



COUNTRY PRIVATE SECTOR DIAGNOSTIC

# CREATING MARKETS IN ZIMBABWE

Mobilizing the private sector in support of  
economic transformation in Zimbabwe

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# EXECUTIVE SUMMARY

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Zimbabwe's opportunities for economic development stand out compared to most other African countries: for decades after independence, Zimbabwe was one of the countries with the highest standards of living in Africa—buttressed by a skilled work force and infrastructure superior to that of most countries on the continent. Notwithstanding its economic decline since 1995, it continues to boast several sectors that are still competitive or could—in the short to medium term—be competitive regionally and globally.

Notably, the report finds Zimbabwe to be highly competitive in several value chains in agriculture and agribusiness industries, including sugar, cotton, horticulture, as well as meat and dairy. Furthermore, tourism and mining of energy transition minerals – including ample reserves of lithium – hold significant potential in the short term.

The main constraint to unlocking private sector potential as an engine of economic growth in the country is chronic macroeconomic instability, historically caused by loose monetary and fiscal policy, foreign exchange rationing, and structural challenges—all of which culminated in two major recessions and hyperinflation in 2000–08 and 2019–20. Growth averaged only 1.1 percent between 2018 and 2022, compared to 4.0 percent in Cambodia, 5.4 percent in Côte d'Ivoire, 6.4 percent in Ethiopia, and 4.6 percent in Kenya – Zimbabwe's structural peers. While the country was one of the fastest growing economies in the South African Development Community (SADC) in 2022 and 2023, with economic growth of 6.5 percent in 2022 and 4.5 percent in 2023, sustaining this growth will require Zimbabwe to tackle its macroeconomic and structural challenges.

Continuous efforts by the government of Zimbabwe to tighten fiscal policy and to rein in local-currency liquidity have helped create better conditions for macroeconomic stability in the future. The new Structured Dialogue Platform between the government and development partners outlines an important set of reforms and pathways to address Zimbabwe's pressing external debt arrears problems to unlock access to affordable external credit lines and stimulate much needed public and private sector investment to boost economic growth. However, these efforts are taking place against the backdrop of a complicated global environment characterized by depressed global growth, the volatile global commodity prices, and the predicted erratic and below-average rainfall caused by the El Niño weather pattern. With limited fiscal space, lack of foreign direct investment (FDI), and a pressing challenge to reduce growing extreme poverty, Zimbabwe needs to find new ways to harness its comparative advantages and to capitalize on existing and emerging opportunities for the private sector to drive economic growth in the country.

## ES.1. COUNTRY CONTEXT

The government of Zimbabwe aims to reverse the period of stagnation and decline and transform Zimbabwe into an upper-middle-income country by 2030. To meet this objective, as outlined under the National Development Strategy-1, 2021–2025 (NDS1), the government aims to create 760,000 formal jobs, for which the role of the private sector is crucial. Achieving this objective will require both finding practical solutions to a range of bottlenecks that constrain growth and taking full advantage of the country's comparative strengths, including the following:

- **Relatively strong human capital** with a young, well-educated labor force and strong entrepreneurial culture. Zimbabwe is on a par with its aspirational peers on the World Bank's Human Capital Index (HCI), and the level of skills among Zimbabwe's current workforce is higher than the average for Sub-Saharan Africa.
- **Abundant mineral and natural resources** that are yet to be exploited, including gold, platinum group metals (PGM), chrome, coal, diamonds, and lithium. In fact, Zimbabwe boasts one of the largest deposits of lithium—critical to the production of batteries in electric cars—in the world.
- **Infrastructure** that despite many years of economic decline is still on a par with the country's structural peers, such as Kenya, and superior to countries like Côte d'Ivoire and Ethiopia. At the same time, the level of infrastructure is inferior to the level of aspirational peers and is in need of significant investment.
- **Recent efforts by the government** to accelerate reforms to improve public finances and public financial management by implementing fiscal consolidation centered on revenue enhancement and austerity measures, creating the Zimbabwe Investment and Development Agency (ZIDA) with a strong private sector orientation, and launching some reforms to improve the business environment.
- **Relatively high productivity in select economic sectors**, such as cotton, tobacco, and mining. These sectors continue to operate on the production frontier and are globally competitive, despite multiple bottlenecks and an unfavorable business environment. With a more conducive environment, these sectors could show rapid growth.

Yet, despite these areas of comparative advantage, Zimbabwe's economic performance has been weak, as reflected in entrenched macroeconomic instability, low investment, and limited structural transformation.

### Macroeconomic instability

Limited access to external financing and poor revenue mobilization, coupled with quasi-fiscal operations of the Reserve Bank of Zimbabwe to service foreign loans and legacy debt and support loss-making state-owned enterprises led to a monetary overhang, a rapidly depreciating exchange rate, and subsequently high inflation. Since 2000, the government of Zimbabwe has stopped servicing debt to international financial institutions (IFIs) and has accumulated arrears on external debt, which shot up from 26 percent to 52 percent of GDP between 2018 and 2022. Arrears to IFIs have limited access to concessional financing and increased the cost of private sector borrowing.

Meanwhile, price and exchange rate volatility, and large export surrender requirements have pushed many companies into the informal sector, limiting their ability to obtain financing from the banking system and further reducing the tax base. Also, many foreign exchange transactions take place in the informal sector, further intensifying pressure on the parallel market exchange rate. Inflation has been consistently high (three digits in recent years) and reached more than 314 percent in 2023, with the local currency weakening at a fast pace.

Zimbabwe's concentration in three export commodities—gold, platinum, and tobacco—known for their price instability has increased the unpredictability of export earnings and fiscal revenues and complicated macroeconomic management. In addition, recent increases in the global prices of food, energy, and fertilizers due to Russia's invasion of Ukraine have significantly reduced the purchasing power of households and elevated the costs of production.

### Low investment

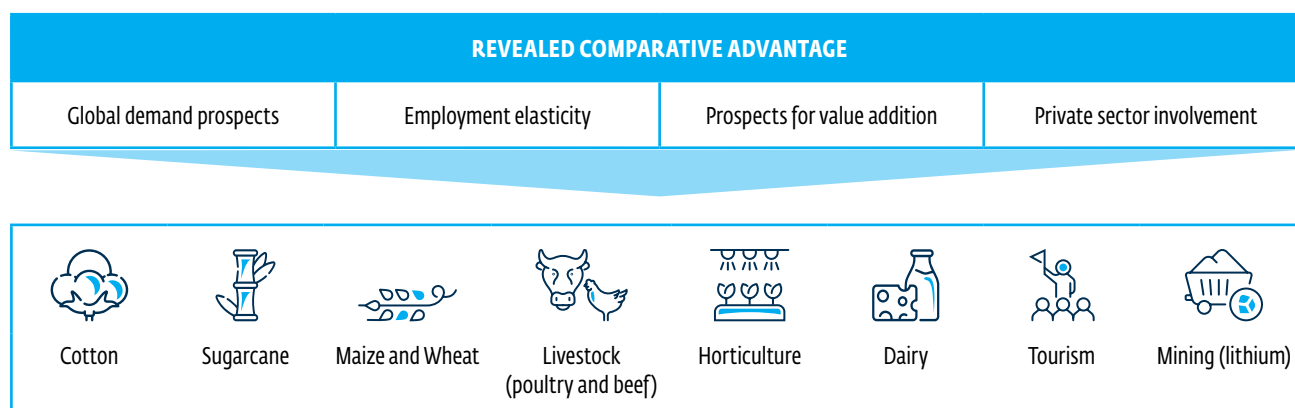
Continuous macroeconomic challenges, and, as a result, a lack of a predictable, transparent, and nondiscriminatory business climate; high levels of uncertainty; and lack of long-term finance have resulted in limited investment in the country. Zimbabwe is lagging its aspirational peers, such as the Arab Republic of Egypt, Indonesia, and Türkiye on FDI. After picking up in 2018 to \$718 million—largely reflecting one-off investments in the mining sector—FDI inflows Zimbabwe dropped to \$341 million in 2022.<sup>1</sup>

### Limited structural transformation

The economy remains highly concentrated on a few products, with a small number of export products—mostly minerals and tobacco—generating the bulk of foreign exchange revenues. The agricultural sector continues to retain a sizeable share of production and employment in the economy and the bulk of lending, with significant government support and intervention. However, the level of productivity in the sector is the lowest across the economy, especially for food crops, with only tobacco and cotton demonstrating relatively high productivity. At the same time, higher value-added sectors, such as manufacturing and high-productivity services, employ a smaller share of workers and have a lower share of lending.

## ES.2. PRIVATE SECTOR OPPORTUNITIES

To identify sectors for diversification and value addition with high growth potential, this Country Private Sector Diagnostic (CPSD) uses five criteria: (a) revealed comparative advantage (RCA); (b) evolution of global demand; (c) employment elasticity of the sector; (d) prospects for greater domestic value addition, such as through diversification into related manufacturing sectors; and (e) private sector track record and interest. Using these criteria (figure ES.1), agriculture and agro-processing, tourism, and mining were identified as sectors with high growth potential.

**FIGURE ES.1 POTENTIAL GROWTH-DRIVING SECTORS IN ZIMBABWE**

Source: WBG staff.

The RCA analysis suggests that Zimbabwe is competitive in several value chains in agriculture and agro-processing, tourism, and mining. The commodities in which the country is highly ranked at the global level in terms of export performance, including tobacco, sugar, and cotton, have high RCA scores. Historical global demand growth shows considerable potential for commodities such as citrus, edible vegetables, cereals, meat, and dairy products.

Zimbabwe is a mineral-rich and highly mining-dependent country. This dependence reflects the presence of high-quality and high-value mineral resources. The country boasts the second-largest platinum deposit in the world, as well as high-grade chromium ores, with approximately 2.8 billion tons of PGMs and 10 billion tons of chromium ore. Zimbabwe also holds one of Africa's largest lithium reserves—in its Bikita Mine in the province of Masvingo—with deposits of the metal at around 11 million tons. Demand projections associated with net zero pledges have improved the long-term prospects of Zimbabwe's store of energy transition minerals (ETMs), notably lithium, nickel, and copper, which are required to support renewable energy supplies, and PGMs needed for the emerging hydrogen economy.





Tourism in Zimbabwe is a key service sector and has the potential to play a significant role in the country's economic recovery. Post-pandemic tourism trends indicate that travelers, both regional and international, will be seeking longer stays (given fewer regular opportunities to travel) in more immersive, authentic, and nature-based environments, often with a focus on sustainability and regeneration. Zimbabwe is well-placed to leverage this trend given its overall destination profile, including tourism offerings associated with nature-based accommodation and safaris.





### ES.3. CROSS-CUTTING CONSTRAINTS

For identification and prioritization of cross-cutting constraints, the report contains a comparative analysis of the business environment in Zimbabwe and its aspirational peers.<sup>2</sup> The analysis highlights critical cross-cutting constraints to private sector development in Zimbabwe in the following six areas: (a) macroeconomic stability, (b) business environment, (c) access to finance, (d) transport and logistics; (e) access to electricity, and (f) digital connectivity. These cross-cutting constraints and gaps, significantly impair the ability of Zimbabwe to realize areas of comparative advantage (table ES.1).

**TABLE ES.1. SUMMARY OF KEY CROSS-CUTTING CONSTRAINTS FOR PRIVATE SECTOR DEVELOPMENT IN ZIMBABWE**

GAP	CONSTRAINTS	IMPACT ON THE PRIVATE SECTOR
<b>Macroeconomic environment</b> 	<p>Macroeconomic imbalances and distortions, including strict FX surrender and uncontrolled inflation, constrain private sector development in Zimbabwe.</p>	<ul style="list-style-type: none"> <li>• Access to FX to import inputs, dual currency system, and volatile exchange rates are constraining firms' growth.</li> <li>• High and sustained inflation affects both input and output markets and makes it difficult to undertake long-term planning/investments.</li> <li>• Restrictions on FX retention (export surrender requirements) both significantly limit productive investments by firms in their ability to scale up and discourage exports and formalization, reducing the revenue base.</li> </ul>
<b>Business environment</b> 	<p>Disincentives to formalization include a cumbersome and costly regulatory framework to start and operate a business, including outdated licensing legislation.</p>	<ul style="list-style-type: none"> <li>• The large informal sector reduces overall productivity of the economy and creates unfair competition for formal firms.</li> <li>• Inconsistency of business environment policies, cumbersome licensing and taxation systems, and overlapping requirements at national and local levels significantly increase the cost of compliance for firms, thus perpetuating informality.</li> <li>• Sector-specific policies and regulations are inconsistent, especially in mining and agriculture, and often include discretionary provisions, thus increasing uncertainty and reducing attractiveness of sectors for FDI.</li> </ul>
<b>Access to finance</b> 	<p>The financial sector is shallow: measured by domestic credit to the private sector as a percentage of GDP, Zimbabwe is among the least developed compared to peer countries.</p>	<ul style="list-style-type: none"> <li>• Lack of access to medium- and long-term financing and constrained international payment services limit the ability of firms to expand.</li> <li>• Extremely high rates for lending in domestic currency (200 percent per annum) renders it unprofitable for firms to borrow.</li> </ul>
<b>Transport and logistics</b> 	<p>Deteriorating road and railway networks, lack of investment in public and logistical infrastructure, and insufficient air connectivity are among the most pressing constraints.</p>	<ul style="list-style-type: none"> <li>• Underdeveloped logistics and trade infrastructure such as cold chain facilities impair the ability of firms to participate in regional and global trade.</li> <li>• Deteriorating railway and road infrastructure and high transportation costs hamper the competitiveness of the country's exports and undermine Zimbabwe's high RCA in key sectors, such as mining.</li> <li>• An underdeveloped aviation industry remains a key challenge to development of the tourism sector.</li> </ul>

GAP	CONSTRAINTS	IMPACT ON THE PRIVATE SECTOR
<b>Access to electricity</b> 	<p>Inadequate access to electricity is due to underinvestment and lack of maintenance. Access to reliable and affordable energy remains a major challenge to firms in Zimbabwe.</p>	<ul style="list-style-type: none"> <li>• Lack of adequate energy supply directly affects firms' productivity and reduces margins.</li> <li>• The cost of self-generated electricity is far higher than the cost of grid electricity, making firms uncompetitive.</li> <li>• Disruption of essential services at hotels, resorts, and tourist attraction sites (electricity, water) due to energy shortages/lack of reliable energy sources reduces the tourism sector's attractiveness for FDI.</li> </ul>
<b>Digital connectivity</b> 	<p>While Zimbabwe's international connectivity infrastructure is relatively well developed, the national fixed-line infrastructure is limited, and mobile networks remain the primary means of communication and data transfer.</p>	<ul style="list-style-type: none"> <li>• Digital connectivity is concentrated in major cities and urban areas. Large gaps remain in rural areas, thus limiting access for firms outside major urban hubs, where agricultural production is based.</li> <li>• Limited access to and lack of affordability of digital connectivity hinders acceleration of the digitization of firms in key sectors, thus reducing their productivity and access to information and markets.</li> <li>• Lack of reliable digital connectivity undermines utilization of digital financial services.</li> </ul>

Note: FDI = foreign direct investment; FX = foreign exchange; GDP = gross domestic product; RCA = revealed comparative advantage.

It will be essential for Zimbabwe to address these bottlenecks as a priority if the country is to fully harness the potential of its private sector and steer it toward better development outcomes. Of particular importance is the current foreign exchange (FX) system, which is the root cause of sustained high inflation, macroeconomic instability, and shallow financial intermediation. In its current form, the FX system prevents investments in exports and productivity-enhancing equipment, perpetuating the stagnation of Zimbabwe's economy.

According to the IMF (2022 Article IV consultation), liberalization of the foreign exchange market, abolition of foreign exchange surrender requirements, and reform of the Reserve Bank of Zimbabwe's (RBZ's) quasi-fiscal operations are the most urgent measures to reestablish macroeconomic equilibrium. Without such measures, efforts to tighten monetary and fiscal policy will not be effective. In addition, RBZ needs to adopt effective procedures for sterilization of inflows.

## ES.4. RECOMMENDATIONS

Tables ES.2 and ES.3 summarize recommended priority interventions to address sector-specific and cross-cutting constraints, respectively, that will increase the role of the private sector in the Zimbabwean economy. The full set of recommendations is presented in more detail under the individual sections on the agricultural, mining, and tourism sectors in chapter 4, as well as on the cross-cutting constraints in chapter 5.

**TABLE ES.2 SUMMARY OF SECTOR-SPECIFIC RECOMMENDATIONS**

CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON PRIORITY LEVEL (HIGH, MEDIUM)
<b>Agricultural and agribusiness sector</b>		
Inconsistent and unpredictable policy and regulations	<ul style="list-style-type: none"> <li>Review licensing and permitting frameworks to identify opportunities for streamlining and reducing overlaps between AMA and other regulatory agencies in the sector and local authorities.</li> </ul>	Short-term
Outdated market infrastructure	<ul style="list-style-type: none"> <li>Develop regulatory and financing instruments (PPPs) to attract private investments in developing cold storage infrastructure in agriculture producing regions.</li> </ul>	Short-term
Land tenure insecurity	<ul style="list-style-type: none"> <li>Improve tenure arrangements for commercial agricultural land, review and streamline the procedure for the issuance of 99-year leases, to improve land transferability and bankability features.</li> </ul>	Short-term
High cost of inputs	<ul style="list-style-type: none"> <li>Review and rationalize government programs on subsidizing inputs to ensure a more targeted and transparent approach that focuses on private sector engagement and further liberalize inputs market.</li> </ul>	Medium-term
Limited access to medium- and long-term financing and agri-insurance	<ul style="list-style-type: none"> <li>Facilitate partial credit guarantee plans to improve lending to broad classes of predefined target borrowers (for example, farmers and agribusiness SMEs) and input vouchers programs. Strengthen capacity of regulator and financial institutions to diversify agri-insurance products.</li> </ul>	Medium-term
Limited competitiveness	<ul style="list-style-type: none"> <li>Develop and implement a systematic approach and strategies to promote hub-and-spoke model for agricultural services.</li> </ul>	Medium-term
<b>Mining (lithium) sector</b>		
Inconsistent and unpredictable policy and regulations	<ul style="list-style-type: none"> <li>Improve sector governance and regulatory environment by clarifying fiscal policies and reducing discretionary setting of royalty and tax rates and restrictive state interventions.</li> </ul>	Short-term
	<ul style="list-style-type: none"> <li>Develop a national battery minerals strategy and action plan, including a forward-looking fiscal framework incentivizing production and value addition for battery minerals, geoscientific mapping to increase exploration activity and resource discovery, and required infrastructure development.</li> </ul>	Medium-term
Outdated infrastructure	<ul style="list-style-type: none"> <li>Develop a comprehensive action plan and financing instruments (PPP/IPP to strengthen mine-related infrastructure, including energy supply and renewable power generation, road network enhancements on trunk routes and at border crossings, and restoration of rail system network and reliability.</li> </ul>	Medium- to long-term
Weak supply chain and linkages	<ul style="list-style-type: none"> <li>Facilitate relevant supply-chain development, including restoration of a reliable supplier base for equipment, manufactures, and spares.</li> </ul>	Medium-term

Note: AMA = Agriculture Marketing Authority; IPP = independent power producer; PPPs = public-private partnerships; SMEs = small and medium enterprises.

CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON PRIORITY LEVEL (HIGH, MEDIUM)
<b>Tourism sector</b>		
Inconsistent and unpredictable policy and regulations	<ul style="list-style-type: none"> <li>Streamline tourism sector licensing by establishing a single information and application portal to fully automate the licensing process; introduce revenue-based licenses fees to accommodate small players.</li> </ul>	Short-term
Outdated infrastructure	<ul style="list-style-type: none"> <li>Develop a comprehensive program to repair and resurface key tourism access highway corridors and improve public utility services along these corridors.</li> <li>Introduce incentivization packages for airlines to improve internal connectivity.</li> </ul>	Medium-term
Limited competitiveness	<ul style="list-style-type: none"> <li>Strengthen ZTA capabilities on marketing in source markets to address persistent negative image.</li> </ul>	Short-term
	<ul style="list-style-type: none"> <li>Diversify tourism offering for different segments through engagement with international tourism brands.</li> </ul>	Medium-term
	<ul style="list-style-type: none"> <li>Develop and implement hospitality skills-enhancement programs to meet the growing needs of the sector.</li> </ul>	Medium-term

Note: ZTA = Zimbabwe Tourism Authority.

**TABLE ES.3 SUMMARY OF RECOMMENDATIONS TO ADDRESS CROSS-CUTTING CONSTRAINTS**

DESIRED OUTCOME	CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON PRIORITY LEVEL (HIGH, MEDIUM)
<b>Macroeconomic stability</b>			
Increased export competitiveness	Export surrender requirements impose a significant tax on export.	<ul style="list-style-type: none"> <li>Remove export surrender requirements.</li> </ul>	Short-term
Enhanced monetary policy	Effective sterilization of capital flows prevented due to lack of instruments. Significant local-currency liquidity injections by the RBZ pay for its quasi-fiscal operations.	<ul style="list-style-type: none"> <li>Adopt effective sterilization instruments.</li> </ul>	Short-term
		<ul style="list-style-type: none"> <li>Address the RBZ's quasi-fiscal operations.</li> </ul>	Medium-term
Market-based foreign exchange rate system.	Existing exchange controls and FX market distortions prevent a market-based price discovery.	<ul style="list-style-type: none"> <li>Remove restrictions on the exchange rate at which banks, authorized dealers, and businesses can transact.</li> </ul>	Short-term

Note: FX = foreign exchange; RBZ = Reserve Bank of Zimbabwe.

DESIRED OUTCOME	CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON PRIORITY LEVEL (HIGH, MEDIUM)
<b>Business environment</b>			
Effective entry and operation of businesses	Complicated and cumbersome procedures, overlapping mandates hinder key sectors.	<ul style="list-style-type: none"> <li>Review and rationalize overlapping mandates, responsibilities, and requirements of public agencies, regulating different aspects of business operations (both at national and local levels).</li> <li>Map existing digital systems, services, and data assets of relevant public agencies to identify opportunities for interoperability, interconnectivity, and data and resource sharing.</li> </ul>	<p>Medium-term</p> <p>Short-term</p>
	Cumbersome licensing framework hinders all sectors.	<ul style="list-style-type: none"> <li>Prepare an inventory of business license requirements, initiate revision, including introduction of risk-based regulation principles and tools.</li> </ul>	Short-term
Market-based competition	Informal sector competition practices affect competitiveness of productive firms.	<ul style="list-style-type: none"> <li>Consolidate the online business registration process at the Registrar of Companies, including public access to information on all requirements to start operations and processing timelines.</li> </ul>	Short-term
	Prevalence of loss-making SOEs in key enabling sectors (energy, telecom, transport) and agriculture disincentivizes private investments.	<ul style="list-style-type: none"> <li>Accelerate implementation of SOE reform program, including financial analysis and assessment of SOEs in sectors in which a strong role of the public sector may not be required.</li> </ul>	Medium-term
<b>Access to finance</b>			
Effective financial regulatory environment	Domestic commercial banks have low rates of lending to the private sector.	<ul style="list-style-type: none"> <li>Increase coordination of multiple financial sector policies by developing overarching financial sector development strategy.</li> </ul>	Short-term
Strong financial intermediation	Lending concentrated in shorter-term trade related loans, medium- and long-term financing are unavailable.	<ul style="list-style-type: none"> <li>Strengthen credit infrastructure and the collateral registry.</li> </ul>	Medium-term
		<ul style="list-style-type: none"> <li>Facilitate credit guarantee schemes for MSMEs.</li> </ul>	Short-term
Effective digital financial services	Financial inclusion is limited.	<ul style="list-style-type: none"> <li>Facilitate innovation in financial services by strengthening the enabling environment for fintech.</li> </ul>	Medium-term

Note: MSMEs = micro, small, and medium enterprises; PPP = public-private partnership; RBZ = Reserve Bank of Zimbabwe; SOEs = state-owned enterprises.

DESIRED OUTCOME	CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON PRIORITY LEVEL (HIGH, MEDIUM)
<b>Transport and logistics</b>			
Conducive regulatory environment	Lack of an adequate PPP framework and limited capacity of the public agencies to implement it hamper private investments.	<ul style="list-style-type: none"> <li>Conduct a detailed and comprehensive assessment of the legal, regulatory, and institutional set up of the PPP environment, followed by a carefully designed action plan and program.</li> </ul>	Short-term
Market-based competition	Inefficient SOEs present in the sector (including National Railways of Zimbabwe and the Airports Company of Zimbabwe).	<ul style="list-style-type: none"> <li>Conduct a comprehensive assessment of existing sectoral SOEs to determine where reforms or enhancement of institutional capacities are needed, followed by a structured reform program implementation.</li> </ul>	Medium-term
Strong logistics sector	A coordinated policy framework is lacking.	<ul style="list-style-type: none"> <li>Develop a comprehensive logistics sector support action plan</li> </ul>	Medium-term
<b>Access to electricity</b>			
Conducive regulatory environment	Slow and inconsistent implementation of the National Energy Policy (2012) and the National Renewable Energy Policy (2019) disincentivizes private investment.	<ul style="list-style-type: none"> <li>Initiate a comprehensive review and update of the National Energy Policy of 2012.</li> <li>Accelerate implementation of National Renewable Energy Policy.</li> </ul>	Short-term
Improved institutional capacity to accelerate reforms	Ministry of Energy, ZESA, ZERA, and ZETDC lack institutional capacity.	<ul style="list-style-type: none"> <li>Implement a comprehensive capacity-building program for respective agencies to ensure higher-quality planning, implementation efficiency, monitoring, and evaluation.</li> <li>Strengthen the mechanism for consistent enforcement of licensing obligations.</li> <li>Cancel conditional licenses issued to investors when licensees cannot fulfill the conditions.</li> </ul>	Short- to medium-term
Market-based competition	Intra-agency coordination and an updated regulatory framework to facilitate small-scale energy investments such as mini-grids are lacking.	<ul style="list-style-type: none"> <li>Establish and publish clear product and service standards for operators.</li> <li>Review the framework for light-handed regulation applicable to small-scale energy investments.</li> <li>Strengthen coordination between ZERA, ZIDA, and EMA to ensure consistency of regulations applied to small-scale energy investments.</li> </ul>	Short-term Short-term Medium-term

Note: EMA = Environmental Management Agency; PPP = public-private partnership; RBZ = Reserve Bank of Zimbabwe; SOEs = state-owned enterprises; ZERA = Zimbabwe Energy Regulatory Authority; ZESA = Zimbabwe Electricity Supply Authority; ZETDC = Zimbabwe Electricity Transmission and Distribution; ZIDA = Zimbabwe Investment and Development Agency.

DESIRED OUTCOME	CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON PRIORITY LEVEL (HIGH, MEDIUM)
<b>Digital connectivity</b>			
Conducive regulatory environment	The inability of telecom operators to peg their price on a stable currency or pass on hyperinflation limits their incentives to invest.	<ul style="list-style-type: none"> <li>• Introduce a flexible approach to price regulation by allowing telecom operators to pass on inflation within a predefined range.</li> </ul>	Medium-term
Market-based competition	<p>The structure of telecom license fees penalizes the growth of small operators.</p> <p>Regulation of foreign ownership prevents the attraction of private investment.</p>	<ul style="list-style-type: none"> <li>• Facilitate frequency spectrum acquisition by smaller operators through asymmetric license fees or by using a progressive rate.</li> <li>• Adjust requirements on the minimum stake of local investors to support the liberalization of the sector and enable the entry of specialized infrastructure operators.</li> </ul>	Short-term
Affordable digital connectivity	Costs are prohibitive for digital connectivity due to the high level of market concentration and absence of specialized infrastructure operators.	<ul style="list-style-type: none"> <li>• Introduce a guarantee program for first-time smartphone buyers, under a pay-as-you-go business model, to enable users to pay a fraction of the cost upfront and the balance over a certain period.</li> </ul>	Medium-term

## NOTES

- 1 United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2022: International Tax Reforms and Sustainable Investment* (New York: United Nations, 2022).
- 2 Structural and aspirational peers were identified using the composition of exports, economy, and per capita income. Structural peers include Côte d'Ivoire, Ethiopia, and Kenya, and aspirational peers include Arab Republic of Egypt, Cambodia, Indonesia, South Africa, and Türkiye. See box 2.1.

# ACRONYMS AND ABBREVIATIONS

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AfCFTA	African Continental Free Trade Area
CCDR	Country Climate and Development Report
CGS	credit guarantee scheme
CPSD	Country Private Sector Diagnostic
CZI	Confederation of Zimbabwean Industries
DFS	digital financial services
EMA	Environmental Management Agency
ES	Enterprise Survey
ETM	energy transition mineral
EU	European Union
EV	electric vehicle
FATF	Financial Action Task Force
FDI	foreign direct investment
FTLRP	Fast-Track Land Reform Program
FX	foreign exchange
GDP	gross domestic product
GNI	gross national income
GMB	Grain Marketing Board
GWh	gigawatt-hour
HCI	Human Capital Index
ICT	information and communication technologies
IFI	international financial institution
ILO	International Labour Organization
IPP	independent power producer
ISP	Input Subsidy Program
LICs	low-income countries
LMICs	lower middle-income countries
MSME	micro, small, and medium enterprise
mt	metric ton
MW	megawatt
NDS1	Zimbabwe's National Development Strategy-1 (2021–2025)
NPL	nonperforming loans
PGM	platinum group metals
PISP	Presidential Input Support Program



POTRAZ	Postal and Telecommunications Regulatory Authority of Zimbabwe
PPP	public-private partnerships
RBZ	Reserve Bank of Zimbabwe
RCA	revealed comparative advantage
SADC	Southern African Development Community
SME	small and medium enterprise
SOE	state-owned enterprise
SSA	Sub-Saharan Africa
TWh	terawatt-hour
UNCTAD	United Nations Conference on Trade and Development
VFSE	Victoria Falls Stock Exchange
WBWS	willing buyer, willing seller
ZERA	Zimbabwe Energy Regulatory Authority
ZESA	Zimbabwe Electricity Supply Authority
ZETDC	Zimbabwe Electricity Transmission and Distribution
ZETSS	Zimbabwe Electronic Transfer Settlement System
ZIDA	Zimbabwe Investment and Development Agency
ZMDC	Zimbabwe Mining Development Corporation
ZTA	Zimbabwe Tourism Authority

# 1. INTRODUCTION

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**Notwithstanding a difficult business environment characterized by entrenched macroeconomic instability as well as an unfavorable geopolitical situation, Zimbabwe's private sector has continued to show resilience and—in certain niche sectors—performs at a level equal or superior to that of many other African countries.** Adoption of key macroeconomic reforms, as well as some other structural reforms—of the business environment, access to energy, transport, and finance—could unleash significant growth potential in key sectors. And unlike many other African countries, this potential could be realized in the short term.

**For decades after independence, Zimbabwe was one of the countries with the highest standards of living on the continent, buttressed by a skilled work force and infrastructure superior to that of most African countries.** Since 1995, these areas of comparative advantage have been eroded, as the confluence of the impact of sanctions imposed by the international community in response to alleged human rights violations and of macroeconomic instability have created a business environment that makes it difficult for the private sector to operate. Also, chronic foreign exchange shortages have led to an exodus of foreign investors and has severely limited the economy's growth performance.

