbridge border post.[123]

Key recommendation – Cooperation between Zimbabwean border agencies: The government should focus on streamlining requirements and increase cooperation between Zimbabwean border agencies. Consolidate roles into as fewer border agencies as possible.

Figure 34: Time to comply with border regulations and procedures



Source: World Bank Doing Business Index 2019

The have also been recent improvements to border administration. For instance, the MoU between the South African Revenue Service and ZIMRA has helped the two revenue authorities coordinate where there is mutual interest.[124] Additionally, in 2020, the Zimbabwe Revenue Authority has set up Documented Processing Centres (DPCs) to process all commercial bills of entry electronically.[125] It is too early to tell whether this reduces processing times. In 2015, Zimbabwe also contracted out much of its inspections Consignment based Conformity Assessment to the French firm Bureau Veritas, which carry out inspections in the country of origin, as a way to ensure compliance before arrival and reduce the presence of multiple agents in the border.[126] In 2019, other firms were also hired to carry out Consignment Based Conformity Assessment.[127] There has also been the development of a one-stop border post, which has been sponsored by COMSA, to streamline trade between South Africa, Zimbabwe, and Zambia.[128]

Key recommendation – Cooperation with foreign border agencies: The government should aim to reduce the number of total inspections goods face by certifying inspections in other countries. For example, it could carry out necessary inspections at ports in South Africa and Mozambique, and hold regular stakeholder management meetings with foreign border agencies.

Taking measures to dramatically streamline border administration will not only improve the commercial potential of existing trading relationships, but also signal an openness and encourage those who have been deterred by existing challenges.

OPEN MARKET SCALE (AFRICAN RANK: 8TH)

The size of the international market to which providers of goods and services have privileged access.

Zimbabwe's open market scale is at 8th in Africa. While Zimbabwe has good access to global markets, its main hindrance to greater exports is its economic performance and producing competitively goods and services that other countries want to import. It currently has good access to nearby markets, particularly South Africa. While it has a trade deal with the EU, there is no current trade deal with the US.

Despite the trade deals, many Zimbabwean businesses still face high tariffs in destination countries. Additionally, there is a lack of functioning dispute-settlement mechanisms.

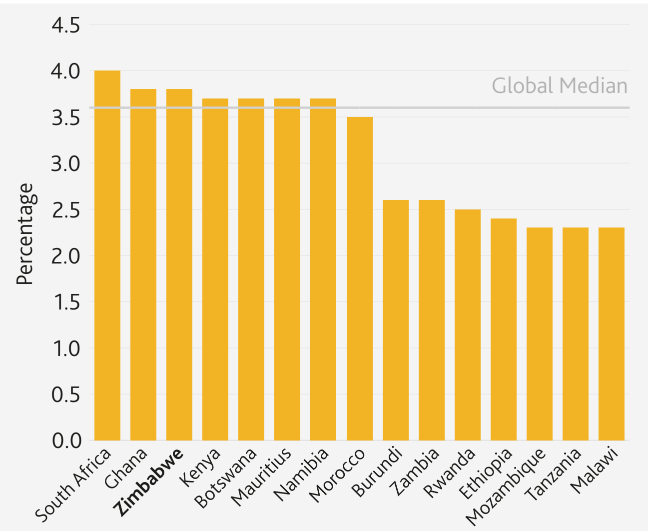
Zimbabwe's Exports

The total value of goods exported in 2019 was US$4.3billion.[129] At just 19% of GDP, this value is below many other countries in Africa (see Figure 4.5).

Zimbabwe's main exported products in 2019 were raw materials, such as nickel (between 22-29%), gold (roughly 25% of total exports), Ferro-alloys (5-6%) as well as tobacco (18-22%).[130]

The main destinations of exports in 2019 were neighbouring countries South Africa (49.2%), Mozambique (8.3%) and Zambia (1.4%), as well as other countries such as the United Arab Emirates (19.5%) and Belgium (1.4%).[131]

Figure 35: Trade-weighted average tariff faced in destination markets



Source: World Economic Forum Global Competitiveness Index 2019

Zimbabwe has trade agreements with several countries (see box), and is a member of important regional trade areas, including SADC and COMESA. This can be an area of further strength for Zimbabwe, when it utilises the existing access to markets, and by expanding trade deals with important countries such as the U.S., to expand its portfolio. However, Zimbabwean businesses still face high tariffs in destination markets, ranking 44th in Africa (see figure 35).

Recommendation – Preferential trade terms:
Zimbabwe could work intensively on gaining access to the United States under the African Growth and opportunity Act (AGOA).

Trade deals and trade partners

African countries

Zimbabwe is a member of SADC Free Trade Area, which was established in 2008, when 85% of trade between SADC members had zero duties. Full trade liberalisation was achieved in 2012.[132]

COMESA Free Trade Area

Zimbabwe is also a member of the COMESA Free Trade Area. This was established in 2000 and includes Burundi, Comoros, DRC, Djibouti, Egypt, Eritrea, Kenya, Eswatini, Ethiopia, Libya, Madagascar, Malawi, Mauritius, Rwanda, Somalia, Seychelles, Sudan, Tunisia, Uganda, Zambia, and Zimbabwe.[133] There are no tariffs between member states and members are working to reduce and eliminate quotas and other non-tariff barriers.[134]

Africa Continent Free Trade Agreement (AfCFTA)

Zimbabwe was one of the first countries to ratify AfCFTA.[135] The 10-year implementation of liberalisation has been put on hold by the Covid-19 crisis.[136]

EU

The EU is an increasingly important partner and in 2012 Zimbabwe signed the Economic Partnership Agreement (EPA) with the European Union.[137] After signing, trade with the EU increased by 12%. However, there are concerns that Zimbabwe lacks the capacity to make the most of the agreement.[138]

Other countries

In 2012, Zimbabwe and UAE signed an "open skies agreement" that allowed for "full route access, capacity, number of frequencies and types of aircraft in either a passenger or cargo capacity between the two counties."[139]

The United States is a major potential trade partner for any African nation. While Zimbabwe does have a Generalised System of Preferences (GSP) with the USA, it is not currently eligible for the African Growth and Opportunity Act trade category, which would allow "virtually all marketable goods produced in these countries to enter into the US market duty-free".[140]

Additionally, Zimbabwe has GSP arrangements with Canada, Japan, Norway, Russia, Switzerland, the EU, New Zealand, and Australia.[141]

Zimtrade is Zimbabwe's National Trade Development and Promotion Organisation was established in 1991 as a joint venture between the government and private sector.[142] To promote exports the organisation has participated in regional and international trade fairs, organised trade visits with screen partners, organised meetings between buyers and sellers and organised International Buyers Programmes.[143] It was shortlisted by the International Trade Center, 2020 World Trade Promotion Organization (WTPO) Awards in the category of partnerships.[144]

Recommendation – Capacity Building: The government should develop the analytical capacity to assess impacts of different trade policies on the economy, and also expand the capacity of the team responsible for trade negotiations.[145]

Recommendation – Dispute settlement mechanisms: To improve the effectiveness of bilateral trade agreements, the government should set up working dispute settlement mechanisms, and to find a similar way to resolve the absence of an independent tribunal in the SADC.[146]

The value of addressing trading relationships will come from both the direct effect, but also the signal it sends about Zimbabwe being open for trade and commerce.

IMPORT TARIFF BARRIERS (AFRICAN RANK: 27TH)

The fees associated with trading products and services across borders, raising an income for government and making foreign goods more expensive.

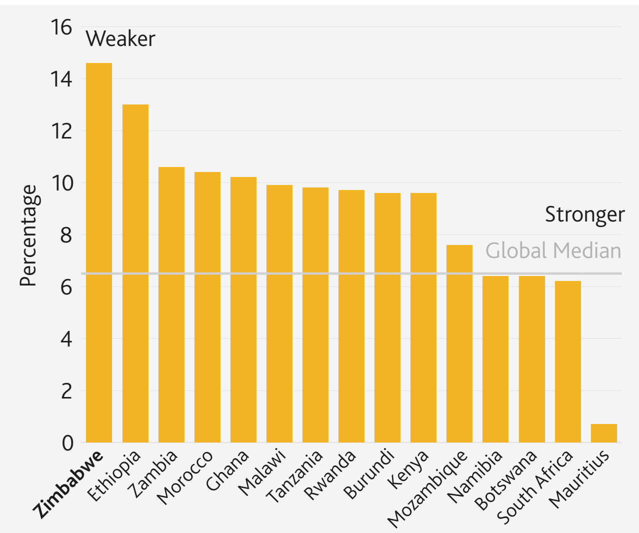
Zimbabwe ranks 27th in Africa. It has however improved through the removal of some tariffs and some products becoming duty free.

Zimbabwe uses tariffs, alongside non-tariff barriers and border administration, to protect domestic industries. However, the effect of this protection is to shut out, or make more expensive, much needed imports for both consumers and businesses. The World Bank notes that:

"The rationale for tariffs can be inferred from the Annual Reports of the Competition and Tariff Commission and interviews with the Tariff Operations staff. Changes and levels appear to be motivated by a concern to 'protect local industry through using tariffs'".[147]

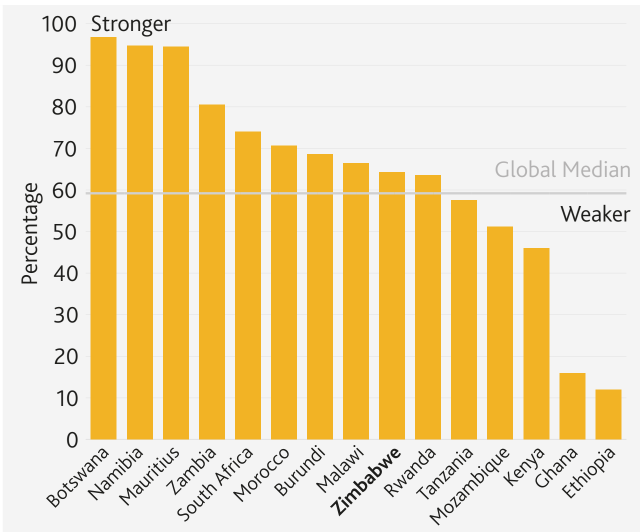
Tariffs are used to protect some finished goods industries (such as food or footwear) as well as protecting the "production of animals, seeds, and unprocessed foods as well as chemicals, machinery, and electrical equipment".[148] In 2010 and 2011 for example, there were restrictions on various meat products, "under the guise of consumer protection or disease preventions, but de facto protecting local producers from external competition".[149]

Figure 36: Average applied tariff rate



Source: World Economic Forum Global Competitiveness Index 2019

Figure 37: Share of imports free from tariff duties



Source: World Economic Forum Global Competitiveness Index 2019

There have been some positive changes. For example, between 2017-18, more animal, dairy and vegetable products were made duty free.[150] For firms that are investing in the country, the government waives some import taxes on capital equipment (as part of a range of tax incentives).[151] Furthermore, businesses operating in special economic zones (SEZs) can import both intermediate products and raw materials duty free.[152] While a positive development, this has also been criticised by firms not in the special economic zones, who do have to pay full tariffs on many imported products.[153]

Key recommendation – Import Tariffs: The government should move towards more efficient and lower tariffs across most goods. This would involve reducing tariffs on all raw materials, intermediate goods and capital goods, including lowering maximum tariffs to 15%, and removing the import surcharge.

