

# ZIMBABWE

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- In 2016, Zimbabwe's growth more than halved to 0.5% from 1.1% in 2015. The government responded to the challenging environment by instituting a raft of measures including a temporary ban on imports, issuance of bond notes and introduction of a command agriculture system.
- Zimbabwe's GDP growth is projected to increase by 1.3% in 2017 spurred mainly by agriculture in view of favourable rains, tourism, manufacturing, construction and financial sectors.
- Stimulating entrepreneurship and industrialisation will require deep reforms to improve the business environment and promote employment creation.

### Overview

Zimbabwe's gross domestic product (GDP) growth declined from 1.1% in 2015 to an estimated 0.5% in 2016. It is projected to increase by 1.3% in 2017 with the agriculture, tourism, manufacturing, construction and financial sectors all expected to improve. In particular, the country received above normal rainfall which is a major boost for the economy. The poor performance of government revenues against a background of high recurrent expenditure led to a large fiscal deficit. The fiscal deficit for 2016 is estimated at USD 1.042 billion (7.3% of GDP), against a target of USD 150 million. The economy also continues to experience shortages in foreign currency required to fund critical inputs in most sectors of the economy and the high cost of production which has eroded competitiveness.

According to the Zimbabwe National Statistics Agency (ZIMSTAT), the annual inflation rate stood at -2.19% in January 2016 and -0.93% at the end of the year. The estimated average annual inflation for 2016 is -1.5%, up from -2.4% in 2015. The removal of some goods from the Open General Import Licence in June 2016 coupled with a decline in agricultural production owing to drought has pushed up prices. Zimbabwe emerged out of deflation in February 2017 with annual monthly inflation at 0.06% after gaining 0.71 percentage points on the January rate. Inflation is expected to remain positive in 2017, hovering between 1% to 2%, on the back of an anticipated increase in international oil prices and economic recovery. The external position is projected to remain under severe pressure in the medium term because of weak exports.

According to the 2017 Monetary Policy Statement, merchandise exports amounted to USD 3 365.8 million in 2016 representing a 6.9% decline from the USD 3 614.2 million recorded in 2015. Exports in 2016 were dominated by minerals (gold, nickel, platinum, and diamonds) and tobacco. Tobacco remains a major source of export earnings with the Tobacco Industry Marketing Board (TIMB) registering sales of 202 million kilograms (kg) of tobacco as at 12 September 2016, up from 198.9 million kg in 2015. Total sales amounted to USD 593 million at an average price of USD 2.94 per kg. In 2015, the total sales were USD 586.4 million, at an average price of USD 3 per kg. The major export destinations are South Africa, United Arab Emirates, Mozambique, Botswana and Zambia.

Merchandise imports on the other hand declined by 11.7% from USD 6 062.3 million in 2015 to USD 5 350.9 million in 2016. This is mainly because of the Statutory Instrument 64 ban on certain commodity imports. Imports were dominated by diesel, unleaded petrol, electrical energy, crude soya bean, rice, non-alcoholic beverages and medicines. Fuel accounted for 27.2% of the total merchandise imports while food accounted for 11.8%. The top source countries included: South Africa, Singapore, China, India, Mozambique, Japan, Botswana and United Arab Emirates.

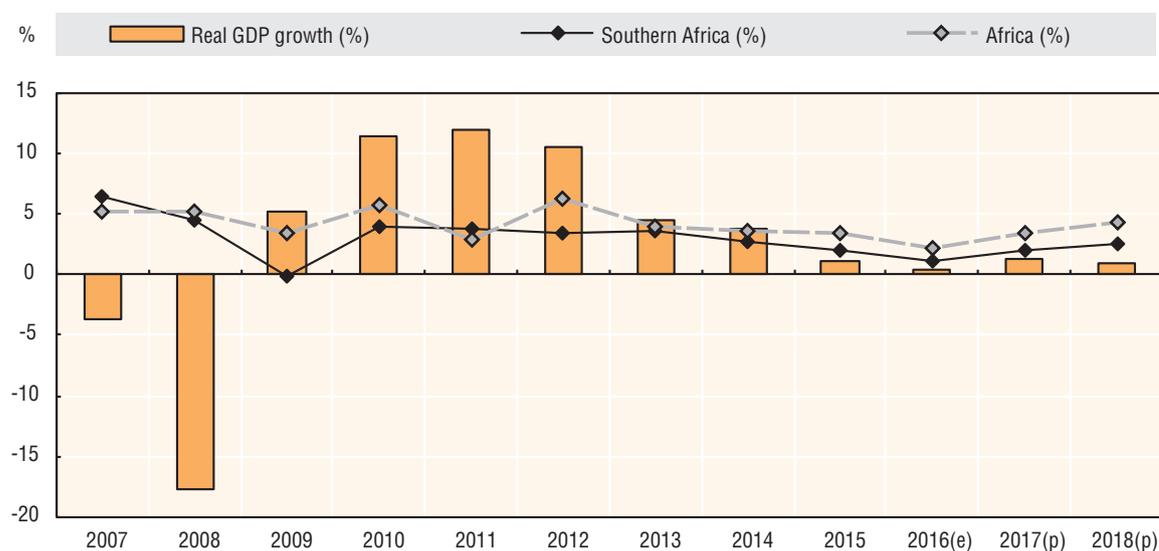


The external sector still remains a threat to a strong recovery in the near term largely due to weak exports leading to an unsustainable trade deficit, although imports have been coming down.