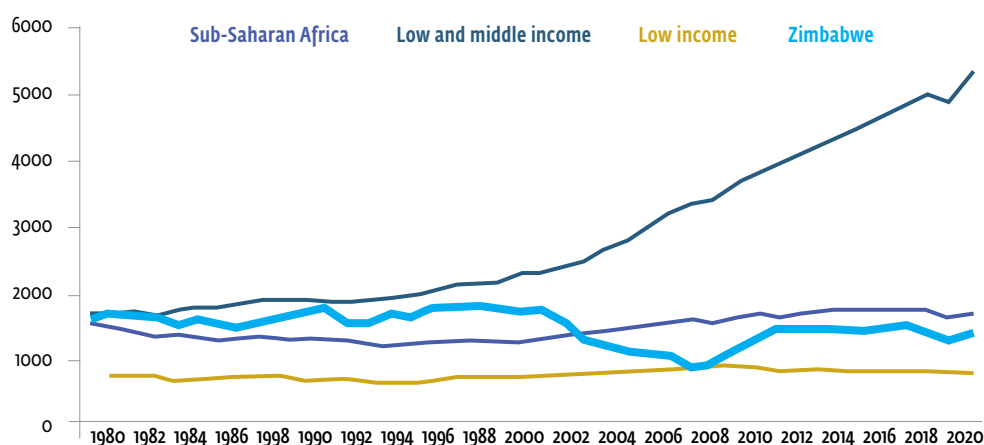
**Recent efforts by the government to tighten fiscal policy and rein in local-currency liquidity have helped in restoring some level of macroeconomic stability.** However, these efforts are taking place against the backdrop of a global environment characterized by disruptions in supply chains, and the lingering effects of the COVID-19 pandemic as well as uncertainty arising from the Russian Federation's invasion of Ukraine. With limited fiscal space, lack of foreign direct investment, and a pressing challenge to reduce growing extreme poverty, Zimbabwe needs to find new ways to harness existing opportunities for the private sector.

**This Country Private Sector Diagnostic (CPSD) explores how in the current adverse environment—both globally and specifically to the country—Zimbabwe can mobilize areas of both latent and manifest comparative advantage.** In particular, the CPSD will seek to identify those sectors that would have strong growth potential and job creation opportunities, even in the short term, provided key sectoral and cross-cutting constraints are removed. Most important, the report will assess how entrenched macroeconomic instability has distorted the economy's structure away from areas of comparative advantage and prevented structural transformation toward labor-intensive value-adding industries.

## 2. COUNTRY CONTEXT

Despite its strong endowment of natural resources and human and physical capital, Zimbabwe has since 1995 confronted a range of challenges that prevent it from realizing its full potential. In the first two decades after independence, the country experienced considerable growth of per capita gross domestic product (GDP), higher than many of its peers in other lower-middle-income countries (LMICs) and Sub-Saharan Africa (figure 2.1; box 2.1).

**FIGURE 2.1 ZIMBABWE AND COMPARATOR COUNTRIES, GDP PER CAPITA (US\$, CONSTANT 2015 PRICES)**



Source: World Bank, World Development Indicators.

Yet, economic turmoil due to macroeconomic mismanagement, natural disasters, and structural challenges culminated in two major recessions in 2000–08 and 2019–20, including hyperinflation in 2008 and in 2020. These events affected the country profoundly: formal sector employment shrank, labor migration increased, investment levels collapsed, and poverty increased sharply.<sup>1</sup> Growth averaged only 1.1 percent over the last five years, compared to 4.0 percent in Cambodia, 5.4 percent in Côte d’Ivoire, 6.4 percent in Ethiopia, and 4.6 percent in Kenya. While the country was one of the fastest growing economies in the South African Development Community (SADC) in 2022 and 2023, with economic growth of 6.5 percent in 2022 and 4.5 percent in 2023, sustaining economic growth will require Zimbabwe to tackle its macroeconomic and structural challenges.

Notwithstanding its income level, Zimbabwe's economic structure is close to that of upper-middle-income countries in terms of sectoral shares of GDP but resembles the employment structure of low- and middle-income countries with its high employment in agriculture.<sup>2</sup> Agriculture's contribution to gross value addition has been limited by declining manufacturing. While the sector remains a key driver of growth, it has drastically declined mainly due to the high costs of borrowing, lack of long-term financing, declining agriculture output, low aggregate demand, and competition from cheap, low-quality imports. The combined effect eroded the viability and competitiveness of a sector that has the potential to generate employment, growth, and exports.

Extreme poverty reached its peak in 2020, soon after the onset of the COVID-19 pandemic, when almost half (49 percent) of the Zimbabwean population was extremely poor. The extreme poverty rate fell by 6 percentage points to 43 percent in 2021 on the back of economic recovery and record maize harvests.<sup>3</sup>

### BOX 2.1 ZIMBABWE'S STRUCTURAL AND ASPIRATIONAL PEERS

Structural and aspirational peers were identified using a composition of exports of the economy and per capita income. The countries identified as structural peers include Cambodia, Côte d'Ivoire, Ethiopia, and Kenya, and all share with Zimbabwe the significance of gold exports. Cambodia and Ethiopia also have strong textile industries that play an important role in Zimbabwe's economic development, while Kenya provides useful lessons on promotion of the information and communication technology sector and the digital economy.

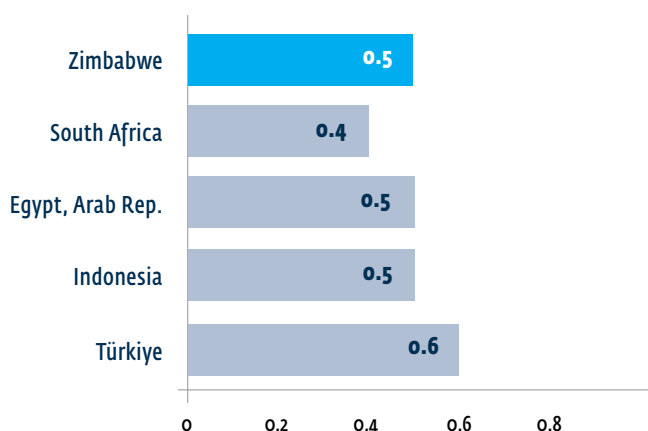
As Zimbabwe envisions transforming its economy and achieving upper-middle-income country status by 2030, aspirational peers were identified in light of the government's Vision 2030 and include the Arab Republic of Egypt, Indonesia, South Africa, and Türkiye. South Africa is currently Zimbabwe's main export destination, accounting for almost 49 percent of Zimbabwe's total exports. Türkiye provides important lessons on the role of economic reforms in attracting new foreign direct investment and expanding integration in global value chains, with firms increasing their productivity.

The government of Zimbabwe aims to reverse the period of stagnation and decline and transform Zimbabwe into an upper-middle-income country by 2030. As outlined under the National Development Strategy-1, 2021–2025 (NDS1), the government also aims to create 760,000 formal jobs, for which the role of the private sector is crucial.

Achieving this objective will require both finding practical solutions to a range of bottlenecks that constrain growth and harnessing a number of comparative advantages, including the following:

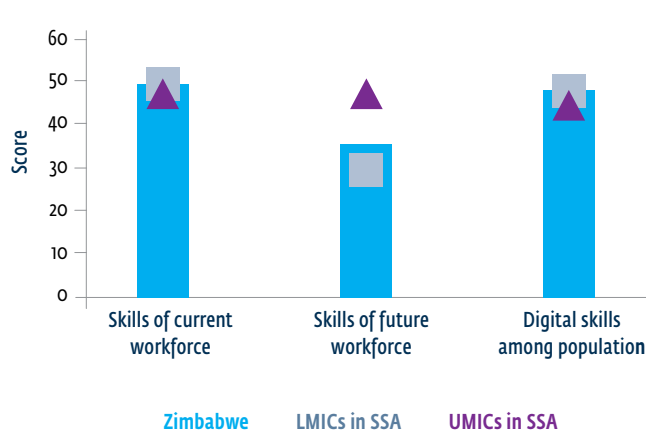
- **Relatively strong human capital** with a young, well-educated labor force and a strong entrepreneurial culture. Zimbabwe is on a par with its aspirational peers on the Human Capital Index (HCI) (see figure 2.2) and the level of skills among Zimbabwe's current workforce is higher than the average for Sub-Saharan Africa (see figure 2.3).

**FIGURE 2.2 HUMAN CAPITAL INDEX, 2021**



Source: World Bank, World Development Indicators, World Economic Forum.

**FIGURE 2.3 WORKFORCE SKILLS**

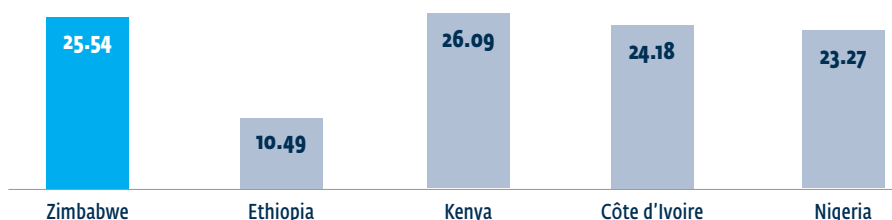


Source: World Bank, World Development Indicators, World Economic Forum.

Note: LMICs = lower-middle-income countries; SSA = Sub-Saharan Africa; UMICs = upper-middle-income countries.

- **Abundant mineral and natural resources** that have yet to be exploited, including gold, platinum group metals (PGM), chrome, coal, diamonds, and lithium. In fact, Zimbabwe boasts one of the largest deposits of lithium—critical to the production of batteries in electric cars—in the world.
- **Infrastructure** that despite many years of economic decline is still on a par with the country’s structural peers, such as Kenya, and superior to countries like Côte d’Ivoire and Ethiopia. At the same time, the level of infrastructure is inferior to the level of aspirational peers (figure 2.4).

**FIGURE 2.4 AFRICA INFRASTRUCTURE DEVELOPMENT INDEX, 2020**

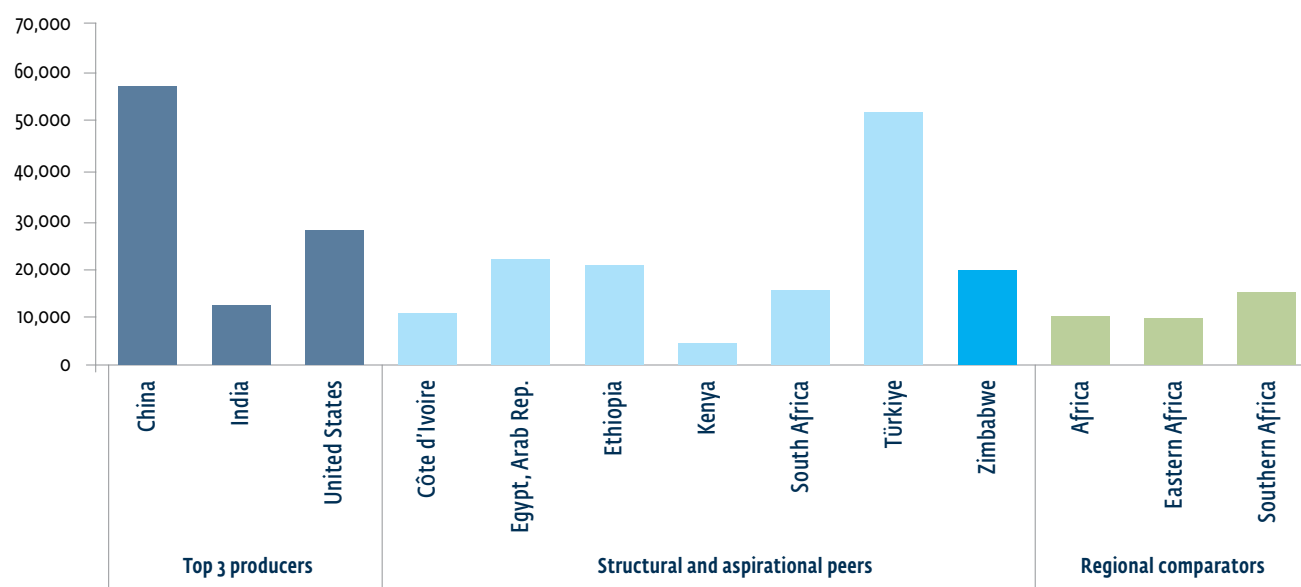


Source: Statista.

- **Recent efforts by the government** to (a) launch a new Structured Dialogue Platform on arrears clearance and debt resolution between the government of Zimbabwe and development partners, (b) accelerate reforms to improve public finances and public financial management, (c) implement fiscal consolidation centered on revenue enhancement and austerity measures, (d) create the Zimbabwe Investment and Development Agency (ZIDA) with a strong private sector orientation, and (e) improve the business environment by repealing the Indigenization and Empowerment Act, signing the global land compensation deal, simplifying business start-up and property registration, and making insolvency easier.
- **Relatively high productivity in select economic sectors**, such as cotton, tobacco, and mining, which continue to operate on the production frontier and are regionally competitive, despite multiple bottlenecks and an unfavorable business environment (figure 2.5). With a more conducive environment, these sectors could show rapid growth.

**FIGURE 2.5 COTTON PRODUCTIVITY**

Yield: grams per hectare



Source: FAOSTAT.

Yet, despite these areas of comparative advantage, Zimbabwe's economic performance has been weak as reflected in entrenched macroeconomic instability, low investment, and limited structural transformation, as summarized in the rest of this chapter.

### Macroeconomic instability

Limited access to external financing and poor revenue mobilization, coupled with the quasi-fiscal operations of the Reserve Bank of Zimbabwe to help service foreign loans and legacy debt and support loss-making state-owned enterprises have led to a monetary overhang, a rapidly depreciating exchange rate, and subsequently high inflation (box 2.2).

#### BOX 2.2 SANCTIONS

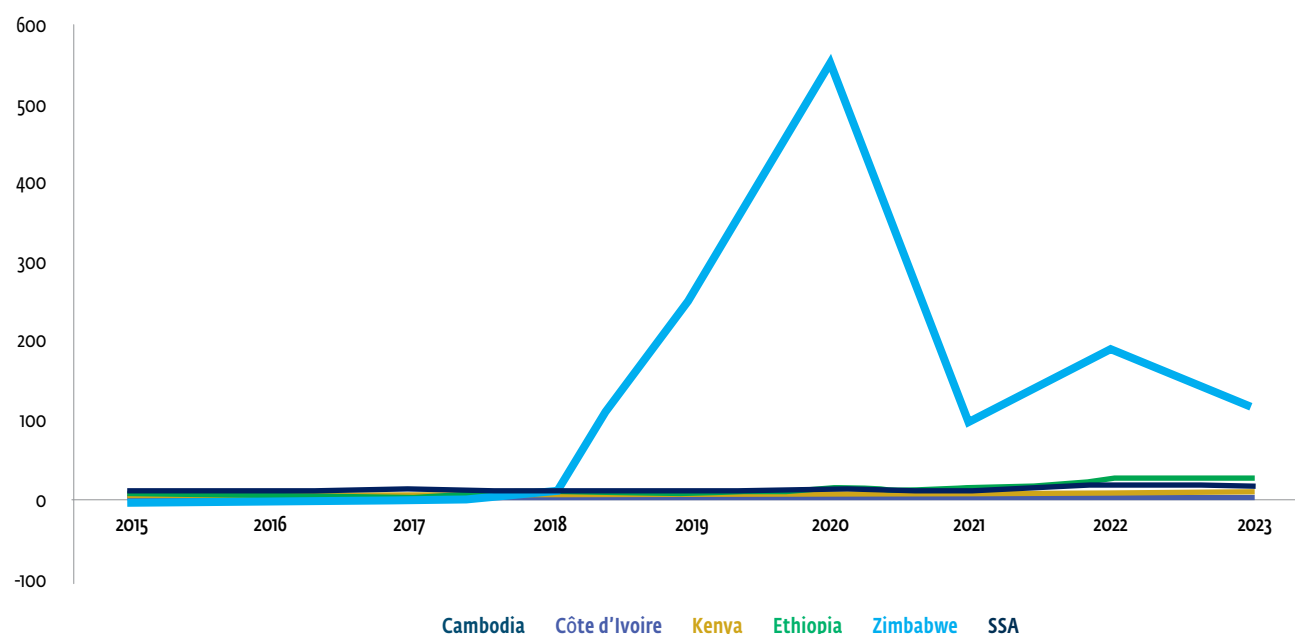
Zimbabwe's access to concessional external financing has been constrained since the early 2000s with sanctions and restrictive measures targeting individuals and companies in response to concerns over respect for the rule of law; protection of human rights, democratic principles, and electoral reforms; and good governance.<sup>a</sup> Aid flows and direct development cooperation with

the government have been constrained. Zimbabwe's public debt is in distress and unsustainable, which poses a constraint to investment and growth.<sup>b</sup> The government's inadequate progress on economic reforms has constrained prospects for international reengagement, while insufficient financing has constrained incentives for reform.<sup>c</sup>

- a. These include sanctions from the United States (2001); Australia, the European Union (EU), and Switzerland (2002); Canada (2008); and the United Kingdom (2019 after exiting the EU). The EU and Switzerland progressively suspended all sanctions in 2020. See Office of the High Commissioner for Human Rights, "A/HRC/51/33/Add.2: Visit to Zimbabwe—Report of the Special Rapporteur on the Negative Impact of Unilateral Coercive Measures on the Enjoyment of Human Rights" (OHCHR, 2021). The views of citizens on the impact of sanctions are mixed. Some think that sanctions have constrained Zimbabwe's economic potential. Others hoped that the government would be motivated to open the country's political space if doing so would lead to a relaxation of some of the sanctions. Rosa Balfour, Lizza Bomassi, and Marta Martinelli, eds, *The Southern Mirror: Reflections on Europe from the Global South* (Washington, DC: Carnegie Endowment for International Peace, 2022), <https://carnegieeurope.eu/2022/06/29/zimbabwe-long-shadow-of-sanctions-pub-87313>.
- b. In the 2022 IMF Debt Sustainability Analysis of Zimbabwe (based on end-2020 data), public sector debt was estimated at 109.8 percent of gross domestic product.
- c. For Denmark, Germany, the Netherlands, and Switzerland, compensation to their citizens who invested in farms under Bilateral Investment Protection and Promotion Agreements is a condition for reengagement.

In fact, Zimbabwe's inflation has been among the highest in the world (three digits in recent years) and reached more than 550 percent during the COVID-19 period in 2020 (figure 2.6). Furthermore, since 2000 the government of Zimbabwe has stopped servicing debt to international financial institutions (IFIs) and has started accumulating arrears on external debt, which at the end of 2021 stood at 44.5 percent of GDP. Arrears to IFIs has limited access to concessional financing and has increased the cost of private sector borrowing. Meanwhile, large export surrender requirements have pushed many companies into the informal sector, limiting their ability to obtain financing from the banking system and further reducing the tax base. Also, many foreign exchange transactions take place in the informal sector, further intensifying pressure on the parallel market exchange rate (figure 2.7).

**FIGURE 2.6 INFLATION IN ZIMBABWE AND ITS STRUCTURAL PEER COUNTRIES, 2015–23**

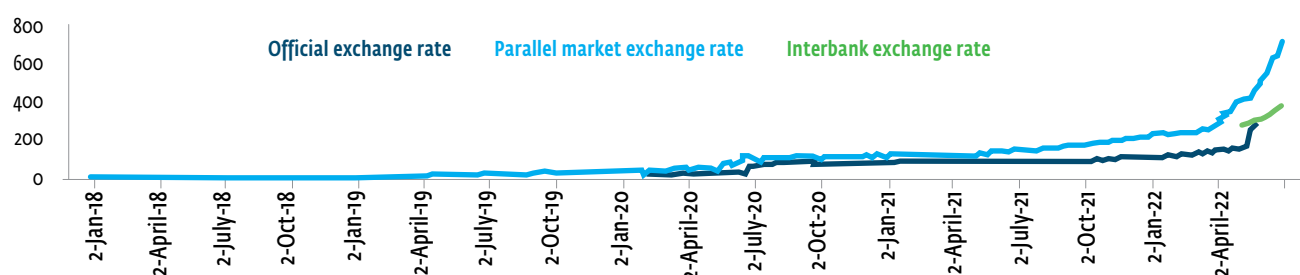


Source: World Bank's World Development Indicators.

Note: SSA = Sub-Saharan Africa.



**FIGURE 2.7 OFFICIAL AND PARALLEL MARKET EXCHANGE RATES, Z\$/US\$**



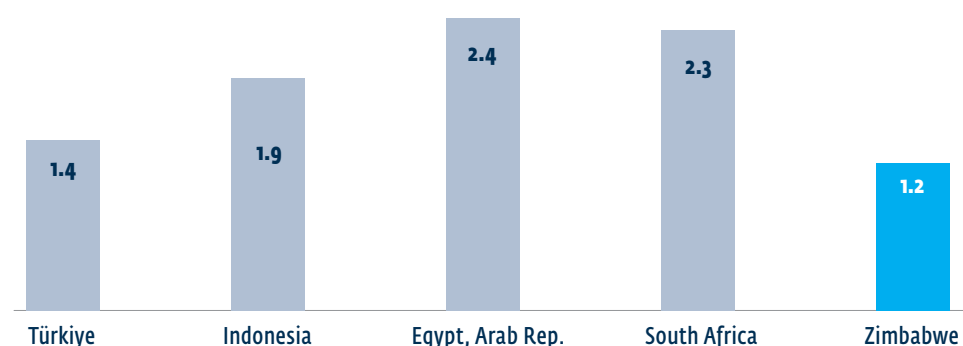
Source: Reserve Bank of Zimbabwe and World Bank.

Furthermore, Zimbabwe’s concentration on three export commodities—gold, platinum, and tobacco—and their price instability have increased unpredictability of export earnings and fiscal revenues and have complicated macroeconomic management. In addition, recent increases in the global prices of food, energy, and fertilizers due to Russia’s invasion of Ukraine have significantly reduced the purchasing power of households and elevated the costs of production.

**Low investment**

Continuous macroeconomic challenges and, as a result, lack of a predictable, transparent, and nondiscriminatory business climate and high levels of uncertainty as well as lack of long-term finance have resulted in limited investment in the country. Zimbabwe is lagging its aspirational peers, such as the Arab Republic of Egypt, Indonesia and Türkiye (figure 2.8) on foreign direct investment (FDI). The exchange rate system and macroeconomic instability have disincentivized domestic and foreign investment and resulted in foreign exchange shortages, triggering capital controls that—in a vicious circle—further deterred FDI. After picking up in 2018 to \$718 million- largely reflecting one-off investments in the mining sector - FDI in Zimbabwe dropped sharply to \$341 million in 2022.<sup>4</sup>

**FIGURE 2.8 FDI, NET INFLOWS (% OF GDP), 2022**



Source: World Bank, World Development Indicators.

Note: FDI = foreign direct investment; GDP = gross domestic product.

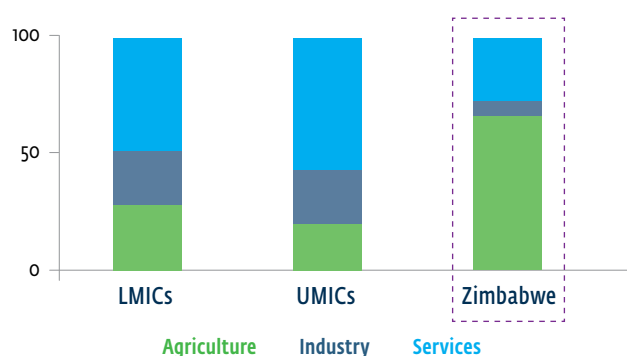
### Limited structural transformation

The economy remains highly concentrated, with a few products—mostly minerals and tobacco—generating the most foreign exchange revenues. The agricultural sector continues to retain a sizeable share of production and employment in the economy and the bulk of lending, with significant government support and intervention (figure 2.9). However, the level of productivity in the sector is the lowest across the economy, especially for food crops, with only tobacco and cotton demonstrating relatively high productivity. At the same time, higher value-added sectors, such as manufacturing and high-productivity services, employ a smaller share of workers and have a lower share of lending (figure 2.10).

In Zimbabwe, economywide labor productivity has been the main driver of GDP per capita growth. However, Fast Track Land Reform Program (FTLRP), which was launched in 2000 and entailed a redistribution of land, adversely affected the production structure as well as productivity in the agricultural sector. Moreover, in a failed effort to offset the negative effects of this policy, heavy subsidization of agricultural activity and support to parastatals in the sector further exacerbated misallocation of resources and macroeconomic instability.

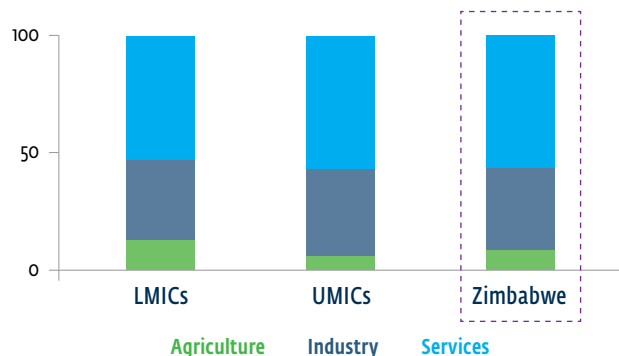
As Zimbabwe is aiming to structurally transform into a middle-income country and seeks to reengage fully with the international community, the country must accelerate consistent implementation of key policy reforms to achieve and sustain macroeconomic stability over the medium term, including price and exchange rate stability, to ensure competitiveness of the private sector and inclusive economic growth.

**FIGURE 2.9 EMPLOYMENT BY SECTOR (% OF TOTAL), 2019**



Source: World Bank, World Development Indicators.

**FIGURE 2.10 GROSS VALUE ADDED BY SECTOR (% OF GDP), 2019**



Source: World Bank, World Development Indicators.

Note: LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

### NOTES

1. World Bank, "Zimbabwe Country Economic Memorandum: Boosting Productivity and Quality Jobs" (Washington, DC: International Bank for Reconstruction and Development/World Bank, 2022).
2. World Bank, "Zimbabwe Country Economic Memorandum," 2022.
3. Dhiraj Sharma et al., *Reversing the Tide: Reducing Poverty and Boosting Resilience in Zimbabwe* (Washington, DC.: World Bank Group, 2022).
4. World Bank, World Development Indicators.

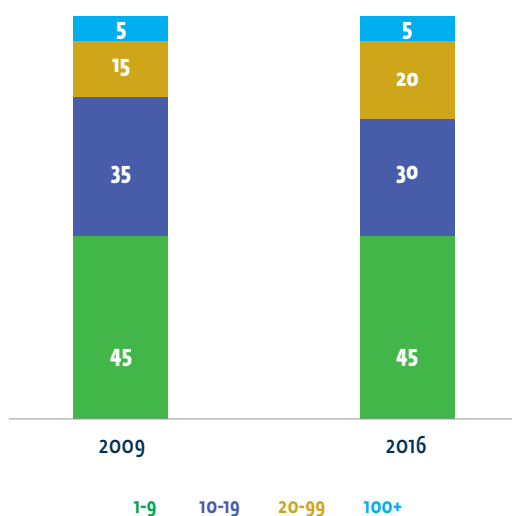
### 3. STATE OF THE PRIVATE SECTOR

The private sector in Zimbabwe differs from that in most other African countries. On the one hand, there are companies that operate at a level of productivity close to aspirational peers, especially in sectors such as agribusiness, mining, and manufacturing. On the other hand, their growth is stunted owing to the difficult business environment, including macroeconomic distortions, notably export surrender requirements; an artificially overvalued official exchange; and a cumbersome regulatory environment. The high cost of formality has pushed companies into the informal sector, sharply reducing the tax base and the potential of firms to invest in competitiveness-enhancing investments through bank loans.

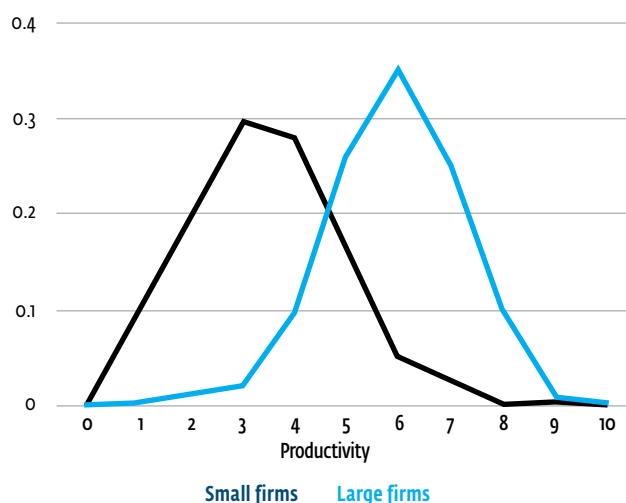
In fact, Zimbabwe has one of the largest informal economies in the world, second only to Bolivia.<sup>1</sup> As analyzed in detail in the Zimbabwe Country Economic Memorandum 2022,<sup>2</sup> at present, informal activity accounts for two-thirds of Zimbabwe’s output and four-fifths of its employment, suggesting a lack of opportunities in the formal sector (box 3.1). Employment informality covers all sectors in the economy, including critical sectors—agriculture, mining, and tourism. The COVID-19 pandemic further accelerated the expansion of the informal sector by disrupting supply chains. The disrupted supply chains—coupled with the lockdown—severely weakened the country’s economic fundamentals and led to a further increase in the size of the informal sector. Also, employment shifted from industries with higher value added, such as manufacturing and high-productivity services, to industries with lower value added, including wholesale and retail trade, and other low-productivity services activities (figure 3.1).

**FIGURE 3.1 DISTRIBUTION AND PRODUCTIVITY OF FIRMS IN ZIMBABWE, 2016**

a. % of firms, by number of workers



b. Productivity, by number of firms



Source: International Labour Organization calculations using World Bank, Enterprise Survey.

### BOX 3.1 MANAGING INFORMALITY TO INCREASE OVERALL PRODUCTIVITY

The informal sector provides livelihoods and jobs to millions of individuals around the globe. According to the International Labour Organization, about 70 percent of the labor force in emerging and developing economies is employed in the informal sector.<sup>a</sup> Despite this contribution, there is concern that competition from informal sector firms may impede job creation among formal sector firms.

Governments have traditionally sought to address informality by information dissemination, rationalization of firm registration processes, reduction of compliance costs, and enhanced enforcement. Rigorous studies, however, suggest that many of these conventional measures are ineffective at reducing informality in a significant and lasting manner.<sup>b</sup>

Emerging evidence suggests that innovative approaches—such as multidimensional packages of assistance, measures that seek to increase the demand for formality, and initiatives that seek to create linkages between unregistered firms and between registered and unregistered firms—may hold promise as tools to address informality. The achievement of substantial and long-term reductions, however, requires tackling the deep determinants of informality along both the extensive and intensive margins. Enhancing the provision of public goods, equalizing regulatory compliance, making tax reforms, and improving the integrity of enforcement mechanisms are particularly critical.