Recommendation – Tariff complexity: The high disparity in tariffs within sectors leads to distortions and would benefit from being eliminates. Furthermore, the government could replace all specific and formula tariffs with their ad valorem equivalents. Reducing the number of tariff bands could also reduce opportunities for corruption. There is also real benefit from removing "nuisance" tariffs (tariffs that are so low they cost the government more to collect than the revenue they generate).[154]

Key recommendation – Export duty-drawback system: The government should allow exporters to claim back the cost of any imported product to make exporters more competitive.[155]

MARKET DISTORTIONS TO TRADE (AFRICAN RANK: 39TH)

Market Distortions hinder one of the most compelling and powerful forces of the market: fair competition. Evaluates how competitive markets are disrupted by non-tariff barriers to trade.

Zimbabwe ranks near the bottom of the African rankings at 39th for Market Distortions, having seen a deterioration in recent years. Non-tariff barriers are in existence in Zimbabwe, both as a result of deliberate efforts to protect domestic industry and from ineffective bureaucracy.

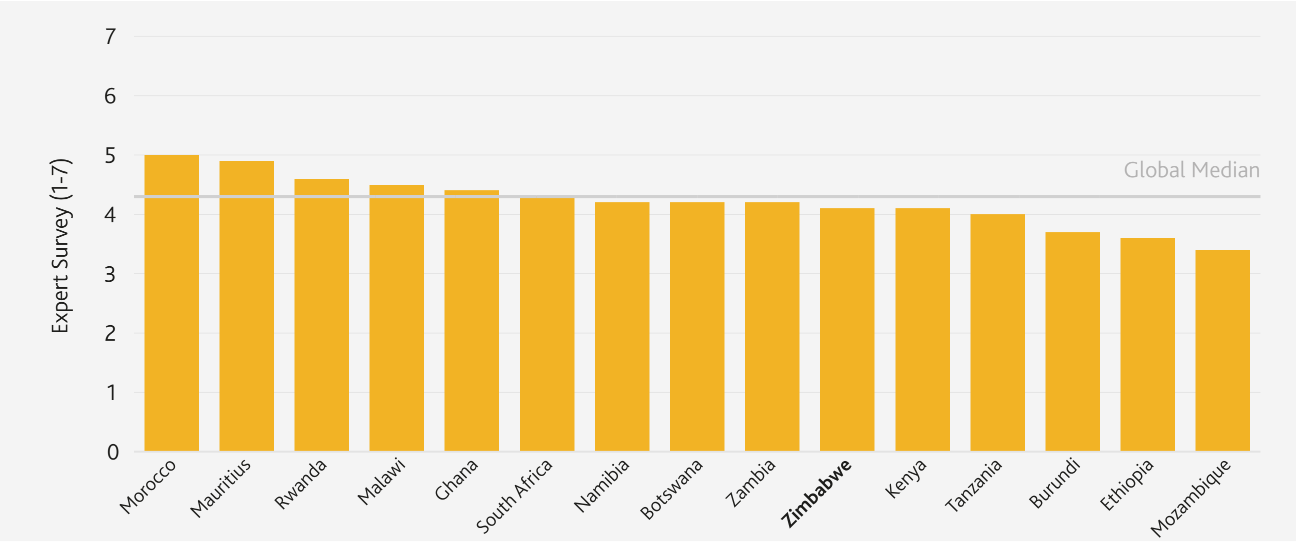
Zimbabwe should focus on improving the ease with which goods can be imported, particularly the intermediate goods needed by industry.

The Zimbabwean government aims to protect domestic industries with non-tariff barriers. Therefore, it is very difficult for some goods to enter Zimbabwe. For example, in 2016 Statutory Instrument 64 imposed import regulations on goods that were competing with domestic industries.[156] This led to conflict with trading partners and the temporary closure of the border post at Beitbridge. At present, Zimbabwe's main non-tariff barriers are sanitary and phytosanitary measures.[157] This Statutory Instrument was modified and then repealed.

Non-tariff barriers are one form of protection used by Zimbabwe, although it is difficult to discern which non-tariff measures are intentional and which ones arise from ineffective bureaucracy and regulation.

The government has also used statutory instruments to restrict the flow of goods, by requiring importers to obtain product-specific licences. Import permits are also required for

Figure 38 Prevalence of non-tariff barriers



Source: World Economic Forum Global Competitiveness Index 2019

importers for specific products, usually administered by the Ministry of Trade and Commerce or the Ministry of Agriculture.[158] Furthermore, there have been complaints about the road authorities not recognising foreign certificates of fitness, and instead "insisting on precise compliance with Zimbabwe regulations even when a vehicle is compliant in the country in which it is registered."[159]

Key recommendation – Non-tariff barriers: The government should consider removing the requirement of import licenses for most commodities. It should also recognise foreign certification, particularly of vehicles transiting through the country.

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Credit (istockphoto.com)

ENTERPRISE CONDITIONS (AFRICA RANK 45TH)

A healthy economy is dynamic and competitive, where regulation supports business, allowing and encouraging it to respond to the changing priorities of society. In contrast, an economy focused on protecting incumbents will experience lacklustre growth and job creation. Entrepreneurial activity is one of the key drivers of long-term prosperity, and its importance will only grow as the pace of technological change increases and the number of people involved in that change rises. Given the pace of change inherent to the information age, a society's ability to react quickly to new firm- and market-level opportunities are critical to its overall Economic Openness.

Zimbabwe ranks 45th in Africa for Enterprise Conditions, making it the country's weakest performing pillar. The regulatory environment discourages business and fuels the growth of one of the world's largest informal working sectors. These independent firms are often excluded from accessing finance, goods and services, limiting their productivity.[1] There has been a steady trend of greater informalisation with a corresponding loss of productivity, such as in the agricultural sector where value added has fallen from 18.7% of GDP in the mid-1990s to 11% in 2016; industry from 26.8% to 22.8%; and manufacturing from 19.5% to 9.6%.[2]

The potential for a prosperous Zimbabwe is for the government to provide an enabling and competitive business environment, reducing barriers to entry, discouraging restrictive practices, breaking monopolies that are contrary to the public interest and stimulating entrepreneurial activities. It would refrain largely from setting or subsidising commercial prices, relying on markets instead, with simplified administrative and labour regulations.

Elements of Enterprise Conditions

Domestic Market Contestability *– how open the market is to new participants, versus protection of the incumbents. Market based competition and prevention mechanisms for monopolies are essential to true contestability in any domestic market, and this market cannot be dominated by just a few business groups in the first place.*

Price Distortions *– the extent to which regulatory restrictions, subsidies, and taxes distort market prices, which cause resources to be inefficiently managed and diverted from activities that can deliver much greater benefits to society*

Environment for Business Creation *– the legislative and policy driven factors that encourage entrepreneurialism. The skill of the labour force is essential to the business creation environment, as is cluster development and the protections for, and ease of, starting new businesses.*

Burden of Regulation *– how much effort and time are required to comply with regulations, including tax regulations. Regulation can become burdensome due to the volume of regulations that businesses have to comply with, as well as the complexity of those regulations.*

Labour Market Flexibility *– how dynamic and flexible the workplace is for both employer and employee in terms of the flexibility of employment contracts including redundancy costs.*

DOMESTIC MARKET CONTESTABILITY (AFRICAN RANK: 39TH)

Where open, fair and competitive markets exist, far more often than not, so too does progress and prosperity. A key role for governments is to ensure that there is competition, both domestic and international, as well as a strong and effective anti-monopoly policy. A fair and effectively enforced competitive market benefits all by helping to stimulate improvements in efficiency and innovation. Our measure of Domestic Market Contestability captures how open the market is to new participants, versus protection of the incumbents.

Zimbabwe ranks 39th in Domestic Market Contestability. Issues of market contestability are directly linked to the political control and patronage in the economy by the ruling party.

Zimbabwe is affected by government interference in most areas of the economy. Cartels, monopolies, and oligopolies, often linked to senior officials and politicians, operate throughout the economy. The Competition Commission is not able to address these issues. Public procurement is also poor, with significant opportunities for corruption and a lack of auditing.

ZANU-PF are both players and referees in the economy, and this fact helps to explain many of the non-competitive features of the Zimbabwean economy: foreign exchange interventions, mismanagement of state owned enterprises, corruption, monopolies and cartels in many areas of the economy. Making Zimbabwe's markets more competitive requires a fundamental strengthening in governance and rule of law in the country.

State owned enterprises

Zimbabwe has more than 100 state-owned enterprises in key sectors such as postal services, railways, banking, media, civil aviation, and insurance. Appointments are political, and corruption is widespread. The total contribution of state-owned enterprises to the GDP of Zimbabwe and employment is declining. These enterprises are not run commercially and generally perform poorly, as they are also controlled by political interests. These companies still receive more transfers from the state than they pay back in dividends.[3] They have accumulated significant tax arrears and have become a major source of fiscal risk.