The lack of fiscal space has undermined development expenditure and social services provision, exacerbating poverty in rural and urban areas. The Zimbabwe Poverty Atlas of 2015 by ZIMSTAT shows that poverty prevalence remains high throughout the country. It was highest in Matabeleland North (85.7%) and least prevalent in Harare (36.4%) and Bulawayo (37.2%). Other provinces had prevalence rates between 65% and 76%. According to ZIMSTAT in 2016, the poverty datum line averaged USD 478.90, slightly down from USD 491.26 in 2015.

The economy has experienced cash shortages owing to rising informality, fiscal revenue underperformance, declining capital inflows and export receipts, a high fiscal deficit and public indebtedness; external imbalances and capital flight. In order to alleviate cash shortages, the government introduced bond notes in November 2016 pegged at par to the US dollar. The introduction of bond notes initially created apprehension but they have been broadly accepted as a medium of exchange. Economic activity in the near term will depend to a large extent on how quickly measures instituted by the government will be implemented.

Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.1	0.5	1.3	0.9
Real GDP per capital growth	-1.2	-1.8	-1	-1.4
CPI inflation	-2.4	-1.5	1.0	1.7
Budget balance % GDP	-2.7	-7.3	-5.0	-4.1
Current account % GDP	-10.7	-9.2	-10.7	-7.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.



## Recent developments and prospects

Growth in 2016 was underpinned by the manufacturing, tourism, construction and financial sectors. The agricultural sector was affected by drought, while mining was constrained by power outages, and declining prices for gold, platinum, nickel, chrome and other commodities. The drought was so severe that in February 2016 the government declared a state of disaster in rural areas hit by the drought. The drought followed erratic rainfall recorded in 2015 and 2016. The formal economy shrank because of company closures and this has resulted in increased informality with the share of informal employment to total employment rising from 84% in 2011 to 94% in 2014. Growth is expected to increase slightly to 1.3% in 2017 as a result of a rebound in agriculture, tourism, manufacturing, construction and financial sectors.

According to the 2016 manufacturing sector survey by the Confederation of Zimbabwe Industries (CZI), capacity utilisation in manufacturing rose to 47.4% from 34.3% in 2015, largely due to an increase in production by companies whose products were placed under Statutory Instrument 64, passed in June 2016, which imposed a temporary ban on imports of certain products. Industrial capacity utilisation is expected to further improve in 2017 as local industry consolidates gains realised in 2016 as a result of policy interventions geared at promoting domestic output and productivity.

The government launched an Interim Poverty Reduction Strategy Paper (IPRSP) in September 2016 to run until 2018. Successful implementation of the IPRSP should culminate in the implementation of a full poverty reduction strategy paper. The wide focus of the interim effort over a relatively short period of time requires a huge capital and financial injection despite the limited public resources. The economy experienced a serious cash crisis which is a reflection of structural deficiencies and distortions. The growing informal economy implies that a lot of cash is circulating outside the formal banking sector. This has been exacerbated by low confidence in the banking sector owing to high transactional costs and marginal rates on deposits. Consequently, the bulk of the deposits in the banking sector are short-term. Zimbabwe has also not been able to attract meaningful capital and investment inflows owing to economic and political uncertainty and policy inconsistency. This has increased the country's risk premium and reduced the rate of return on investment in Zimbabwe.

These challenges require strong policy reforms that restore confidence in the economy and incentivise production and investment. The government should address the informal economy by lowering the cost of moving into formality. There should be a simplified regulatory environment that reduces barriers to formalisation. The bond notes must be well-managed to send positive signals to potential investors and give confidence in the banking sector.

The fiscal deficit for 2016 is estimated at USD 1.04 billion (7.3% of GDP), while the target was USD 150 million. Revenues during the first half of 2016 fell by 3.6% while expenditures rose by 21%. Expenditures are dominated by the wage bill, which accounted for 97% of revenues and 70% of spending during the first half of 2016. The excessive deficits are crowding out growth-enhancing private investment and increasing domestic debt. To manage the unsustainable public sector wage bill, estimated at 21% of GDP in 2016, the government may consider fiscal rules limiting wage bill growth as well as the use of new technology to improve payroll administration.

There should be incentives and benefits for informal sector operators to register their operations to improve tax revenues. For instance, the registration process must be simplified and the cost brought down. To improve compliance a number of countries have shifted away from organising tax administrations by locality and type of tax towards organisation by type of taxpayer (i.e. small, middle and large taxpayers).

While some progress has been made in tax policy and administration, there is a need to reduce high marginal tax rates and broaden the tax base by minimising tax exemptions. To avoid



significant revenue losses (due to reduction) there is need for a gradual and smooth reduction of the tax burden in the country. There is plenty of scope for Zimbabwe to expand the fiscal space base by migrating beyond broad-based taxes to alternative revenue sources. Authorities should consider progressive options such as property taxes. Studies have shown that among broad-based taxes, property taxes have the least adverse effect on growth. They are also more progressive as the tax value is proportional to the property value.

The external position remains precarious with large current account deficits and low international reserves. According to the 2017 Monetary Policy Statement by the Reserve Bank, the current account deficit improved from USD 1 519.4 million in 2015 to USD 1 283.9 million in 2016. The overall balance of payments deficit widened to USD 186.4 million in 2016 from USD 25.8 million in 2015. A current account deficit of 10.7% in of GDP is projected in 2017 against an estimated 9.2% in 2016.