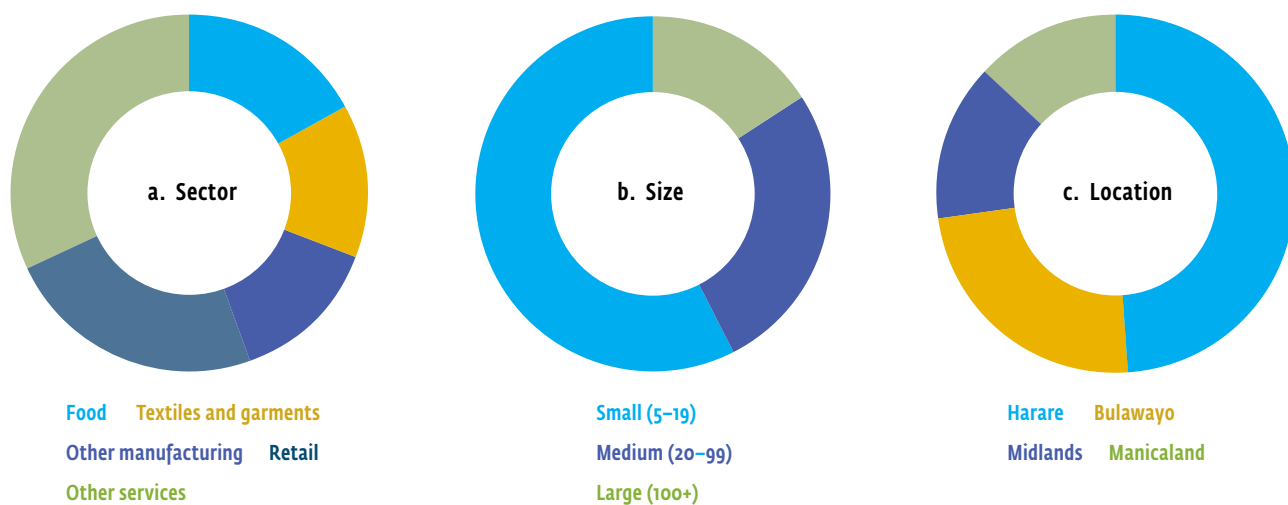
a. Women and men in the informal economy: a statistical picture (third edition) / International Labour Office – Geneva: ILO, 2018

b. Studies include Benhassine, McKenzie, Pouliquen, & Santini, 2018 ; Bruhn & McKenzie, 2018; Floridi, Afewerik, & Wagner, 2019 among others).

**According to 2016 Enterprise Survey data, the formal sector in Zimbabwe is composed mainly of small firms operating in the service sector with low levels of labor productivity.<sup>3</sup>** Around 45 percent of firms have between 1 and 9 employees and another 30 percent have between 10 and 19 employees. Firms with more than 20 employees represent less than 30 percent of all firms. Only 5 percent of firms have more than 100 employees.

**There are important differences in labor productivity between small firms (less than 20 employees) and large firms (over 20 employees).** On average, workers in large firms can be up to three times more productive than in small firms. Zimbabwe has a high concentration of formal jobs with just 1 percent of firms accounting for more than 50 percent of formal employment. Formal employment is also spatially concentrated. For instance, the capital city of Harare has only 13 percent of firms but 40 percent of formal workers. The second largest concentration of workers is in Bulawayo, which has 16 percent of formal workers (figure 3.2).

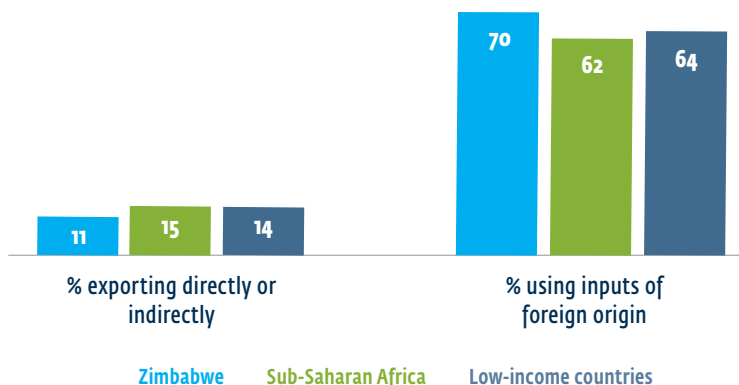
**FIGURE 3.2 ZIMBABWE'S DISTRIBUTION OF FIRMS BY SECTOR, SIZE, AND LOCATION, 2016**



Source: World Bank, Enterprise Survey, 2016.

Compared to Sub-Saharan African and low-income countries, Zimbabwe’s firms heavily rely on imports and account for the lowest share of exporting firms. Figure 3.3 illustrates that on average, 11 percent of firms in Zimbabwe are engaged in direct/indirect exporting business. The percentage of exporting firms stands at 15 percent and 14 percent in Sub-Saharan Africa and low-income countries, respectively. In terms of relying on imports, 70 percent of Zimbabwe’s firms rely on imports compared with 62 percent and 64 percent for Sub-Saharan Africa and low-income countries, respectively.

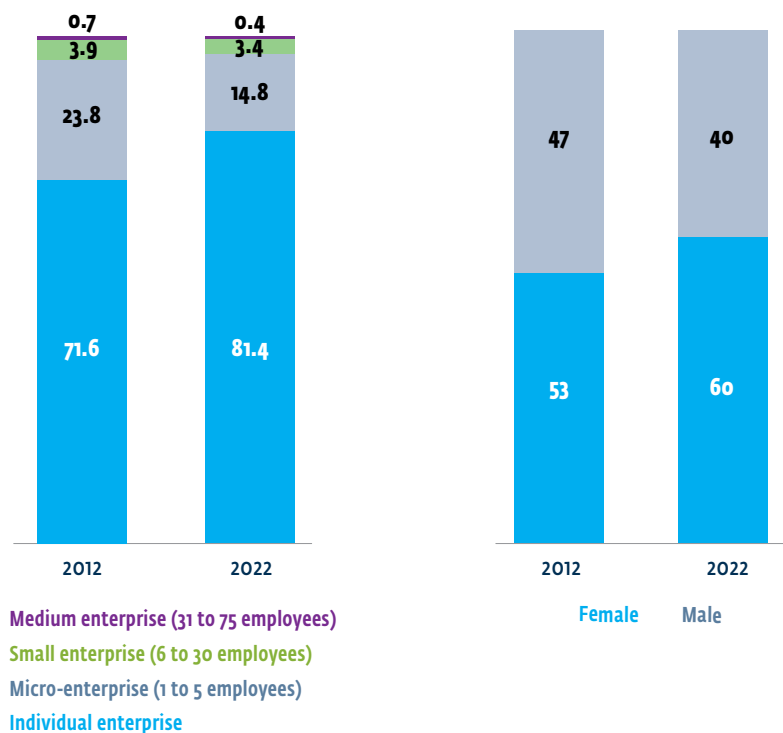
**FIGURE 3.3 PERCENTAGE OF EXPORTING AND IMPORTING FIRMS, 2016**



Source: World Bank, Enterprise Survey.

With an estimated 1.1 million self-employed adults and 1.6 million business owners, micro, small, and medium enterprises (MSMEs) in Zimbabwe play a significant role as a source of employment and job creation. Regardless of their economic relevance, 94 percent of MSMEs are not registered, and 84 percent of them are informal. Looking at their ownership structure, MSMEs are mostly individual entrepreneurs accounting for 71.6 percent and 81.4 percent in 2012 and 2022, respectively. In terms of gender distribution, MSMEs are dominated by female owners, and the share of female-owned MSMEs has increased from 53 percent in 2012 to 60 percent in 2022 (figure 3.4). The sectoral distribution of MSMEs shows that 39 percent and 37 percent of them are engaged in the agricultural/farming and wholesale/retail business activities, respectively.

**FIGURE 3.4 DISTRIBUTION OF MSMEs, BY SIZE AND GENDER**



Source: "Finscope Micro, Small and Medium Enterprises. Survey Zimbabwe" (FinMark Trust, Johannesburg, South Africa, 2022), 18.

Note: MSME = micro, small, and medium enterprise.

**Another key factor affecting private sector performance and development in Zimbabwe is the large number of loss-making state-owned enterprises (SOEs),** which exacerbates misallocation of public resources and creates unfair competition in the country. There are currently more than 107 SOEs in the country, many in vital enabling sectors such as transport, energy, and telecommunications. The presence of SOEs in these sectors has limited the development of modern services in Zimbabwe. Specifically, power, water, and rail services are beset by delivery failures. Competition within the sectors where SOEs operate (agriculture, mining) tends to be limited. SOEs should have independent boards, but in some instances—such as the recent case of the Zimbabwe Mining Development Corporation—the government allows the entities to function without boards.

**The SOEs in Zimbabwe are subject to the same taxes and value added tax rebate policies as private sector companies.** In recent years, many SOEs have faced challenges that include persistent power outages, mismanagement, lack of maintenance, inadequate investment, lack of liquidity, and access to credit and debt overhangs. Moreover, an extensive number of commercial SOEs, especially in the agricultural sector, have required considerable fiscal support (around 11 percent of GDP, between 2011 and 2018)<sup>4</sup> and Reserve Bank of Zimbabwe (RBZ)-financed quasi-fiscal activities.

**In 2018, the authorities announced an SOE reform program, but the pandemic and lack of capacity and resources have limited the progress in SOE restructuring.** As a result of the difficult economic environment, coupled with the impact of the pandemic, the financial outlook of SOEs has worsened. Several major SOEs are insolvent, while others are suffering from severe liquidity issues. Consequently, most SOEs are in arrears; unable to adequately fulfill debt and payment obligations or deliver goods and services.

## NOTES

1. Florence Bonnet, Joann Vanek, and Martha Chen, "Women and Men in the Informal Economy: A Statistical Picture," 3rd ed. (International Labour Organization, Geneva, 2019).
2. World Bank, "Zimbabwe Country Economic Memorandum: Boosting Productivity and Quality Jobs" (Washington, DC: International Bank for Reconstruction and Development/World Bank, 2022).
3. World Bank, Enterprise Survey 2016.
4. International Monetary Fund (IMF), Zimbabwe: *Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Zimbabwe* (IMF Country Report 22/112, Washington, DC: IMF, April 2022).

# 4. OPPORTUNITIES AND CONSTRAINTS

## 4.1 METHODOLOGICAL CONSIDERATIONS

The main purposes of a CPSD are to identify both the key opportunities for the private sector and the critical constraints—at both the sectoral and the cross-cutting levels—that will have to be addressed to harness this potential and to develop recommendations that could alleviate these constraints. Three sectors were found to have significant potential for private sector investment and structural transformation in Zimbabwe and will be discussed in this chapter: (a) specific value chains in agriculture and agribusiness; (b) mining (focusing on lithium); and (c) tourism (see table 4.1). These sectors were identified based on (a) the sector’s revealed comparative advantage, given the share of the country’s trade in global trade;<sup>1</sup> (b) projected employment elasticity; (c) prospect of the sector to serve as a stepping stone for value addition and integration into global value chains; (d) evidence for interest of the private sector; and (e) trends in global demand.

**TABLE 4.1** SELECTED SECTOR/SUBSECTORS USING THE FIVE CRITERIA

Sector	Subsector	RCA	Employment elasticity	Prospects for value addition	Global demand	Private sector involvement
Agriculture	Cotton	High	High	High	High	Medium
	Horticulture	High	High	High	High	High
	Wheat	Low	High	High	High	Medium
	Maize	Low	High	High	High	Medium
	Livestock	High	High	High	High	High
	Sugarcane	High	High	High	High	Medium
Mining	Lithium	Medium	Medium	Medium	High	Medium
Tourism		Medium	Medium	Medium	High	Medium

Source: Authors calculation

Note: The colors represent high, medium, and low ranking in each criterion. Green = high, yellow = medium, and red = low. RCA = revealed comparative advantage.



The rest of this chapter discusses growth-driving value chains as well as specific opportunities and sectoral constraints.

## 4.2 AGRICULTURE AND AGRIBUSINESS INDUSTRIES

### Overview

**Agriculture is a crucial sector in Zimbabwe's economy, providing livelihood for approximately 70 percent of the population and contributing over 40 percent of national earnings from exports.** The top export destinations in 2020 were the Netherlands, United Kingdom, Belgium, Ireland, France, and South Africa, with the major exported agricultural products being manufactured tobacco, cane sugar, raw hides and skin, and cotton.<sup>2</sup>

**This sector is the main source of employment,** supporting one-third of the formal labor force, and serves as a major source of raw materials, supplying 60 percent of the industrial sector's needs. There are strong backward and forward linkages between agriculture and other sectors of the economy.

**The sector contributes only 8 to 12 percent of the total value added and has low productivity.** According to the Zimbabwe National Statistics Agency 2019 Labor Force Survey, between 1999 and 2014 the sector added 960,000 jobs, compared with 300,000 in services. This is consistent with the net out-migration of 1.5 million people from urban to rural areas throughout the period.<sup>3</sup> However, despite the high employment rates, productivity remains low in most agricultural subsectors.

**The country's diverse agro-climatic conditions make it possible to produce over 20 types of food and cash crops as well as livestock.**<sup>4</sup> The primary agricultural products include maize, sorghum, millet, wheat, cassava, cotton, tobacco, coffee, sugarcane, ground nuts, and livestock such as cattle, goats, sheep, pigs, and poultry. Of these, tobacco, maize, and cotton are the top contributors to agriculture, accounting for a combined total of 51.5 percent. Additionally, tobacco, cotton, sugarcane, and horticultural crops such as tea, coffee, bananas, and blueberries are the main export and cash crops. Maize dominates agricultural production, accounting for 80 percent of the domestic staple production, followed closely by wheat.

**The established agro-processing industry covers eight manufacturing sectors,** including food and beverages, textiles, apparel, tanning and dressing of leather, wood and wood products, paper and paper products, rubber products, and tobacco products. These industries provide a significant market for raw materials from the agricultural sector.

**Zimbabwe's agricultural policy is informed by the Comprehensive Agricultural Policy Framework (2015–35) and the new National Agriculture Policy Framework (2019–30),** (see appendix A for more details). In 2016–17, the government also introduced Command Agriculture to reverse the decline in agricultural production, following the Fast Track Land Reform Program (FTLRP), which had resulted in a drastic collapse of revenues, weakened tenure security, undermined access to credit, decaying irrigation infrastructure, and so on.

## Opportunities

The RCA<sup>5</sup> analysis suggests that Zimbabwe has a comparative advantage (that is,  $RCA > 1$ ) in seven products, shown in table 4.2: raw hides and skin, sugar, cotton, coffee, flowers, citrus, and tobacco.

**TABLE 4.2 ZIMBABWE'S REVEALED COMPARATIVE ADVANTAGE (RCA)**

Product	2017	2018	2019	2020	2021
Raw hides and skin	2.0	10.2	6.8	4.8	7.6
Sugar	13.4	7.2	8.3	3.3	7.2
Cotton	5.6	2.6	4.5	3.9	3.4
Coffee	2.6	2.4	3.5	1.8	2.4
Flowers	1	1	1	1	1
Citrus	1	1	1	1	1
Tobacco	120.6	127.0	137.5	60.7	83.8

Source: World Bank calculations based on United Nations Conference on Trade and Development (UNCTAD) data.

The commodities in which the country is highly ranked at the global level in terms of export performance, including tobacco, sugar and cotton, have high RCA scores. In addition, Zimbabwe competes favorably with comparator countries in Africa and globally in several other commodities. It is one of the top 10 leading exporters of macadamia nuts, ranking second and fifth in Africa and globally, respectively (table 4.3).

**TABLE 4.3 RANKING OF ZIMBABWE'S AGRICULTURAL PRODUCTS**

Product	Africa ranking		World ranking	
	2015	2021	2015	2021
Macadamia nuts, in shell	2	2	5	5
Blueberries/bilberry	-	3	-	26
Cotton	10	10	27	20
Tea	8	6	33	40
Sugar	9	12	36	75
Citrus	3	6	21	22
Tobacco	1	1	6	4

Source: World Bank calculations from the World Trade Organization Trade Map 2023, exports by value and volumes.

Zimbabwe already produces several crops that have a large global market size, such as cotton (US\$10.6 billion), citrus (US\$157.91 billion), strawberries and blackberries (US\$27.2 billion), grapes (US\$12.2 billion), sugar (US\$53 billion), bananas (US\$16.7 billion), apples (US\$11.4 billion), tomatoes (US\$10.5 billion), onions (US\$7.4 billion), and carrots (US\$2.1 billion).<sup>6</sup> Estimation of a historical global demand growth (see table 4.4) shows considerable potential for commodities such as citrus, edible vegetables, cereals, meat, and dairy produce.

**TABLE 4.4 GLOBAL DEMAND FOR AGRICULTURAL COMMODITIES**

Sector	Change in Zimbabwe's global exports share (%), 2013–22	Global demand growth (%), 2013–22	Impact on jobs	Prospects for private sector involvement
Cotton	-1.8	-12.1	High	Low
Tobacco	10.2	8.7	High	High
Citrus	527.0	36.9	Medium	High
Sugar and sugar confectionery <sup>7</sup>	-69.1	9.3	High	Low
Raw hides	-31.5	-31.5	Low	Low
Coffee & tea	-5.5	83.5	Medium	Medium
Edible vegetables	818.8	25.6	Low	Low
Cereals	131.8	42.4	High	Medium
Dairy produce	33.0	33.0	Medium	High
Meat	40.0	32.6	High	High

Source: International Trade Centre.

There is also high domestic demand for agricultural commodities (table 4.5). The local market absorbs a significant share of agricultural output (US\$5.4 billion out of the US\$8.1 billion). For example, national demand for milk is 150 million liters, but the country's current production stands at 91 million liters of milk. Similarly, soybean production falls significantly short of the country's national demand for cooking oil, animal feed, and other foods. Zimbabwe produces only 30 percent of the required 240,000 tons of soybeans per year, leading to increased costs for feed manufacturers who must import soy. Contract farming and joint ventures offer potential solutions for scaling up production and reducing reliance on imports, improving food security and creating new opportunities for farmers and businesses in the sector.

**TABLE 4.5 CROP PRODUCTION COMPARED WITH DOMESTIC MARKET DEMAND**






Crop	National requirement (mt)	Surplus/Deficits (mt)			
		2019/2020	2020/2021	2021/2022	2022/2023
Cereals	2,287,742	-1,309,599	499,572	-659,685	291,505
Cotton	600,000	-533,436	-499,000	-404,009	-447,525
Soybeans	240,000	-179,932	-192,912	-168,710	-46,914
Sugar beans	106,027	-93,377	-75,414	-80,639	-74,753

Source: Ministry of Lands, Agriculture, Fisheries, Water and Rural Development, 2022.

Note: mt = metric ton.

The sector also provides input into other value chains in the manufacturing sector. Currently, value addition revolves around processing of flours, followed by the manufacture of beer and alcohol spirits; refined sugar, molasses, glucose, and syrup; bran products; and sugar confectionery and fruit juices. Table 4.6 illustrates opportunities for agriculture to diversify from agricultural commodities to manufacturing, based on current activities.

**TABLE 4.6 OPPORTUNITIES FOR VALUE ADDITION FOR AGRICULTURAL COMMODITIES**

 <b>Cotton</b>	Yarn Linters (pulp) Oilseed Cotton cake	Textiles-fabric Medicinal supplies Oil Stockfeed
 <b>Sugarcane</b>	Molasses and bagasse Ethanol	Stockfeed Biofuel Food products—confectionery and breweries
 <b>Maize</b>	Oil Flour/meal Starch	Food products Breweries Stockfeed
 <b>Soybean</b>	Oilseed	Oil Stockfeed Food products
 <b>Beef</b>	Meat	Canning

Source: Author's elaboration

The goal of the government of Zimbabwe is to raise the global export share of Zimbabwe's food and nonfood crops. The government has prioritized horticultural commodities, cotton, wheat, livestock (dairy), sugarcane, soybean, and maize. These were selected on the basis of four key indicators: (a) potential for income generation, (b) scope for job creation, (c) export competitiveness, and (d) market expansion.

### Horticulture

Horticulture is a strategic subsector in Zimbabwe's economy, contributing significantly to the country's agriculture GDP (6.5 percent in 2022) and generating considerable employment and foreign exchange. According to the Horticulture Development Council, the sector employs 18,700 people and has the potential to double jobs in the next three years (2022–25).

Zimbabwe's horticultural production includes a wide range of fruits, vegetables, and flowers, with much of the produce going to the export market, local retailers, and food processing companies. The main export fruits are citrus, passion fruit, strawberries, and avocados, while the main export vegetables are mange-tout peas, French beans, baby corn, sweet corn, baby carrots, chilis, and cherry tomatoes (table 4.7). Oranges account

for approximately 90 percent of fruit exports, with all the other fruits accounting for 10 percent of exports. Macadamia nuts are also a significant cash crop in Zimbabwe, with the country recording 16,000 tons of macadamia nuts in 2018, equivalent to an export value of US\$48 million. Macadamias are considered to be of medium-high quality in the global market.<sup>8</sup> There is further potential for value addition and processing of macadamia nuts in the country, which would limit the impact of price fluctuations on the global markets.

**Zimbabwe's top export markets for horticultural products include South Africa, Zambia, Mozambique, the Netherlands, and the United Kingdom.** Investment opportunities in Zimbabwe's horticultural sector can be tapped through models such as joint ventures with established commercial farmers and the Agricultural Rural Development Authority. The government of Zimbabwe allows for joint ventures between the authority and potential investors, as well as joint ventures between resettled commercial farmers and potential investors. To guarantee security of tenure, the joint ventures must be approved by the Ministry of Lands, Agriculture, Fisheries, Water, and Rural Development. The government is also facilitating private investment in the sector through signing of various protocols such as the Economic Partnership Agreement with the European Union and bilateral trading protocols with China and the United States. These protocols have allowed for increased market access, with the China Citrus protocol alone providing access to a market worth US\$15.91 billion. Zimbabwe is also one of a few countries in Africa with biosafety laws, which is important to ensure high-quality horticultural produce.

As a result of these protocols, horticultural exports from Zimbabwe grew by 6.8 percent in 2021, reaching a total of US\$64.6 million, up from US\$59.5 million in 2020.<sup>9</sup> This growth was largely driven by exports of macadamia nuts, which contributed US\$13.8 million, as well as citrus, vegetables, and flowers, which contributed US\$10.9 million, US\$4.2 million, and US\$3.2 million, respectively.<sup>10</sup> Overall, the horticultural industry is a significant contributor to Zimbabwe's economy and has the potential for further growth and development through increased market access and private sector investment.

**TABLE 4.7 GLOBAL DEMAND OF ZIMBABWE'S KEY HORTICULTURAL PRODUCTS AND ZIMBABWE EXPORTS**

Commodity	Global demand US\$ billion	Zimbabwe exports (US\$ million)		
		2019	2020	2021
Citrus	157.91	32.00	31.00	30.70
Sugar	53.0	62.8	76.9	17.1
Tea	9.5	21.1	16.3	16.1
Macadamia	1.2	20.6	13.2	13.6

Source: Authors own calculations from Trademap 2023. Exports by Value and Volume.

The seasonality of Zimbabwe's horticulture output complements that of Western markets. Several fruits and vegetables, such as blueberries and mange-tout, enter the global export market at advantageous time windows as first movers to their competitors, and they benefit from marginally higher prices during off-season production in the West (table 4.8). The country has a further advantage in floriculture, as it has a very suitable and diverse climate to produce a wide range of varieties that cannot be grown as successfully in either Kenya or Ethiopia, its competitors.<sup>11</sup>

**TABLE 4.8 ZIMBABWE'S BLUEBERRY COUNTER-SEASONALITY**

Zimbabwe's export window	Export market	Export window for competing producing countries
August to October	United Kingdom/European Union	Morocco: December to April Peru: October
April to July	Malaysia, Singapore, and Hong Kong SAR, China	South Africa (Western Cape): October to January

Source: Horticulture Development Council 2023.

### Cotton

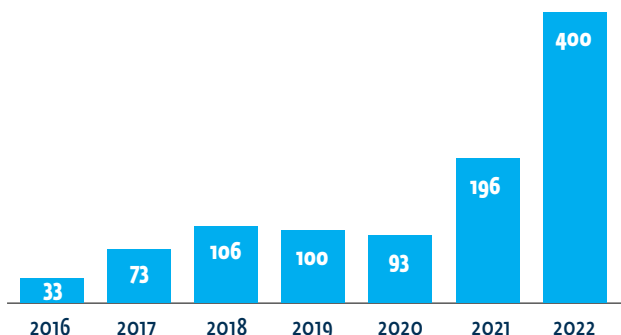
**Cotton is a strategic commodity in the economy, as around 1.3 million people in Zimbabwe derive their livelihoods from cotton farming.** The industry provides employment to approximately 50,000 individuals in ginneries, spinning, transportation and logistics services. Cotton contributes an average of 10 percent of agricultural GDP. Along the value chain, the revival of the spinning and weaving industry has the potential to increase capacity utilization, boost yarn production, and ultimately revive the clothing industry.

**Zimbabwe's cotton is competitive at current world market prices.** The main contributing factor to this is the low production cost compared with other regional countries. Cotton is considered to be of good quality because it is handpicked and, therefore, free from contamination (foreign matter, dust, and so on). Zimbabwe has the capacity to produce 600,000 tons of cotton, and the country's 22 ginneries have an installed ginning capacity of 750,000 tons per year. Between 2016 and 2020, Zimbabwe's cottonseed production increased by 184 percent from 33,000 tons to 93,000 tons. However, demand for Zimbabwe's lint is exceeding supply, offering an opportunity for investment in the value chain.

**Annual exports of cotton lint in 2022 stood around US\$103.2 million.** The main export destinations include China, South Africa and East Asia. Zimbabwe's exports shot up from US\$41.6 million in 2019 to US\$89.6 million in 2021 (see figure 4.2). This surge in exports was driven by an increase in the production of cotton (figure 4.1), largely due to significant input support by the government to over 300,000 households. Revival of the spinning and weaving industry has the potential to increase capacity utilization and yarn production and, therefore, revive the clothing industry.

**FIGURE 4.1 ZIMBABWE'S COTTON PRODUCTION**

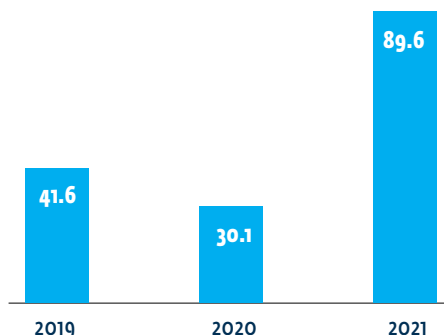
By thousands of tons



Source: International Trade Centre.

**FIGURE 4.2 ZIMBABWE'S COTTON EXPORTS**

US\$, million



Source: Ministry of Lands, Agriculture, Fisheries, Water and Rural Development (2022).

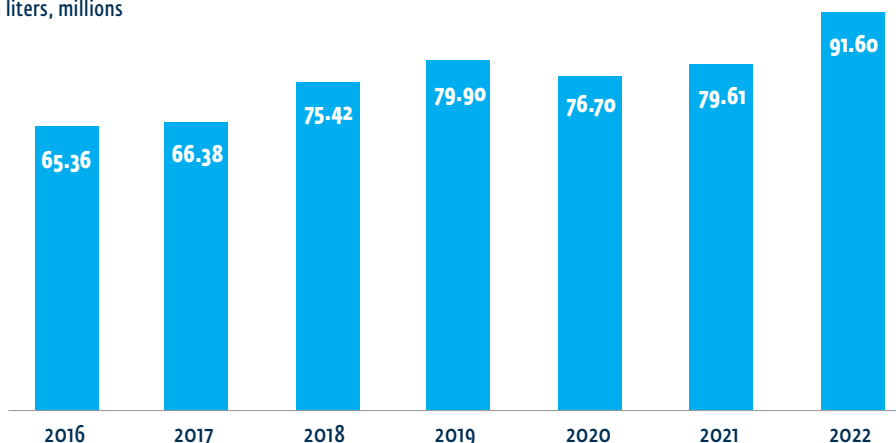
**Dairy**

At its peak, in 1991, the national herd of milking cows stood at 112,000, and milk production stood at 261 million liters against the national demand of only 120 million liters. Because of excess supply, the country was exporting milk to other countries, which included Zambia, Botswana, Malawi, and Tanzania, among others. Since the FTLRP was adopted, the national dairy herd declined, and milk production decreased drastically, making the country a net-importer of milk and milk powder, which is reconstituted into ultra-high temperature milk.

However, over the past three years, the dairy industry is recovering, and the country's milk production in 2022 was at 91.6 million liters, up from 39 million liters in 2009 (see figure 4.3). In view of this, the country seeks to increase milk production from the 2022 output of 91.6 million liters to 150 million liters by 2025. This requires an additional investment of 22,000 heifers and associated supporting infrastructure.

**FIGURE 4.3 MILK PRODUCTION**

In liters, millions



Source: Zimbabwe Association of Dairy Farmers (ZADF), 2023.

**Production cost for dairy is at par with other countries at US\$0.42 per liter**, compared to an average milk producer price per liter of US\$0.43 (per comparative analysis of 10 African countries). While Zimbabwe is not yet in a position to tap into the global market, the local and regional market for milk is attractive. Dairy production is one of the fastest growing sectors in Africa, and the market is projected to grow annually by 10.8 percent (compound annual growth rate, 2023–28).<sup>12</sup>

**Along the value chain, there are a considerable number of private firms producing stockfeed.** The main actors providing extension services include government agencies such as the Dairy Development Program, AgriTex, and so on, and various nongovernmental organizations. However, transport and storage facilities need additional investments and improvement to minimize significant post-production losses.

### **Beef and poultry**

**The livestock subsector is considered the backbone of agriculture in Zimbabwe.** It is an integral part of the agricultural sector with production of beef, dairy, small ruminants, pigs, poultry, apiculture, aquaculture, and other small stock of livestock. The livestock sector provides the livelihood for 65 percent of the country's rural households and contributes significantly to inclusive economic growth, food, and nutrition security. Smallholder farmers, including communal farmers, own 90 percent of the national herd.<sup>13</sup>

**Although Zimbabwe's beef industry used to be the major supplier of beef and beef products from southern Africa to European countries, the country's global exports dropped during the 2000s.** The land reform program drastically altered the structure and system of livestock production from one that dominated and was driven by largescale commercial farms (with thousands of hectares per farm), producing mainly for the high-quality markets and export markets, to the current structure and production system dominated and driven by many small herds in new resettlement areas and communal farms, mainly producing for the domestic market.

**As a result, the country relies mostly on regional markets.** The main regional markets for Zimbabwe's beef and dairy products are Mozambique, Zambia and Botswana. According to the United Nations Conference on Trade and Development, Zimbabwe's trade in these products for 2020 amounted to US\$29.66 million (0.31 percent of total trade), of which exports amounted to US\$5.86 million (0.133 percent of total exports) and imports amounted US\$23.8 million (0.47 percent of total imports). For 2020, the major export market for livestock and livestock-related products from Zimbabwe was Mozambique, which accounted for 42 percent of the total trade, followed by Botswana, Zambia, and Malawi accounting for 16 percent, 12 percent, and 10 percent, respectively.<sup>14</sup>

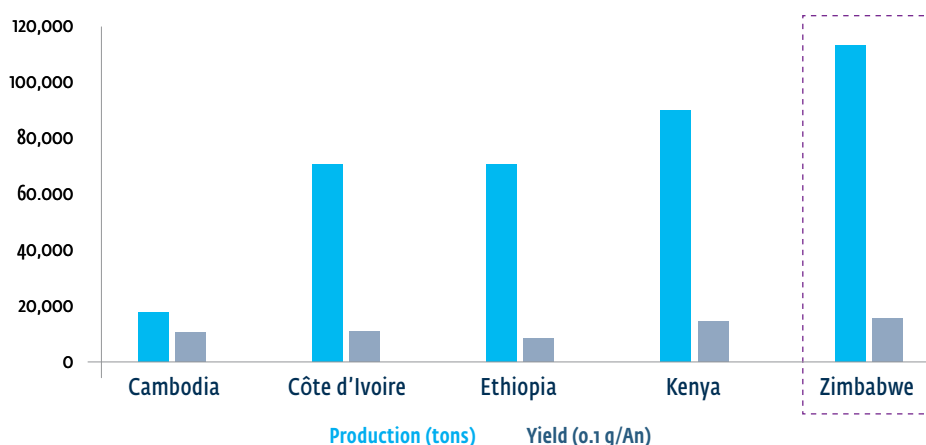
**The poultry sector in Zimbabwe is highly productive and has potential to export to neighboring countries in the region.** The poultry sector in Zimbabwe is performing relatively better than the poultry sector in its structural peers. As figure 4.4 indicates, both production and yield of poultry in Zimbabwe are among the highest among those. With more private sector investments, the poultry subsector could be a source of export revenue for the country and could support its food security efforts.