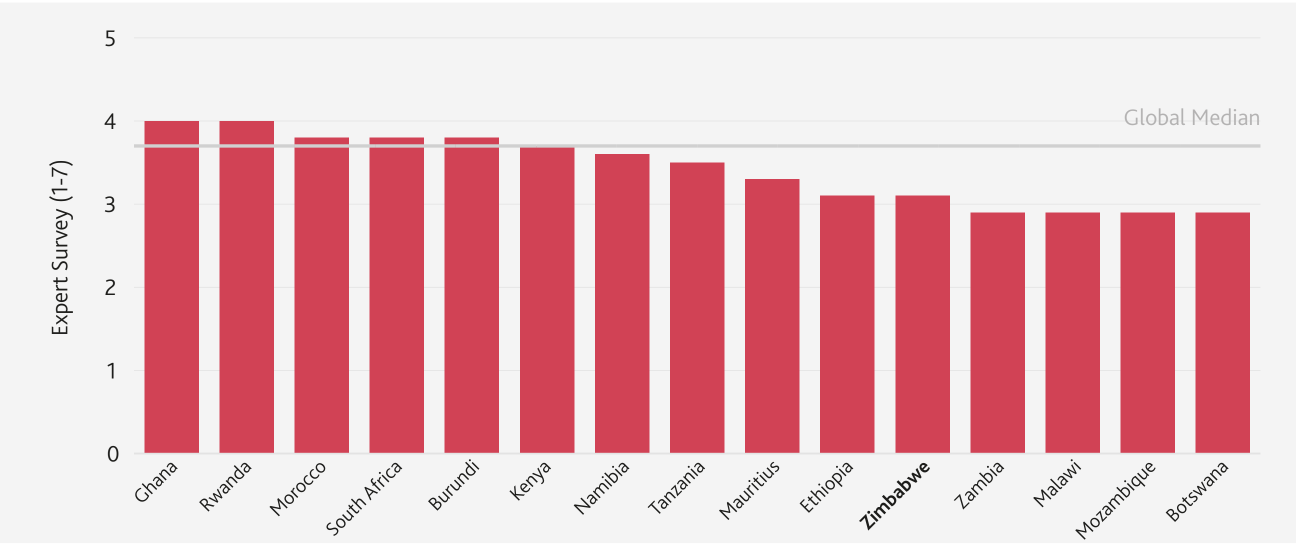
The 2018 Report of the Auditor-General cited several examples of mismanagement, including Zimbabwe Electrification Transmission and Distribution Company, Air Zimbabwe, and noted that most public entities are not settling statutory obligations.[4] Recent actions of the Grain Marketing Board have negatively affected farmers.

Examples of influences of politics in the economy

- **Forex:** RBZ has discretion in the allocation of scarce forex. (Less so recently with the auctions of foreign exchange).
- **Mining:** Zimbabwe Defence Industries and its investment vehicles, Rusununko Nkileko Holdings, play an active part in mining. Moreover, according to investors, the military is unofficially part of the vetting process for new companies in the sector.[5]
- **Fuel:** Sakunda Energy (owned by an advisor to the President) has exclusive use of the Beira-Harare fuel pipeline, which connects to a pipeline in Mozambique and has established a prohibitive pricing for fuel transport.[6] As a result of this expense, many fuel transporters are using roads instead of the pipeline, which is running at only 60% capacity.

There is no competitive level field, as these state-owned organisations receive preferential treatment from government. In the Telecoms sector, for example, it became apparent that Netone and Telecel (both government owned) had not paid fees for an operating licence while privately-owned Econet, the country's largest provider, had paid operating license fees.[7]

Figure 39: Extent of market dominance



Source: World Economic Forum Global Competitiveness Index 2019

Cartels

Cartels, monopolies, and oligopolies operate throughout Zimbabwe, often linked to ZANU-PF.

The extent to which markets are dominated by only a few companies has increased in recent years, and Zimbabwe ranks 41st in Africa (see Figure 40). In June 2019, Industry and Commerce Minister explained to parliament that a report by the Competition and Trade Commission had uncovered monopolies to be behind the control and manipulation of prices, particularly in the food sector mentioning sugar, poultry and dairy products.[8] The more open sectors in Zimbabwe include tourism, agriculture, retail, banking, social services sector (Education, Health).

Key recommendation – Barriers to entry: Reducing barriers to market entry will help stimulate competition and innovation. The government should eliminate progressively rules and regulations that create bureaucratic obstacles to new entrants to key sectors (particularly agriculture, eco-tourism and mining).

Procurement

There is high potential for corruption in public procurement decisions.[9] Public procurement is governed by rules and regulations as outlined in the Public Procurement and Disposal of Public Assets Act Chapter 22:23.[10] The Procurement Regulatory Authority (PRAZ) in 2018 replaced the State Procurement Board (SPB), with the main responsibility being to supervise public procurement activities and processes ensuring compliancy to the Act and national Constitution requirements.[11]

There are a number of weaknesses in the procurement process. Firstly, the criteria used for evaluating the tenders only focuses on meeting minimum specifications, and this often results in organisations being awarded the tenders with no capacity to meet contract requirements. Secondly, there is little appraisal of new suppliers. As a result, this has resulted in late or non-completion of projects and compromised the quality of products and services. Thirdly, there have been limited procurement audits carried out by State Procurement Board.[12] Finally, the Procurement Regulatory Authority of Zimbabwe board is appointed by the President, leaving considerable room for patronage in the appointments.

Competition policy and law

Zimbabwe's competition law was introduced in 1996 through the Competition Act, Chapter 14:28 (ZCA). The autonomous Competition and Tariff Commission (CTC) is the regulatory and advisory authority established in 2001.[13] The law regulates mergers, prevention and control of restrictive practices, control of monopolies, and prohibits unfair trade practices.[14]

The law has some shortcomings. For example, the act fails to define the market share threshold for market dominance avoidance of monopolies, for mergers and acquisitions it fails to include conglomerates and joint ventures resulting in the creation of greenfield, it does not have a specific consumer protection section and the act lists unfair business practises but does not ban unfair trade practises.[15]

There is also too much power vested in the Minister responsible for the CTC, and it does not specify time frame for investigations. The work of CTC has been patchy, frustrated by non-competitive market structures and state-owned enterprises (often protected by government officials) and the dominant role of the state,[16] limited internal capacity and the fact that Commissioners are appointed by a Minister in consultation with the President.

"The government's fear of opening up and letting markets reign is closely tied to its control and command philosophy. The philosophy of control is entrenched – the bureaucrats won't move or get excited about reforms because the familiar is comfortable. The bureaucrats and government are attuned to controlling, to approve and to be the final arbiter – players and referees in the economy."[17]

Key recommendation – Appointments to competition commission: Appointments to competition commission should be independent and based on professional merits and personal integrity. The government should also ensure that CTC is given adequate resources.

Key Recommendation – Affirm the competition commission mandate: The government should clarify that CTC has the overriding legal mandate on competition issues and should prioritise sectors which have the greatest impact in jump starting the economy. Enforcement of CTC decisions should be ensured by the independent judiciary.

Recommendation – Competition policy: Priority should be given to support competition and reduce monopoly power in areas that affect the livelihoods of the poorest, such as agriculture, tourism, construction, and services.

Implementing these actions to embrace competition will signal to both domestic and international investors that there is a level playing field, and that the opportunities to build a successful enterprise in Zimbabwe are open to all.

PRICE DISTORTIONS (AFRICAN RANK: 54TH)

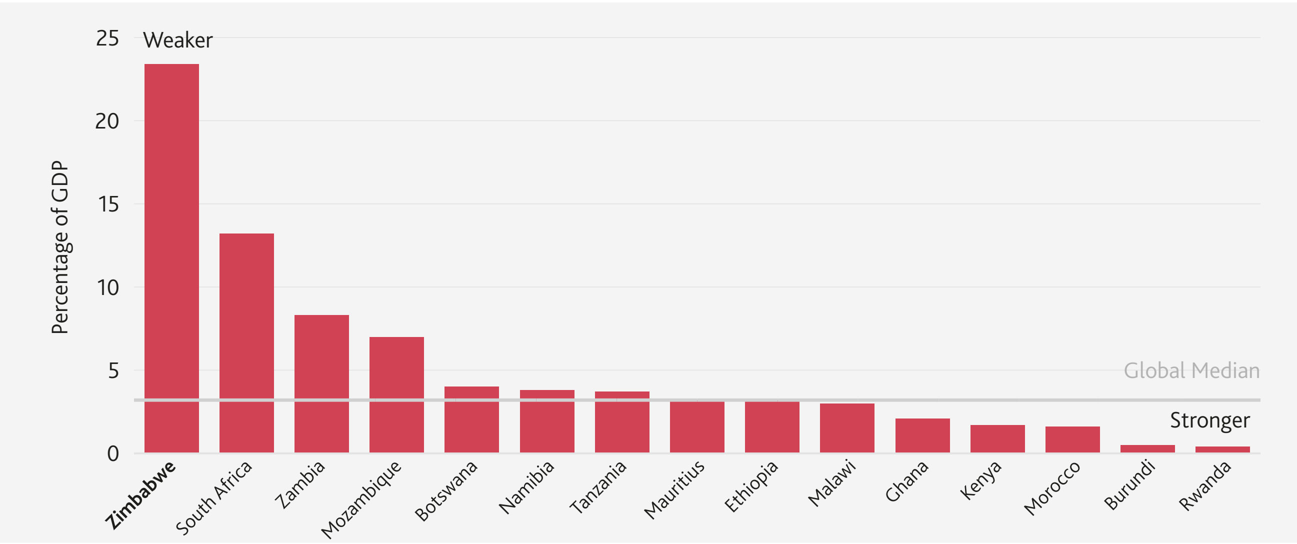
Price distortions can arise from both regulatory restrictions and also subsidies, which damage the prosperity of a nation as the finite resources of the state are being inefficiently managed and diverted from projects that can deliver much greater benefits to society. Our measure of Price Distortions captures how competitive markets are disrupted by subsidies and taxes.

Zimbabwe ranks 54th in Africa for Price Distortions. There are numerous price distortions throughout the Zimbabwean economy, with the government traditionally subsiding agriculture and fuel in particular. The signals sent by the scale of these distortions leads to widespread misallocation of resources in the economy.

There is a political imperative to subsidising these areas, but these subsidies have contributed directly to very high rates of inflation. Where there has been inflation, the government has tried to use price controls to control the cost of living. However, in 2007-9 these price controls contributed to the economic collapse of the country. New price controls announced to counter recent inflation run the same risk.

In the second part of 2020 a number of subsidies have been reduced or eliminated including fuel and agricultural products (except cooking oil and bread).

Figure 40: Energy subsidies



Source: International Monetary Fund

Agricultural subsidies

There has been a long history of government providing financial support to agriculture, and the World Bank estimated that the total cost of these programmes was US$503.7 million in 2016, US$1056.9 million in 2017, and US$748.5 million in 2018.[18]

Agriculture Subsidy Programmes

Presidential Input Support Programme (PISP), introduced in 2009, aims to support the very poor and most vulnerable farmers through providing inputs for small-scale and cotton farmers. It increased substantially from US$42.7M in 2016, to US$263.5 million in 2018.[19]

Tobacco support, US$70M in 2018.