According to the Zimbabwe Investment Authority (ZIA), between January and August 2016 investments worth USD 452 million were approved. In 2015 the ZIA approved investments worth USD 3 billion across all sectors. Actual investments declined from USD 545 million in 2014 to USD 421 million in 2015. Policy uncertainty and the high cost of doing business remain major challenges to attracting greater foreign investment.

De-industrialisation and the growing informal economy have narrowed the tax base, presenting challenges for domestic resource mobilisation. The Zimbabwe Congress of Trade Unions (ZCTU) estimates that 229 companies closed during the first half of 2016.

Table 2. GDP by sector (percentage of GDP at current prices)

	2008	2014
Agriculture, forestry, fishing and hunting	24.2	14.0
of which fishing	...	...
Mining and quarrying	6.9	9.5
of which oil	...	...
Manufacturing	7.1	11.9
Electricity, gas and water	7.9	4.5
Construction	0.9	3.5
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	26.5	15.8
of which hotels and restaurants	...	...
Transport, storage and communication	10.7	12.1
Finance, real estate and business services	0,1	11.9
Public administration and defence	1.5	3.6
Other services	14.3	13.1
<b>Gross domestic product at basic prices / factor cost</b>	<b>100.0</b>	<b>100.0</b>

Source: Data from domestic authorities.

## Macroeconomic policy

### Fiscal policy

The fiscal position and overall macroeconomic situation is unsustainable owing to the low level of revenues and increase in recurrent expenditure. This is against the backdrop of weak aggregate demand caused by the economic slowdown. According to the 2017 national budget statement, cumulative fiscal revenues from January to October 2016 amounted to USD 2.87 billion, a 9.8% decline from the targeted figure and a 1.5% drop from 2015. Tax revenues amounted to USD 2.65 billion, constituting 92% of total revenues. Value Added Tax (VAT) contributed 28% of



total revenues followed by personal income tax (21%), excise duty (18%), corporate income tax (8.8%) and customs duty (7.8%).

Cumulative expenditure for January-October 2016 amounted to USD 3.84 billion, overshooting the targeted USD 3.32 billion by 13.5%. This is on account of unbudgeted spending of USD 253 million on imported grain because of the drought, December 2015 salary arrears amounting to USD 119 million and debt servicing of USD 100 million. Employment costs amounted to USD 2.6 billion constituting 91% of total revenues.

The 2016 fiscal deficit is estimated at USD 1 billion (7.3% of GDP), against a target of USD 150 million. Domestic public debt has risen by about 85% from about USD 2 billion in 2015 to about USD 3.7 billion by 31 October 2016. The financing of the fiscal deficit through domestic borrowing, though inevitable, is worrying as it seriously threatens financial sector and macroeconomic sustainability. Expenditure in 2017 will be under pressure because of looming elections in 2018 as well as the payment of 2016 bonuses to civil servants on a staggered basis beginning in April 2017. The fiscal deficit is likely to worsen in 2017 causing domestic public debt to increase unless tight expenditure management measures, backed by revenue increasing interventions, are implemented.

The Public Finance Management Amendment Act was signed into law in October 2016. The Act seeks to enhance transparency in public resource management. Zimbabwe's public resource management has been affected by endemic institutional corruption and lack of accountability as highlighted in reports by the Auditor General. According to the 2016 Ibrahim Index of Africa Governance, Zimbabwe is ranked 40 out of 54 countries in the accountability sub-category with a score of 24.2 out of 100 against the average African score of 35.1. In public management, the country is ranked 28 out of 54 countries with a score of 41.8 out of 100. This is an improvement of 18.4 over the ten-year average score.

Successfully dealing with corruption involves eliminating the opportunity for fraud by changing incentives, removing loopholes and getting rid of rules and regulations that encourage corrupt behaviour. The country should continue undertaking reforms to strengthen the State Procurement Board, improve the governance of state-owned enterprises and strengthen the public sector. Successful anti-corruption strategies in other countries have entailed a code of conduct and rules of disclosure for public officials, and assets declaration requirements for politicians.

Table 3. Public finances (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
<b>Total revenue and grants</b>	<b>2.5</b>	<b>27.7</b>	<b>26.5</b>	<b>26.6</b>	<b>24.8</b>	<b>25.3</b>	<b>26.3</b>
Tax revenue	2.5	25.3	24.8	25.2	23.6	24.1	25.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total expenditure and net lending (a)</b>	<b>4.9</b>	<b>30.1</b>	<b>28.3</b>	<b>29.3</b>	<b>32.2</b>	<b>30.4</b>	<b>30.4</b>
Current expenditure	4.6	26.6	25.7	27.3	30.2	28.4	28.5
Excluding interest	2.0	25.7	24.7	26.1	28.7	27.1	27.2
Wages and salaries	1.0	20.5	21.3	22.2	23.9	22.3	22.4
Interest	2.7	0.9	1.0	1.3	1.5	1.3	1.3
Capital expenditure	0.3	3.6	2.6	1.9	1.9	2.0	2.0
<b>Primary balance</b>	<b>0.3</b>	<b>-1.5</b>	<b>-0.7</b>	<b>-1.4</b>	<b>-5.8</b>	<b>-3.7</b>	<b>-2.8</b>
<b>Overall balance</b>	<b>-2.4</b>	<b>-2.4</b>	<b>-1.8</b>	<b>-2.7</b>	<b>-7.3</b>	<b>-5.0</b>	<b>-4.1</b>

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.



