ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

a conducive investment climate

vital for sustained economic growth in zimbabwe

willie nakunyada

august 2011

ZEPARU Working Paper Series (ZWPS 02/11)

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACRONYMS AND ABBREVIATIONS

AfDB	-	African Development Bank
BEE	-	Black Economic Empowerment
BIPPA	-	Bilateral Investment Promotion and Protection Agreement
CEO	-	Chief Executive Officer
COMESA	-	Common Market for Eastern and Southern Africa
DRC	-	Democratic Republic of Congo
GCI	-	Global Competitiveness Index`
GDP	-	Gross Domestic Product
EPZ	-	Export Processing Zone
FDI	-	Foreign Direct Investment
ICSID	-	International Convention of the Settlement of Investment Dispute
ICT	-	Information Communication Technology
IFC	-	International Finance Corporation
IMF	-	International Monetary Fund
OPIC	-	Overseas Private Investment Corporation
SADC	-	Southern African Development Community
UN	-	United Nations
UNCITRAL	-	United Nations Commission of International Trade and Arbitration Law
UNCTAD	-	United National Conferences on Trade and Development
US	-	United States
ZESA	-	Zimbabwe Electricity Supply Authority
ZIA	-	Zimbabwe Investment Authority
ZIC	-	Zimbabwe Investment Centre

ABSTRACT

This paper analyzes how the investment climate in Zimbabwe can be improved to meaningfully attract foreign direct investment that supports sustained economic growth and development. The study employs an investor perception survey to ascertain the country's investment climate with a view to proffer appropriate investment policy recommendations to unlock the country's growth potential. The study confirms that adverse developments in economic and financial factors negatively affects investment decisions in industry and the tourism sector the most. Political and governance factors as well as the present policy environment also militate against investment decisions in industry and the banking sector. Lack of supportive infrastructure, erratic power supplies and stringent labour regulations also militates against initiatives to create a favourable investment destination in Zimbabwe.

CHAPTER 1: INTRODUCTION

1 Background

The rapid growth of foreign direct investment (FDI) and its overall magnitude sparked numerous studies dealing with the channels of transmission from FDI to growth (Bashir, 1999). The absorption of foreign direct investment flows has provided substantial growth impetus to developing and emerging market economies. In this regard, UNCTAD (1999), impressed that the successful mobilization of capital by African states will help Africa assume its rightful position in the global economy. Within policy circles, there is a widespread belief that foreign direct investment (FDI) enhances the productivity of host countries and promotes economic development. Foreign direct investment will undoubtedly improve the supply side of African economies, create employment and anchor sustainable growth and development. Accordingly, governments the world over have attached great prominence to FDI attraction in view of its positive effects on capital formation and enhancement of the quality of the capital stock. In view of the potential role of foreign direct investment in accelerating growth and economic transformation, many developing countries in general, and Africa in particular seeks such investment to accelerate their development efforts.

The creation of conducive investment climates has thus, assumed a central role in efforts geared at promoting FDI. As such, the attraction of FDI has become a major component of development strategies adopted by developing countries. In turn, foreign direct investment (FDI) has become a vital source of economic development for the African continent over the past two decades (UN 2010). In view of the dramatic surge in FDI from about US$ 9 billion in 2000 to US$18 billion in 2004 and US$88 billion in 2008, FDI has become a major source of finance for Africa's development. In the African context, the role of FDI as a source of capital and its indispensable role in bridging the savings–investment gap is also envisaged to provide substantial impetus to efforts geared at attaining the Millennium Development Goals targeted for 2015. Given the region's low income and domestic savings level, its resource requirements and its limited ability to raise funds domestically, the bulk of its finance for the future will have to come from abroad, mostly in the form of FDI (Ajayi, 1999). The African continent is well endowed with natural resources and boasts of world's largest accumulated reserves of gold, antimony, bauxite, chromite, cobalt, diamonds, fluorspar, hafnium, manganese, phosphate rock, platinum metals, titanium, vanadium, vermiculite and zirconium. As such, natural resources have meaningfully attracted foreign direct investment in resource rich countries such as Nigeria, Angola, Mozambique, Tanzania, Libya, Egypt, Democratic Republic of Congo) DRC, and South Africa among others.

Zimbabwe offers lucrative investment opportunities in key sectors, notably mining, manufacturing, tourism, information communication technology (ICT) and the financial services sector. This notwithstanding, foreign direct investment inflows have remained subdued, particularly since the turn of the century. Political uncertainty that has characterized the election periods coupled with recurrent uncertainties on the policy front as well as the drive to economically empower the previously marginalized indigenous people, have been argued to have negatively affected the country's investment climate and deterred the much -needed foreign direct investment. Incessant efforts to attract foreign direct investment to anchor sustainable growth and development in Zimbabwe have thus been adversely affected by negative investor perception. The country's suitability as an investment destination of first choice has, thus been affected by negative investor perception. Although the Zimbabwean economy has experienced fast paced growth of 5.7% in 2009 and 8.1% in 2010, there is scope to further shore-up economic activity, create employment and improve the standards of living if the investment climate is benchmarked to best international standards. It is against this background that this paper seeks to ascertain how Zimbabwe can meaningfully attract foreign direct investment to support the resuscitation of economic activity by focusing on improving the investment climate.