Command Agriculture Programme, which aims to promote food self-sufficiency through the provision of subsidised inputs and loans, and was introduced at the start of the 2016-17 farming season.[20] Although the money is meant to be repaid, there has been widespread non-payment (81% in 2018), leading to costs of US$105M in 2016, US$439M in 2017, and US$238M in 2018.

Grain Marketing Board (GMB), which subsidises grain production. It does this by setting prices higher than the international price, and subsidising consumers. This means that, in 2018, "the difference between the procurement and sales prices amounted to about US$285 million, or about 2.1% of GDP".[21]

Overall, agricultural spending varied between 5-6% of GDP, but spending soared in 2016/17, following the introduction of Command Agriculture in order to reverse decline in agricultural production. In 2017, spending on agriculture consumed nearly a quarter of the government's budget.[22] Despite the government channelling over US$3 billion into grain production since 2016, Command Agriculture Programme has not appeared to have increased production in a sustained way. Corruption has affected the distribution of inputs and there have been defaults on most of the loans. Zimbabwe remains a net importer of grain.

The high level of subsidies over 2016-2018 and into 2019 was unsustainable as a share of GDP and government expenditure. Agriculture spending was financed through monetary financing and contributed directly to inflation. In late 2019, there were two major reforms made to the subsidy programmes. The first was an attempt to shift the implementation of input finance under Command Agriculture to four banks that are engaged in the provision of credit to farmers, albeit with full government guarantees.[23,24]

Fuel subsidies

Providing subsidised (official exchange rate) foreign currency to fuel companies, has allowed the government to subsidise the price of fuel. However, since May 2019, the fuel companies have not been always been able to access the official exchange rate. Currently, they have to buy the foreign exchange through the central bank auctions.

In terms of gold, a subsidiary of the RBZ (Fidelity Partners) is the monopoly buyer of gold. Large mining firms could only get between 55-70% of their earnings in foreign currency (with the rest of the funds being paid in the local currency, RTGS dollars). For example, in April 2020, while nominally, the firms could sell gold at US 47 per kilogram, 55% of this would be paid in USD and 45% in RGTS.[25] At the parallel exchange rate, this implies that the gold buyers will be selling their produce at US$24, which is less than selling to informal buyers who would offer at least US$36 per gram. As a result, many large-scale miners are selling gold through small-scale producers.[26] However, the retention rate of foreign exchange for large producers was increased to 70% in 2020.

Key recommendation – Subsidies and price distortions: In order for market participants to have appropriate price signals, subsidies and price distortions should be phased out. Hence, the government should review agriculture subsidies with a view to replace them with other more direct ways of supporting the productivity of farmers. The RBZ monopoly over the purchase of gold could be removed. Fuel prices and other commodities should better reflect international prices.

Price Controls

Price Controls have been used often in Zimbabwe. During the hyperinflation era of 2007-2009, price controls were used extensively in an attempt to control the rising cost of living. This resulted in the collapse of the economy.[27] In April 2020, as a result of rises in the cost of living, the government passed a price freeze "compelling retailers and producers to revert back to the prices that prevailed on March 25, 2020".[28] This came amidst major increases in the cost of living: "with a consumer basket for a family of five members costing more than ZW$6,420 in March 2020 (Up from ZW$5,293 in February)".[29] The rise has been driven in part by shortages of supplies as a result of COVID-19 epidemic disrupting supply chains.

Key recommendation – Price controls: In order to ensure retailers can access supplies of goods economically, the government should focus on shifting price controls upwards on commodities.

By ensuring prices better reflect commercial realities, the economy will ensure more efficient use of resources and increase overall wellbeing.

ENVIRONMENT FOR BUSINESS CREATION (AFRICAN RANK: 44TH)

Entrepreneurial activity is the manifestation of a healthy and dynamic society, in which ideas are constantly being created, developed, and tested. It is important that the process of turning ideas into success is as easy and accessible as possible. Government, and hence society, can benefit by providing a supportive environment that appreciates and values the contribution entrepreneurs can make towards improvements in prosperity.

The Environment for Business Creation in Zimbabwe ranks 44th in Africa. Although progress has been made by introducing special economic zones, the country continues to face significant challenges in starting a business and cluster development.

Zimbabwe's Environment for Business Creation is one that discourages growth. It is difficult for the independent sector to gain access to the advantages of the official sector, due to insufficient skills, high bureaucratic burden and corruption. These businesses then fall into a low productivity trap and are unable to raise finance.

There have been some early signs of reform. The government has announced a National, Micro, Small and Medium Enterprises policy to create a better enabling policy for MSMEs. The government has also encouraged the use of SEZs to attract global firms to Zimbabwe.

Starting a business

According to the 2020 World Bank Doing Business Index, Zimbabwe ranks 44th in Africa (145th globally) on the ease of starting a business.[30] It takes on average 27 days to start a business and requires nine distinct processes. It costs more than 75% of an individual's average annual income.[31]

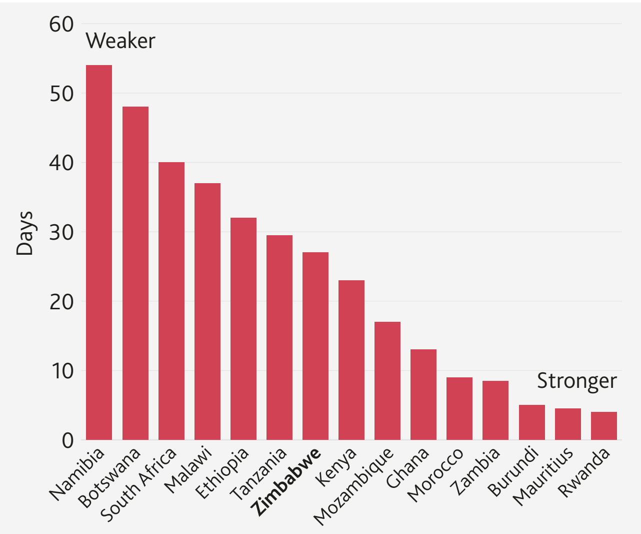
For international businesses, the time is much longer. According to the Zimbabwe Investment Authority (ZIA), it can take international businesses between 100 and 209 days, requiring up to 13 different certificate and licences (depending on the sector).[32] For comparison, it takes 21 days in South Africa, 28 days in Zambia, and 30 days in Botswana.[33]

The long delays and processes have created the impression that government is too concerned with controlling the process. According to one investor: "The government and its bureaucrats have a huge appetite for control and to command and a penchant for stamping and approving – it makes them feel powerful."[34]

The government has attempted to create a 'one stop shop' to address time, redundancy, and inefficiencies by passing the Zimbabwe Investment Development Agency (ZIDA) Act.[35] The Act was instituted to allow entry, promotion and protection of investments in Zimbabwe for both foreign investors and local business.[36]

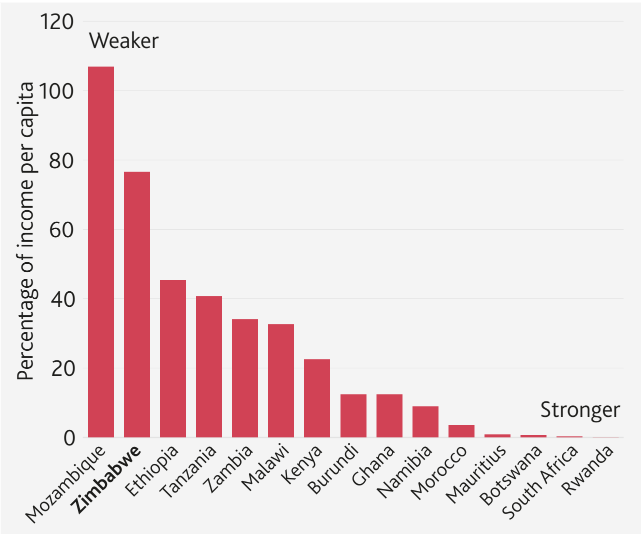
The intention by government is to create a friendly business environment. The Act is meant to bring different government departments involved in business entry and operations to one place.

Figure 41: Time taken to start a business



Source: World Bank Doing Business Index 2019

Figure 42: Cost of starting a business



Source: World Bank Doing Business Index 2019

Key recommendation – Business registration: In order to simplify business regulation the government should ensure effective operations of one-stop-shop for registering with government, with registration linked to incentives provided by government.[37]

Small and Medium Enterprise Policy

Zimbabwe has a large number of SMEs, of which only 15% are registered and many of which have no employees are so.[38] Most SMEs are independent and face a number of challenges, such as lack of finance and market access.[39] Furthermore, there is a lack of infrastructure - in 2012, around 39% operated out of residential premises.[40]

For firms wanting to become formal there are significant barriers. Due to limited understanding of taxation or other benefits that comes with formalisation, and the onerous burden of administrative processes, business owners opt to remain independent. Generally, SMEs formalise when they seek to operate in premises and areas in the jurisdiction of the government or city councils. Joining the formal sector allows SMEs to leverage government and financial sector funding and to benefit from tax incentives which are available.

The government has made some changes to support SMEs. For example, the Reserve Bank has put in place funds with which micro-finance institutions can access and use to lend to SMEs.[41] One of the motivations for commercial banks diversifying into microfinance, is to increase market share in the face of stiff competition.[42]

The government implemented a ZimPED program which was targeting rural SMEs fostering value addition and beneficiation. In addition, the government mobilised funds amounting to US$7.6 million which was disbursed through Savings and Credit Cooperatives.[43]

Cluster development

Zimbabwe has several clusters in food processing, light engineering and metal products, carpentry and furniture making, textiles and home crafts and tourism.[44] There are also some service sector clusters in information technology and data processing.[45] Many of these are in sectors which are not growing, such as furniture.[46]

The Harare city council is intending to turn the Emmerson Dambudzo Mnangagwa Road into a "business corridor", which is an "integrated network of infrastructure within a geographical area designed to stimulate economic development."[47]

There are also several special economic zones (SEZs), mostly created between 1996-2006.[48] These led to "205 companies being established, generating an estimated $172 million in investment, and creating 32,512 jobs and $1.15 billion in export earnings".[49] Despite the economic climate, some of these companies are still in operation.[50] However, it is not clear that the SEZs have been successful in recent years at attracting new investment.