## Monetary policy

The RBZ introduced bond notes in November 2016 in denominations of USD 2 and USD 5 to incentivise exporters and deal with the cash shortages. The bond notes are at par with the US dollar and are backed by a USD 200 million loan facility from the Africa Export-Import Bank (Afreximbank). Although the notes initially created apprehension and weakened confidence within the banking sector threatening its sustainability, they are widely being used. By increasing the money supply in the economy, bond notes are likely to increase inflationary pressures. This should however be sustainable and manageable if the government sticks to the USD 200 million limit and stays on course its 2017 Monetary Policy thrust aimed at bolstering business confidence, enhancing financial stability, and improving the external sector. As Zimbabwe moved out of deflation in February 2017, inflation is projected to remain around between 1-2% during the year.

According to the 2017 monetary policy statement, total banking sector deposits increased by 15.8% to USD 6.5 billion as at December 2016 up from USD 5.6 billion in December 2015. Some 54% of the deposits are demand deposits. On the other hand, banking sector loans declined by 4.7% from USD 3.87 billion at the end of 2015 to USD 3.69 billion by 31 December 2016. Individuals continue to dominate banks' loans portfolio, accounting for 28% of total loans followed by agriculture at 16%. The return on assets improved from 2.1% in December 2015 to 2.2% by December 2016. The return on equity improved from 10.9% in December 2015 to 12.6% in December 2016.

Disposal of non-performing loans to the Zimbabwe Asset Management Corporation (Private) Limited (ZAMCO) has significantly contributed to the reduction in banks' loan portfolios. There has been an improvement in the level of banking sector non-performing loans from 10.8% in December 2015 to 7.8% in December 2016. The level of NPLs is expected to continue trending downwards in response to policy measures by the Reserve Bank aimed at fostering responsible borrowing culture including the establishment of a Credit Registry.

## Economic co-operation, regional integration and trade

Trade costs remain high owing to the multiple taxes/levies charged and other factors. Trade procedures remain complex and burdensome and are administered by multiple regulatory agencies. As part of improving trade facilitation, the RBZ and ZIMRA are integrating the Computerized Export Payment Exchange Control System (CEPECS) and the Automated System for Customs Data (ASYCUDA). The integration of the two systems will imply that once a currency declaration form is raised in CEPECS, the bill of entry (export) will be automatically generated in ASYCUDA thereby reducing the time to obtain the two of the most important export documents. The government launched the 100-day Ease of Doing Export Business Rapid Results Approach in December 2016. This is expected to increase the country's exports by tackling bottlenecks.

Statutory Instrument 64 temporarily banned the importation of certain products that can be produced locally. The legislation was received with mixed feelings and caused demonstrations in the Beitbridge area. People, mainly informal traders, burned down the ZIMRA Warehouse. Protectionist measures should be targeted and time-bound.

The country has been ranked 31 out of 53 countries across Africa in the 2016 BMI Research operational risk index with the highest risk factors related to trade and investment. In terms of logistics risk, the country has a score of 33.6 out of 100 owing to bureaucracy and costly trade procedures which create additional costs for businesses. In the 2016 World Bank Logistics Performance Index (LPI), the country is ranked 151 out of 160 countries with an overall score of 2.08. The score ranges from 1 (low) to 5 (high). According to the World Economic Forum 2016-17 *Global Competitiveness Report*, Zimbabwe is ranked 131 out of 138 countries in terms of the burden of customs procedures with a score of 3.0 out of 7. In the World Bank report *Doing Business*, Zimbabwe is ranked 148 out of 190 countries for trading across borders with a score of 55.65 out of 100.



Table 4. Current account (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-18.6	-22.0	-18.3	-17.5	-13.4	-17.4	-16.6
Exports of goods (f.o.b.)	31.8	28.4	26.1	25.6	27.0	26.6	27.6
Imports of goods (f.o.b.)	50.4	50.5	44.4	43.1	40.4	44.0	44.2
Services	-4.0	-6.8	-6.8	-3.8	-4.7	-4.3	-4.3
Factor income	-6.4	-4.0	-4.1	-4.6	-4.8	-4.0	-3.6
Current transfers	12.0	14.6	14.0	15.2	13.7	14.9	16.7
<b>Current account balance</b>	<b>-17.0</b>	<b>-18.2</b>	<b>-15.2</b>	<b>-10.7</b>	<b>-9.2</b>	<b>-10.7</b>	<b>-7.7</b>

Source: Data from domestic authorities; estimates (e) and prediction (p) based on authors' calculations.