The structure of the Zimbabwean poultry industry has evolved substantially over the years, especially after the country’s economic recession. On one hand, the harsh macroeconomic environment that prevailed between 1999 and 2008 saw traditional chicken-producing firms (Irvines<sup>15</sup> and Suncrest) nearly collapsing and led to increased vertical integration within the value chain as a means of survival. On the other hand, during the same time, new companies entered the sector in 2004 (Drummonds) and in 2007 (Lunar Chickens). Broiler production in Zimbabwe is broadly undertaken under four sizes—namely, large-scale, fully integrated operations; large-scale, semi-integrated; medium; and small scale. There are four main large-scale producers of chicken—Irvines, Suncrest, Lunar Chickens, and Ostrindo. These companies are relatively large and have scale economies associated with their size. The companies are also highly integrated in the poultry value chain, which gives them advantages over medium- and small-scale producers owing to their integration along the chain, which ensures the availability of feed and day-old chicks, including likely at lower prices than their smaller competitors.

Shortage of breeding stock, including parent and grandparent stock, expensive and unreliable electricity supply, and shortage of feedstock undermine the development of the sector. It is important to note that, of the largest companies, only Irvines and Suncrest import breeding grandparent stock, from the United Kingdom and France, respectively. Lunar and Ostrindo get their parent stock from these two importers since they are the only importers of breeding stock in Zimbabwe. For poultry feedstock inputs, maize and soybeans remain the primary sources. However, distortionary price setting by the government over these strategic food crops presents a formidable challenge to the industry. Moreover, the sector heavily depends on imports including chemicals, equipment, grandparent and parent breeding. Lack of access to foreign exchange and multiple currency also hinder the sector’s development. Lack of access to funding and financing from banks and poor infrastructure, especially affordable and reliable electricity supply, are restricting the growth potential of the poultry sector.

**FIGURE 4.4 POULTRY: MEAT OF CHICKENS (FRESH OR CHILLED) PRODUCTION AND YIELD, 2021**



Source: FAOSTAT.

Note: g/An = ; t = tons.

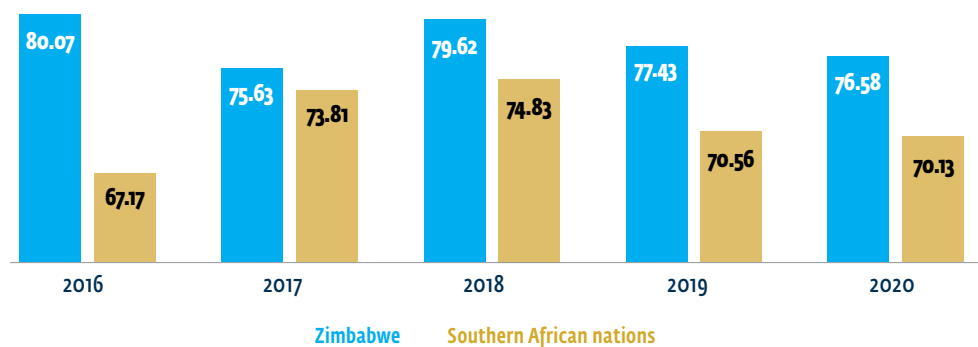
### Sugarcane

Raw sugar exports contributed 2.3 percent to Zimbabwe's total exports in 2021.

Additionally, a number of by-products—namely, molasses, feedstock, and bagasse for cogeneration of electricity—are also produced from the sugar manufacturing process. Domestic and regional demand for sugarcane and sugar is substantial, with much of the produce consumed domestically. The two main categories of consumers for sugar in Zimbabwe are manufacturers (beverages, confectioners, bakers, and pharmaceuticals) and households. Regional markets such as Kenya, Botswana, and Mozambique import significant quantities of sugar, creating further opportunities for Zimbabwean produce. The country exports raw and refined sugar to global markets, mainly to the United States. Zimbabwe is a beneficiary of the United States Tariff Rate Quota, which allows it to export an allocated 12,636 metric tons of raw sugar duty free to the country. The sector productivity is higher than average for the southern African region, as presented in figure 4.5.

**FIGURE 4.5 SUGARCANE PRODUCTIVITY OF ZIMBABWE AND SOUTHERN AFRICAN NATIONS, 2016–20**

Productivity (tons per hectare)



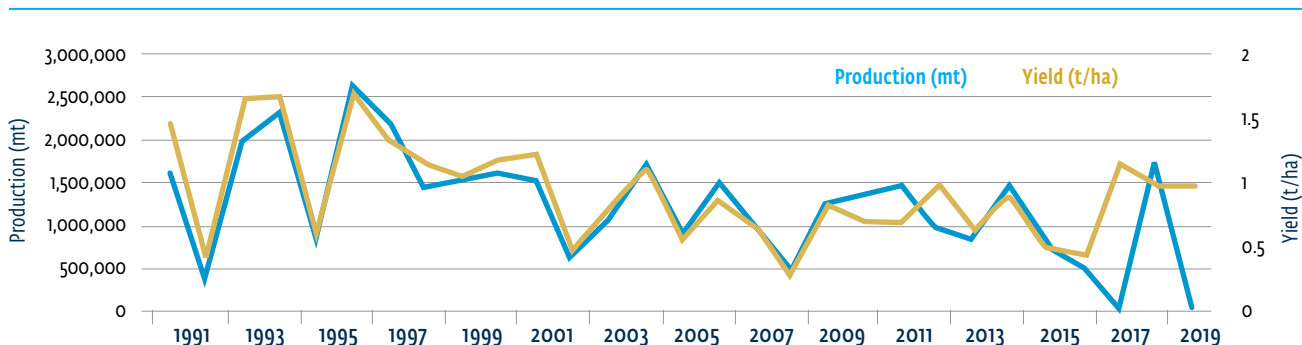
Source: FAOSTAT.

### Other Food Crops

#### Maize

Maize is a strategic commodity in the Zimbabwean economy, as it ensures food security and serves as raw material for agro-industrial processes. Maize production depends on water availability, and most of Zimbabwe's agriculture is rain-fed, which makes maize production severely affected by weather shocks, such as droughts. Between 2016 and 2020, Zimbabwe's maize production increased by 135 percent, from 512,000 tons to 1.202 million tons, while Zimbabwe's average maize productivity stood at 1.1 tons per hectare (figure 4.6). Meanwhile, the average maize productivity of southern African nations stood at 4.9 tons per hectare. Maize is grown by over 90 percent of the 1.3 million farming households across the country.

**FIGURE 4.6 AVERAGE MAIZE YIELD TRENDS, 1991/92 SEASON–2018/19 SEASON**



Source: Ministry of Lands, Agriculture, Fisheries, Water and Rural Resettlement (2019, 2021).

Note: mt = metric ton; t/ha = ton per hectare.

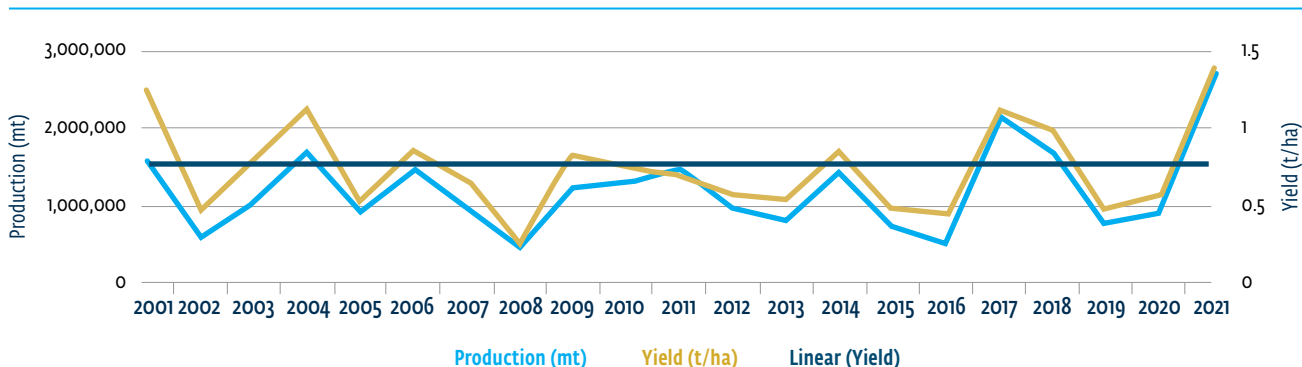
Zimbabwe is among the leading producers of hybrid maize seeds in the region, and the first country in the Sub-Saharan Africa region to produce hybrid seeds (such as SR52). The country currently produces surplus quantities of hybrid maize seeds (such as SC 727, SC 719, which are mainly hybrid and drought-resistance seeds) and is, therefore, able to export hybrid maize seeds.<sup>16</sup> The maize produced in the country is organic and of very high quality.

The maize sector has the potential to develop other sectors, both upstream and downstream. These include the financial services sector (financing, insurance), inputs manufacturing sector, maize products processing sector, brewing industry, cereal production, catering, beverages production, and other indirect sectors that extract starch from maize.

**Wheat**

Since 2000, Zimbabwe has not produced enough wheat to meet domestic demand, except in 2022, when the government’s support helped increase yields to an average of 5 tons per hectare (figure 4.7).<sup>17</sup> Support to the sector is aimed at encouraging more commercial farmers to grow wheat.

**FIGURE 4.7 AVERAGE WHEAT YIELD TRENDS, 1991/92 SEASON–2020/21 SEASON**



Source: Ministry of Lands, Agriculture, Fisheries, Water and Rural Resettlement (2019, 2021).

Note: mt = metric ton; t/ha = ton per hectare.

## Constraints

The key binding constraints in the sector include cross-cutting constraints discussed in chapter 5 of this report. In addition, there are a number of specific sectoral constraints, as follows:

- **Inconsistent and unpredictable policy and regulations.** Zimbabwe's policy and regulatory environment has been a major deterrent to investment in production and value chain development. The country's policies have been fragmented and unpredictable, leading to fluctuations in production in key subsectors over the years. One example of this is the maize value chain, where government regulations have limited the involvement of the private sector. In the past, the Grain Marketing Board was the sole buyer of maize, which limited competition and made it difficult for farmers to obtain good prices for their crops. This has had a negative impact on the development of the maize value chain and has limited the potential for growth in the sector.

Another key constraint is overlapping mandates and requirements of some key institutions that regulate the sector. Delays are created by having various institutions located at different geographical locations that require physical visits to issue permits for a single product. A number of export permits are required to import and export agriculture products, including an import license from the Ministry of Agriculture, a biosafety certificate, a nursery license and phytosanitary certificate, in addition to veterinary and plant permits, depending on the nature of the products.

- **High cost of inputs.** Inputs are extremely expensive; as a result, farmers often fail to secure the right quantities of inputs at the right time. For example, in 2021 the price of fertilizers rose from US\$699 per ton to US\$1,300 per ton as a result of supply chain disruptions caused by lockdowns that were instituted by countries as they combated the COVID-19 pandemic. In 2022, prices of key inputs such as fertilizers, fuel, and agricultural chemicals sustained an upward increase because of Russia's invasion of Ukraine. High transportation costs are incurred to access the inputs, as most of the private distributors of the inputs are located in urban areas. Zimbabwe has not managed to produce and distribute enough fertilizers each year because of low productivity of the fertilizer manufacturing sector, partially due to lack of investment in modernization of equipment and adoption of latest technologies. The government of Zimbabwe, as in many other countries in the region, employs Input Subsidy Programs (ISPs) to enhance agricultural production and address food and nutrition security. Fertilizer subsidies are primarily dispensed through two key initiatives: the Nationally Enhanced Agriculture Program (formerly Command Agriculture) and the Presidential Input Support Program (PISP). Unlike the former, the PISP extends its coverage across all 10 provinces and 62 rural districts, targeting impoverished communities. Under the PISP, farmers receive a 10 kg bag of seed and two 50 kg bags of fertilizer. However, these programs strain the national budget and crowd out private sector involvement.
- **Limited access to finance.** While, notionally, access to credit seems relatively robust for the agricultural sector, the reality is that most of the credit is short-term credit for fertilizer and seeds that is backed by a government guarantee. As a result of a combination of interest rate caps, risk perceptions, and unclear property rights, access to medium-term capital for investment (or land acquisition) is basically nonexistent through private domestic channels.

- **Market infrastructure.** Infrastructure is a significant challenge for Zimbabwe's agricultural sector. Limited access to cold-storage facilities has resulted in significant post-harvest losses of highly perishable horticulture crops and is also a problem in the beef industry, despite the resuscitation of the Cold Storage Commission. Additionally, power outages have been a major issue in Zimbabwe, because of outdated infrastructure and lack of sustained maintenance, and water supply for electricity generation has been limited because of persistent droughts. These challenges have hindered agricultural production, particularly irrigation-driven production, cold-chain facilities, and value chain processing.
- **Heavy reliance on the government to provide inputs through state funded programs like Command Agriculture, the Presidential Inputs Schemes (Pfumvudza, Livestock, Goat, and Horticulture programs).** Subsidy programs have a large fiscal outlay, which is largely financed through the monetization of debt with the RBZ. This fiscal outlay curtails funding to other sectors like research and development and infrastructure development.
- **Land tenure insecurity.** Land tenure insecurity remains a significant challenge in Zimbabwe. This hinders the ability to invest in land and improve productivity and long-term agribusiness development.
- **Limited access to information and asymmetry of information.** Many farmers in Zimbabwe have limited access to information on market prices, weather patterns, and best practices in agriculture, which hinders their ability to make informed decisions and improve their productivity.
- **Limited availability of water for irrigation.** There is limited availability of water for irrigation due to rainfall variability and poor and weak irrigation infrastructure. Smallholder farmers have access to less than 5 percent of the nation's irrigation facilities. In the 2019–20 season, the country witnessed a 50 percent reduction in the amount of rainfall. This translated to an approximate average of 50 percent reduction in agricultural yields. Zimbabwe has dams with capacity to irrigate 2 million hectares of land, but currently it is irrigating only 10 percent (200,000 hectares) because of siltation, vandalism, and dilapidating irrigation infrastructure.

## Recommendations

**Strengthen the sector's regulatory environment.** To reduce the cost of compliance and ease of operating business in the agricultural and agribusiness sector, there is a need to review and streamline requirements (licenses, permits, levies) imposed by the Agriculture Marketing Authority and other departments falling under the Ministry of Agriculture. Departments include the Veterinary Department, Plant Protection Department, the National Biotechnology Authority, and the Economics and Markets Department. For example, abattoirs must register with the Agriculture Marketing Authority and pay annual registration fees, despite being registered and paying annual registration fees to the Veterinary Public Health Department.

The same review and streamlining are necessary between requirements of the Agriculture Marketing Authority and regional district councils to avoid double taxation on companies operating in the business of buying or contracting agriculture products.

**Facilitate a hub-and-spoke model for agricultural services.** To improve competitiveness and productivity of the sector, there is a need to facilitate the hub-and-spoke model for agriculture, which is a system of organizing the production and distribution of agricultural products. In this model, a central hub provides services and inputs to a network of smaller farms, or spokes. The hub can also collect, process, and market the output from the spokes. The benefits of this model include economies of scale, improved quality and traceability, reduced transaction costs, and increased access to markets and finance. It also provides technical skills transfers to smallholder farmers and micro-industry opportunities. However, implementing and maintaining this system requires coordination, trust, good governance, and risk sharing among the hub and spoke actors.

There are already successful examples of the hub-and-spoke model in the country, such as in the flower industry, which involves producers like Froggy Farm in Manicaland, which has incorporated 32 smallholder growers into producing protea flowers. Another example is Nestle Zimbabwe, which has used this model to enhance capacity among smallholder dairy farmers; Dodhill Citrus plantation located in Chegutu provides an example for horticulture. A systematic approach and strategy are necessary to identify potential hubs and to develop supporting mechanism to facilitate the model adoption in the country.

**Enhance market infrastructure.** There is a need to facilitate better private sector engagement in addressing constraints related to limited market infrastructure for the sector, including cold storage and packaging facilities, to ensure easy access to storage and minimal post-harvest losses. The following measures should be considered:

- **Strengthen an enabling environment** that supports the development of storage infrastructure and services, including reviewing and streamlining the licensing and permitting processes, harmonizing quality and safety standards, facilitating access to land and utilities, and enforcing contracts and dispute resolution mechanisms.
- **Promote public-private partnerships**, including co-financing, co-ownership or co-management of storage facilities, sharing risks and rewards, and fostering innovation and knowledge transfer. For example, the ColdHubs project in Nigeria, which provides solar-powered cold rooms that extend the shelf life of fruits and vegetables. The project is funded by various donors and partners with local farmers' cooperatives that pay a daily fee to use the cold rooms. The AgroZem project in Türkiye, which provides modern silos that store wheat and other grains is financed by the European Bank for Reconstruction and Development and involves a private company that operates the silos and sells storage services to farmers and traders.
- **Identify fiscal or nonfiscal incentives to support BOOT** (build, own, operate, transfer) and BOT (build, operate, transfer) arrangements, within a given threshold.

**Improve access to inputs.** There is a strong need for review and for the reduction of government programs that subsidize inputs to ensure a more targeted and transparent approach that focuses on private sector engagement and that optimizes public sector expenditures. These reforms include further liberalization of the inputs market as well as repurposing public funds from subsidies programs toward creating fiscal space for strategic investments in transport and storage infrastructure, capacity building, innovation, and climate change adaptation. Along with those changes, special efforts should be implemented to enhance targeting of vulnerable households using criteria such as vulnerability, gender, or priority crop promotion as well as to transition to e-vouchers. Further, the government should attempt to involve the private sector in input distribution, selecting agro-dealers based on rigorous technical and commercial criteria to ensure efficiency and effectiveness.

**Increase access to finance.** There is a strong need to shift public financing to the agriculture sector away from income support, input subsidies, and price controls and toward skills development, research and development, and infrastructure spending, and creating enabling environment for commercial financing and insurance mechanisms. The following instruments should be considered:

- **Voucher schemes.** Zimbabwe could adopt a system in which farmers receive vouchers that can be redeemed for inputs from accredited agro-dealers. This would reduce the government's role in procuring and distributing inputs and encourage competition and innovation among private suppliers. It would also give farmers more choice and flexibility in selecting the inputs that suit their needs and preferences. However, relying on the private sector carries some risk that individuals who are underserved by private markets may be left behind. That risk can be mitigated by agro-dealer support programs and broader investments in public infrastructure and extension.

Some preconditions for the voucher system to be effective include a well-functioning market for inputs, adequate infrastructure and transportation, sufficient quality control and monitoring, and effective targeting and registration of beneficiaries. Working closely with the banking sector—as in the example of CBZ Agri-yields—will provide better targeting and transparency in the selection of beneficiaries and provision of inputs.

- **Partial Credit Guarantee Schemes (CGS).** Zimbabwe could facilitate partial CGSs to share credit risk with partner financial institutions in exchange for the guarantees. Partner financial institutions are expected to lend to broad classes of predefined target borrowers (such as farmers and agribusiness small and medium enterprises [SMEs]), and CGSs issue guarantees to cover a predetermined percentage of the loan value.
- **Agri-insurance.** The government could review the potential to facilitate agri-related insurance (crop or livestock), including boosting the capacity of regulators; improve the regulatory framework by allowing for digitization of insurance distribution; and build the capacity of insurance industry staff in key areas, including risk modeling and product pricing.
- **Investment funds for agribusiness SMEs.** The government could review the regulatory environment and constraints to facilitating investment funds to establish agribusiness, such as
  - **Agribusiness SME funds, set up like private equity or venture capital funds, aimed to invest in SMEs through a finite life vehicle.** SME fund managers typically raise fixed pools of capital and source deals by working with a network of intermediaries, developing business linkages and competencies in specific sectors, and by scouring a given market for investment opportunities. Since they are typically regulated as capital market instruments, they can often use innovative debt instruments that traditional commercial banks are not able to provide, either for cost or regulatory reasons. Thus, these funds typically complement the role of commercial banks and microfinance institutions that are less able to provide the broad range of financing SMEs' needs.
  - **Investment funds with a development perspective, to provide complementary donor-financed technical assistance structured as grants or zero-interest loans.** Technical assistance is provided pre- and post-investment to address targeted capacity constraints such as accounting and financial statements, management information systems, governance, strategy, and so on. In providing technical assistance, investment funds open doors for additional investment, improved portfolio performance, and reduced financial and governance risks.

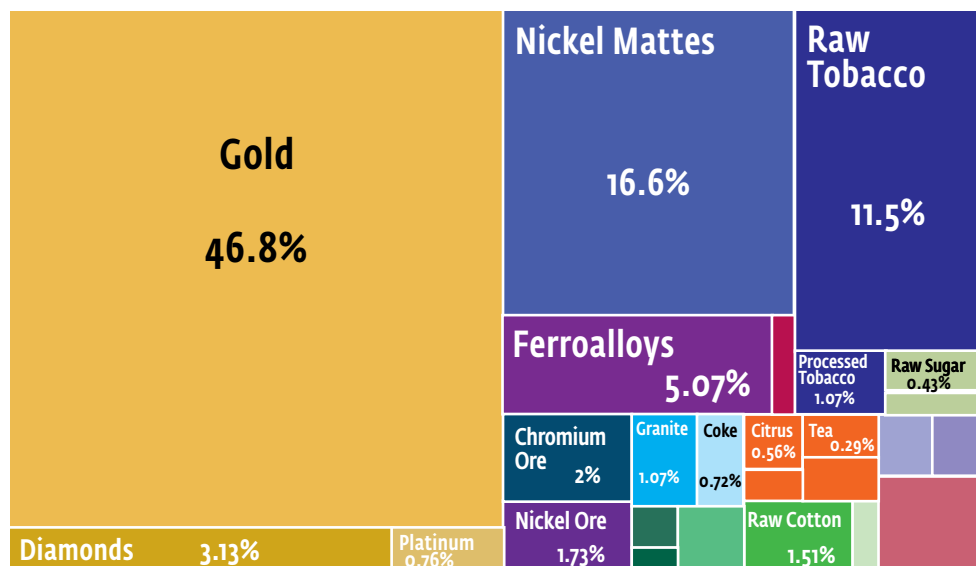
**Land Tenure.** Although the Constitution protects land tenure, the tenure arrangements for commercial agricultural land, which include a combination of title deeds, permits, and 99-year leases, need to be strengthened to buttress the ongoing transformation of the agriculture sector and allow access to financing. In this regard, the government should issue securitized A2 permits, which should replace Offer Letters to A1 farmers who do not have tenure documents. In addition, to attract private sector financing to the sector, the procedure for the issuance of 99-year leases should be reviewed and complemented by the review lease to improve its transferability and bankability features.

### 4.3 MINING INDUSTRY

#### Overview

Zimbabwe is a mineral-rich and highly mining-dependent country (figure 4.8). The mining industry is estimated to have had a value of US\$6 billion in 2022.<sup>18</sup> Mining accounts for 14 percent of GDP, about 75 percent of all exports and of foreign direct investment, some 20 percent of state revenue, and 11 percent of the formal employment payroll. Moreover, in the past five years, mining’s role in the economy has been growing relative to that of manufacturing and agriculture. In addition to formal mining, unaccounted amounts of mineral value are generated by unregulated artisanal mining and illicit trade, mainly in gold and diamonds, but also in chromite and lithium-bearing ores.

**FIGURE 4.8 SHARE OF MINERAL RESOURCES IN ZIMBABWE’S EXPORT BASKET, 2021**



Source: Observatory of Economic Complexity.



As part of Vision 2030, the government has set ambitious targets of US\$12 billion in 2023 and US\$20 billion in 2030 for mining sector output. To achieve its bold targets, the government has offered a range of fiscal and commercial incentives, used state enterprises to promote investment opportunities, and is in the process of updating antiquated mining legislation. To date, such measures appear to have had only marginal impact.

Given the global environment for investment in the mining industry, which is more favorable now than it has been at any time this century, a boom in investment in mining and mineral processing could generate inflows of capital, hard currency, elevated state revenues, and new sources of well-remunerated, formal employment in Zimbabwe. Moreover, the mining industry, as a very large and mostly creditworthy purchaser of infrastructure services (power, road, rail, and water), could help support economic resuscitation.

Demand projections associated with net-zero pledges have improved the long-term fortunes of several minerals that Zimbabwe is endowed with, notably lithium, nickel, and copper (figure 4.9). These minerals are needed to support renewable energy supplies, and platinum group metals are required for the emerging hydrogen economy. With the global supply of energy transition materials (ETMs), which are subject to geopolitical uncertainties and numerous regulatory hurdles, the prices of such minerals are increasing.

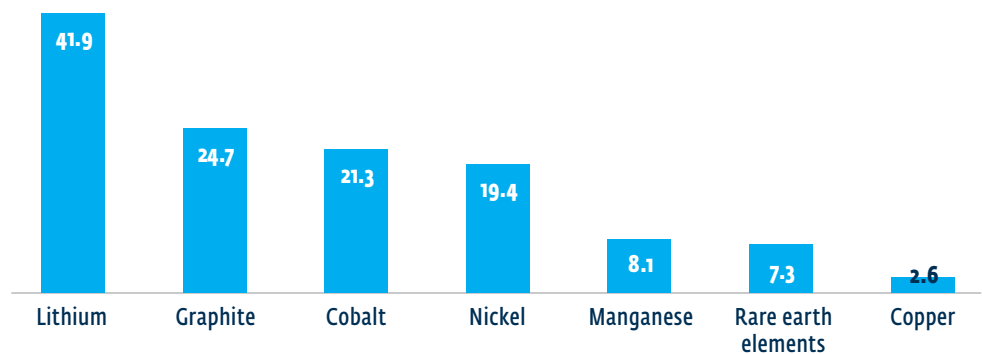
**TABLE 4.9 ZIMBABWE ENERGY TRANSITION MATERIALS (ETM) PRODUCTION AND RESERVES BY COMMODITY (METRIC TON)**

Product	Output	Production <sup>a</sup> 2021	Share of global production (%) 2021	Reserves/ resources <sup>b</sup>	Share of global reserves/ resources (%)
Copper	Mined	8,650	0.04	1,615,000	0.10
	Smelter	0			
Cobalt	Mined	230	0.20	8,300	0.03
	Refined	0			
Nickel	Mined	13,949	0.50	2,059,600	0.50
Lithium		25,476	1.10	6,756,300	0.60
Platinum group (kg)		30,546	6.50	3,751,000	5.60

Source: a. British Geological Survey; b. S&P Capital IQ.

**FIGURE 4.9 GROWTH IN GLOBAL MINERAL DEMAND, 2020–40, FOR SUSTAINABLE DEVELOPMENT SCENARIO**

Multiple of 2020 demand



Source: International Energy Agency, *The Role of Critical Minerals in Clean Energy Transitions* (Paris: IEA, 2022), online executive summary, <https://www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions/executive-summary>.

The **Zimbabwe Country Climate and Development Report (CCDR)** includes a detailed mining sector deep dive, outlining the sector’s current landscape, development priorities, and potential for greening, through its demand for renewable energy. Another of World Bank’s ongoing analytical programs, “Positioning AFE to Benefit from the Global Energy Transition: Leveraging Green Minerals for Economic Transformation,” highlights the importance of increasing the degree of value retention of ETMs mining in Zimbabwe.

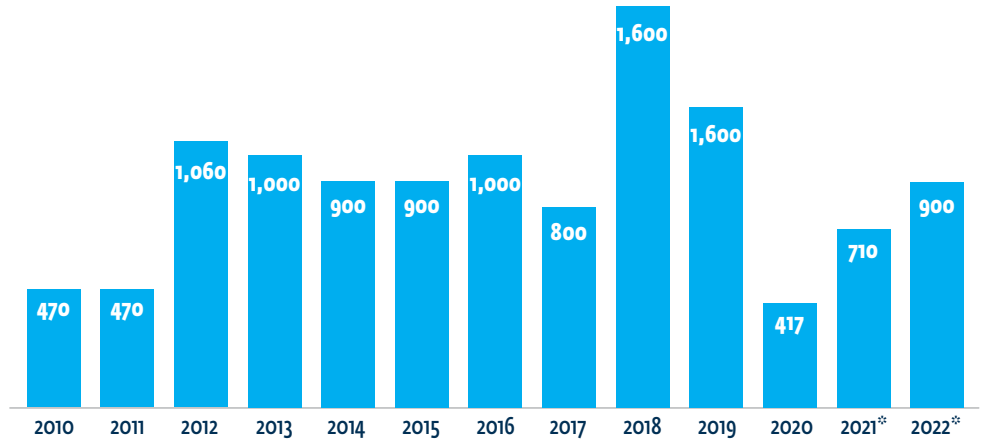
Given the global demand for ETMs (including lithium, nickel, and copper) and the country’s plentiful natural resources,<sup>19</sup> the CPSD focuses on lithium mining and the processing subsector and uses analysis within the framework of the CCDR and the World Bank’s previously mentioned analytical work.

### Opportunities

Zimbabwe holds one of Africa’s largest lithium reserves (figure 4.10); its Masvingo province is home to the Bikita mine, containing metal deposits at around 11 million tons. This resource has remained largely untapped for decades due to a lack of investment. However, in 2022, Zimbabwe’s barely exploited lithium resources became the focus of a stream of acquisitions by Chinese companies.

**FIGURE 4.10 LITHIUM PRODUCTION IN ZIMBABWE, IN METRIC TONS**

Production in metric tons

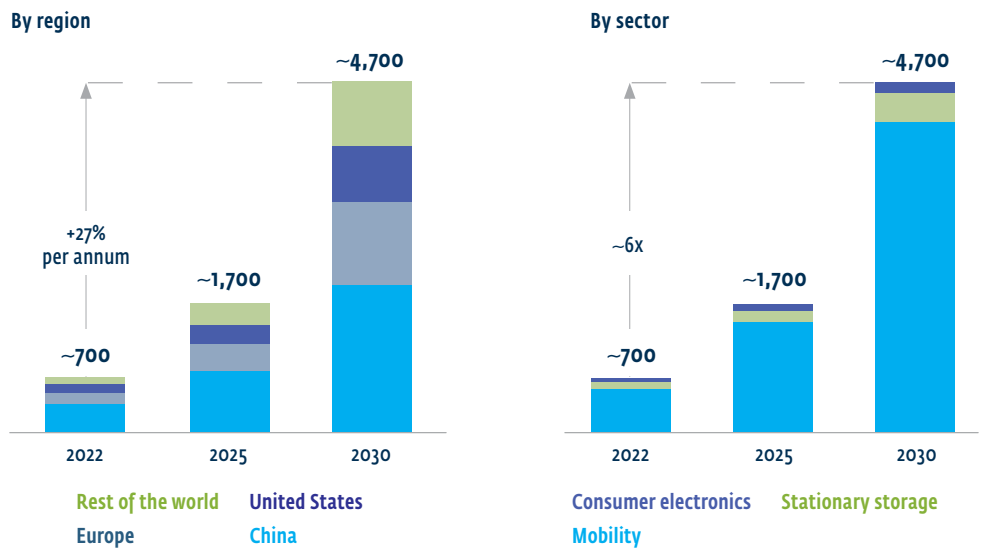


Source: Statista, 2023.

Note: \* = estimated.