Zimbabwe has started a new focus on creating SEZs, with the aim of re-engaging international businesses, creating jobs and increasing exports.[51] In 2016, the government enacted the Special Economic Zones Act, which established the Zimbabwe Special Economic Zones Authority to oversee and assist companies who wanted to operate in SEZs.[52] Companies are permitted to sell only 20% of their output domestically – they must export the rest.[53] In 2018, Zimbabwe introduced 13 new SEZs.[54] There are different focuses, with SEZs in Bulawayo and Harare focusing on reindustrialization, and rural provinces investing in agro-processing and tourist zones.[55]

Key recommendation – Strengthen SEZ governance and business support: A strong policy commitment from the government would help strengthen legal and regulatory framework and improve SEZ management and governance capacity. The government should ensure that all SEZs have access to five basic facilities (water, electricity, gas, telecommunication, and roads). Special commercial regulations to boost investment possibilities should be applied to these zones.

Key recommendation – Use SEZs to promote sectors that are natural strengths: The government should create further special economic zones in competitive locations. The government should focus on developing SEZs in mining, tourism, and agriculture in the short-term, with a greater focus on manufacturing in the medium-term. There is also the opportunity to expand into agro-industry, as well as the pharmaceutical and construction sectors.

The primary challenges are "inadequate policy research and guidance on which sectors should be targeted, how to target promotion of foreign direct investment, and what policy measures have been announced but not implemented."[56] Implementation has also been affected by delays in gazetting regulations.[57]

Additionally, there are the opportunities afforded by joining global supply chains. The ADB notes that Zimbabwe could integrate into several global supply chains, particularly those involving Chinese firms, in "food, cotton, wool, leather, footwear, garments, and assembly lines of farm machinery, motorcycles, or buses and become a light manufacturing and construction logistic center for Southern and East Africa and eventually the entire continent".[58]

Labour skills

Given the lack of dynamism in the economy, a lack of skills is not the major constraint for firms. In a World Bank survey just 5.8% of the Zimbabwean firms identified labour skills as a constraint to doing business.[59]

Despite the overall lack of demand, there is a lack of skills in a number of sectors. For example, according to the ILO at least 38% of Zimbabweans are in jobs where they are underqualified.[60] The Zimbabwe National Skills Audit 2018 identified a skills deficit of 94% in engineering and technology, 97% in natural and applied sciences, 88% in agriculture, and 95% in medical and health sciences.[61]

There is also a lack of skills and expertise in management. According to one author, this is a major constraint impeding the progress of the SME sector in Zimbabwe.[62] These include the practical aspects of managing a small business, such as the difference between profit and cashflow.[63]

There has been some government intervention promoting around skills development. These have included entrepreneurship development, business management and support, technical skills training, and information and advice. According to a survey, 73% of the respondents were satisfied with the government's initiatives to address SME skill shortages.[64]

Recommendation – Invest in entrepreneurship: Help in the developing of skills and entrepreneurship—especially for the country's relatively well-educated youth.

Creating a better environment for business creation will help ensure that the economy can grow based on the latent entrepreneurship and talent of Zimbabweans.

BURDEN OF REGULATION (AFRICAN RANK: 41ST)

A large administrative burden results in companies focusing resources on complying with these regulations, rather than innovating and creating. In particular, the process of complying with tax regulations should be uncomplicated and quick. While the possibility of taxation having a detrimental effect on business is well understood, so too is the method of tax collection and the complexity of taxes being levied. Our measure captures how much effort and time are required to comply with such regulations.

Zimbabwe ranks 41st for its Burden of Regulation. This high burden has led to, by some estimates, Zimbabwe having the second largest shadow economy in the world (60.9%).[65] The size of the shadow economy reflects not only the extreme burden of complying with regulations and taxes, but also the weakness of local institutions (including corruption).[66]

The burden of regulation on business is particularly high, with businesses facing several burdensome requirements to their operation, further discouraging formality.

There have been some signs of progress, with the government creating the Zimbabwe Investment Development Agency (ZIDA), which is meant to create a one-stop shop for businesses to comply with tax and regulations. There have also been improvements to the ease of setting up businesses and making it easier to fill in tax forms.

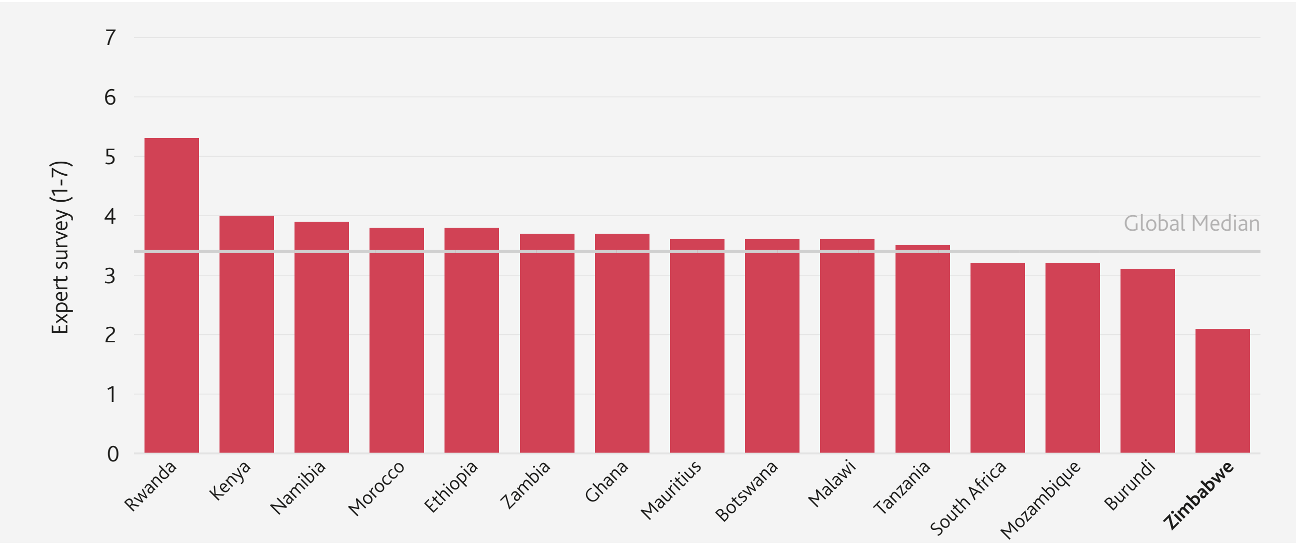
More effort could be focused on simplifying the regulatory regime faced by businesses. A radical plan of regulatory simplification and transparency in the application of administrative procedures to support the people working in the shadow economy would reap major economic benefits.

The shadow economy in Zimbabwe increased its size from 57% in 1991 to 67% in 2015.[67] The poor governance in Zimbabwe, with weak respect for the rule of law and with poor quality of government institutions, is likely to be a significant factor explaining why so many companies and individuals choose to hide their productive activities from the view of the government.

The key constraints are not in the laws or regulations themselves, but in the way they are implemented.[68] Zimbabwe ranks 54th in Africa for the burden of government regulation according to World Economic Forum (see Figure 43). The costs of regulations are often several times the cost of the fees themselves if you include the time and effort needed for compliance.

There have been recent attempts to simplify business processes. For example, the Business Formation and Licencing Procedure is intended to simplify establishing new businesses. The Zimbabwean government has also introduced some improved processes, such as it being easier to fill in tax forms.[69]

Figure 43: Burden of government regulation



Source: World Economic Forum Global Competitiveness Index 2019

Impact on SMEs

For SMEs, there process of complying with numerous regulations can be a major deterrent.[70] Regulation is often applied inconsistently, and there is overly burdensome regulation in some areas and not enough regulation in other areas.[71]

SME owners can face particular problems in registering with the councils, health department and ZIMRA. It is also difficult to wind a business down. A further example is in the agro-processing sector, where a company must comply with up to 17 regulations every 90 days.[72] The high burden of regulation often supports the black market, for example, levies on veterinary services have led to an illegal drugs market.[73]

However, the main difficulty is often not in the law itself, but on how this is implemented. A change in this area requires a broader institutional change to favour transparency, fairness, and integrity. The high number of regulations do not appear to be making an impact. According to the World Bank, 3.2% of senior management time is spent dealing with the requirements of government regulation (which is 30th in the world).[74] This suggests many regulations are simply not followed.

The independent sector

The contraction of Zimbabwe's formal economy and high levels of employment regulation mean that there is a high rate of non-regulatory compliance. Zimbabwe's independent (informal) sector is responsible for most economic activity and 75% of all employment. With only a few exceptions, employment in most industries is informal (see table below). There is a high regulatory burden for businesses wishing to enter the formal economy. Furthermore, the added cost of corruption (particularly bribes) when navigating government bureaucracy means many businesses prefer informality.[75]

This sector is characterised by a low resource base, small-scale businesses, ease of entry, labour intensity, adapted technology, unregulated but competitive markets, and informal processes of acquiring skills. Much of the independent sector centres around agriculture provision – there are approximately 1.2m informal workers in the agriculture and retail sectors.[76] Another 560,000 informal workers are split across mining, manufacturing, and domestic personnel.

Table 4: Percentage of informality by industry

Industry	% informal
Domestic personnel	99%
Services	92%
Construction	91%
Mining and quarrying	88%
Retail trade	84%
Manufacturing	82%
Transportation	81%
Agriculture, forestry and fishing	74%
Other	64%
Education	45%
Health	45%
Public administration	17%

The independent sector is predominantly family-owned and provides self-employment, as well as some opportunities for apprentices.[77] The president of the Vendors Association of Zimbabwe, found out that "around 50% of businesses in the independent sector are owner-run, with the other 50% staffed by employees."[78] In some sectors, the independent workers have organised themselves into local interest associations.

The major challenge of the independent sector is its low productivity. According to a World Bank survey, independent businesses in Harare were found to be 88% less productive than registered businesses.[79]

There is also evidence of great speed at adopting innovations in different sectors. A recent study highlighted the innovation that exists within the independent metal fabricating industry.[80] Much of this innovation has been driven by the economic challenges and the need to provide affordable goods to farmers.

Zimbabwe should focus on reducing barriers to growth, particularly for businesses in the independent sector.

Recommendation – Embrace the independent sector: Announce government policy in favour of supporting rather than coercing or formalising the independent sector (particularly in agriculture, artisanal mining and urban food supply). Engage with independent sector stakeholders to understand the obstacles they face.[81]

Key Recommendation – Facilitate trading: The government should require local authorities to provide facilities and trading areas for vendors and traders to give them ready access to their customers and markets. It should establish administrative codes of conduct to protect independent workers from unscrupulous officials and administrative harassment.

Key recommendation – Regulatory Reform: There is value in re-directing government (and international) resources already engaged in regulatory reform to focus intensively on removing regulations that damage the livelihoods and incomes of independent sector businesses and workers. The priority should be to identify legal and regulatory barriers that can be removed/modified to facilitate independent workers' businesses.