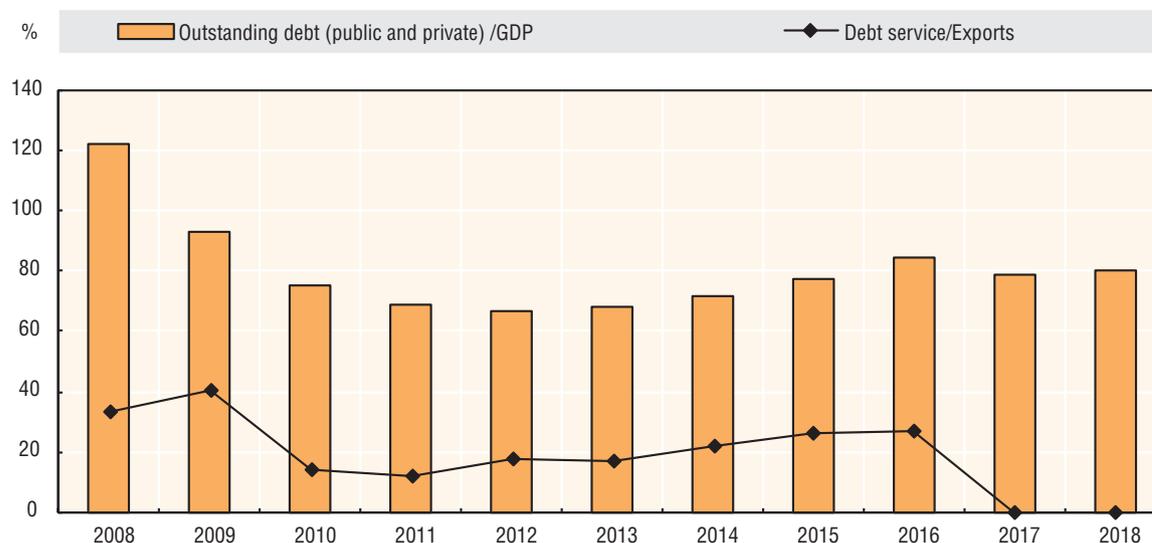
## Debt policy

According to the 2017 national budget statement, domestic public debt has risen by about 85% from about USD 2 billion in 2015 to about USD 3.7 billion by 31 October 2016. This follows the government takeover of the Reserve Bank debt through the Debt Assumption Act. The government assumed the RBZ's USD 1.4 billion debt. The government also took on the debts of a number of parastatals. Budget financing accounts for 45% of total public domestic debt.

As at 31 October 2016, total domestic and external public debt stood at USD 11.2 billion, of which USD 7.5 billion is external debt. Such high public debt relative to GDP affects Zimbabwe's international financial credibility and hence its ability to unlock credit and investment. The high public debt has had the negative effect of crowding-out resources from the private sector. Debt repayment will also take resources away from social expenditure.

In October 2016, Zimbabwe drew down on its Special Drawing Rights (SDRs) holdings held at the International Monetary Fund, to clear USD 107.9 million of arrears to the fund's Poverty Reduction and Growth Trust. As a result, the IMF removed remedial measures applied to the country. The country still has arrears of about USD 601 million with the AfDB and USD 1.1 billion with the World Bank. The prospects of future IMF financing depends on the clearance of arrears with the other institutions, including the World Bank and the AfDB, fiscal adjustments and reforms. Completion of the clearance of external debt arrears to the rest of the international financial institutions is expected to further reduce the country's debt burden that continues to be an albatross on Zimbabwe's access to foreign finance.

Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF (WEO & Article IV).

## Economic and political governance

### Private sector

Modest progress has been made in doing business reforms under the 100 day rapid results programme. Notably, the number of days required to obtain a construction permit has been reduced from 448 to 120. The government has also set up an online company registration platform.

The investment climate remains problematic with Zimbabwe moving four places down in the ease of doing business rankings from 157 out of 190 countries in 2016 to 161 in 2017. The country is ranked 126 out of 138 countries in the 2016-17 *Global Competitiveness Report* with a score of 3.4 out of a possible 7. Some progress has been made to improve the regulatory environment. However, more needs to be done to improve the investment climate in terms of the policy, institutional and physical environment in which the private sector operates. The government should provide greater policy clarity, consistency and certainty on its economic policies. The number of taxes and tariffs should be reduced and simplified. Amendments to the Companies Act also need to be expedited. Despite some positive spinoffs from policy measures outlined above, private sector performance in 2017 is likely to remain under considerable stress in the absence of a holistic approach to address the underlying fundamental problems affecting local competitiveness and business confidence.

Findings from a study by the United States Agency for International Development's Strategic Economic Research and Analysis (2011-16) in partnership with the Zimbabwe Investment Authority, found that the country requires nine procedures to set up a business, one more than the Common Market for Eastern and Southern Africa average of eight. It takes an average of 90 days to start a business compared to the regional average of 31 days. Considerations are being made to reduce the cost of business licences to USD 200 from USD 520, with a revenue sensitivity study to be undertaken by the City of Harare.



Infrastructure development remains inadequate with the country ranked 123 out of 138 countries in the 2016-17 *Global Competitiveness Report*. It had a score of 2.5 out of a possible 7. In the 2016 Ibrahim Index of African Governance, Zimbabwe is ranked 34 out of 54 countries for 2015 in the infrastructure sub-category with a score of 34.1 out of 100, down from 41.6 out of 100 in 2014. According to the 2016 -17 *Global Competitiveness Report*, inadequate supply of infrastructure is the fifth most problematic factor for doing business with the country ranked 123 out of 138 countries with a score of 2.5 in terms of infrastructure. The Bank estimated that about USD 14.2 billion is needed to close Zimbabwe's infrastructure gap. The high rate of recurrent expenditure crowds out capital expenditure necessary for infrastructure rehabilitation and development. The government has however accessed some donor funding to rehabilitate water and sewerage infrastructure in a number of urban centers.