**Hard rock pegmatite deposits are the main source of petalite and spodumene ores in Zimbabwe.** There is a rapidly growing global demand for raw materials for refineries that produce lithium chemicals (lithium carbonate and lithium hydroxide), which are used in the manufacture of battery components (figure 4.11). Processing petalite and spodumene concentrates to produce lithium chemicals is five times more capital intensive than mine extraction and concentration, so returns on investment are lower and take longer to materialize.<sup>20</sup> However, pegmatite deposits processing need not take place onsite, offering investors more flexibility, lower capital outlays, and higher returns.

**FIGURE 4.11 GLOBAL LITHIUM BATTERY CELL DEMAND PROJECTION, GIGAWATT-HOUR**



Source: McKinsey Battery Demand Model, McKensey and Company, 2023.

Until now, the Bikita mine has been the country's only operating lithium mine. Bikita is a low-cost operation with an annual output of some 36,000 tons of petalite.<sup>21</sup> Since acquisition of the mine by the Sinomine Resources Group of China in mid-2022, plans have been announced to lift throughput of ore from some 0.4 to 2.0 million tons per year by exploiting the hitherto untapped portions of the deposit. A new concentration plant for spodumene was completed in July 2023, which has the capacity to treat 300,000 tons of ore annually, and the existing petalite processing plant will be expanded to process 480,000 tons of ore.<sup>22</sup> Bikita is thus set to rapidly increase its exports of lithium by 2024.

Arcadia is the largest and most advanced among several lithium deposits that have attracted other investors from China over the past two years. The deposit is larger but lower grade than Bikita's. Following acquisition by Zhejiang Hayou Cobalt of China, a new investment plan was announced, which would cost US\$300 million based on annual ore treatment of a 4.5 million tons to produce over 400,000 tons per year of spodumene and petalite concentrates for shipment to China. The Zimbabwe Competition Commission ruling, approving the Arcadia acquisition in 2022, set a five-year target for processing concentrate to battery-grade lithium onsite, which will require a high-energy and consumables converter plant. Two additional lithium mine projects in the pipeline also have attracted Chinese investment.

The government is very keen to capitalize on the wave of interest in Zimbabwean lithium resources and has been developing policies to support its goal of securing a large share of global lithium supplies and moving up the lithium value chain (table 4.10). In an effort to add value and increase beneficiation of minerals domestically, the government introduced Statutory Instrument 57 (2023), "Base Minerals Export Control (Un-beneficiated Base Mineral Ores)." The new law bans export of unprocessed lithium. However, ambitions include not only converting the main lithium ores, spodumene and petalite, into lithium chemicals, but also the manufacture of cathode powders and battery components.

**TABLE 4.10 SIMPLIFIED LITHIUM VALUE CHAIN**

	Mine	Mill	Refinery	Manufacturing
Activity	Pegmatite deposits are mined to extract petalite or spodumene lithium-bearing ores.	Ore is crushed and ground, and the lithium mineral is separated by flotation to produce concentrates of petalite or spodumene.	Concentrate is roasted and leached to produce lithium chemicals—either lithium carbonate or lithium hydroxide.	Lithium chemicals undergo chemical processing to produce lithium metal and cathode powders.
Metal Content	1%–2% Li <sub>2</sub> O	Spodumene: 6% Li <sub>2</sub> O Petalite: 4% Li <sub>2</sub> O	Carbonate: Li <sub>2</sub> CO <sub>2</sub> Hydroxide: LiOH·O (approx. 20% Li)	99.99% Li

Sources: World Bank adaptation of BGS (2021); SFA Oxford (2022); Burba (2021); SGS (2013).

**In the lithium global value chain, the least value obtained is in the mining stage and the most value obtained is in the battery-pack-system assembly stage.** China holds a dominant role in the downstream processing and refining processes, which are where much of the value added occurs. As a result, China is capturing the largest shares of global value added, despite lacking a resource endowment.

**The Zimbabwe CCDR's investment outlook scenarios for the mining sector indicate that power represents the greatest constraint on mining sector growth, generally, and mineral processing, in particular, to capture additional value.** Without access to reliable power, brownfield and greenfield growth will not be feasible. Moreover, projections for Zimbabwe electricity consumption growth underscores the mining sector as a major driver, with two scenarios explored:<sup>23</sup>

- Business as Usual (BAU) scenario: Mining grows 30 percent and 53 percent by 2030 and 2050, respectively. Investment in mineral processing drives much electricity consumption growth.
- Unconstrained (UC) scenario: Mining grows 55 percent and 220 percent by 2030 and 2050, respectively. The mineral processing share of electricity demand rises from 41 percent in 2022 to 70 percent in the 2040s.

**In both scenarios, growth in electricity demand is unprecedented** for the Zimbabwe Electricity Supply Authority (ZESA) and will likely require public-private partnerships (PPPs) and independent power producers (IPP) to meet demand. Further, the growth presents an opportunity to “clean” the energy mix. Freight traffic also is expected to grow. In the UC scenario, an additional 533 trucks per week (exports only) can be expected at the Beitbridge Border Post between South Africa and Zimbabwe from the current volume of 6,300 trucks per week.

Box 4.1 details recent measures that Zimbabwe has undertaken to incentivize the mining industry since 2019.

#### **BOX 4.1 MEASURES UNDERTAKEN BY THE GOVERNMENT OF ZIMBABWE SINCE 2019 TO INCENTIVIZE THE MINING INDUSTRY**

- Removal of the mandatory indigenization requirements for diamonds and platinum enterprises in 2020, thereby ending the entire indigenization policy for mining, under which foreign ownership had been limited to a maximum of 49 percent equity interest (although the amended legislation retains discretionary powers to reintroduce such measures).
- Fiscal incentives to mineral exporters, under which mining companies that export over 50 percent of output enjoy a five-year holiday from corporate income tax, a reduced rate of tax of 20 percent thereafter, rather than the standard rate of 35 percent, duty exemption on imported capital goods, and indefinite loss carry-forward.
- Proposal to repeal and replace the antiquated Mines and Minerals Act 1961 to streamline mineral licensing and better reflect modern regulatory requirements in relation to land, the environment, and communities.
- Registration as a Special Economic Zone of certain enterprises so that, in addition to the fiscal incentives previously listed, a company gets relief from taxation on capital gains and labor laws do not apply in full.
- Provision of National Project Status to some projects, which, among other advantages, qualifies the sponsor for relief from withholding on interest paid to service loans.
- An opportunity to enter into memoranda of understanding and investment agreements reaffirming tax breaks, offering government support, and offering legal avenues for redress.
- In relation to some minerals, protection to companies that process, or plan to process, minerals locally by taxing exports of unprocessed minerals (such as platinum group metals [PGM] concentrate) and, in certain cases, imposing an outright ban on their export (such as chrome and lithium ores), and imposing restrictions on imports of some mineral products (such as cement).
- Reducing royalty rates on sales of diamonds (from 15 to 10 percent) and PGMs (from 10 to 2.5 percent).

#### **Constraints**

Sector-specific constraints to investment in the mining sector include:

**Outdated legal, regulatory, and institutional frameworks.** From the “pegged” mining claims-based licenses (typically held in perpetuity, even if not substantially developed)<sup>24</sup> to the varying approaches to indigenization depending on mining commodities, the legal and regulatory environment around the mining sector presents significant challenges for industry development. In addition, discourse regarding royalties’ deductibility from income tax calculation, outdated cadastral maps and processes, a prolonged process of updating the Mineral Act, and insufficient mining-sector management capacities are constraints.

Box 4.2 details the key takeaways of the assessment of the Mines and Minerals Act.

#### **BOX 4.2 ASSESSMENT OF THE MINES AND MINERALS ACT (INCLUDING THE AMENDMENT BILL): KEY TAKEAWAYS**

The government of Zimbabwe is seeking to revise its approach to regulating the mineral sector. The Mines and Minerals Bill, 2022 (Bill) was prepared by the government to replace the current mining act (as of 1961), subject to approval by parliament. The draft Bill provides a comprehensive approach to regulating exploration and mining. Its approach to providing resolution of matters between explorers/miners and landowners/occupiers gives clear guidance, and it includes extensive provisions regarding appeals of various decisions.

Although the new Bill also removes certain barriers for artisanal miners, such as phasing out export surrender requirements, there are several critical issues that, left unaddressed, might negatively affect foreign direct investment attraction to the sector:

- The Bill does not provide for a reconnaissance license that would encourage large-area geological data gathering (for example, airborne surveys) and facilitate exploration.
- The approach to reclamation has a strong focus on small-scale mining and provides a comprehensive system mainly based on provincial funds. For larger mines, the regulation of reclamation is weak and can be strengthened.
- The Bill recognizes that mines can play a role in development in nearby communities and, although there are some requirements, these are vague; the approach to having larger mines assist with the sustainable development of communities can be strengthened. Many international mining companies expect requirements to do this, and the introduction of stronger requirements would not be perceived as a disincentive by many potential investors.
- The Bill retains the key impediments to foreign investment, including the designation of many minerals as strategic (including lithium), the requirement to enter into an agreement with the state to mine strategic minerals, the necessity to agree on a state ownership in the mining of a strategic minerals mine, the requirement that the board consider whether to reclassify a mineral as strategic after a mining lease application is submitted, and the requirement that royalty rates be reset annually.

**Perception of a high-risk and unfavorable investment climate.** Notwithstanding strong government support for mining, an array of financial incentives and heavy promotion by state mineral enterprises, negative perceptions of investment conditions in Zimbabwe persist, especially among potential new entrants.<sup>25</sup>

**Export surrender requirements.** Since the reintroduction of a domestic currency in place of the US dollar, the frequent changes and severity of the government's currency control regulations have posed serious problems for mining companies. Hard currency surrender rules require a portion of US-dollar earnings to be surrendered to the RBZ at official conversion rates. These rules are subject to change by administrative instrument, rather than by legislation. In February 2023, the surrender requirement was standardized at 25 percent, a reduction from the 40 percent applicable in most of 2022.<sup>26</sup>

**Access to electricity.** Mining, and mineral processing in particular, are very energy intensive, so unreliable and expensive supplies reduce margins of existing operations and weigh heavily on the feasibility evaluations for brownfield expansions and greenfield projects. In the past decade, the mining sector's share of grid-supplied electricity has grown steadily to over 20 percent, notwithstanding difficult operating conditions for miners. The demand-supply gap in electricity provision to the mining sector is high and

growing. Actual electricity usage by the mining sector in 2022 is estimated to have been some 3,000 gigawatt-hour (GWh), against estimated grid supply of 2,000 GWh, with the difference accounted for by back-up supply installed at mine sites and processing plants.

**Access to transport.** A well-functioning road and railway network is critical for the development of the mining sector the government aspires to. The mining sector's need for reliable and cost-effective rail and road transport, whether to provide access to export markets or to facilitate domestic mineral processing, offers opportunities to develop commercially viable railway systems. Most domestic movement of minerals would be along the established central rail corridor, for which considerable upgrading is needed. Sector expansion also has implications on transportation. Domestic traffic could increase by an additional 3,048 trucks per week (exports only), with 533 dedicated to minerals exports, compared to current Beitbridge traffic of approximately 6,300 trucks per week.<sup>27</sup>

**Climate.** The mining industry is an important contributor to Zimbabwe's total carbon dioxide emissions. The negative consequences of such emissions, along with land degradation visible along the Great Dyke and other mining areas, needs to be taken into account when performing the cost-benefit analyses of mining activities in Zimbabwe.

## Recommendations

**Improve governance and the regulatory environment.** Updating the law and regulations could set the stage for a market-based, conducive investment climate providing the stability, consistency, competitiveness, and transparency required by world-class private mining companies for investments. Specifically, it will be critical to ensure clearer fiscal policies and less discretionary setting of royalty and tax rates; fewer restrictive state interventions, with state ownership, where retained; and moving to passive, minority interests (for example, the state interest requirement can be modified to set a cap of no more than 10 percent of free equity or a percentage of paid-in working interest up to but not exceeding 30 percent.)

**Develop a battery minerals strategy and action plan.** Zimbabwe's endowment of lithium, nickel, and graphite positions it favorably to benefit from the demands for a low-carbon economy (being spearheaded by climate change). Even as it embarks on a potentially multiyear policy and updates legal frameworks, Zimbabwe will benefit from a tailored policy that minimizes risk and includes, among other elements, a forward-looking fiscal framework incentivizing production and value addition for battery minerals, geoscientific mapping to increase exploration activity and resource discovery, and foreign exchange and infrastructure development.

**Strengthen mines-related infrastructure, including access to energy, rail, and road networks.** According to CCDR,<sup>28</sup> the mining sector expansion will require significant investment in energy generation capacity.

- Business as usual scenario: Energy demand is projected to grow from 2022 levels by 150 percent and 230 percent by 2030 and 2050, respectively.
- Unconstrained scenario: Energy demand is projected to grow from 2022 levels by 235 percent and 620 percent by 2030 and 2050, respectively, driven mainly by ferrochrome and steel development.
- In both scenarios, the required expansion beyond existing generation capacity is unprecedented for ZESA. Indications are that ZESA will not be able to meet demand alone. A PPP/IPP framework will need to be put into place, and the government may need assistance to ensure new generation capacity is "clean."



- It is also critical to develop both a strategic plan and financing approach, including PPP/IPP, related to road network enhancements on trunk road routes and at border crossings, as well as prioritizing the restoration of the rail system network and improving reliability, in conjunction with regional transport corridor planning and investment.

**Facilitate relevant supply-chain development.** Enable restoration of a reliable supplier base for equipment, manufacturers, and spares, each of which would be facilitated by improved macroeconomic and trade performance in the medium term.

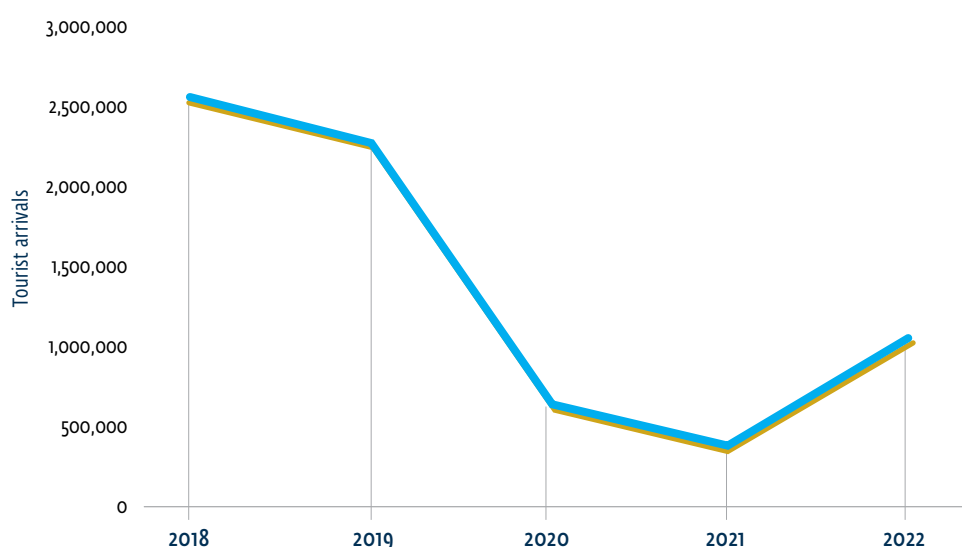
## 4.4 TOURISM INDUSTRY

### Overview

In Zimbabwe, tourism has the potential to play a significant role in the country’s economic recovery, and it is one of the key priority sectors in the country’s National Development Strategy, (NDS 1, 2021–2025). Along with agriculture, mining, and manufacturing, tourism could help drive Zimbabwe’s economic development to enable it to achieve its Vision 2030 national objectives.

Zimbabwe has many tourist attractions, both cultural and nature based. Some attractions have been accorded world heritage status by the UNESCO World Heritage organization, including the Great Zimbabwe Ruins and Victoria Falls. Zimbabwe’s travel and tourism industry is competitive in the Southern Africa Development Community (SADC) region and, prior to the COVID-19 pandemic, contributed 6.5 percent to the country’s GDP in 2019,<sup>29</sup> in addition to providing 8.6 percent of the country’s total employment.<sup>30</sup> Overall, in 2019 the country received a total of 2.3 million visitors, who contributed a total of US\$1.247 billion in foreign currency earnings (figure 4.12).<sup>31</sup>

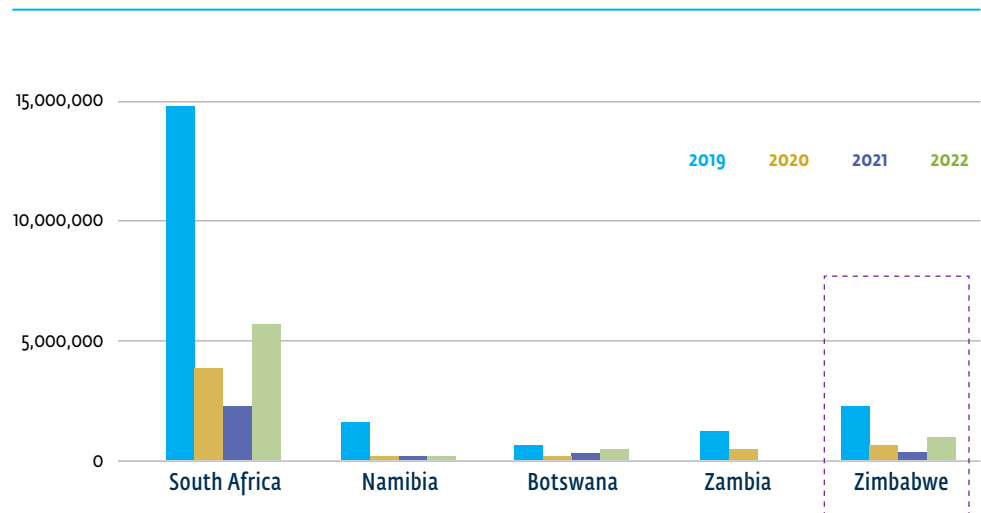
**FIGURE 4.12 INTERNATIONAL TOURIST ARRIVALS, 2018–22**



Source: Zimbabwe Tourism Authority, annual reports 2019–23.

The tourism sector’s partial post-pandemic recovery is in line with regional trends in SADC region, and Zimbabwe performance is on par with most of its neighboring countries, except for South Africa (figure 4.13).

**FIGURE 4.13 INTERNATIONAL TOURIST ARRIVALS IN SADC REGION, 2019–22**



Source: Statista

Note: SADC = Southern African Development Community.

### Opportunities

**International market opportunities.** International market demand for Zimbabwe will emanate from four major groups of international travelers, which include the nature safari traveler, the adventure traveler, the cultural explorer, and the family traveler.<sup>32</sup> These four segments represent a cross-section of travelers, among whom Zimbabwe will be able to leverage its greatest existing and emerging strengths as a destination in the coming years. These attractions include a range of adventure activities, opportunities for cultural immersion, development of the longer-stay overseas and regional market (particularly, South Africa), nature-based and sustainable offerings, and family-friendly vacation offerings. Further development of these markets and segments will require the coordinated effort of public and private actors to ensure strong destination brand recognition, affordable access, and development of targeted products.

Overall, the markets can be clustered into six groups, which comprise a variety of customer preferences. Table 4.11 summarizes the different groups and the key source markets.

**TABLE 4.11 MARKET DEMAND FOR ZIMBABWE**

Group	Relevant source markets
African family adventure	South Africa, Botswana, Zambia and Zimbabwe
Luxury safari with cultural experiences	Germany, United States, Italy, the Netherlands, and United Kingdom
Luxury safari with varied interests	United Kingdom, France, Australia, Germany, and United States
Family safari with interests in adventure and cultural experiences	South Africa, Zimbabwe
Senior safari with interests in cultural experiences	Japan and United States
Family travel with interests in cultural experiences	United Arab Emirates and Gulf Cooperation Council countries

Source: Zimbabwe Tourism Authority, Market Study Report, 2023.

**Meetings, incentives, conferences, and exhibitions.** In terms of opportunities in diversification of tourism offerings, the meetings, incentives, conferences, and exhibitions sector is one of the fastest-growing sectors of the global tourism industry. As Zimbabwe is seeing a post-COVID resumption and increase in travel in this sector, with conferences and events resuming and attracting business travelers, this evolving segment can present additional opportunities for development, particularly for the regional travel segment, as many of these travelers originate from the surrounding southern African region.

**Domestic market opportunities.** COVID-19 forced a shift of the tourism industry's focus toward domestic travelers. In 2022, the number of domestic tourists visiting the country's national parks and museums and monument doubled, from 301,879 in 2021 to 626,118 in 2022.<sup>33</sup> Domestic demand for leisure travel is driven by young family travelers, who prefer self-drive holidays and budget accommodations. Hence, continued efforts to collect and analyze domestic tourism data and to facilitate public-private sector partnership in creating and promoting tour packages for the domestic demand, as was witnessed during the Zimbabwe Tourism Authority (ZTA)-driven "ZimBho" program during the COVID-19 period, could further unlock growth opportunities in the domestic market segment.

## Constraints

In addition to the cross-cutting constraints discussed in the following section, there remain a considerable number of challenges to overcome to appeal to post-COVID-19 travelers.

**Infrastructure and connectivity.** Connectivity and access are key constraints to developing tourism in secondary destinations, including nature-based locations-- for example the Eastern Highlands. Issues related to access infrastructure and lack of interregional routes affect both road and air connectivity to and within Zimbabwean cities and regions, especially in the interior of the country.

The National Tourism Master Plan identified several key road and transport/tourism corridors that needed immediate improvement. Yet, to date, only the Beit Bridge–Harare highway is being maintained. Leisure tourism is currently largely concentrated at the far northwest corner of the country, presenting opportunities for diversification. Historically, Zimbabwe has offered tourism circuits that include many other attractions, such as national parks and ruins that are unique to Africa. Yet, these other areas and attractions are seldom visited today due to the challenges in reaching these places. Without addressing connectivity and access to a wider range of potential tourism destinations in the country, it will be hard to capitalize on the sectors’ opportunities.

In addition, health and safety facilities and equipment—essential to nature and adventure tourism, which usually takes place away from serviced cities and towns—are very limited, presenting a critical bottleneck.

**Limited air connectivity.** Air access continues to be a major impediment to Zimbabwe’s growth, with limited airlines and flights providing direct access to Harare or Victoria Falls and almost none providing internal connections to other attractions. Domestic connectivity is such a challenge that, in practice, tourism in Zimbabwe is limited to the areas neighboring the international airports where tourists arrive, as mentioned. This greatly limits the attractions that can be easily visited in the country and thus limits international travel demands for short-term stays.

**Complicated business environment.** The tourism sector is overregulated and suffers from a lack of coordination between different government agencies and ministries. For instance, in 2013 a tour operator based in Kariba had to pay a total of eight license fees and taxes to different government departments.<sup>34</sup> A recent study by IFC found that the situation has hardly changed.<sup>35</sup> Table 4.12 summarizes the processes that various subsectors of the industry must follow to stay in business.

**TABLE 4.12 CURRENT PROCESSES FOR OBTAINING THE NECESSARY LICENSES TO OPERATE IN THE TOURISM INDUSTRY**

Subsector	Number of processes	Number of regulators	Number of licenses	Typical duration
Accommodation	12–15	7	10	4–24 weeks
Hospitality and recreation (tour operators, boating and so on)	14–16	5	8	10–15 weeks
Transport (vehicle rental)	12	4	5	4–6 weeks

Source: IFC, “Tourism Licensing Mapping Report” (internal document, 2022).

**Tourist perception.** Marketing and promotion activities have not addressed the perception of Zimbabwe as a stand-alone and safe tourism destination for tourists. A lack of knowledge and nonspecific concerns regarding safety remain a challenge. Marketing and promotion of the country as a destination is still dominated by the use of traditional methods by both the government and the private sector. Regional competitors like South Africa, Mauritius, and Kenya have strategically focused on the use of digital marketing platforms to promote themselves internally and globally. Zimbabwe needs to deepen its digital footprint in all its tourism processes if it is to compete effectively on the global market. A large number of tour operators around the world package Zimbabwe as part of a multicountry vacation, usually with countries such as South Africa, Botswana, Namibia and Zambia, with Victoria Falls as the main component of the package in Zimbabwe. This practice has resulted in Zimbabwe being viewed as an add-on destination by potential tourists and has resulted in the number of days spent in the country being limited, which reduces the economic benefits that the country derives from the sector. It will be necessary to find ways to extend the stay in Zimbabwe as part of regional vacations by exploring currently under-explored destinations within the country.

**Skills.** Effective service and delivery of memorable tourist experiences in a destination is premised on the availability of a skilled and experienced work force. Zimbabwe has suffered a drain of its skilled and experienced tourism work force since 2000. Currently, executive chefs and managerial positions in the hotel industry are occupied by a majority of personnel with limited experience and technical skills.

**Limited tourism offering and services.** Zimbabwe suffers from a lack of product diversity, even though a changed visitor profile in Victoria Falls has already begun to prompt a change in the products offered. Both domestic and international visitors are still offered the traditional products that have been available in the country for the past 20 years. In both urban and tourist resort centers, there are hardly any meaningful nightlife activities. Providing a conducive environment for FDI may assist in bringing Zimbabwe innovative products and services, which would improve its competitiveness regionally and internationally. Urban councils and Destination Management Partnerships have faced challenges to deliver expected services in a number of areas, resulting in uncollected garbage, poor roads, and traffic congestion. In addition, there is also often a lack of coordinated planning among different agencies, resulting in poor enforcement of regulations.

## Recommendations

**Zimbabwe's tourism sector has a high potential for sustainable growth given its varied natural and cultural attractions and sizable base of large, medium sized, and small-scale enterprises.** The government needs to catalyze the growth of the sector by undertaking strategic interventions in key areas that are stifling the growth of the sector.

**Improve tourism infrastructure and connectivity.** There is a critical need to develop a comprehensive program of repair and resurface of all the tourism access highway corridors as highlighted in the National Tourism Master Plan; roll out Air Services Development Program to improve internal connectivity (for example, wavering of airport fees within the internal airports and promotion of internal routes like the Harare /Kariba/Hwange circuit by the National Tourist Authority); and improve public utility services (such as restrooms and ablution facilities, litter removal) along highways and key attractions.

**Streamline the building environment.** As analyzed by IFC’s Zimbabwe Destination Development Program, Zimbabwe must address the lack of synchronization and coordination of government policies and regulations by (a) establishing a “one-stop shop” for all licensing in the tourism sector under ZTA, using the model of the One-Stop Investment Services Centre established at ZIDA; (b) considering an omnibus license model for SME players in the tourism sector and utilizing a revenue-based model to align to the scale of the business; (c) developing one portal with understandable flow charts for licensing and registration of different subsectors with access to application forms (digital, where possible, or at least downloadable) and clear lists of all requirements for submission; (d) reducing the number of regulators associated with the sectors by seconding the bulk of licenses to the Ministry of Environment, Climate, Tourism, and Hospitality.

**Strengthen marketing in source markets.** The persistent negative image in the source market should be addressed through coordinated and proactive public relations activities and campaigns in specific segments across source markets, deepening the reengagement program and promoting through digital marketing.

**Diversify tourism offerings for various segments.** Zimbabwe should engage and incentivize international tourism investors to develop new products and services in the country’s varied areas, such as the Gonarezhou, Chimanimani, and Matusadonha national parks, as well as Trans-Frontier Conservation Areas (TFCAs) that Zimbabwe is a member of—for instance, the Kavango Zambezi TFCA and the Great Limpopo TFCA.

**Increase the skilled workforce.** To meet the growing needs of the sector, Zimbabwe needs more professionals. The government should collaborate with the industry to create programs to train tourist guides and hospitality workers. To meet short-term needs, the government, through ZTA, should implement intensive training programs for employees in the sector in collaboration with universities that offer tourism courses. In the medium term, the government, through ZTA, should roll out a national Customer Services Program for stakeholders, directly or indirectly interacting with tourists, to improve their soft skills.

**Strengthen destination management partnerships (DMP’s).** DMP’s operational capacity needs to be enhanced with a view to addressing some of the challenges around communities, SMEs, local planning, waste management.