Recommendation – Increase skills level of workforce: Creating training programs to enable the independent sector to scale their businesses, particularly in relation to financial literacy skills and the benefits of collective action/networks to gain better access to credit and to special social security insurance.[82]

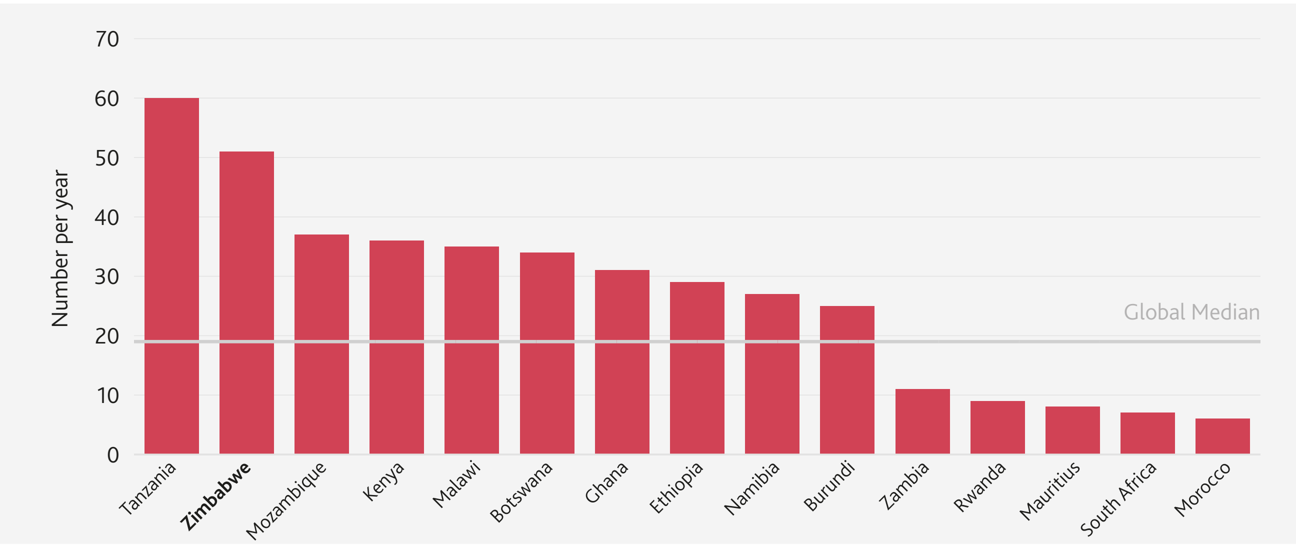
Building permits

According to the World Bank, obtaining a building permit has become more burdensome over the last decade. However, some recent improvements have been made to the approval process. In 2016, Zimbabwe made dealing with construction permits faster by streamlining the building plan approval process.[83] In 2018, reforms were implemented using a one stop shop, by streamlining plan approvals in 2019.[84]

Tax Administration Burden

The number of tax payments is high, equating to 51 per year for a business operating in Zimbabwe to be compliant with tax obligations, ranking Zimbabwe 48th in Africa (see Figure 45). Firms also spend 242 hours per year filing taxes. There is increasing non-compliance for paying taxes, particularly of VAT taxes.[85]

Figure 44: Number of tax payments



Source: World Bank Doing Business Index 2019

Since 2005, the government has tried to tax the independent/informal sector using a "presumptive tax".[86, 87] For example, hair dressing saloons, transport operators, restaurants and bars, fishing rigs and cottage industries are meant to pay a fixed amount of tax which is reviewed annually. It is challenging for ZIMRA to collect taxes from independent sector players such as vendors as there are no provisions for such business to pay tax. However, the independent sector manages to avoid most tax collection. Instead, unlicensed street vendors are fined, often around 25-30% of their monthly income or provide bribes to law enforcement.[88]

Recommendation – Simplify Tax: Substantially simplify tax and social security systems and allow exemptions for the independent sector, so that participants are liable for tax only as productivity and profits increase.

Reducing the burden of regulation will help businesses to thrive, to focus their energies on growth and also help to increase levels of formalisation.

LABOUR MARKET FLEXIBILITY (AFRICA RANK: 52ND)

Labour Market Flexibility helps to simultaneously ensure the availability of jobs and the protection of workers. Without a well-functioning labour market, jobs are likely to be scarce, and available jobs may well be unappealing, with little redress available for those who find themselves in a bad employment situation. Our measure captures how dynamic and flexible the workplace is for both employer and employee.

Zimbabwe ranks 52nd for labour market flexibility. Improvements have been made in the flexibility of employment contracts, but significant challenges remain in wage determination and hiring practices, while redundancy costs remain particularly high.

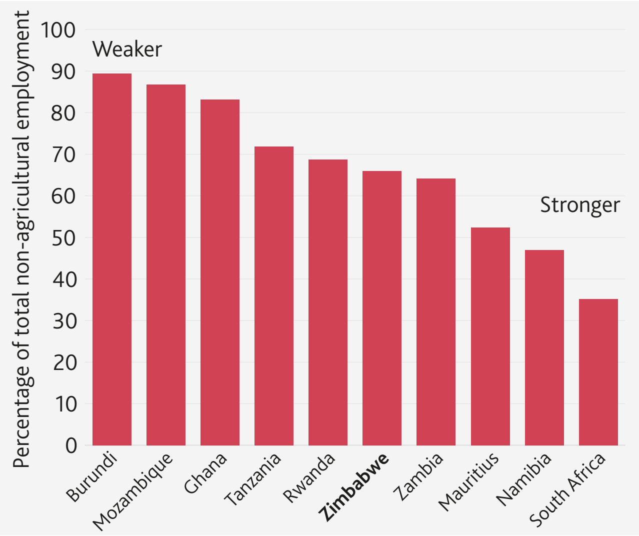
Labour market regulations are strict on paper, and one of the drivers of informality in Zimbabwe. Many employers rely on temporary contracts.

Outside SEZs (where labour laws do not apply), it is difficult to downsize firms in response to poorer economic conditions.[89] Employers must talk with employees and adopt agreed measures to avoid redundancy.[90] If redundancy is adopted, Zimbabwe has one of the highest redundancy costs in the world, amounting just over 25 weeks, ranking 44th in Africa. However, this is a significant reduction from 446 weeks 10 years ago.[91]

These strict laws were enacted in response to the impact of a 2015 Supreme Court ruling which stated companies could lawfully terminate employee contracts without paying redundancy costs, provided there was three months' notice.[92] Following the ruling, there was a flood of redundancies as companies terminated contracts, and in July 2015 more than 20,000 people lost their jobs in both the private and public sector.[93] The government responded by amending labour laws to make it harder to fire workers, "with a minimum retrenchment package of one month's pay for every two years of service".[94]

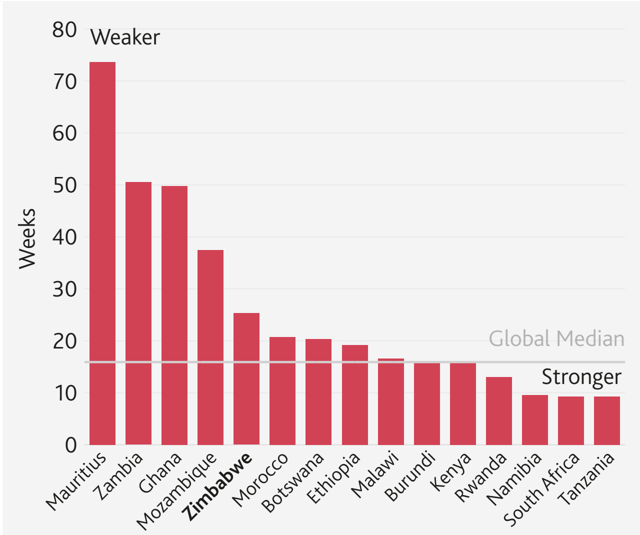
Despite being more employee-friendly, this system leaves many workers worse off because it discourages formal employment.

Figure 45: Informal employment



Source: World Bank Doing Business Index

Figure 46: Redundancy costs



Source: World Economic Forum Global Competitiveness Index 2019

As a result of strict labour rules, many employers resort to temporary or contract workers to get around strict labour market rules. For temporary or contract workers, employers do not need to follow ordinary termination procedures.[95] There are examples of some employees being on fixed term contracts for over 10 years.[96] There have been some changes to the rules, with the Labour Amendment Act of 2015 limiting the number of times a short-term contract can be renewed.[97]

The amendment to the labour law has, made it easier to fire workers because it an employer can pay the retrenchment package specified by the Act. There is no role for work councils, employment councils or retrenchment boards to approve a redundancy, unlike under the old law.[98]

Key recommendation – Redundancy costs: The government can encourage more long-term employment by lowering redundancy costs and making redundancy process easier. Reducing redundancy costs would increase formal employment and also help businesses to adjust to changing economic conditions.

Minimum wages

In March 2020, the government set the price of the minimum wage at ZW$2,549.74 (US$62.50) per month, except for employees not in agriculture or the domestic sectors.[99] The inflation rate has eroded the minimum wage so that it should not constitute a restriction to a flexible labour market.

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CONCLUSION

Given its starting point, Zimbabwe's future pathway from poverty to prosperity has many components. While true prosperity is about much more than economic success and material wealth, every nation needs a successful economy to build sustainable prosperity. Our intention in publishing this case study of Zimbabwe's Economic Openness has been to identify the country's achievements, while also highlighting further opportunities for reform.

Since independence, Zimbabwe has had to contend with institutional crises, a stagnant economy, persistent poverty and the impact of external shocks such as recurring droughts. The myriad of reforms Zimbabwe should undertake will need to be addressed pragmatically, with an initial and single-minded focus on the most binding constraints. These include the need for sound fiscal and monetary policy, enhancing the productivity and incomes of the poorest, unleashing the potential of the commercial sector, and opening up to the world.

Four areas are proposed below as priority themes for transforming the nation's economy; however, there are numerous other reforms that will also need to be undertaken in time.

Sound Fiscal and Monetary Policy

The first economic priority is establishing sound fiscal and monetary policies (including the closely related areas of foreign exchange and capital controls). Macroeconomic resilience provides the foundation for a strong economy. On the other hand, a nation that is struggling to pay the interest on its debts or using precious foreign exchange to defend the value of its currency, will have fewer options for crisis response; and such options have tended to come with conditionalities.

Revenue-raising is a prerequisite for successful government. Fiscal sustainability reflects the ability of a government to sustain its spending, tax, and other policies in the medium-to-long-term. Public finances should allow the stable funding of necessary expenditures for public provision of key services such as schools, hospitals and roads and supporting development needs.