The Zimbabwe Multi Donor Trust Fund (ZimFund) Phase One projects have been completed successfully. ZimFund provided for the Urgent Water Supply and Sanitation Rehabilitation Project Phase 1 in Mutare, Masvingo, Kwekwe, Chegutu, Harare and Chitungwiza. On the energy side, the facility provided funding for an Emergency Power Infrastructure Rehabilitation Project to rehabilitate power transmission and distribution systems as well as the rehabilitation of the Ash plant at Hwange thermal power station. There is scope for greater involvement of the private sector in infrastructure provision through public-private partnerships.

## Financial sector

The financial sector remains relatively underdeveloped with Zimbabwe ranked 126 out of 138 countries for financial sector development in the 2016 -17 *Global Competitiveness Report* with a score of 3.1 out of a possible 7. According to the 2017 Monetary Policy Statement, there are 14 operating commercial banks, including POSB, five building societies, four deposit-taking microfinance and 181 credit only microfinance institutions. National Building Society Limited (NBS) commenced operations in May 2016. A number of banks offer mortgage finance, with terms ranging from 10 to 20 years.

The banking sector's net capital position rose from USD 1.14 billion in December 2015 to USD 1.34 billion in December 2016. The banking sector's capital adequacy ratio increased from 21.3% in December 2015 to 23.7% in December 2016 owing largely to improved profitability. By December 2016, all banks had fully complied with the prescribed minimum capital requirement of USD 25 million for commercial banks and USD 20 million for building societies. The banking sector average prudential liquidity ratio, at 61.9% at the end of 2016 is above the regulatory minimum requirement of 30%. Despite the high average prudential liquidity ratio, the economy has faced cash challenges which are expected to continue into 2017 against the background of depressed exports receipts and other financial inflows.

The Banking Act that came into effect in May 2016 provided for more stringent bank supervision, monitoring and control while diluting controlling individual or bank holding shareholder influence on banks. The legislation also amended the Reserve Bank of Zimbabwe Act, Deposit Protection Corporation Act, Reserve Bank of Zimbabwe (Debt Assumption) Act and repealed the Troubled Financial Institutions (Resolution) regulations.

The RBZ has come up with a National Financial Inclusion Strategy which seeks to achieve 90% national financial inclusion (access to affordable and appropriate formal financial services) by 2020. Microfinance institutions and mobile financial services have significantly contributed to the growth in the proportion of the population accessing formal financial services. According to the RBZ a number of microfinance institutions charge interest rates over 20% per month and this has negatively affected access to financial services by smaller enterprises.



## Public sector management, institutions and reforms

Zimbabwe is rated among countries with high levels of corruption. The 2016-17 *Global Competitiveness Report* identifies corruption as the third most problematic factor for doing business in Zimbabwe. According to the 2016 Ibrahim Index of African Governance, Zimbabwe was ranked 49 out of 54 countries in the business environment sub-category for 2015 with a score of 15.5 out of 100. The score represents a decline of 1.9 over the 2006-15 period.

Service provision and operational efficiency remains weak and inadequate owing to central and local government budget constraints. This is evidenced by the unreliable supply of electricity and water which has affected business confidence. The government also needs to expedite the reform of parastatal and state-owned enterprises to improve their operational efficiency and transform them into profit-making enterprises that can contribute meaningfully to the treasury.

## Natural resource management and environment

The Environmental Management Agency (EMA) has identified deforestation, drought and desertification, soil erosion and fires, water pollution, loss of biodiversity, water invasion on lakes and dams, air pollution, poor waste management as well as land degradation as key environmental challenges facing the country. The EMA lacks human and financial resources which are vital to implement the EMA Act and ensure environmental sustainability.

In 2013, Zimbabwe demonstrated its commitment to tackling climate change by creating a government ministry to specifically deal with the phenomenon. A National Climate Change Response Strategy has since been completed and authorities are finalising a National Climate Policy to operationalise the strategy. The policy and strategy will be mainstreamed into national budgets and development targets, providing for improved preparedness and a more co-ordinated and efficient response to climate-linked disasters. There is greater scope for the country to improve the stewardship of natural resources to unlock more revenues and improve domestic resource mobilisation.

## Political context

Zimbabwe's political environment has become increasingly fluid and uncertain, especially as the country approaches 2018 elections. There were some demonstrations in July 2016. Political tensions may intensify if no significant improvement in economic conditions occurs before the general elections. The introduction of Statutory Instrument 64, to temporarily ban the importation of certain commodities, led to demonstrations in the Beitbridge area by informal traders and other affected individuals.

According to the 2016 Ibrahim Index of African Governance, Zimbabwe and Rwanda are among African countries where governance has improved significantly in the last decade. The country scored very highly on national security, participation, human rights and gender but poorly for accountability and infrastructure. Public trust in politicians remains low with the country ranked 134 out of 138 countries with a score of only 1.6 out of 7 in the 2016-17 *Global Competitiveness Report*.

A new constitution was passed in 2013 and progress has been registered with respect to aligning laws to the constitution. Of the 400 statutes that needed attention, only 69 were yet to be aligned as of February 2017. There remain concerns on the pace of reforms that can strengthen the political structure for peace and stability, *inter-alia* human rights, freedom of speech, judicial independence, political and economic dialogue, and electoral reform, amongst other issues. Political infighting within Zimbabwe's main political parties has continued. Despite this, the ruling party structures in the provinces have endorsed the President as their candidate for the 2018 elections. Polarisation among political parties is anticipated to worsen towards the 2018 general elections.