## NOTES

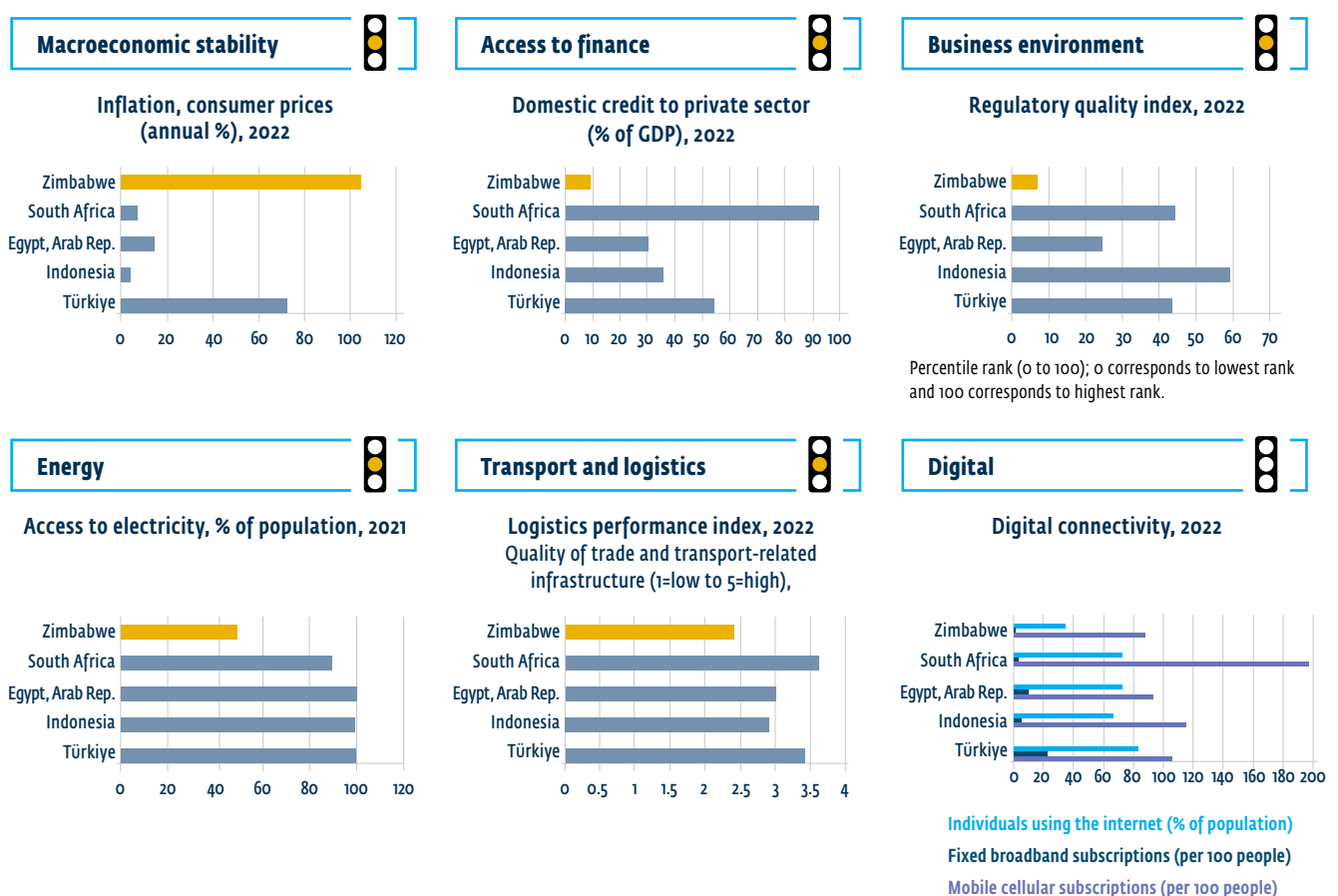
1. The first criterion, RCA is computed using the ratio of Zimbabwe's export share from the selected sector as a percentage of GDP to the global average. Zimbabwe's RCA is computed using equation (1) where the numerator represents the ratio Zimbabwe's export earnings from sector X compared to its total export and the denominator represents the ratio of the world average for the same sector. An RCA greater or equal to 1 presents evidence that the country possesses RCA in the sector.
2. World Trade Organization 2020; Food and Agricultural Organization of the United Nations 2022.
3. ILO 2021.
4. World Bank 2019
5. The RCA is based on an underlying theory that posits that patterns of trade among countries are governed by their relative differences in productivity. While productivity differences are difficult to observe, the RCA metric can be used to "reveal" such differences. An RCA is the proportion of a country's exports in a category of product divided by the proportion of world exports in the same category of product. A comparative advantage is "revealed" if  $RCA > 1$ .
6. UNCTAD 2022
7. The decline in sugar exports can be attributed to the loss of preferential treatment in the European Union after the Cotonou Agreement expired.
8. Horticultural Development Council 2023b
9. Zimtrade 2021
10. Zimtrade 2021
11. Horticulture Development Association 2023
12. Statista, "Dairy Products and Eggs—Africa," 2023, <https://www.statista.com/outlook/cmo/food/dairy-products-eggs/africa>.
13. ZAS 2021
14. UNCTAD [[Provide the citation for these figures.]]
15. Irvine's Zimbabwe Private Limited is part of Inncor Zimbabwe Limited, a diversified group that has business interests in milling, manufacturing, distribution, and wholesale and retail. Irvine's is a partner of the US-based Tyson Foods.
16. Among the Zimbabwean seed houses is Seed Co Group, which operates in 18 countries in Africa.
17. Ministry of Lands, Agriculture, Fisheries, Water and Rural Development 2022
18. The estimate is derived by adding to reported exports of US\$5.2 billion a further US\$0.8 billion to account for the value of minerals consumed domestically, such as cement and thermal coal, as well as probable underreporting due to an absence of reliable collection of mine output returns by the government. A bottom-up calculation of mineral value conducted for this report based on a mix of company reports, Chamber of Mines reports, the Zimbabwe National Statistics Agency data, and others yields a 2022 value of some US\$4.9 billion.
19. Zimbabwe is only a minor producer of the climate-critical mineral nickel and insufficient exploration has taken place to find the resources needed for any significant expansion of the sector.
20. S&P Capital, Lithium Databook. Nevertheless, such has been the strength of demand that current and projected prices are at levels that offer attractive margins even for projects that include onsite production of lithium chemicals.
21. Herald, February 14, 2023; S&P Global, January 11, 2023, [[I could not verify these sources online. Daily Herald?]]
22. Alex Donaldson, "Sinomine Completes Upgrades at Zimbabwe Lithium Mine," Mining Technology, July 10, 2023, <https://www.mining-technology.com/news/sinomine-bikita-lithium/>.
23. World Bank, Zimbabwe Country Climate Development Report [CCDR] (Washington, DC: World Bank, forthcoming).
24. The Ministry of Mines and Mineral Development has announced plans to implement a "use it or lose it" on long-held licenses without substantive exploration activity or development.
25. Julio Mejía and Elmira Aliakbari, "Annual Survey of Mining Companies, 2022" (Fraser Institute, Vancouver, B.C., 2023). The survey concluded, "When considering both policy and mineral potential in the Investment Attractiveness Index, Zimbabwe ranks as the least attractive jurisdiction in the world for investment followed by Mozambique, South Sudan, and Angola." In the survey's Policy Perception Index (PPI), Zimbabwe also ranked last, followed by Guinea, Mozambique, China, and Angola. The PPI reflects views on administration and enforcement of regulations, the legal and tax system, environmental permitting, infrastructure services, trade barriers, political stability, labor supply, and security. The survey is a widely used point of reference, especially for gauging the sentiment of potential entrant mining companies from Western countries.
26. The special allowance of 20 percent for those selling to domestic buyers in US dollars has been discontinued. Reuters, "Zimbabwe Allows Miners, Exporters to Keep More Forex from Exports," Mining.com, February 2, 2023, <https://www.mining.com/web/zimbabwe-allows-miners-exporters-to-keep-more-forex-from-exports/>.
27. World Bank 2023
28. World Bank, *Zimbabwe CCDR*.
29. Statista 2023
30. WTTC 2021
31. Zimbabwe Tourism Authority 2020
32. Zimbabwe Tourism Authority (ZTA) Market Study report 2023, 46.
33. Source: ZTA, 2023. While this increase in domestic tourism could be the result of the post COVID rebound, it nonetheless underscores the importance of the domestic market.
34. Zimbabwe Economic Policy Analysis and Research Unity 2013
35. IFC 2022

## 5. SIX CROSS-CUTTING CONSTRAINTS

Chapter 4 discussed the most promising sectors driving growth in Zimbabwe, as well as sector-specific constraints. Although this analysis is essential in order to help the country's government prioritize its efforts to boost growth, there are a number of constraints that affect the activities of the entire private sector.

For identification and prioritization of cross-cutting constraints, this report conducts a comparative analysis of the business environment in Zimbabwe as contrasted with the business environments of its aspirational peers.<sup>1</sup> The analysis highlights the following six key cross-cutting constraints to private sector development in Zimbabwe: (a) macroeconomic stability, (b) business environment, (c) access to finance, (d) transport and logistics, (e) digital connectivity, and (f) access to electricity.

**FIGURE 5.1 CROSS-CUTTING CONSTRAINTS FOR THE ECONOMY OF ZIMBABWE**



Source: World Bank, World Development Indicators.



These six cross-cutting constraints, or gaps, have a significant impact on Zimbabwe's ability to realize areas of latent comparative advantage. Three of these constraints—transport and logistics, digital connectivity, and access to electricity—also represent significant opportunities for investment. The following sections discuss these gaps and their impacts on agriculture, agribusiness and related manufacturing, mining, and tourism in greater detail.

## 5.1 CROSS-CUTTING POLICY GAPS

### Macroeconomic Stability

Zimbabwe's economy has been affected by entrenched macroeconomic instability. Addressing this instability has been highlighted by firms across the economy as the most important prerequisite to increasing private sector investment; it is also key to increasing the competitiveness of the private sector. Although many countries have experienced macroeconomic instability following the COVID-19 pandemic and in the context of Russia's invasion of Ukraine, Zimbabwe stands out as a country that, for decades, has experienced among the highest levels of macroeconomic instability and highest inflation rates in the world. This section discusses the root causes of this entrenched macroeconomic instability and describes its impact across the country's economy.

#### KEY ASPECTS OF CHRONIC MACROECONOMIC INSTABILITY

##### Legacy debt (or "blocked funds")

Following the adoption of the FTLRP, the government undertook a number of measures to support small-holder farmers as well as to alleviate shortages of key imports. Specific efforts included the following:

- In 2007 and 2008, RBZ carried out the Farm Mechanisation Programme. Under this program, farmers were given loans to allow them to mechanize their farms. Many of these loans were not paid back and the government consequently assumed the debt.
- During the same period, the Basic Commodities Supply Side Intervention was introduced by the RBZ to alleviate acute shortages of goods in supermarkets. Both this program and the Farm Mechanisation Programme were funded through expansion of the monetary base, which precipitated the collapse of the Zimbabwe dollar in 2008.
- In 2016, all goods produced in Zimbabwe were sold exclusively in local currency at a fixed rate of US\$1 to Z\$1, with the RBZ providing a guarantee that foreign currency liabilities would be met at that artificial exchange rate. The RBZ also provided letters of credit for some essential imports. Despite these measures, beneficiaries were unable to pay back these liabilities, which were eventually assumed by the RBZ. Because of foreign exchange shortages, the RBZ took on loans from external creditors such as Afreximbank and Gemcorp to repay these obligations.

### RBZ's quasi-fiscal operations

The RBZ's unsterilized foreign exchange purchases, made to service its quasi-fiscal operations, result in significant net injections of local currency liquidity into the market. These liquidity injections lead to sharp increases in money growth and consequently to exchange rate and price pressures. The RBZ's foreign exchange outflows include debt service on its offshore facilities (including loans from Afreximbank and Gemcorp), letters of credit to banks, short-term loans and swaps, and cash imports (payments in cash to small miners in exchange for gold). These unsterilized foreign exchange purchases are compounded by the settlement of foreign exchange auction backlogs, which also result in money creation by the RBZ. More recently, the RBZ has tightened monetary conditions through the use of unremunerated nonnegotiable certificates of deposit (previously redeemable on call); these have been used to mop up liquidity and stabilize exchange rates.

Zimbabwean authorities announced that the country's treasury would adopt all foreign currency debt and external loans from the RBZ starting in June 2023. The authorities also announced that in 2023 a large majority of the US\$2.3 billion of RBZ's external liabilities had been transferred to the country's treasury. To prevent future increases in public debt through RBZ, the authorities also issued a Statutory Instrument in 2023 (SI-2023-108) that prevents RBZ from taking on additional external debt without the explicit agreement of the treasury. Part of the service of these liabilities (about US\$255 million) has been included in Zimbabwe's 2024 National Budget.

### Export surrender requirements and auctions of foreign exchange

In order to obtain the foreign exchange necessary to reimburse its obligations, the RBZ instituted export surrender requirements. These surrender requirements ranged from 25 percent to 40 percent, depending on the sector concerned. Importantly, foreign exchange that is surrendered to the RBZ is being exchanged to Zimbabwean dollars at the official exchange rate, which is significantly overvalued relative to the parallel market exchange rate. Because of this, export surrender requirements impose a significant tax on exports—equivalent to the difference between the official and parallel exchange rate multiplied by the export receipts surrendered to the RBZ. The elimination of the surrender requirement on domestic sales in foreign exchange is a welcome development, lessening foreign exchange-related distortions for the formal sector.

Part of the foreign exchange obtained through export surrender requirements is being sold in the regular auctions conducted by the RBZ. The foreign currency auction system is executed as a Dutch auction. However, for a long time the RBZ has been intervening in the auction so that the exchange rate is overvalued relative to the parallel market through the following activities:

- **Auctioning foreign currency that is not available**, resulting in a considerable settlement backlog.
- **Prorating high bids to ensure that even those bidding low are able to obtain the allocated foreign exchange.** This practice removes any incentive for bidding high.
- **Restricting (until recently) participation in the auction to certain individuals.** This ensured that access to foreign exchange at the artificially lower rate catered to particular industries. The preferential list was abolished in 2023.

**Although the auction was intended to establish a market reference for the exchange rate, the exchange rate it set was artificially appreciated relative to the parallel exchange because of the operational modalities of the auction.** In April 2022, the RBZ introduced a “willing buyer, willing seller” (WBWS) system within the interbank market to better reflect market dynamics. In May 2022, the RBZ allowed the official foreign exchange auction rate to depreciate significantly (by about 50 percent), in line with the WBWS rate. Since then, the auction and WBWS rates have moved in tandem, with the RBZ requiring that the prevailing WBWS rate be used for foreign exchange transactions by banks and other authorized dealers and for domestic sales by private businesses (with an allowable trading margin of 10 percent). This restriction represents a significant foreign exchange market distortion, preventing market-based price discovery. As a result, most foreign exchange transactions are conducted at the parallel market rate, with part of the exchange also covered by the interbank market at the official rate (often requiring “netting” mechanisms among the parties involved).

**Foreign exchange that is sold at the auction is only a small fraction of the total foreign exchange demand in Zimbabwe.** The remainder of the foreign exchange demand is met on the interbank and the parallel markets. In order to service the legacy debt denominated in foreign currency, the RBZ is purchasing foreign exchange on the parallel market. This is both a source of expansion of the monetary base and a source of devaluation of the exchange rate. Both factors are key drivers of inflation.

#### **Support to loss-making state-owned enterprises**

**State-owned enterprises face a range of challenges that include persistent power outages, mismanagement, lack of maintenance, inadequate investment, lack of liquidity and access to credit, and debt overhangs.** As a result, SOEs in Zimbabwe have performed poorly. Further monetary expansion to support loss-making SOEs contributed to the country’s macroeconomic imbalances. Key loss-making enterprises are the electricity utility (including the Rural Electrification Agency) and the National Oil Infrastructure Company of Zimbabwe (which imports petroleum). Servicing of SOE debts and financing of SOE operations in a constrained fiscal space are significant reasons for money printing and inflation.

**Zimbabwe’s foreign exchange regime has brought about severe and persistent macroeconomic instability and distortions throughout the economy.** These distortions significantly impede private sector investment and are the most important constraint hindering growth sectors from realizing their potential. The next subsection discusses these impacts in more detail.

## IMPACT ON THE ECONOMY

### Export surrender requirements

Export surrender requirements have pernicious effects on the economy in the following ways:

- **Export taxes act as a significant tax (and thus a major disincentive) to exports** such that only the most lucrative and competitive products are being exported during a time in which lack of investment in infrastructure and productive equipment has already adversely affected the country's ability to compete on export markets.
- **Surrender requirements push companies into the informal sector**, where these requirements cannot be enforced. This informalization of the economy is a major reason for the small revenue base, which limits the scope of fiscal policy. Moreover, this informality prevents necessary investments in productivity-enhancing equipment.
- **These requirements are a source of expansion of the monetary base and hence are also a source of inflation.** In order to purchase foreign exchange, the RBZ expands its balance sheet without being able to effectively sterilize inflows (see box 5.1).

### BOX 5.1 RBZ STERILIZATION OF CAPITAL INFLOWS

A peculiarity of the Reserve Bank of Zimbabwe (RBZ) monetary policy regime is the central bank's inability to sterilize capital inflows. In principle, RBZ uses a mechanism known as nonnegotiable certificates of deposit (NNCDs) to sterilize capital inflows in the following ways:

- At the end of each day, banks with liquidity above targeted levels are issued NNCDs. Since these are now considered to be securities, the funds mopped up by this operation are considered to be sterilized and therefore do not form part of reserve money reporting.

- At the beginning of the next day, any bank that required liquidity could redeem these NNCDs for liquid balances in the clearing account. The NNCDs are (in effect) cash and are analogous to reserve money; they should therefore be part of the calculation of reserve money.

The RBZ does not publish the monetary value of NNCDs it has issued, making it difficult to provide an exact measure of reserve money that is systematically underreported.

### Sustained high inflation

It is well-documented that inflation has regressive effects on income distribution (that is, it affects the poorer segments of a population more than it does wealthier segments); those who are wealthier are better able to protect themselves against price increases. Sustained high levels of inflation are thus a major hindrance to poverty reduction.

Notwithstanding RBZ's increase of interest rates, real interest rates in Zimbabwe have been generally negative in recent decades. Although negative real interest rates are costly to depositors, they encourage speculative borrowing; both lenders and borrowers profit from inflation, which reduces effective loan repayments. Moreover, delays in settling the auction provide opportunities for short-term profiteering by commercial banks, which provide foreign exchange to auction participants prior to the actual settlement by the RBZ. In this way, commercial banks benefit from the current system.

Another effect of negative real interest rates is the unavailability of long-term finance in local currency. Almost all funds in the banking system are short-term call deposits, which are unsuitable for long-term lending. At the same time, availability of foreign currency-denominated lending is limited to commodity exporters for trade financing, with medium- or long-term borrowing unavailable in either Zimbabwe dollars or in US dollars.

### Cost of foreign exchange

Another important impact of the distortions of the foreign exchange regime is the high cost of accessing foreign exchange for economic actors. Although the official exchange rate is artificially overvalued, the parallel exchange rate is overshooting, and is lower than its equilibrium value would be. Because of this, access to foreign exchange outside of the auction is more costly than it would be in the absence of distortions, further affecting the ability of firms to import critical equipment that may be needed to enhance productivity.

The current foreign exchange regime is the root cause of sustained high inflation and macroeconomic instability as well as of a shallow financial intermediation. In its current form, the foreign exchange regime prevents investment in exports and productivity-enhancing equipment, perpetuating the stagnation of Zimbabwe's economy.

Liberalization of the foreign exchange market and abolition of foreign exchange surrender requirements are the most urgent measures needed to reestablish macroeconomic equilibriums. Without such measures, efforts to tighten monetary and fiscal policy in Zimbabwe will not be effective. In addition, the RBZ needs to adopt effective measures for sterilization of inflows.

### Business Environment

Zimbabwe has an extremely complicated regulatory environment involving licenses, intricate and out-of-date tax legislation, and numerous rules. Combined with macroeconomic challenges, this business environment (a) reinforces high levels of informality in the economy because of the very high time and cost requirements needed to comply, (b) limits competition, (c) promotes capital flight, (d) discourages investment, and (e) causes tensions between the government and the private sector.

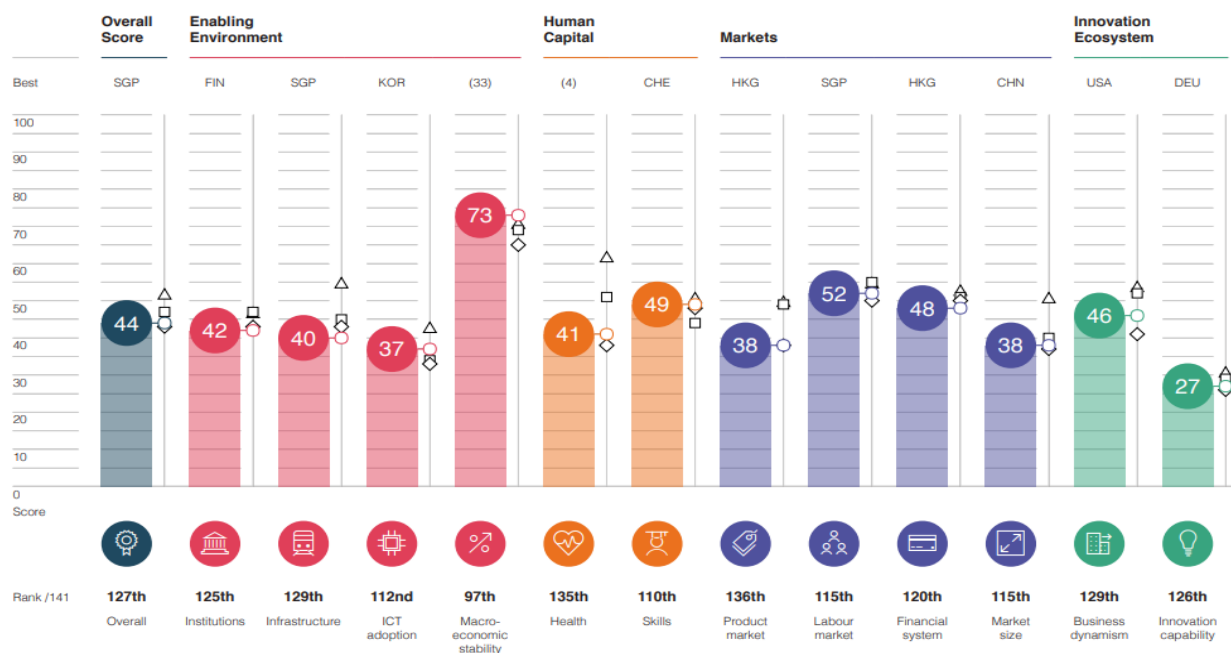
## CONSTRAINTS

### Business regulations

Starting and formalizing a business in Zimbabwe is a challenge because of cumbersome procedures for business licenses and tax compliance. Despite significant recent efforts to improve the business environment in the country (such as revision of business registration and licensing processes), the regulatory framework in Zimbabwe remains complex and burdensome.

These burdens result not only from the number of different procedures that have to be completed to start a business, but also from the costs associated with completing them. Zimbabwe has 9 such procedures, compared with 7.4 for Sub-Saharan Africa and 4.9 for Organisation for Economic Co-operation and Development (OECD) high-income countries. The costs required to complete Zimbabwe's procedures for starting a business amount to 76.6 percent of its income per capita, more than double the cost of the same process in Sub-Saharan Africa (36.3 percent) and more than 25 times the cost of doing so in OECD high-income countries (3 percent). An additional factor is the unpredictability of the policy regime; key regulations are frequently changed without any advance notice. Zimbabwe also ranks 127th out of 141 economies on the Global Competitiveness Report (figure 5.2)<sup>2</sup>

**FIGURE 5.2 ZIMBABWE IN THE GLOBAL COMPETITIVENESS REPORT, 2019**



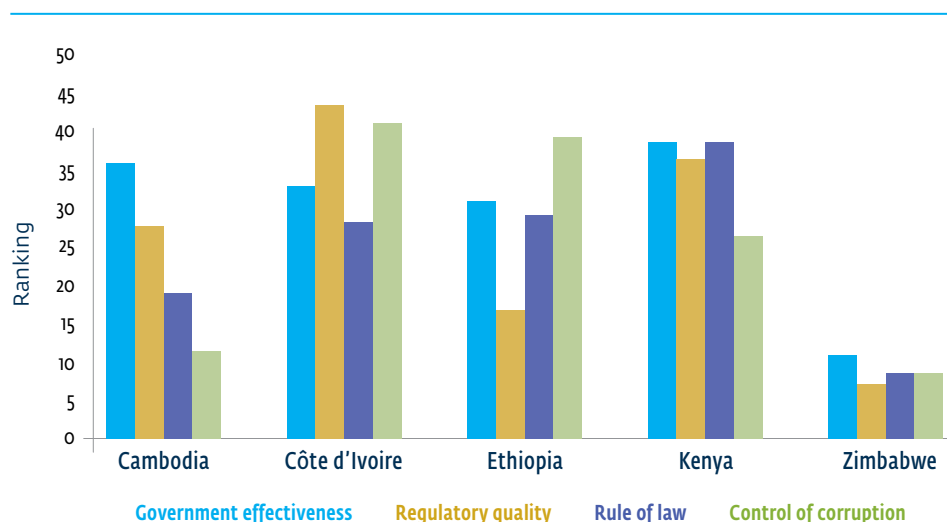
Source: Klaus Schwab, ed., The Global Competitiveness Report 2019 (Geneva, Switzerland: World Economic Forum, 2019), 606.

The Global Competitiveness Report rankings reveal some of the specific challenges faced by Zimbabwe because of complex and cumbersome regulatory frameworks, including the following:

- **The burden of government regulation** (Zimbabwe is in position 132 out of 141 economies)
- **The cost of starting a business** (Zimbabwe is in position 135 out of 141 economies with costs at 110.7 percent of GNI per capita)
- **The time needed to start a business** (Zimbabwe is in position 120 out of 141 economies with a time of 32 days).

The quality of the business environment affects the predictability and cost of doing business; this affects Zimbabwe’s attractiveness to investors. The costs of an inefficient business environment are estimated to be comparatively high in Zimbabwe. Overall, the country underperforms its structural peers across nearly all high-level indexes, including governance, institutional quality, rule of law, and business climate (figure 5.3).

**FIGURE 5.3 THE REGULATORY QUALITY IN ZIMBABWE AND IN ITS STRUCTURAL PEERS, 2021**



Source: World Bank, Worldwide Governance Indicators.

### Business licensing and inspections

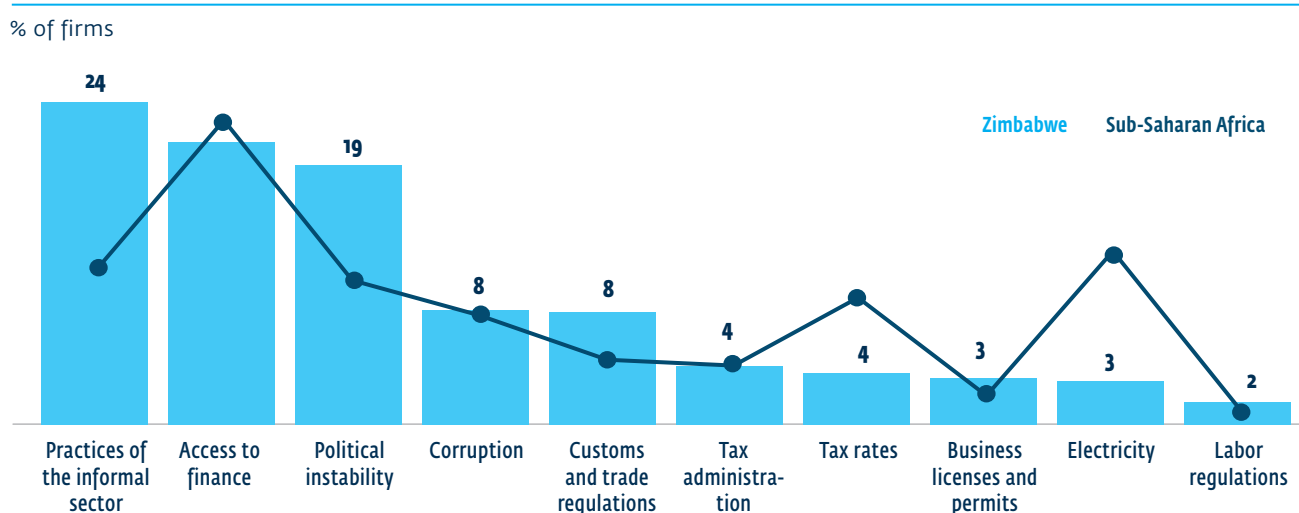
Zimbabwe continues to maintain a system of mostly nonautomatic business licensing, including for import and export licenses. The system has changed frequently, and conditions that must be met to obtain licenses are opaque. Furthermore, licenses issued (such as to importers) are often dependent on other permits or authorizations from different agencies. This multilayered system combines nonautomatic licensing, quantitative restrictions, and sanitary and phytosanitary requirements for agricultural products. The nonautomatic licensing regime for exports covers a wide range of products, including most agricultural commodities. As in the case of import licensing, compulsory export licenses are intended to ensure that adequate quantities of produce are available domestically. In addition, most licenses must be renewed and paid on an annual basis.

Regulatory costs on average constituted about 17.8 percent of total overheads in 2022. According to the survey of manufacturing firms (including agro-processing firms) implemented by the Confederation of Zimbabwe Industries, a manufacturing sector firm must comply with the requirements of a minimum of nine regulatory bodies, excluding the central government. An average of three full-time employees is needed to deal with regulatory issues alone. An average of 10 days per month must be committed to processing or following up on all of the country's regulatory requirements.

### Competition

Formal businesses in Zimbabwe perceive competition from the informal sector as their most critical constraint (see figure 5.4), according to the most recent World Bank Enterprise Survey (as of 2016). Although competition from informal businesses is common across the region, especially in less capital-intensive sectors, the scale of informality and the presence of informal firms in more skills-intensive sectors exacerbates the situation in the country.

**FIGURE 5.4 TOP 10 BUSINESS ENVIRONMENT CONSTRAINTS, 2016**



Source: World Bank, Enterprise Survey, 2016.

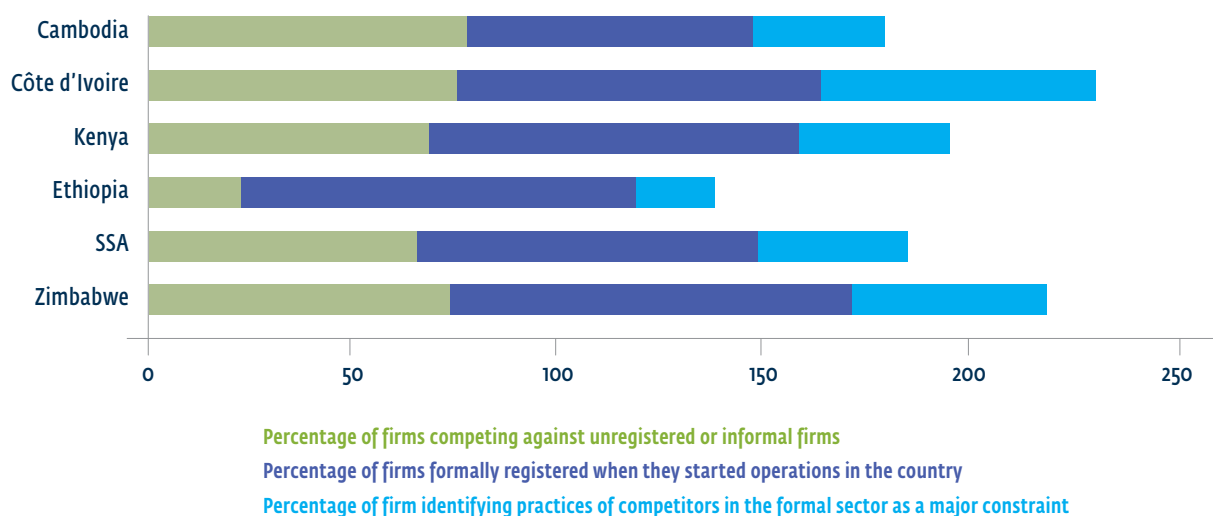


**Informal employment is more common for women.** In Zimbabwe, women are four times more likely than men to be outside the formal labor force.<sup>3</sup>

**Another unique characteristic of such competition for Zimbabwe is related to access to foreign exchange.** Although formal firms must tackle foreign exchange shortages and undervalued official exchange rates in the formal market, the significant parallel exchange rate market provides informal firms with easier (though more costly) access to foreign exchange. The evidence also demonstrates that competition from the informal sector undermines the productivity of formal businesses in the country on a larger scale than in the Sub-Saharan Africa region as a whole. According to World Bank data, more than 73 percent of manufacturing firms in Zimbabwe reportedly face competition from informal sectors (figure 5.5). This is the third highest after Cambodia (77.8 percent) and Côte d'Ivoire (75.6 percent).<sup>4</sup>

**In Zimbabwe, more than 47 percent firms in the formal sector identify practices of competitors in the informal sector as a major constraint.** This is above the regional average for Sub-Saharan Africa (36.3 percent) and the second highest after Côte d'Ivoire (66.9 percent).

**FIGURE 5.5 INFORMALITY OF THE MANUFACTURING SECTOR IN ZIMBABWE AND IN ITS STRUCTURAL PEER COUNTRIES, 2016**



Source: World Bank, Enterprise Survey, 2016.

## RECOMMENDATIONS

- **Facilitate business entry and operations and reduce informality** (box 5.2). There is a huge opportunity to improve the business environment in the country through implementation of reforms aimed at (a) simplifying business registration procedures by increasing the transparency of the process and aggregating information and procedures on a single government portal (including all requirements for businesses to start operations and processing times); (b) reviewing and rationalizing overlapping mandates, responsibilities, and requirements of public agencies (including payments and penalties) and regulating different aspects of business operations (at both the national and local levels); (c) mapping existing digital systems, services, and data assets of relevant public agencies in order to identify opportunities for interoperability, interconnectivity, data and resource sharing; and (d) consolidating the online registration process on the platform of the Department of Companies and Intellectual Property (DCIP) of the Ministry of Justice, Legal and Parliamentary Affairs, including access to publicly available information on all requirements to start business operations as well on as their processing timelines.
- **Encourage competition.** Review and accelerate implementation of the SOE reform program, including financial analysis and assessment of SOEs in sectors that may not require a strong public sector role.
- **Simplify licensing processes.** Licenses and permits are an area in which the potential to reduce time and costs for businesses is high; improvements can be accomplished through a set of reforms designed to rationalize and simplify the licensing and permitting framework. The reform process can start with preparation of an inventory of all business license requirements for a specific sector or locality.
- **Improve inspections.** Revise and improve inspection procedures related to the start-up of business operations, integrate a risk-based approach to selecting companies for inspections, and define a clear and transparent protocol that lays out the objectives and frequency of inspections as well as the penalties associated with failure to pass them.