Zimbabwe could re-inforce its fledgling macroeconomic stability rapidly by deliberate monetary targeting or by adopting multi-currencies or the South African Rand, possibly in the context of joining the Common Monetary Area. The government would also need to revert to cash budgeting. Extra-budgetary expenditures would have to be strictly forbidden. Fiscal discipline, expenditure limits and expenditure accountability in government departments and agencies would need to be strictly enforced.

The government should determine an affordable level of public sector employment and the associated wage bill, taking into account revenues and need to provide adequate compensation to key workers including in schools and health centres.

Fiscal discipline and transparency can be improved by on-line publishing of the national accounts (fiscal, monetary) – to include a balance sheet of assets and liabilities and an accrual-based annual operating statement of income and expenses. Fully implementing biometric payroll administration system in the public service.would also enhance fiscal discipline.

Distortions and excessive burdens that are built into the tax system should also be eliminated. There should be greater use of e-government to simplify tax administration and payments, in collaboration with the private sector. ZIMRA should also use simple assessments and eliminate exemptions and discretion as much as possible.

Supporting increased productivity and incomes of the poorest

The overriding focus of the transformation should be communal farmers, independent workers and artisanal miners. Government will need to support the entrepreneurial drive and the productivity of these citizens, rather than focusing on their 'formalisation'.

The state should equip communal farmers with tools to enhance their productivity (information and education, infrastructure, market access), but leave farmers make their own business decisions. The state will need to provide upgraded rural roads that maximise market access and catalytic investment in micro-irrigation and to support the adoption of solar energy as a localised source of power. It should also introduce guaranteed public-works employment (as social protection) for rural road maintenance, micro-irrigations, water conservation, reforestation and the protection of the natural environment.

The state should ensure that mobile internet infrastructure is expanded to rural areas, enabling the import of best practice digital and technological innovations that reduce the isolation of communal farmers. Digital innovations will include the provision of extension services, support for climate-resilient agriculture, mobile payments, banking, micro-lending, index-based micro-insurance, climate information, and 'uberisation' of tractors. The state will need to ensure that foreign aid and impact investors support the scaling of innovations that improve the productivity of communal farmers, e.g. last mile-shops and digital innovations.

Unleashing the commercial sector

While poor producers in the economy will likely need to rely on support from the state to enhance their productivity, larger producers in the new pro-investment and market-friendly environment can use their productive assets and commercial success to scale up their own investment.

As a priority, the government should speed up the issue of 99-year leases for A2 farms and permits for A1 farms and facilitate the transfer of land rights. The issuing of leases and permits, together with economic stability and the liberalisation of the financial sector, should make finance available to successful farmers (and on more affordable terms).

In addition, the state should consult regularly on how to improve the economic and regulatory environment that producers face and remove/modify unnecessary regulations or administrative processes.

When larger producers require infrastructure (roads, rail, energy, etc), the state should engage with them to make it possible for these producers (including mining companies) to build this infrastructure themselves.

To enable a truly effective commercial ecosystem to evolve, it is critical to shift from an environment characterised by many good laws on paper to one that implements them. Government will need to trust businesses and embrace trade and commerce – confident in knowing that policies to enhance the livelihoods of the poorest are not going to be threatened by increased commercial activity.

Openness to the world

The government will need to embrace with confidence technologies, ideas, and people from around the world. A new social compact should provide for the rule of law and includes economic and investment-friendly commitments that will attract investors and people, critically including the millions of the most educated Zimbabweans who live abroad.

Every effort should be made to bring these people back to contribute to the rebuilding of the Zimbabwean economy. There is need for civil servants, doctors, nurses, teachers, entrepreneurs, agricultural scientists, farmers, engineers et al. Given the limited resources and great needs of the Zimbabwean government, access to these external resources is invaluable - as proven by the impact of Chinese investment in many sectors.

Importing world-class innovative technologies is a key priority to support better livelihoods in rural areas, e.g. solar energy, precision and climate resilient agriculture, micro-irrigations, sanitation, and digital banking. Successful ideas can also be imported, for example last mile rural digital shops or community telemedicine projects from India.

The government should encourage partnerships with investors in different sectors, particularly mining, to develop or rehabilitate the infrastructure that is needed. In other sectors, it will need to encourage foreign investors to include domestic producers in their supply chains.

For Zimbabwe, the challenge of securing impetus on reform should not be underestimated. For nearly all dimensions of reform, including those that would benefit the majority of the population, there are powerful groups with vested interests. For example – as in other countries – political reform is resisted by the elites; market liberalisation is opposed by incumbent enterprises that run the existing systems; liberalisation of foreign investment is resisted by dominant domestic firms; changes to land policy are viewed with suspicion by traditional and regional authorities; and finally subsidy and price reform is opposed by beneficiaries, even those who as citizens would benefit from the resulting higher levels of public investment and lower prices of e.g. agricultural products.

To be effective, reform will need to be packaged in a way that offers a bright enough future for all to warrant the challenges and sacrifices needed to get there. Nonetheless, Zimbabwe has substantial potential that could be harnessed to ensure its population can compete successfully in the world economy. There are a wide range of opportunities for Zimbabwe to drive economic growth and prosperity in the coming years.

APPENDIX

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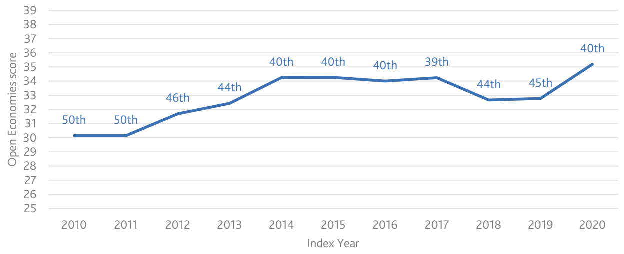
Zimbabwe: Open Economies score 35.2 (40th)

Open Economies score over time



Pillar Performance

Pillar	Rank - AU (1 to 54) 2020	Score 2010	Score 10-year trend	Score 2020
Investment Environment	37	29.7		36.7
Enterprise Conditions	45	29.5		35.8
Market Access and Infrastructure	32	21.5		33.5
Economic Quality	35	40.0		34.8

Breakdown of performance

	Score 2010	Score 10-year trend	Score 2020	Rank - AU (1 to 54) 2020	10-year rank change
Open Economies	**30.2**		**35.2**	**40**	**▲ 10**
Investment Environment	**29.7**		**36.7**	**37**	**▲ 14**
Property Rights	29.7		35.0	48	▲ 5
Investor Protection	39.0		46.0	15	▲ 7
Contract Enforcement	31.9		36.5	35	▲ 6
Financing Ecosystem	28.8		32.7	48	▼ 1
Restrictions on International Investment	8.5		31.7	41	▲ 13
Enterprise Conditions	**29.5**		**35.8**	**45**	**▲ 8**
Domestic Market Contestability	21.7		28.7	39	▲ 9
Environment for Business Creation	36.1		46.9	44	▼ 3
Burden of Regulation	37.9		42.5	41	▲ 2
Labour Market Flexibility	21.3		29.8	52	▲ 2
Price Distortions	23.2		18.6	54	▼ 1
Market Access and Infrastructure	**21.5**		**33.5**	**32**	**▲ 19**
Communications	16.0		47.1	21	▲ 22
Resources	23.9		24.4	32	▼ 5
Transport	26.0		24.3	44	▼ 7
Border Administration	33.8		31.2	39	▼ 9
Open Market Scale	13.5		29.3	8	▲ 18
Import Tariff Barriers	12.5		46.7	27	▲ 27
Market Distortions	21.3		35.8	39	▲ 15
Economic Quality	**40.0**		**34.8**	**35**	**▼ 10**
Fiscal Sustainability	35.5		40.1	38	▲ 10
Macroeconomic Stability	50.2		13.9	53	▼ 13
Productivity and Competitiveness	30.9		28.7	28	▼ 4
Dynamism	34.4		19.5	40	▼ 33
Labour Force Engagement	58.2		59.2	5	▼ 1

Zimbabwe: Investment Environment (37th): Element and indicator scores

Italics: Indicator contains imputed values

	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	AU Rank 2010	AU Rank 2020
Property Rights (48th)			30%	29.7		35.0	53	48
Protection of property rights	WEF	expert survey, 1-7	1.0	2.1		2.8	54	53
Lawful process for expropriation	WJP	expert survey, 0-1	1.0	0.30		0.26	53	54
Intellectual property protection	WEF	expert survey, 1-7	2.0	2.9		3.5	43	33
Quality of land administration	WB-DB	index, 0-30	1.0	8.5		10.0	20	15
Procedures to register property	WB-DB	index, 0-100	1.0	56.8		59.5	17	14
Regulation of property possession and exchange	BTI	expert survey, 1-10	1.0	2.0		2.0	51	50

	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	AU Rank 2010	AU Rank 2020
Investor Protection (15th)			20%	39.0		46.0	22	15
Strength of insolvency framework	WB-DB	index, 0-16	1.0	5.0		7.5	29	29
Insolvency recovery rate	WB-DB	percentage	1.5	0.0		17.5	40	33
Auditing and reporting standards	WEF	expert survey, 1-7	2.0	5.0		4.8	8	7
Extent of shareholder governance	WB-DB	index, 0-10	1.0	5.7		5.7	4	9
Conflict of interest regulation	WB-DB	index, 0-10	0.5	4.7		5.0	21	23

	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
Contract Enforcement (35th)			20%	31.9		36.5	41	35
Quality of judicial administration	WB-DB	index, 0-18	1.5	6.0		6.5	24	25
Time to resolve commercial cases	WB-DB	days	1.0	136.7		136.7	6	7
Legal costs	WB-DB	percentage	0.5	37.7		27.7	52	53
Alternative dispute resolution mechanisms	WJP	expert survey, 0-1	1.0	0.47		0.53	52	46

	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
Financing Ecosystem (48th)			20%	28.8		32.7	47	48
Access to finance	WB-ES	percentage	1.0	63.7		55.9	47	48
Financing of SMEs	WEF	expert survey, 1-7	1.0	2.8		3.0	47	44
Venture capital availability	WEF	expert survey, 1-7	1.0	2.6		1.8	19	48
Quality of banking system and capital markets	BTI	expert survey, 1-10	1.0	4.0		5.0	40	34
Commercial bank branches	IMF-FAS	branches /100,000 adult population	1.0	3.4		5.3	27	23
Soundness of banks	WEF	expert survey, 1-7	1.0	3.6		3.4	52	49
Depth of credit information	WB-DB	index, 0-8	0.5	4.0		7.0	14	10