## Social context and human development

### Building human resources

Zimbabwe has gained the most in the UN Development Programme's Human Development Index ranking in sub-Saharan Africa since 2009, moving 12 places up the ranking according to the 2015 *Human Development Report*. This is reflected in improvements in health, education and income. Life expectancy has improved from 49.6 to 57.5 years since 2010 while expected years of schooling have increased from 10.5 to 10.9 years in 2015. Income per capita has improved from USD 1 442 to USD 1 615 during the same period.

These developments are reflected in budgetary allocations as well. The Ministry of Health received the fifth largest share of the budget at 6.9% which translates to about 2% of GDP. In 2016, the Ministry of Health received 8.3% of the total budget. Employment costs however constitute 79% of the total health budget. Per capita health allocation stands at USD 21 down, from USD 24 in 2016. This implies that the government will spend an average USD 21 per person on health care in 2017 which is inadequate. The per capita allocation is much lower when the employment cost component is removed. The per capita allocation is lower than the Southern African Development Community average of USD 146. The average is USD 650 in South Africa, USD 90 in Zambia and USD 200 in Angola. The total health allocation is also below the 15% Abuja target and the sub-Saharan African average of 11.3%. The Abuja Declaration of 2001 is a commitment by AU heads of state to allocate at least 15% of the annual national budgets to the health sector. Budget disbursements during the first six months of 2016 amounted to USD 164 million, including remuneration for the 26 700 public health care personnel amounting to USD 149 million.

The Health Development Fund, administered by the UN Children's Fund (UNICEF), disbursed USD 3.1 million towards improving maternal and adolescent health through the strengthening of health and nutrition interventions. The health indicators in Zimbabwe, although progressively improving, still reflect a poor health situation.

The government has come up with a health fund levy of five US cents for every dollar of telecommunications airtime and mobile data. A number of countries have come up with corrective taxes on goods and services that are considered bad for the individual or society. Examples include taxes on alcohol, cigarettes and products and activities with negative environmental consequences. Such corrective taxes can improve fiscal revenues while at the same time reducing socially and environmentally undesirable activities thereby promoting good health.

According to the UN Programme on HIV/AIDS (UNAIDS), Zimbabwe has one of the largest HIV epidemics in the world, with an estimated adult HIV prevalence of 15%, some 1.4 million people. The Global Fund disbursed USD 125 million during 2016. As at September 2016, close to a million people received ART therapy medicines and nearly 2 million people were HIV tested, counselled and received results. Women accounted for 63% of the coverage in each.

The Ministry of Primary and Secondary Education received the biggest share of 19.6% of the total budget, which translates into 6.4% of GDP. Employment costs however accounted for a staggering 98% of the total education allocation. The preponderance of employment costs implies the crowding out of capital investment, maintenance and spending on programmes and service provision. Budget expenditure to June 2016 of USD 547 million in the education sector remained heavily skewed towards wages for the 123 563 staff, mostly in teaching.

### Poverty reduction, social protection and labour

Drought contributed to increased poverty levels and increased the number of the vulnerable poor in need of humanitarian assistance. The UN, with support from donors, provided an emergency humanitarian response with close to USD 212 million mobilised in 2016 against a target of USD 352 million.



The number of children requiring welfare has increased from 11 000 in 2015 to an estimated 20 000 in the first seven months of 2016, according to UNICEF. This follows the El Niño induced drought that has affected the Southern African region. UNICEF mobilised USD 3.1 million for Zimbabwe to promote the wellbeing of vulnerable children.

According to the 2015 Zimbabwe Demographic and Health Survey, under-five mortality increased from 1988 (71 deaths per 1 000 live births) to 1999 (102 deaths per 1 000 live births) and then declined (69 deaths per 1 000 live births in 2015). Of children aged 12-23 months, 76% had received all basic vaccinations at the time of the survey, up from 65% in 2010-11.

In September 2016, the government, business and labour under the Tripartite Negotiating Forum reached an agreement on key principles to amend the Labour Act. Once these amendments have been assented to by the cabinet they will be codified into a bill for enactment by the legislature.

### Gender equality

Women generally have lower status in access, control and ownership of economic assets and positions in decision making. The 2014 female HDI value for Zimbabwe is 0.487, in contrast with 0.529 for males, resulting in a Gender Development Index (GDI) value of 0.922. In comparison, GDI values for Lesotho and Kenya are 0.953 and 0.913 respectively. The GDI measures gender inequalities in achievement in three basic dimensions of human development: health (measured by female and male life expectancy at birth), education (measured by female and male expected years of schooling for children and mean years for adults aged 25 years and older); and command over economic resources (measured by female and male estimated gross national income per capita). Zimbabwe has a Gender Inequality Index value of 0.504, ranking it 112 out of 155 countries in the 2014 index.

According to the 2015 Zimbabwe Demographic and Health Survey (ZDHS), 91% of females and 94% of males have attended school. The median number of years of educational attainment is similar for males (6.7 years) and females (6.5 years). Literacy is nearly universal with 94% of women and men able to read. According to the 2015 ZDHS about 37% of women and men own a house. Among women, 30% own land, and among men 34% own land. In the labour market, approximately 41% of women and 65% of men aged 15-49 are employed. Among women, 37% were employed in 2010-11, compared with 41% in 2015. Among men, the percentage has increased from 61% to 65%. Women remain trapped in low productivity economic activities.