### BOX 5.2 POLICIES TO REDUCE INFORMALITY

Given the complexity of determinants of informality, multidimensional policy packages are necessary to promote durable improvements in formalization. The accumulated evidence demonstrates that there is no silver bullet policy or intervention that, by itself, durably reduces informality.<sup>a</sup> Worse, interventions implemented in isolation or without appropriate levels of monitoring and evaluation may have unintended consequences for poverty, employment, and productivity rates.<sup>b</sup>

Based on global experience and Zimbabwe's specific drivers of informality, the 2023 Zimbabwe Country Economic Memorandum offers the following two pathways for tackling informality: (a) enhance productivity of the informal sector and its links with the formal sector and (b) encourage formalization by supporting the transition of informal firms to the formal sector and the establishment of new formal firms. Each of these pathways includes several policy recommendations that should be prioritized and implemented as a part of a multidimensional policy package.

- Sean M. Dougherty & Octavio R. Escobar (2019) What policies to combat labour informality? Evidence from Mexico, *Applied Economics*, 51:38, 4176-4190.
- World Bank. 2019. *Global Economic Prospects*, January 2019: Darkening Skies. Washington, DC: World Bank.

## Access to Finance

### OVERVIEW

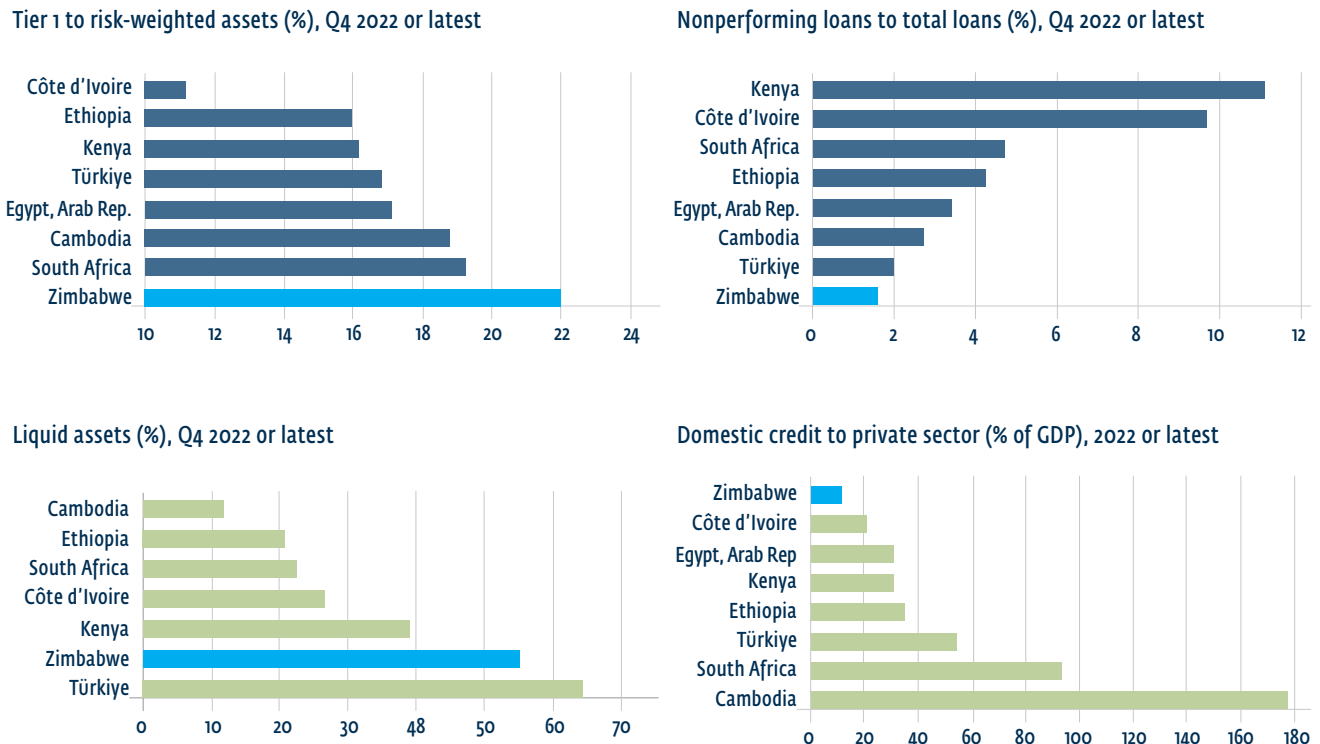
The banking sector remains the dominant player in the country's financial system, with 14 commercial banks, four building societies (mortgage companies supporting the real estate and construction sectors), one post office savings bank, and four development finance institutions. The microfinance sector is dominated by credit-only institutions and only five deposit-taking microfinance banks. On the capital market front, the foreign currency denominated Victoria Falls Stock Exchange, with 12 counters, continues to attract more listings amid a push away from the local currency-denominated Zimbabwe Stock Exchange, with 44 counters. The nonbank financial institution sector remains largely diversified across the insurance, pensions, and capital markets, and covers less than 10 percent of the adult population. The pensions and insurance sector suffered inflationary pressure, resulting in shrinking balance sheets. Two international banking institutions (Barclays and Standard Chartered) have exited or will soon exit the local market, largely reflecting the increasing isolation of Zimbabwe from capital markets.

**Zimbabwe's financial system is sound and has sufficient liquidity buffers.** The ratio of banks' equity capital to its total risk-weighted assets was at 22 percent as of the end of 2022, while those of other peer countries were below 20 percent. Zimbabwe's rate of nonperforming loans (NPLs) stands at 1.6 percent, which is the lowest among its peer countries. Its liquid asset to total asset ratio stands at 55 percent, providing sufficient buffer from liquidity pressures.

**In financial sector depth—measured by domestic credit to the private sector as a percentage of GDP—Zimbabwe is among the least developed.** This indicator reflects (a) a lower appetite for lending to the private sector by domestic commercial banks and (b) banks' focus on maintaining high profitability through investment in treasury bills and foreign exchange arbitration. Zimbabwe's banks enjoy much higher profitability (return on assets at 17 percent and return on equity at 54 percent) than that of banks in peer countries (5.6).

**Regardless of headwinds affecting the sector, there have recently been positive developments.** Zimbabwe was removed from the European Union and the Financial Action Task Force (FATF) gray lists as it is now a jurisdiction in compliance with all of the FATF's guidelines. In addition, a deposit protection insurance run by the Deposit Protection Corporation is now extending cover to US dollar banking sector deposits. The corporation aims to have 2 percent deposit coverage in accordance with global best practices on deposit insurance thresholds. This has added confidence within the private sector for retaining deposits in the banking system.

**FIGURE 5.6 ZIMBABWE'S FINANCIAL SYSTEM IS RESILIENT WITH BETTER ASSET QUALITY THAN THOSE OF PEER COUNTRIES**



Sources: International Monetary Fund (IMF), Financial Soundness Indicators (FSI), Zimbabwe data are from 2021 (IMF Article IV). Ethiopia and South Africa have data from Q3 2022 (IMF FSI). Arab Republic of Egypt has data from June 2022 (IMF). Côte d'Ivoire data are from June 2021 (IMF Article IV). South Africa data are from Q4 2022 and come from the central bank (parallel to Fitch).

**Zimbabwe's payment systems are relatively well developed.** The Reserve Bank of Zimbabwe Act and the National Payment Systems Act provide for the authority and role of RBZ in the formulation and implementation of payment system policies to promote the establishment, regulation, and oversight of safe, sound, and efficient payment, clearing, and settlement systems. RBZ operates the Zimbabwe Electronic Transfer Settlement System (ZETSS), a real-time gross settlement system, which is a backbone of the financial system. The 2021 self-assessment of ZETSS against the Principles for Financial Market Infrastructures demonstrated its observance with the principles and identified a number of operational risks—including a cybersecurity risk—in the system. Retail payments development has been governed by the Guidelines for Retail Payment Systems and Instruments, which was issued in 2017. RBZ issued its Fintech Regulatory Sandbox Guidelines in 2021 in order to promote the development of responsible innovation and collaboration in the financial sector using fintech.<sup>5</sup>

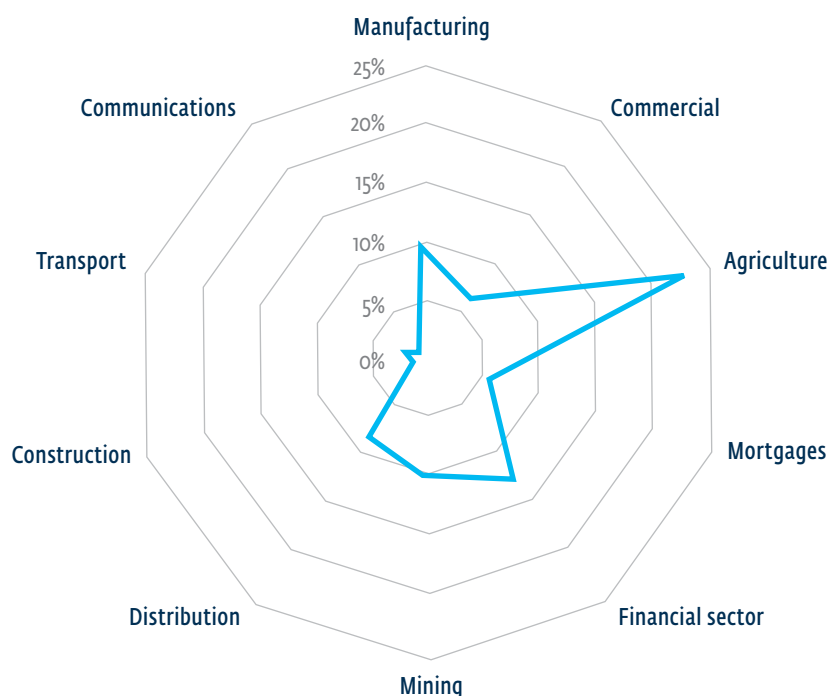
**An enhanced credit infrastructure system has improved access to financial services.** The credit registry, as a repository of financial services consumer records, has improved risk management and the credit referencing environment by providing real-time and reliable credit information. Zimbabwe has a credit registry operated by the central bank as well as three private credit bureaus. The four institutions held over 20 million searchable records as of the end of 2022. The entire database has recorded a significant increase in inquiries—from 1,317,853 as of June 2021 to close to 1.8 million queries in 2022. All active financial sector loan accounts are held with the central credit registry. RBZ has entered into the second phase of its credit registry implementation by expanding the category of data providers to microfinance institutions. This effort is intended to broaden the coverage of credit registry.

**Zimbabwe’s collateral registry has become operational and has the potential to improve access to finance.** As of March 2023, 31 banking institutions and leading microfinance institutions were registered with the collateral registry.<sup>6</sup> The registry has recorded 377 active security interests with a total loan amount of Z\$620 billion as of July 2023.<sup>7</sup>

**CONSTRAINTS**

Following the COVID-19 pandemic, banking institutions have not been aggressive in lending to the private sector, preferring to retain liquidity ratios as high as 59.5 percent against an international benchmark of 30.0 percent. The loan to deposit ratio grew marginally (from 46.9 percent as of September 2021 to 52.8 percent as of September 2022) against an international benchmark of 70 percent.

**FIGURE 5.7 DISTRIBUTION OF COMMERCIAL BANK LOAN PORTFOLIOS BY SECTOR, DECEMBER 2022**



Source: Reserve Bank of Zimbabwe, December 2022.

**Most lending is concentrated in shorter-term, trade-related loans and in loans of three- and five-year tenure in the case of retail mortgages.** Banks are realizing more than 40 percent of earnings in foreign currency; these loans are mostly directed to firms focused on mineral exports. Loan portfolio quality, with only 3.3 percent NPLs in the first quarter of 2023, has remained high and is within the international benchmark of 5.0 percent. The low NPLs trend is consistent with high inflation regimes, in which borrowers benefit from inflation to service their loans.

**Sources of vulnerabilities remain for the sector** in that—regardless of positive financial soundness indicators—income ratios are skewed toward noncash asset revaluation and are dominated by revaluation of real estate assets on banks’ balance sheets, bank charges, and noninterest income from lending activities. In addition to a credit registry, the central bank also launched a collateral registry to facilitate access to credit by SMEs. This is in tandem with the new warehouse receipt system, which allows the use of commodities and precious metals as collateral against loans.

**Payment transactions are dominated by digital financial services (DFS); however, innovation in DFS is still limited.** Mobile money has been the main driver toward increasing DFS that allow access to formal financial transactions. Seventy-five percent of payment transactions by volume were conducted through mobile transactions as of June 2023.<sup>8</sup> Seventy-seven percent of adults used DFS in 2022, compared with 59 percent in 2014.<sup>9</sup> At the same time, the actual ownership of mobile money accounts still stands at 63 percent of adults, although 93 percent have access to a mobile phone. Access to capital markets, insurance services, and long-term financial instruments (such as housing finance) remains very thin (just under 5 percent of the adult population).

**The government of Zimbabwe established a National Fintech Steering Committee in order to promote fintech in the country.** The central bank and the securities regulator launched a regulatory sandbox in their jurisdiction. As of June 2023, only two fintech firms are registered in these sandbox frameworks, although a number of studies indicate that a growing number of fintech start-ups have entered into the market in areas that include payments, remittances, invoicing finance, lending, virtual asset exchanges, and insurance.

## RECOMMENDATIONS

- **Strengthen financial sector policies.** With a growing number of strategies in the financial sector (such as financial inclusion and disaster risk finance) being developed and implemented, there is a need for stronger financial sector policy coordination; this can be accomplished by creating a financial sector development strategy as an overarching coordination mechanism. The strategy could support the government in fostering a balanced approach toward financial sector development involving inclusion and risk mitigation. Under such a strategy, financial sector policies could be better coordinated in order to incentivize financial institutions to extend credit to the private sector, adequately manage risks, and foster innovation.
- **Strengthen financial intermediation.** At present, the level of financial intermediation by banking institutions in Zimbabwe is remarkably low, with domestic credit to the private sector accounting for only 11.6 percent of the GDP. This persists despite the well-capitalized nature of banks, their maintenance of good asset quality, and the recording of high returns on assets. There is an urgent need to facilitate reforms to improve banks’ risk appetite for lending to the private, including the following:

- **Strengthen credit infrastructure and the collateral registry.** Along with the national payments system, these serve as a backbone of the financial system to support businesses and entrepreneurship. Zimbabwe’s existing financial infrastructure should be maximized to address information asymmetry and enable financial institutions to take adequate risks. In addition, the MSME credit guarantee scheme could be strengthened to support such initiatives. Strong infrastructure will also create opportunities for innovation in financial services and foster access to finance by firms and individuals. In line with the second National Financial Inclusion Strategy, the government, in partnership with the private sector, should continue to ensure that there is an enabling environment (policies and regulations) for these infrastructures and their operation.
- **Foster innovation in financial services.** Zimbabwe has witnessed significant progress in promoting DFS, especially for digital payments driven by mobile money. In order to address persistent challenges in access to finance by different segments of society, the government should continue to facilitate innovation in financial services. The National Fintech Steering Committee and associated governance arrangements could play a larger role in creating a strategic roadmap involving the existing wide range of government stakeholders and the private sector. The committee should set out specific benchmarks and results indicators to encourage industry to take action and to persuade the government to support such developments. Private sector financial institutions (banks and nonbanks) could form an association to strengthen industry and foster innovation.

## 5.2 CROSS-CUTTING ENABLING SECTORS: GAPS AND OPPORTUNITIES

### Transport and Logistics

Overall, the transport sector in Zimbabwe is adequately developed relative to its neighboring countries. Its asset base consists of (a) a road network of 88,133 km (of which 17,420 km are paved); (b) 3,145 km of Cape gauge railway line; (c) 3 international airports; and (d) 17 domestic and small airports. The country is landlocked and therefore has no seaports.

The road subsector carries approximately 90 percent of the freight in Zimbabwe. This high traffic demand, in the absence of adequate maintenance for at least the past decade, has resulted in serious deterioration in the quality of road assets. Zimbabwe’s poor road network will negatively affect freight transport by road in the long run. The backlog in rehabilitation and maintenance due to insufficient funding allocation will undermine the performance of the regional corridors. Furthermore, many of the country’s border crossings are not operated as one-stop border posts; as a result, the border crossing system is still very inefficient.

The railway network connects Zimbabwe to neighboring countries and to key maritime gates and is essential for the country’s mining sector. The railway network has a designed capacity of 18 million tons per annum. It still has missing links, particularly in the direction of Zambia. Rail utilization has been on the decline, with transported freight comprising no more than one-fifth of the designed capacity. This decline, occurring over the past decade, has been a result of many factors, including inadequate working capital (due to reduced economic activities) leading to a maintenance backlog and low rates of new investment. As a result, the capacity of the system has been reduced and its reliability and efficiency have declined.

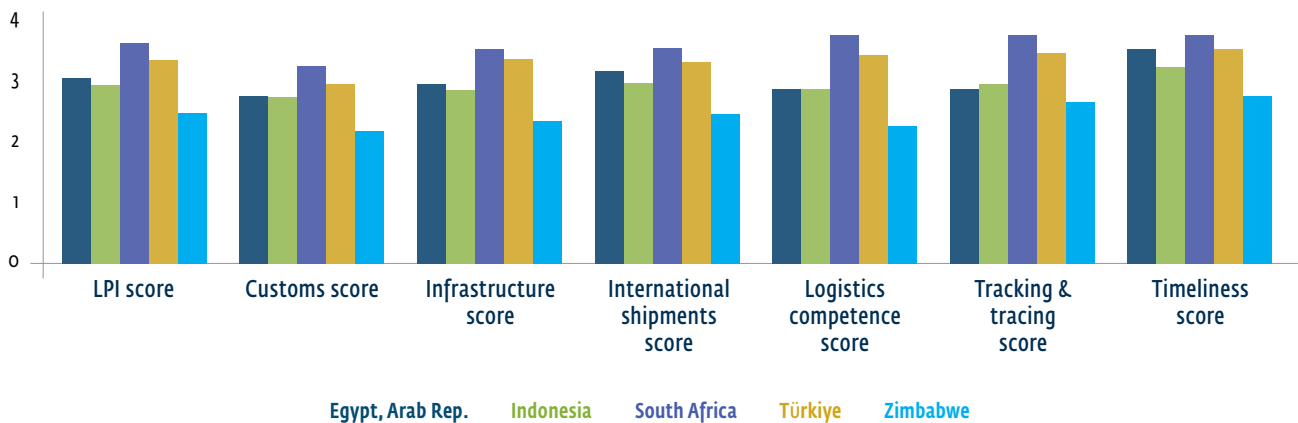
**Zimbabwe’s air transport sector is growing, benefiting from regional traffic growth.**

This is happening despite the low performance of the domestic travel sector. Tourism is expected to play an important role in the country’s economy and to further boost the demand for aviation services. In terms of seats and passengers, Zimbabwe is performing above its neighboring countries but is operating with weak average load factors. The government of Zimbabwe has undertaken some reforms in the aviation sector. It has passed the Civil Aviation Amendment Act to resolve the historically conflicting roles of Civil Aviation Authority of Zimbabwe acting as both a regulator and operator of aviation. The act created two agencies, one that regulates the aviation sector and another that manages airport operations. This has helped establish a path for unlinking regulation and airport operation.

**In terms of logistics, Zimbabwe ranks below its aspirational peers (figure 5.8).**

Enhancing connectivity is critical to integrating the country’s products into global value chains and moving to higher value-added products, in particular for agricultural products—for which Zimbabwe has a comparative advantage.

**FIGURE 5.8 LOGISTIC PERFORMANCE INDEX, ZIMBABWE AND COMPARATORS, 2023**



Source: WBG LPI, 2023

Note: LPI for quality of trade and transport-related infrastructure, 2023 (1–5, with the higher number = better).  
LPI = Logistics Performance Index.



## OPPORTUNITIES

**The national roads network in Zimbabwe requires significant investment, both for new projects and for maintenance.** For the higher-order roads (such as the Regional Trunk Road Network), the government is keen to engage the private sector in order to finance some of the planned projects along these roads. As part of the measures to create fiscal space, it is the government's stated intention that all projects with the capacity to generate cash flows will be financed from the private market, with the government providing the enabling investment climate that will bring in private sector financing.

**Integrating the rail system into broader logistics services has become a key feature of most modern rail networks.** This integration is aimed at building relevant sidings in order to reach customers more closely and to avoid the additional costs of modal transfer or last-mile connectivity. These sidings help to capture transport volumes for markets in which users are moving large amounts of heavy commodities (including steel, cement, coal, and other mining outputs) from and to their manufacturing sites. Sidings also apply to shippers using multiuser facilities such as agricultural silos and container depots. These usually involve depots, platforms, manufacturing plants, storage facilities, bespoke rolling stock, and last-mile delivery. Once the most important sidings are identified, they can be offered to the private sector to develop.

**Investment in logistics infrastructure.** The National Railways of Zimbabwe can consolidate volume and capture some market segment by developing logistics-related investment (such as platforms, storage, handling, and sidings). These investments could form the basis of partnerships with the private sector, namely shippers (the final transport users).

**The growth in air traffic offers good opportunities for expanding the role of the private sector in aviation.** At the early stages, this role is anticipated to focus on air services, potentially expanding into airport management in the medium term and development of new airports in the long term.

## CONSTRAINTS

Key constraints to greater private sector investment include both macroeconomic and institutional and regulatory barriers.

**The macroeconomic environment hinders short-term prospects for the development of transport subsectors.** The economic decline that Zimbabwe has witnessed over the past two decades negatively affected overall freight and travel demand, which in turn has reduced revenue generation capacities for the railway, road, and domestic aviation subsectors.

**Poor creditworthiness and poor performance of sector SOEs are key constraints to private sector investment.** The current poor performance of many infrastructure providers in the country poses high risks for private sector actors to engage. Several of these public enterprises have low levels of revenue collection for several reasons, including institutional issues, operational inefficiencies, and the macroeconomic situation of the country. Some of them are also underfunded, indebted, or both, which further weakens their creditworthiness.

**Perceived country risk is one of the factors contributing to the low success rate for PPP projects in the country's risk profile.** Over the past two decades, Zimbabwe has faced substantial challenges in accessing sovereign or private funding to develop and maintain its infrastructure—partly because of the political and macroeconomic risks that repelled potential private investors and increased the cost of borrowing.

**The lack of adequate regulatory frameworks is a challenge.** Current PPP frameworks fall short of offering clear and detailed guidance on the development of these PPPs. There are still some major challenges that need to be resolved before the private sector can effectively participate in these areas, particularly in the large PPP concessions. The use of PPPs is constrained by the following factors:

- **Limited institutional capacities.** Although the government is determined to implement infrastructure projects using PPPs, the institutional capacities of the different stakeholders involved prevent them from preparing well-structured and financially viable projects. This also presents a challenge to having a steady flow of successfully negotiated PPP deals. The skills that are required on the government side throughout the life cycle of a PPP concession are very specific and specialized. They cover areas such as planning and financial forecasting, deal structuring, legal negotiation, monitoring, dispute resolution, and evaluation. Past experiences have demonstrated the need to develop the enabling environment for PPPs and to build institutional capacities in structuring, negotiating, and monitoring these types of contracts and concessions.
- **Inadequate incentives in the railway subsector.** The existing railway operational model is not very conducive for the engagement of the private sector. Potential areas of improvement are discussed in the recommendations section.
- **Institutional setup in the aviation sector is not appealing to the private sector.** Despite the recent reforms introduced by the government, the sector's institutional setup is still not fully compliant with International Civil Aviation Organization recommendations. The air navigation service provider remains under the Civil Aviation Authority of Zimbabwe framework. The government should move on to a model more aligned with aviation industry trends, in which there is a clear and complete split between the regulator and service providers. Setups in which airports stand alone are more appealing to the private sector.

## RECOMMENDATIONS

**The government needs to invest in several priority areas to improve the efficiency of the transport sector.** These areas include (a) developing trade and transport facilitation along key corridors, including logistics infrastructure; (b) modernizing the aviation sector; (c) rehabilitating and modernizing the railway network; (d) rehabilitating and upgrading the trunk roads network, and (e) developing missing links in the road and rail networks. Additional recommendations include the following:

- **Assess existing SOEs to determine where reforms or enhancement of institutional capacities are needed and engage in a structured reform program.**<sup>10</sup> Developing strong public entities is a key foundation for effectively engaging private sector participation. Some of these entities require carefully designed restructuring and reforms. These need not necessarily be full-fledged reforms; instead they may be minor in nature.

- **Finalize legal, regulatory, and institutional frameworks for PPP policy.** Although the implementation of PPPs in Zimbabwe is currently governed and regulated by the Zimbabwe Investment and Development Agency Act (adopted in 2020), there is no comprehensive legal, regulatory, and institutional framework for PPP policy in the country.
- **Develop incentive structures to increase the attractiveness of the railway subsector for private investors.** Incentive mechanisms could come in the form of transport costs, such as guaranteed capacity and long-term contractual rebates in which a freight rebate of a certain percentage range is applied for incremental freight revenue ranges. This is designed to encourage larger freight and optimization. The incentives can also be offered in the form of take-or-pay agreements, in which take-or-pay charges are applied (that is, charges for access rights contracted with private parties, irrespective of whether they use all or any of those access rights). The capacity of National Railways of Zimbabwe will need to be developed for setting and monitoring key performance indicators as well as for negotiations.
- **Diversify approaches to infrastructure development.** The challenging macroeconomic situation in Zimbabwe calls for feasibility assessment and adoption of alternative approaches to attracting private capital into the delivery of infrastructure projects that are sector and project specific. Alternative approaches could include the development of a network approach for roads development (such as the creation of a road asset management company with a portfolio of corridors) or the integration of infrastructure development into mining concessions.
- **Develop and update a strategic master plan for the development of the aviation sector, with a strong focus on the role of the private sector.** Developing such an instrument is essential, particularly in light of continuously emerging global challenges and trends. Such a strategy should lay out a clear vision for developing the sector and its infrastructure and systems, with a clearly defined role for the private sector.
- **Develop and update a national logistics strategy and action plan.** Such a strategy and action plan would detail the way forward on developing an integrated network of logistics infrastructure and services. Considering Zimbabwe's role as a regional transport hub, such a strategy should have a strong regional dimension.

### Energy/Electricity

More than 40 years after Zimbabwe's independence, grid electricity supply in the country is still dominated by the vertically integrated, state-owned utility—the Zimbabwe Electricity Supply Authority (ZESA)—notwithstanding the enactment of the Electricity Act of 2002 that provided a legal framework to facilitate increased private sector investment. Table 5.1 highlights the dominance of the five ZESA power stations (four coal and one large hydro) and the insignificant power supply provided through independent power producers (IPPs).

**TABLE 5.1 GRID ELECTRICITY SUPPLY AND DEMAND 1995–2022**

Energy supply and demand	Year	Nameplate capacity (MW)		Dependable capacity (MW)		Energy (GWh)	
	Year installed	As installed	Current	Maximum	Average	Maximum	Minimum
Supply							
Total Local		3,080	3,039	2,269	1,624	10,114	5,460
Net Imports				600	200	2,000	876
Grand Total Sources		3,080	3,039	2,869	1,824	12,114	6,336
Demand				Maximum	Minimum	Maximum	Minimum
Peak years	1995–2005			2,069	1,617	10,780	9,160
Hyperinflation I	2006–2009			1,904	1,758	10,307	7,052
No load shedding	2017			1,615		7,687	
No load shedding	2018			1,724		8,505	
Hyperinflation II	2019–2022			1,736	1,531	8,439	6,929

Sources: ZERA, ZETDC and ZPC and CPSD team estimates (gigawatt-hour supply).

Note: MW = megawatt.

**The nameplate capacity of local power plants exceeds the highest system maximum demand achieved in the early 2000s.** However, the dependable capacity is constrained by aging coal power plants and large fluctuations in energy availability at Kariba as a result of the increasing frequency of drought periods. An additional 600 MW of coal plant power is in the process of being commissioned at Hwange Power Station (as of 2023), but this will only increase average dependable capacity from 1,400 MW to just over 1,800 MW; this is insufficient to bridge the supply deficit. Zimbabwe is located at the center of the Southern African Power Pool (SAPP) and is therefore strongly interconnected, at 400 kilovolts (kV), 330 kV, and 220 kV, with all of its neighbors. The country is therefore able to import and export power through bilateral contracts and the competitive market operated by the SAPP Coordination Centre. In recent years, most of the exporting countries have also faced power and energy shortages, which has forced Zimbabwe to implement load shedding of up to 18 hours a day at times of severe energy deficits. Current demand is therefore constrained by the lack of adequate supply.

**The national electrification analysis by the National Rural Electric Cooperative Association estimated in June 2021 that 56 percent of households in Zimbabwe have access to electricity.**<sup>11</sup> Approximately one-third of households have access to grid electricity. Eighty percent of these are in urban areas and of these, 25 percent—mainly in rural areas—have access to off-grid supply (primarily through solar home systems and minigrids using small hydro, solar, and diesel).

The suppressed demand due to supply deficits represents an opportunity for private sector investment, particularly in power generation. A historical picture of demand over the past three decades by economic sector helps to quantify the potential, as highlighted in Table 5.2.

**TABLE 5.2 GRID DEMAND BY CONSUMPTION CATEGORY**

Consumption category	1990		2000		2010		2020		2021	
	GWh	%	GWh	%	GWh	%	GWh	%	GWh	%
Mining and industrial	5,752	65	5,313	51	3,112	42	3,076	45	3,958	47
Commercial	905	10	1,574	15	1,508	20	1,534	22	1,741	21
Farming	751	9	1,291	12	464	6	435	6	447	5
Residential	1,449	16	2,316	22	2,283	31	1,884	27	2,293	27
<b>Total</b>	<b>8,857</b>	<b>100</b>	<b>10,494</b>	<b>100</b>	<b>7,367</b>	<b>100</b>	<b>6,929</b>	<b>100</b>	<b>8,439</b>	<b>100</b>
Total GWh supply	10,068		12,090		11,195		8,665		10,644	
Exports	-		-		988		355		450	
Local sent out	10,068		12,090		10,207		8,310		10,194	
Losses (%)	12.0		13.2		27.8		16.6		17.2	
Locally generated	8,924		6,995		8,509		6,291		8,453	
Net imported GWh	1,144		5,095		1,698		2,019		1,741	
Import dependency (%)	11.4		42.1		16.6		24.2		17.1	

Source: ZETDC and ZERA reports and CPSD team analysis.

Note: GWh = gigawatt-hour.

Recently completed least-cost power development plans have been determined by reviewing demand forecasts from previous studies; these assumed that GDP composition and electricity energy intensities would remain as they are currently (19 percent agriculture using 0.36 GWh per million US dollars, 9 percent mining using 0.94 GWh per million US dollars, 17 percent industry using 1.4 GWh per million US dollars, and 55 percent services using 0.26GWh per million US dollars). The government is also targeting the provision of universal access by 2030. The population is expected to grow at 1.5 percent per year, which is the rate observed over the past decade. Power and energy demand is expected to grow to 3,800–4,400 MW and 25–30 terawatt-hour (TWh) by 2030 and to 5,200–6,700 MW and 35–45 TWh by 2040.

This demand can be met in the long term using the country's abundant energy resources. These are mainly coal and large hydro power on the Zambezi River along the border with Zambia (Batoka Gorge, 2,400 MW hydroelectric power station, and Devil's Gorge, 1,200 MW, are expected by 2040) as well as other renewable resources (mainly solar, wind, mini hydropower, and geothermal). The National Renewable Energy Policy of 2019 is targeting an additional 2,100 MW by 2030 to be generated by renewables, mainly solar photovoltaic (PV) power at 1,600 MW. This would be complemented by storage at the Kariba reservoir and through battery energy storage systems.