	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
Restrictions on International Investment (41st)			10%	8.5		31.7	54	41
Business impact of rules on FDI	WEF	expert survey, 1-7	2.0	2.1		2.3	54	54
Capital controls	FI	percentage	1.0	0.0		0.0	44	50
Freedom to own foreign currency bank accounts	FI	index, 0-10	1.0	0.0		5.0	35	18
Restrictions on financial transactions	Chinn-Ito	index, 0-1	1.0	0.0		0.4	48	14
Prevalence of foreign ownership of companies	WEF	expert survey, 1-7	1.0	3.2		3.9	53	41
Freedom of foreigners to visit	FI	index, 0-10	1.0	3.2		8.9	20	14

Zimbabwe: Enterprise Conditions (45th): Element and indicator scores

Italics: Indicator contains imputed values

Domestic Market Contestability (39th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	AU Rank 2010	AU Rank 2020
			30%	21.7		28.7	48	39
Market-based competition	BTI	expert survey, 1-10	1.0	2.0		3.0	49	40
Anti-monopoly policy	BTI	expert survey, 1-10	1.0	2.0		4.0	42	27
Extent of market dominance	WEF	expert survey, 1-7	1.0	3.5		3.1	21	41

Environment for Business Creation (44th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	AU Rank 2010	AU Rank 2020
			25%	36.1		46.9	41	44
Private companies are protected and permitted	BTI	expert survey, 1-10	1.0	3.0		3.0	48	46
Ease of starting a business	WB-DB	index, 0-100	1.0	38.3		72.0	44	44
State of cluster development	WEF	expert survey, 1-7	1.0	2.8		2.9	43	50
Labour skill a business constraint	WB-ES	percentage	0.5	5.0		5.8	4	5
Availability of skilled workers	WEF	expert survey, 1-7	0.5	4.3		4.4	11	12

Burden of Regulation (41st)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			25%	37.9		42.5	43	41
Burden of government regulation	WEF	expert survey, 1-7	1.0	2.3		2.1	53	54
Time spent complying with regulations	WB-ES	percentage	1.0	2.5		3.2	4	11
Number of tax payments	WB-DB	number per year	1.0	53.0		51.0	47	48
Time spent filing taxes	WB-DB	hours per year	1.0	256.0		242.0	24	28
Burden of obtaining a building permit	WB-DB	index, 0-100	1.0	31.6		57.8	48	38
Building quality control index	WB-DB	index, 0-15	0.5	10.0		10.0	17	23

Labour Market Flexibility (52nd)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			10%	21.3		29.8	54	52
Cooperation in labour-employer relations	WEF	expert survey, 1-7	1.0	4.1		4.3	36	18
Flexibility of hiring practices	WEF	expert survey, 1-7	0.5	2.8		2.8	53	54
Redundancy costs	WEF	weeks	0.5	446.0		25.3	52	44
Flexibility of employment contracts	WB-DB	index, 0-1	1.0	0.3		0.3	24	25
Flexibility of wage determination	WEF	expert survey, 1-7	1.0	2.8		3.1	54	54

Price Distortions (54th)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			10%	23.2		18.6	53	54
Distortive effect of taxes and subsidies	WEF	expert survey, 1-7	1.0	3.29		3.01	32	46
Energy subsidies	IMF	percentage of GDP	1.0	23.7		23.4	54	54

Zimbabwe: Market Access and Infrastructure (32nd): Element and indicator scores

Italics: Indicator contains imputed values

Communications (21st)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	AU Rank 2010	AU Rank 2020
			25%	16.0		47.1	43	21
International internet bandwidth	ITU	kilobits per second per capita	1.0	28.7		43.4	36	22
2G, 3G and 4G network coverage	GSMA	index, 0-100	2.0	19.6		67.7	46	24
Fixed broadband subscriptions	ITU	number /100 population	1.0	0.1		1.4	17	14
Internet usage	ITU	percentage	1.0	3.5		27.1	27	20

Resources (32nd)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	AU Rank 2010	AU Rank 2020
			20%	23.9		24.4	27	32
Installed electric capacity	UNESD	kilowatts per capita	1.5	0.2		0.2	12	17
Ease of establishing an electricity connection	WB-DB	index, 0-100	1.0	43.7		48.6	29	37
Reliability of electricity supply	WB-DB	index, 0-7	1.0	1.0		1.0	10	22
Gross fixed water assets	*IBNET*	*USD per population served*	*1.0*	*14.8*		*14.8*	*28*	*28*
Water production	IBNET	litres per capita per day	0.5	258.1		258.1	11	11
Reliability of water supply	WEF	expert survey, 1-7	1.0	2.4		2.3	45	52

Transport (44th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			25%	26.0		24.3	37	44
Logistics performance	WB-LPI	index, 1-5	1.5	2.4		2.1	26	46
Airport connectivity	WEF	index, 0-100	2.0	2,588.7		3,605.3	36	31
Efficiency of seaport services	WEF	expert survey, 1-7	2.0	3.0		3.1	29	33
Liner shipping connectivity	*UNCTAD*	*index, rebased to 100 in 2004*	*0.5*	*2.0*		*2.0*	*53*	*53*
Quality of roads	WEF	expert survey, 1-7	1.0	3.2		2.8	25	35
Road density	FAO	km per 100 sq km of land area	0.5	24.9		24.9	14	15
Rail density	UIC	km per sq km of land area	0.5	0.01		0.01	24	24

Border Administration (39th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			5%	33.8		31.2	30	39
Efficiency of customs clearance process	WB-LPI	survey, 1-5	1.5	1.9		2.0	48	44
Time to comply with border regulations and procedures	WB-DB	hours	1.0	82.0		124.0	24	39
Cost to comply with border regulations and procedures	WB-DB	USD (current)	0.5	204.2		291.7	7	17

Open Market Scale (8th)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			5%	13.5		29.3	26	8
Domestic and international market access for goods	WTO	percentage of global GDP	1.5	1.6		24.3	13	10
Domestic and international market access for services	WTO	percentage of global GDP	2.0	0.0		0.0	29	27
Trade-weighted average tariff faced in destination markets	WEF	percentage	0.5	4.0		3.8	43	44
Margin of preference in destination markets	WEF	index, 1-100	0.5	55.7		55.7	8	12

Import Tariff Barriers (27th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			5%	12.5		46.7	54	27
Share of imports free from tariff duties	WEF	percentage	1.5	19.3		64.3	35	13
Average applied tariff rate	WEF	percentage	2.0	21.0		14.6	54	53
Complexity of tariffs	WEF	index, 1-7	0.3	4.1		4.5	54	54

Market Distortions (39th)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			15%	21.3		35.8	54	39
Extent of liberalisation of foreign trade	BTI	expert survey, 1-10	1.0	2.0		4.0	52	42
Prevalence of non-tariff barriers	WEF	expert survey, 1-7	1.0	3.8		4.1	39	26
Non-tariff measures	*UNCTAD*	*number*	*0.3*	*322.8*		*322.8*	*35*	*35*

Zimbabwe: Economic Quality (35th): Element and indicator scores

Italics: Indicator contains imputed values

Fiscal Sustainability (38th)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	AU Rank 2010	AU Rank 2020
			25%	35.5		40.1	48	38
Government budget balance	IMF-WEO	percentage	1.0	-2.2		-2.6	20	27
Government debt	IMF-WEO	percentage	1.5	61.1		37.1	45	8
Country credit rating	*TE*	*score, 0-100*	*0.5*	*23.4*		*23.4*	*33*	*33*
Country risk premium	*AD*	*percentage*	*1.5*	*9.2*		*9.2*	*42*	*36*
Gross savings	WB-DI	percentage	1.0	-9.9		-2.2	52	51

Macroeconomic Stability (53rd)	Source	Unit	Weight	Value 2010	Value 10-yr trend	Value 2020	AU Rank 2010	AU Rank 2020
			10%	50.2		13.9	40	53
GDP per capita growth	WB-DI	percentage	1.0	-4.9		-0.8	54	43
Inflation volatility	IMF	percentage	1.0	0.0		204.9	1	53

Productivity and Competitiveness (28th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			30%	30.9		28.7	24	28
Labour productivity	ILO	2011 US $ PPP	1.0	4,227.2		5,428.0	39	34
Economic complexity	ECI	index, -3-3	1.5	-0.3		-0.9	10	31
Export quality	IMF	index, 0-1.2	1.0	0.7		0.8	26	19
High-tech manufactured exports	UN-Com	percentage	1.0	0.3		0.2	32	32

Dynamism (40th)	Source	Unit	Weight	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			15%	34.4		19.5	7	40
New business density	WB-ES	number /100 working age population	1.0	5.7		2.1	5	9
Patent applications	WIPO	applications /1,000,000 population	0.5	0.2		0.3	23	39
Capacity to attract talented people	WEF	expert survey, 1-7	1.0	2.9		2.2	42	52

Labour Force Engagement (5th)	Source	Unit	Unit	Value 2,010.0	Value 10-yr trend	Value 2,020.0	AU Rank 2010	AU Rank 2020
			20%	58.2		59.2	4	5
Labour force participation	ILO	percentage	1.0	83.2		84.0	5	4
Female labour force participation	ILO	percentage	0.5	78.1		79.1	7	5
Waged and salaried workers	ILO	percentage	1.5	33.8		34.8	21	21
Unemployment	ILO	percentage	1.0	5.0		5.0	24	23
Youth unemployment	ILO	percentage	0.5	8.1		8.1	22	21

List of data sources and acronyms

Code	Organisation
BTI	Bertelsmann Stiftung Transformation Index
CII	Chinn-Ito Index
CSP	Center for Systemic Peace
FAO	Food and Agriculture Organisation
FH	Freedom House
FI	Fraser Institute
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UNCTAD	United Nations Trade Data
UNESD	United Nations Energy Statistics Database
WBDB	World Bank Doing Business Index
WBDI	World Bank Development Indicators
WBES	World Bank Enterprise Surveys
WBLPI	World Bank Logistics Performance Index
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WJP	World Justice Project
WTO	World Trade Organisation

You can find the Global Index of Economic Openness report and methodology at https://li.com/research/open-economies/global-index-of-economic-openness/downloads/

LEGATUM INSTITUTE
11 Charles Street
London W1J 5DW
United Kingdom

t: +44 (0) 20 7148 5400

Twitter: @LegatumInst

www.li.com
www.prosperity.com

ISBN 978-1-911125-63-1

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December 2020