The paper is organized as follows: Chapter 2 gives an overview of the evolution of the investment climate in Zimbabwe; Chapter 3 reviews literature on investment climate for sustainable economic growth; Chapter 4 outlines the research methodology; Chapter 5 analyzes and interprets the research findings and Chapter 6 concludes with policy recommendations.

CHAPTER 2: EVOLUTION OF ZIMBABWE'S INVESTMENT CLIMATE

2 Overview of Economic Developments

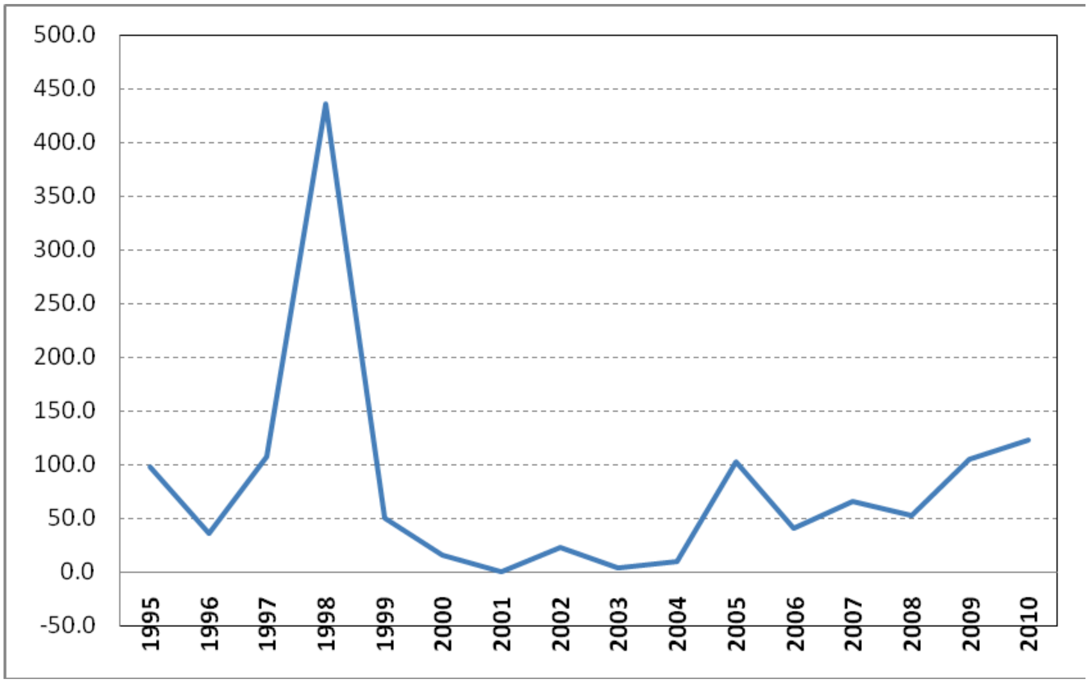
The Zimbabwean economy is estimated to have progressively declined by a cumulative 45% in the new millennium on the back of suspension of balance of payments and budgetary support by multilateral financial institutions such as the IMF, the World Bank and the African Development Bank (AfDB). Remedial measures adopted by the multilateral institutions were triggered by the country's default on external debt repayment obligations that fell due. The accumulation of external payment arrears to both multilateral and bilateral creditors resulted in the suspension of further loan disbursements to Zimbabwe, and the subsequent demonstration effect from other lending institutions. At the same time, the country embarked on a fast track land reform program in 2000 to redistribute land from the minority white farmers to the majority and previously disadvantaged indigenous people. The land reform program entailed the expropriation of vast tracks of land from white commercial farmers to the black majority, which had been relegated to the infertile areas. In the process, existing bilateral investment and promotion agreements were infringed.