## OPPORTUNITIES

The legal framework introduced in 2002 by the enactment of the Electricity Act and the Rural Electrification Fund Act formally ended the monopoly of ZESA by providing for the unbundling of its regulatory, rural electrification, generation, transmission, distribution, and supply of electricity. ZESA had been established by the Electricity Act of 1985 with the expectation that the amalgamation of the six utilities inherited at independence would result in economies of scale and uniform national tariffs that would accelerate the country's electrification rate. The limited investment capacity of the government motivated sector reforms and new legislation in order to facilitate increased private sector investment. Similar reforms in the telecommunications (telecom) sector had attracted private investment to the extent that private companies now dominated service provision. More opportunities for private sector investment have been provided through the Net Metering regulations of 2018, the National Renewable Energy Policy of 2019, energy management, and energy efficiency regulations. Inefficient light bulbs are now banned, and installation of solar water heating systems is now mandatory as the all-electric geysers are set to be phased out.

**Overall opportunities for private sector investment have expanded, but IPP grid supply remains small.** By January 2020, the regulator had issued generation licenses to unsolicited projects with a combined total of over 6,500 MW, comprising 5,050 MW coal, 1,152 MW solar PV, 345 MW gas, and 33 MW mini hydropower generation. In December 2022, 27 IPPs with an estimated total capacity of 1,000 MW were recommended for government support. The government guaranteed economic tariffs to qualifying IPP solar projects. The government also announced a standardized government implementation agreement for all solar IPP projects.<sup>12</sup>

**Nevertheless, supply to the grid from IPPs remains insignificant.** The reasons commonly cited for this are inadequate and expensive domestic funding, utility credit risk, and country credit risk. The root causes are regulatory inefficiencies and energy and macroeconomic policies that are inconsistent with best practices. Many licensed projects fail to reach financial closure, suggesting financing constraints, inadequate risk mitigation instruments for investors and lenders, or both. As a result, grid supply from IPPs remains small (3 percent in 2022).

**Another largely untapped opportunity is private sector power-to-mine investments to meet the mining sector's future energy demand.** The mining sector is expected to significantly increase energy consumption—up to 21 TWh by 2040.<sup>13</sup> This would require massive investment, and the NDS1 (2021–2025) expects most of this investment to be made by the private sector. This creates an opportunity to transition from mining to renewable energy through power-to-mine investments, which could also support broader scaling up of renewable energy. Encouraging such off-grid renewables would also free up public investment for growing the grid to meet the current deficit and future demand and provide an important off-grid solution—both as a medium-term transition and as a long-term solution to electrification.

## CONSTRAINTS

There are several underlying issues constraining the energy sector in Zimbabwe.

**Sector regulations.** Regulation not only comprises the mandate of the Zimbabwe Energy Regulatory Authority (ZERA) but also other regulatory agencies, the most significant of which are the Environmental Management Agency (EMA), the Zimbabwe Investment and Development Agency (ZIDA), the RBZ, and the government ministries to which these agencies report for policy guidance. The main inefficiencies are the following:

- **Licensing based on unsolicited projects.** This results in most of the licenses being conditional, subject to confirmation upon fulfillment of basic requirements (such as buyer or off-taker arrangements). Many licenses end up being issued to speculators rather than to serious investors.
- **Increased costs for developers.** Developers of unsolicited generation projects may be located far away from the utility grid; these developers face the additional cost of paying for the transmission and distribution infrastructure to in order to connect to the grid.
- **Failure to enforce licensing conditions.** Many conditional licenses should have been canceled for nonperformance, but failure to enforce these conditions resulted in the accumulation of licensed but unimplemented or unimplementable projects.
- **Failure to enforce operational performance obligations of licensees.** The concept of licensing different businesses (such as generation, transmission, distribution, bulk, and retail supply) is to create opportunities for the entry of many players in the industry. To protect the interests of customers and investors, inefficient licensees should lose their licenses so that those licenses can be offered to more efficient operators.
- **Poor coordination among agencies.** ZIDA is the legislated coordinating agency, but its focus is on getting timely responses. Coordination of substantive issues, such as the need for light-handed regulation by all agencies for small-scale projects, is lacking.
- **Lack of regulator independence.** The concept of independent regulation is that it will minimize uncertainties as a result of conflicts of interest. When regulatory decisions are subject to nontransparent ratification under the guise of policy guidance, the result is a lack of predictability that can compromise project viability. This is particularly a problem with regard to pricing and subsidy decisions.

**Policy inconsistency.** Policy inconsistencies arise from operational decisions and strategies that are not in line with stated policy objectives. For example, the National Energy Policy of 2012—which provides for the unbundling of the generation, transmission, and distribution businesses of ZESA—is still the country’s official policy, yet the ZESA board has been directed to rebundle the businesses. This inconsistency compromises the regulator’s ability to enforce the different licensing conditions for the utility’s businesses, a case in point being the inability of the generation business to get paid for delivery of energy to transmission and distribution businesses. This results in a vicious circle in which the generation business is unable to maintain the plant to expected standards.

**Macroeconomic instability.** At a macroeconomic level, issues related to instability of local currency, lack of an efficient official foreign currency market that operates through registered financial institutions, and persistent hyperinflation heavily influence the ability of the energy sector to attract investors because of the absence of a local capital market that can offer the terms and conditions that are consistent with the long-term nature of power investments.

**Financial instability of energy companies.** The country's energy companies are in a weak financial condition; they have insufficient funds to maintain the existing generation, transmission, and distribution infrastructure or to finance new projects to expand access. The Zimbabwe Power Company (ZPC), which provides power generation, and the Zimbabwe Electricity and Distribution Company (ZETDC), which provides transmission and distribution, are both loss-making.

## RECOMMENDATIONS

**Addressing the root causes cited in this section is the recommended approach to fast-tracking private sector investment in the energy sector.** ZESA operated more efficiently when it was self-regulating. It had a published customer charter with product and service standards that were fulfilled and reported. The recommendations that follow are based on the overarching assumption that government will accept, as a principle, that it is necessary to restore regulatory efficiency and to ensure energy and macroeconomic policy consistency. The National Energy Policy, the National Renewable Energy Policy, and energy laws are consistent with international best practices; they only need to be consistently implemented. It is encouraging to note that the Ministries of Finance and Energy and the regulator ZERA have already embarked on a process to seek professional assistance from the African Development Bank and the World Bank to introduce licensing in a competitive bidding process. Through this process, barriers and risks that have been identified will be mitigated. The Ministry of Finance and RBZ have also recently taken steps to establish a more market-based exchange rate for the local currency.

**Address regulatory reforms.** The government needs to either implement or formally review the power sector reforms outlined in the National Energy Policy and the incentive framework for renewable energy investments outlined in the National Renewable Energy Policy in order to assure investors that there is consistency between stated policy and practice.

**Strengthen institutional capacity.** The government may need to seek technical assistance in order to build the capacity of the Ministry of Energy and Power Development, ZERA, and ZETDC to discharge their roles as outlined in the National Energy Policy and National Renewable Energy Policy. Note that regulatory independence is provided for in legislation; the following recommendations are within the authority of the relevant agencies.

**Apply light-handed regulation to small-scale energy investments.** ZERA needs to review the framework for light-handed regulation applicable to small-scale energy investments (such as minigrids) and coordinate with other regulatory agencies (such as ZIDA and EMA) to ensure that these agencies apply the same light-handed principles.



**Enforce licensing obligations.** ZERA needs to consistently enforce licensing obligations for investors and operators in order to ensure that customers get adequate and reliable energy services at competitive costs. Conditional licenses issued to investors should be canceled when licensees cannot fulfill the conditions. Product and service standards for operators need to be established, published, and enforced.

**Accelerate universal access.** A major issue that is not currently receiving adequate attention is the need for a plan to accelerate access to electricity to achieve universal access. The national utility and the Rural Electrification Fund (REF) are operating on a best-effort basis with no significant assistance from the government to increase the rate of grid connection and off-grid systems. The government needs to provide more proactive leadership in the planning, funding, monitoring, and evaluation of electrification access master plans. ZESA and the REF need to increase implementation capacity to match the increased levels of funding and the pace of electrification to achieve universal access by 2030. Service delivery standards should be explicit, benchmarked against best practices, and enforceable.

**The successful implementation of these recommendations will help Zimbabwe to create a level playing field that facilitates significant private sector investment to complement limited public sector capacity and to address key bottlenecks,** such as lack of pricing predictability and currency convertibility. It will also help to address the need to unbundle the value chain in order to reduce scale to a level at which many private sector players can participate.

**There is a need to support customers' access to the electrical grid** through subsidized connection charges and through the recovery of the bulk of charges through the electricity tariff. This was the approach used by municipal electricity departments to achieve near universal access within urban areas. Urban access has fallen to 80 percent because of exorbitant connection charges. At the same time, it will be essential to implement electricity pricing policy for full recovery of efficient costs of service provision.

### Digital Connectivity

**Zimbabwe's international connectivity infrastructure is relatively well developed.** Fiber backbone connects major cities and urban areas, but large connectivity gaps remain in rural areas. The national fixed-line infrastructure is limited, and mobile networks remain the primary means for carrying retail data traffic in the country.

**Zimbabwe has made significant progress in reaping some of the benefits from the digital economy, but the digital economy remains underdeveloped relative to its overall potential.** As of 2021, the number of unique mobile internet subscriptions in Zimbabwe represented 29 percent of the population, above the Sub-Saharan Africa average of 25 percent, but below that of LMICs of 35 percent and below all of its aspirational peers.<sup>14</sup> Fixed broadband access has a penetration rate of 5 percent, which is below the Sub-Saharan Africa and LMIC averages and is also below the levels of all of the country's aspirational peers.<sup>15</sup>

Such relatively low levels of access are compounded by a digital divide. As of 2020, 43 percent of individuals living in rural areas had subscribed to a mobile internet provider, compared with 65 percent in urban areas. In addition, only 45 percent of women have subscribed to a mobile internet provider, compared with 57 percent of men.<sup>16</sup> The use of the internet by individuals, businesses, and government in Zimbabwe is on par with regional and current income-group averages, but lags behind that of its aspirational peers (table 5.3).<sup>17</sup>

**TABLE 5.3 BENCHMARKING ACCESS TO AND USE OF ICT IN ZIMBABWE**

	Zimbabwe	Egypt, Arab Rep.	Indonesia	South Africa	Türkiye	Sub-Saharan Africa	LMIC
<b>Accessibility</b>							
Penetration rate: telephony	49.9%	67.9%	65.0%	67.2%	66.6%	48.0%	55.7%
Penetration rate: internet	29.3%	35.9%	47.8%	50.0%	53.3%	24.9%	34.8%
Penetration rate: fixed broadband	5.3%	39.3%	16.6%	18.7%	71.3%	8.6%	17.4%
<b>Usage</b>							
B2C* e-commerce index (0–100)	30.50	36.60	50.10	56.50	68.80	27.48	38.94
ICT use by businesses (1–7)	45.31	70.60	75.86	64.97	70.45	42.38	47.37
ICT** use by government (0–1)	0.50	0.55	0.66	0.69	0.77	0.38	0.49
<b>Availability</b>							
Population coverage: 2G+	93.0%	99.8%	100.0%	100.0%	100.0%	91.5%	96.3%
Population coverage: 3G+	97.1%	99.0%	95.0%	99.5%	98.0%	72.9%	86.3%
Population coverage: 4G	43.7%	66.8%	90.7%	86.2%	94.1%	30.7%	51.1%
<b>Affordability</b>							
Price: telephony (% GNI)	17.5%	0.4%	1.9%	1.6%	0.7%	7.8%	3.7%
Price: telephony (US\$, purchasing power parity)	23.0	5.18	16.80	14.84	17.25	18.7	17.5
Price: low data usage (% GNI)	22.8%	0.9%	1.5%	3.1%	0.9%	9.6%	5.4%
Price: low data usage (US\$, purchasing power parity)	25.3	10.29	13.09	30.00	23.20	26.2	21.9
Handset affordability index (0–100)	21.3	50.9	38.3	47.9	40.7	32.6	40.0
<b>Market structure and regulation</b>							
# of large MNOs*** (telephony)	2	3	1	2	3	2	2
# of large MNOs (internet)	1	2	1	2	2	2	2
SOE market share	24.2%	6.0%	0.0%	12.4%	30.0%	23.5%	24.3%
Share of independent towers	0.0%	0.2%	74.2%	13.3%	2.3%	19.3%	22.4%
ICT regulatory tracker	42.4	56.8	64.7	69.0	66.7	38.9	41.1

\* Business to consumer

\*\* Information and communication technologies

\*\*\* Mobile network operators

Sources: IFC, based on data from GSMA, ITU, Telegeography, TowerXchange, 2021.

Note: B2C = business to consumer; GNI = gross national income; ICT = information and communication technology; LMIC = lower-middle-income countries; MNO = mobile network operator; PPP = public-private partnership; SOE = state-owned enterprise.

Several initiatives have been undertaken by the government of Zimbabwe over the past few years in order to boost access to and use of ICT, including the following:

- **Adoption of the National Broadband Plan 2023–2030.** Adopted in December 2022, the plan seeks to accelerate the penetration of broadband in Zimbabwe and to reduce its cost for both public sector and private sector participation.
- **Creation of the Unified Telecommunications Services License.** This license, introduced in 2021, combines the concessions for network facilities services, network services, application service providers, and International Gateway Services, allowing the holder to construct, install, own, and maintain network facilities and to provide network and application services under the same license.
- **Active use of the Universal Service Fund.** This provides for the funding of several base stations in rural areas, including the planned rollout of 300 base stations in rural areas by NetOne, one of the telecom operators.
- **Regulation of the telecom service price.** Under existing telecommunications legislation, telecom operators are required to seek approval for price increases. In July 2022, the sector regulator, Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) agreed to a 61 percent price increase by mobile network operators (MNOs), reflecting depreciation of local currency and hyperinflation.
- **Building of a national data center.** The government of Zimbabwe built a national data center in 2021 to centralize information storage, management, and protection, as well as to take advantage of cloud computing; this was supported by a national strategy and blueprint for planning, design, and implementation of e-government infrastructure and services.
- **Encouragement of ICT innovation and entrepreneurship.** In 2018, POTRAZ launched an ICT innovation drive, which is ongoing and seeks to fund innovation in various sectors.

## OPPORTUNITIES

**Expanding access to and use of ICT could open opportunities for private sector investments in Zimbabwe, but many such opportunities remain untapped.** Investment opportunities for the private sector lie across all layers and value chains of the digital economy, including digital infrastructure, digital platforms and services, DFS, and others. Zimbabwe already has private sector participation in the digital connectivity layer, but this is driven by a single player (Econet) in the mobile sector and by Liquid Intelligent Technologies in the fixed broadband sector. SOEs are largely present across the connectivity layer, but their performance is limited and they have less than 25 percent overall market share in the mobile segment.<sup>18</sup> These operators are still vertically integrated, controlling most segments of the telecom value chain in addition to DFS (such as mobile money). Middle-mile infrastructure is being led by the government with the establishment of a national data center.

**Liberalization of segments of the broadband value chain can open opportunities for the entry of specialized private sector broadband infrastructure providers.** Specific opportunities include cross-border broadband infrastructure, rural connectivity, tower colocation, energy services for telecom operators, and open access broadband infrastructure. Such opportunities also exist in data centers, including in edge computing services facilities. None of these areas currently host specialized private sector operators in Zimbabwe.

**Beyond the digital infrastructure sector, the broader digital economy in Zimbabwe also increasingly presents an investment opportunity for local and international providers.** These include opportunities to invest in information technology aimed at providing cloud services, system integration, managed services, and cybersecurity. Local and international providers can also offer digital services in specific verticals (such as business-to-business e-commerce) given the large skill base and the growing availability of DFS. Experiences in other emerging markets such as Senegal, Côte d'Ivoire, and Kenya suggest that the expansion of mobile money platforms (for example, Wave and M-PESA) can support financial resilience and ultimately have notable long-term effects on poverty reduction—especially among female-headed households.<sup>19</sup>

## CONSTRAINTS

**Limited participation of the private sector in ICT in Zimbabwe resulted from a combination of supply-side and demand-side constraints as well as from the country's institutional framework.** In some emerging market countries, it may be challenging to identify the most binding constraints, but in Zimbabwe, institutional constraints—especially price controls, regulation of foreign ownership, and structure of license fees—appear to be the most binding for private sector participation in ICT.

**Price controls hinder private sector participation.** Although the sector regulator has recently authorized price increases, the inability of telecom operators to peg their price on a stable currency or to pass along hyperinflation can limit their incentives to invest, especially given that most telecom equipment is imported (while revenue is in local currency). This is reflected in the congested network, with 4,400 subscribers per tower compared to about 3,400 in South Africa and Indonesia and 1,500 in Türkiye.<sup>20</sup> It is also reflected in the limited entry of specialized telecom infrastructure operators such as tower companies, despite the availability of a dedicated infrastructure license.

**Regulation of foreign ownership also acts as an impediment to private sector participation.** Experience from other countries, including countries in Sub-Saharan Africa, shows that a more flexible regulation of foreign ownership can enable the participation of the private sector, especially given that global or regional private equity funds are becoming increasingly active in digital infrastructure and in the broader digital economy.<sup>21</sup> Ethiopia is a case in point; in that country, deregulation of foreign ownership has enabled a private sector operator to introduce competition in the country's telecom sector. Zimbabwe hosts two public sector-led telecom operators (NetOne/TelOne and Telecel) with a combined market share equivalent to less than a third of the market size.<sup>22</sup> The government of Zimbabwe has considered further privatization of these operators but with limited success; this is partly due to barriers to entry for private sector operators (such as the requirement that operators have at least 51 percent local ownership).

**The structure of telecom license fees can also penalize the growth of small operators, and potentially delay acquisition of new spectrum.** In Zimbabwe, the updated license pricing model requires operators to pay an annual license fee of 2 percent of their audited annual gross revenue while contributing 1.5 percent of annual gross turnover to the Universal Service Fund. License pricing differs across countries; Zimbabwe's aspirational peers (such as South Africa and Türkiye) charge an annual fee based on a company's revenue in addition to a fixed fee at the time of acquiring the license. Indonesia requires a one-time payment for a determined duration of the license. Revenue-dependent license fees can support entry but also penalize growth, especially for small operators. In Zimbabwe, smaller operators have delayed acquisition of 4G-related frequency spectrum—especially in the 700 MHz band—limiting the coverage of this technology, which is crucial for providing high-speed mobile internet access.

**These constraints are limiting the availability of affordable, quality digital connectivity and the overall growth of the digital economy.** Despite price regulations, internet access in Zimbabwe is more expensive than in all comparable countries. In 2021, prior to the recent price hike, the cost of a 500 megabyte internet package represented 23 percent of average monthly household income, compared to 10 percent in Sub-Saharan Africa and 5 percent in LMICs.<sup>23</sup> This reflects a high level of market concentration, with a single player controlling two-thirds of the market. It also reflects the absence of specialized infrastructure operators (such as tower companies) to drive efficiencies in network deployment. In 2022, the regulator reported that MNOs were sharing towers at 267 sites while also leasing infrastructure from broadband operator TelOne and non-telecommunications operators such as Powertel, National Railways of Zimbabwe, Transmedia, Zimbabwe Revenue Authority, and local authorities. These bilateral infrastructure sharing agreements often fail to deliver because of coordination challenges and lack of neutrality.

## RECOMMENDATIONS

**The current functioning of the telecom sector in Zimbabwe largely reflects the country's challenging macroeconomic context.** However, a number of interventions can be considered in order to unlock private sector participation while gradually stabilizing the macroeconomic environment. These include the following:

- **A flexible approach to price regulation.** This can be accomplished by allowing telecom operators to pass on inflation within a predefined range. Such an approach would provide more certainty to investors by allowing visibility on revenue trends and reducing the frequency of negotiations with the regulator that could create a misalignment between the agreed price increase and macroeconomic conditions. During the phase of foreign exchange instability, pegging the price charged to business customers to an international reserve could also be considered to allow operators to finance capital expenditures and network maintenance.
- **A flexible approach to foreign ownership regulation.** The Zimbabwean telecom sector would benefit from having another private sector-led operator to compete with the incumbent. However, liberalization of the current SOEs may be precluded by foreign ownership regulation. The market also needs the entry of specialized infrastructure operators such as tower companies, which are typically led by foreign ownership. A more flexible approach to foreign ownership through adjusting the minimum stake of local investors could support the liberalization of the sector and enable the entry of specialized infrastructure operators that is crucial for delivering efficiencies and providing affordable services in a hyperinflation environment.

- **Facilitate frequency spectrum acquisition by smaller operators.** This can be done through asymmetric license fees or by using a progressive rate (for example, one rate for revenue below a certain threshold and a higher rate for revenue above the threshold). This would not only facilitate the entry of new operators but would also support their growth and allow them to catch up with large players.
- **Prioritize PPPs in infrastructure development.** Public sector–led digital infrastructure (such as the national data center) could include the participation of the private sector under a PPP model, similar to that in Togo. This would encourage more private sector participation in the ICT sector.
- **Increase smartphone ownership by improving affordability through a guarantee program for first-time users under a pay-as-you-go business model.** In a low-income environment, the full cost of a smartphone can be prohibitive to pay up front. A pay-as-you-go business model enables users to pay a fraction of the cost up front and the balance over a certain period. Such a business model was successfully implemented in Kenya, Mali, and Senegal.<sup>24</sup>

## NOTES

1. Structural and aspirational peers were identified based on composition of exports, economy, and per capita income (see box 2.1).
2. Klaus Schwab, ed., *The Global Competitiveness Report 2019* (Geneva, Switzerland: World Economic Forum, 2019).
3. International Labour Organization (ILO), *Zimbabwe: Putting Decent Jobs at the Centre of the Economic Development Strategy* (Geneva, Switzerland: ILO, June 2021).
4. World Bank, Enterprise Survey, 2016.
5. Reserve Bank of Zimbabwe, "Fintech Regulatory Sandbox Guidelines," February 2021, <https://www.rbz.co.zw/documents/BLSS/Fintech/FINTECH-REGULATORY-SANDBOX-GUIDELINES.pdf>.
6. Reserve Bank of Zimbabwe, *2022 Annual Bank Supervision Report*, 2022.
7. "RBZ's Collateral Registry System a Huge Success," the Herald, August 16, 2023, <https://www.herald.co.zw/rbzs-collateral-registry-system-a-huge-success/>.
8. Reserve Bank of Zimbabwe, NPS Quarterly report, July 2023.
9. FinScope Zimbabwe Survey, 2022
10. This could include National Railways of Zimbabwe, the Airports Company of Zimbabwe (Pvt) Ltd (ACZ), or both.
11. **[[Provide citation]]**
12. The government implementation agreement has three major components: the Project Development Support Agreement, the Power Purchase Agreement, and the RBZ Undertaking for Foreign Currency Convertibility and Transfer.
13. World Bank, 2023
14. GSMA Intelligence, 2022
15. Telegeography, 2022
16. Gallup Survey, 2020
17. UNCTAD, 2021; WEO, 2020 and UN EGD, 2022
18. Telegeography, 2022.
19. T. Suri, and W. Jack, "The Long-Run Poverty and Gender Impacts of Mobile Money," *Science* 354, no. 6317 (2016.): 1288–92, <https://www.science.org/doi/10.1126/science.aah5309>.
20. TowerXchange, 2021.
21. Examples include Amethis and Convergence Partners Digital Infrastructure Fund in Africa and Digital Bridge at the global scale.
22. Telegeography, 2022.
23. ITU, 2021.
24. GSMA, "Making Internet-Enabled Phones More Affordable in Low- and Middle-Income Countries" (GSM Association, London, 2022), <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2022/04/Making-internet-enabled-phones-more-affordable-in-low-and-middle-income-countries.pdf>.

# APPENDICES

## APPENDIX A

### ZIMBABWE AGRICULTURAL POLICY AND REGULATIONS

Overall, Zimbabwe’s agricultural policy is informed by the Comprehensive Agricultural Policy Framework (2015–35) and the new National Agriculture Policy Framework (NAPF) (2019–30). The central goal of the Comprehensive Agricultural Policy Framework is to increase crop and livestock productivity and production through investment in the agricultural sector and irrigation. NAPF in turn details steps needed to solve the challenges the agricultural sector faces following the Fast-Track Land Reform Program (FTLRP). Despite a major structural shift in the sector since the launch of the FTLRP in 2000, Zimbabwe did not have an active agricultural policy for many years. The Zimbabwe Agricultural Policy Framework: 1995 to 2020 was in place until 2012, when the Comprehensive Agricultural Policy Framework (CAPF) was drafted. The CAPF remained in draft form without official government endorsement for a long period and therefore was not enforceable.

Table A.1 provides a summary of existing policies and regulations in the agricultural sector in Zimbabwe.

**TABLE A.1 ZIMBABWE AGRICULTURAL POLICIES AND RELATED REGULATIONS AND ACTS**

Existing policies and regulations	Summary
<b>Comprehensive Agricultural Policy Framework (CAPF) (2012–30)</b>	The CAPF highlights detailed policy statements and strategies for developing the Zimbabwean agricultural sector during the period 2012–32.
<b>Zimbabwe Investment and Development Agency (ZIDA) Act</b>	The ZIDA Act provides the promotion and facilitation of investments and establishes ZIDA.
<b>National Agricultural Policy Framework (NAPF) (2019–30)</b>	The NAPF provides policy guidance and direction on how to promote and support the sustainable flow of investments to transform the agricultural sector.
<b>National Development Strategy (NDS) 1 (2021–25)</b>	The NDS seeks to transform the economy through developing and domesticating agriculture and mineral value chains.
<b>National Competitiveness Commission (NCC) Act (Chapter 14:36)</b>	The key priority for the NCC Act is to enable a competitive environment for Zimbabwean businesses.

Existing policies and regulations	Summary
<b>Zimbabwe Agricultural Investment Plan (ZAIP) (2013–17)</b>	The ZAIP aims to support the implementation of commitments made under the Malabo Declaration, in which the country committed to increase investments in agriculture.
<b>Agricultural Marketing Authority (AMA) Act</b>	The AMA Act establishes the Agricultural Marketing Authority, an agency that regulates, supervises, develops, and administers the marketing of agricultural products.
<b>Horticulture Recovery and Growth Plan (HRGP)</b>	The HRGP guides and supports (a) the revival of the conventional horticulture industry as well as (b) the stimulation of a transformative rural horticulture subsector under the Presidential Horticulture Scheme.
<b>Agriculture and Food Systems Transformation Strategy</b>	The Agriculture and Food Systems Transformation Strategy seeks to improve crop and livestock productivity and raise the gross agriculture production value to US\$8.2 billion by 2025.
<b>Livestock Growth Plan (LGP) (2021–25)</b>	The LGP seeks to address several challenges that are constraining livestock production, productivity, and profitability and to grow the livestock sector to a US\$1.9 billion economy by 2025.
<b>Maize, Wheat, and Soya Bean Production Recovery Plan</b>	The Maize, Wheat, and Soya Bean Production Recovery Plan put in place interventions to reverse the negative production trends and attain self-sufficiency to move away from the perpetual importation of these strategic commodities.
<b>Grain Marketing Act (1966)</b>	The act establishes the Grain Marketing Board to (a) regulate and control the prices and marketing of agricultural products and (b) maintain a strategic grain reserve.
<b>Zimbabwe Climate Policy (2017)</b>	The policy seeks to provide an overarching framework to give the country basic principles and guidance under which the National Climate Change Response Strategy and other climate-related strategies will be implemented. The Zimbabwe Climate Policy aims to enable Zimbabwe to establish the legal structures to regulate businesses in climate-related matters and enable them to reduce their greenhouse gas emissions.
<b>Climate-Smart Agriculture Framework (2018)</b>	This 10-year national strategy is intended to guide, coordinate, and facilitate climate-smart investments in the agricultural sector. It highlights the climate risks, vulnerabilities, and associated impacts on agro-ecosystems, as well as promising options for climate-smart investments to counter the effects of climate change.
<b>Climate-Smart Agriculture Investment Plan</b>	The Climate-Smart Agriculture Investment Plan seeks to align goals and objectives across Zimbabwe's existing agricultural policies and climate-change strategies, which will contribute to the achievement of the country's Vision 2030 and the Nationally Determined Contributions, among other goals.

Source: Ministry of Land, Agriculture, Fisheries and Rural Development

## NOTES

1. Government of Zimbabwe 2012b
2. Government of Zimbabwe 2018b
3. World Bank 2019
4. Draft National Agriculture Policy Framework (draft 2018).



## APPENDIX B

### REGISTRATION PROCEDURES FOR A PRIVATE LIMITED COMPANY IN ZIMBABWE

#### Legal requirements to start a private limited company in Zimbabwe

Starting a formal business in Zimbabwe requires an applicant to follow several procedures. The following are the legal steps one must take to be fully registered as a private limited company.

#### Registering with the Registrar of Companies

- The process begins with completion and submission of a CR 1 form (electronic communications), which must be assessed and approved by the chief registrar. If the documents submitted meet the standards, the registrar will then enter the company in the register and return a copy to the applicant with the date of registration.
- The applicant must then submit in duplicate the Memorandum and Articles of Association and two copies of a CR 5 form (registered office address) and a CR 6 form (list of directors and secretaries), together with a subscription fee of US\$65 within 30 days. A successful applicant will be issued a certificate of incorporation.
- The whole process of company registration with the Registrar of Companies takes an average of five working days to complete.

#### Opening a bank account

- To register as a taxpayer at the Zimbabwe Revenue Authority (ZIMRA), one needs a bank account. However, to obtain a bank account, one needs an advice letter from ZIMRA.
- An initial deposit is required when opening a bank account in Zimbabwe; the deposit is very minimal, averaging about US\$20. It takes up to 48 hours to have a functional account.

#### Registering with ZIMRA for income tax, value added tax (VAT), and pay-as-you-earn (PAYE)

- After submitting a copy of the certificate of incorporation and memorandum of association to ZIMRA, the company will be issued a registration number, current tax tables, and PAYE receipt books at no charge. The process takes two to three weeks to complete.
- A new organization can register for VAT only after a year of operation and only if the annual turnover reaches US\$40,000. However, to be liable for VAT, a business needs to have a fiscalization device, which costs US\$500 to US\$600. [[AQ: Can this be “can” or “must”?]]

**Registering with the National Social Security Authority (NSSA) for pension and accident prevention**

- Registration with NSSA should be done within 30 days of becoming an employer, and the process is done online. After processing the application, NSSA will notify the employer of the registration number.
- The employer and employee will have to contribute 3.5 percent of the employee's gross monthly salary.

**Registering with the Zimbabwe Manpower Development Fund (ZIMDEF)**

- Employers must register with ZIMDEF, a statutory body with the mandate of funding the development of critical and highly skilled human capital in Zimbabwe. The company contributes 1 percent of its wage bill to ZIMDEF. The fund allows employers to recover expenses when employees complete training.

**Applying for a license to the City Health Department**

- The company then retrieves the license application notice form from the city health department in its location. This application can now be downloaded from the website for some urban councils, and there is no longer a need to pay for its collection.

**Applying to the Local Authorities Licensing Office for the issuance of new licenses.**

- The process begins by paying a US\$20 administration fee at a local council before proceeding to the licensing office. The Local Authority [[AQ: "Authorities" is used two lines above this; which is correct?]] Licensing Office will issue to the applicant the SL2 form, which captures the necessary details.
- The applicant will be required to pay a US\$60 submission fee with the completed SL2 forms and to apply for a registration certificate. If all is satisfactory, the applicant must pay US\$160 for a temporary trading permit, pending date of authority meeting.
- After the date of authority meeting, a licensing fee will become payable, the amount of which varies depending on the type of business. The registration certificate is renewed annually.

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