Despite constitutional provisions, gender inequality persists in the public sector where strong male dominance in positions of leadership is entrenched. There should be legislative intervention as provided for in the constitution, to ensure equal gender representation in governance of state-owned enterprises. The country has ratified several international and regional conventions towards the elimination of gender discrimination but these have, however, not been fully domesticated.

### Thematic analysis: Entrepreneurship and industrialisation in Zimbabwe

The Zimbabwean economy has undergone far-reaching structural changes marked by de-industrialisation and the subsequent growth of the informal sector. The contribution of manufacturing to GDP declined from 15.5% in 2009 to 12.8% in 2013 and 11.9% in 2014. Between 2011 and 2014, 4 610 companies closed, resulting in 55 443 jobs being lost (2015 budget statement). According to the Economic Commission for Africa, manufacturing value added per capita declined from USD 106 in 1990 to USD 36 in 2010 owing mainly to de-industrialisation.

According to Confederation of Zimbabwe Industries (CZI) manufacturing sector surveys, capacity utilisation levels improved from 32% in 2009 to 43% in 2010 and 57% in 2011 before



declining to 45% in 2012, 39% in 2013, 37% in 2014 and 34% in 2015. Consequently, tax revenues remain subdued on account of the depressed economic activity evidenced by the continued de-industrialisation. The shrinking of the formal economy has resulted in a boom in the non-formal economy with the share of informal employment to total employment rising from 84% in 2011 to 94% in 2014.

Zimbabwe has come up with a new industrial development policy which will run from 2017-21. The objective is to increase the manufacturing sector's contribution to gross domestic product to 30% and its contribution to exports to 50%. The Special Economic Zones bill was signed into law by the President in October 2016. The country's experience with industrialisation since independence in 1980 has not been positive. Zimbabwe's failure to industrialise is due to a number of factors. The investment climate with respect to the policy, institutional and physical environment within which the private sector operates has not spurred industrial development. Implementation of past industrial policies has been hampered by lack of capacity. The country needs to undertake macroeconomic and structural reforms to boost production.

The doing business environment remains problematic with the country moving four places down in the ease of doing business rankings from 157 out of 190 countries in 2016 to 161 in 2017. According to the World Bank report *Doing Business 2017*, Zimbabwe is ranked 183 out of 190 countries for starting a business, one place down from 182 in 2016. On average it takes 91 days to start a business and the process requires 10 procedures.

According to the 2014 Labour Force and Child Labour Survey by ZIMSTAT, out of 7.1 million economically active persons, around 89% were employed and 11% were unemployed. For the economically active population, the highest percentage of labour force (52%) were own account workers (communal, peri-urban and resettlement farming) followed by paid or permanent employees (14%). Of the male labour force, 48% were own account workers (communal, peri-urban and resettlement farming), 19% were paid employee-permanent and 12% were own account workers (other). Of the women in the labour force, 56% were own account workers (communal, peri-urban and resettlement farming), 15% were unemployed and 13% were own account worker (other). For the economically active in rural areas, the highest percentage of the labour force (76%) were own account workers (communal, peri-urban and resettlement farming) followed by paid employee-permanent at (9%).

Empretec Zimbabwe which was set up in 1992 as a joint venture of the UNDP and the Zimbabwe Investment Centre, and registered as a trust in 1997, has trained more than 15 000 people. Entrepreneurship is key in dealing with youth unemployment. The government's entrepreneurship drive should focus on skills development, resource provision and access to markets. While entrepreneurship is growing rapidly, entrepreneurs continue to face significant obstacles, including a lack of access to funding, support services, skills training and infrastructure, as well as administrative barriers.

Zimbabwe has produced a number of successful entrepreneurs in the past five years. Saisai Wireless is one such example of a promising start up. Established in 2014 by a team of undergraduates at a local university, Saisai is a bandwidth redistribution wireless mesh network, operating in public areas and public transportation. Saisai aims to end the country's digital divide and bring free internet access to the public. Saisai has over 400 000 users across the country.

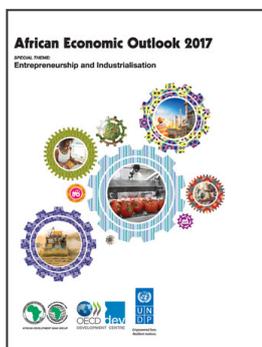
Esaja.com is an online business-to-business (B2B) platform that connects businesses to buyers across Africa. Esaja.com was established in 2012 by 22-year Clinton Mutambo. In 2015, he was named one of Forbes Africa 30 under 30 Entrepreneurs for 2015. Esaja.com is a marketing platform that seeks to facilitate trade and cooperation between small and medium-size enterprises, and large corporations. Esaja.com has extended its footprint to over 15 countries throughout Africa and is enabling trade across various sub-regions. By leveraging the power of the internet as a tool for breaking down barriers to trade, Esaja.com provides information on businesses spread



across the continent while creating relationships between enterprises and buyers, something that would have been difficult before.

The Zimbabwe government is encouraged to continue to work on creating an enabling environment that supports entrepreneurship and job creation. There is a need to integrate entrepreneurship training in formal education to prepare the youth for the future. The country's interim poverty reduction strategy can also be linked to entrepreneurship. Promising start-ups and young entrepreneurs need to be nurtured and supported.





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