In addition, excessive money supply growth occasioned by quasi-fiscal activities undertaken by the Reserve Bank of Zimbabwe, fueled inflation to historical proportions of 231 million% on an annual basis in July 2008. Export performance declined during this period largely due to an uncompetitive exchange rate which lagged far behind inflation developments. This negative development resulted in the depletion of the country's foreign exchange reserves to precarious levels of less than 1 month of import cover as domestic production contracted in part due to price and exchange controls. This hyperinflationary period was also characterized by the tightening of exchange controls with surrender requirements being administered by the central bank for all exporters. The deteriorating macroeconomic environment affected foreign direct investment entities and the corporate world at large. In consequence, corporate profitability was severely eroded as production costs escalated and revenues progressively lost value due to the exponential growth in inflation. The investment climate was further compounded by limited access to foreign exchange, resulting in over-reliance on capital injections from parent companies operating elsewhere to sustain domestic operations (Jenkins and Thomas, 2002).

2.1 Foreign Direct Investment Trends

Against the background of these developments, the country's investment climate deteriorated with investor uncertainty growing. The political instability and uncertainty that has characterized election periods in Zimbabwe further worsened the investment climate. The sharp surge in FDI inflows in 1998 was partly driven by the privatization and liberalization wave in the Zimbabwean economy, within the context of the IMF and World Bank funded structural adjustment program (Gwenhamo, 2009). The restructuring of public enterprise under the ESAP program was geared at shedding off the perpetual burden imposed by the loss making public enterprise on the fiscus.

Figure 1: Net Foreign Direct Investment US$M



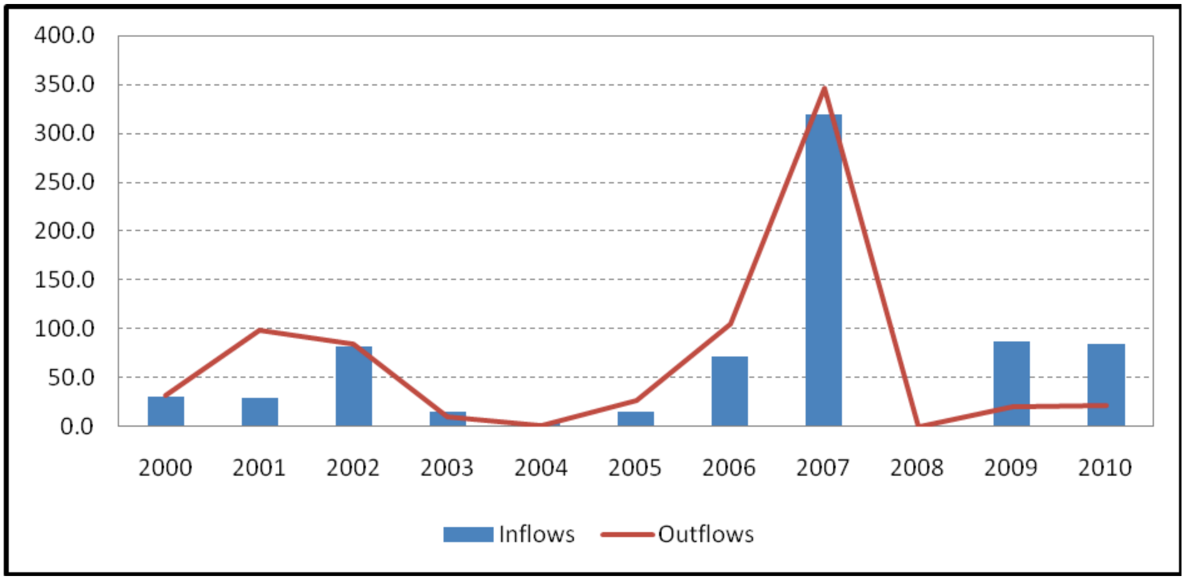
Source: Ministry of Finance and Reserve Bank of Zimbabwe

The restructuring of public enterprises such as the Cotton Company of Zimbabwe and the Dairy Marketing Board saw substantial inflows of foreign direct investment into the Zimbabwean economy. In the late 1990s, the country began to experience political instability and macroeconomic imbalances that occasioned protracted investor uncertainty that lingered in the economy since the turn of the century. Against this background, the investment climate deteriorated in the new millennium particularly when Government embarked on the compulsory acquisition of white owned commercial farms. In consequence, FDI inflows declined sharply to levels not exceeding US$150 million over the period 2000-2010.

2.2 Portfolio Investment Trends

Reflecting the uncertain investment environment that prevailed in Zimbabwe over the period 2000-2008, portfolio investment inflows were highly volatile resulting in significant capital flight. In consequence, portfolio investment outflows over the period 2000-2008 amounted to US$706.4 million compared to portfolio investment inflows of US$567.3 million realized over the comparative period, resulting in a net portfolio investment outflow of US$139.1 million. On the other hand, foreign exchange shortages made it increasingly difficult for foreign investors on the Zimbabwe Stock Exchange as well as the money market investors to repatriate investment proceeds over the period 2007 to 2008. This development acted as a disincentive and deterrent to both short term and long term investment in Zimbabwe.

Figure 2: Net Portfolio Investment Flows US$M

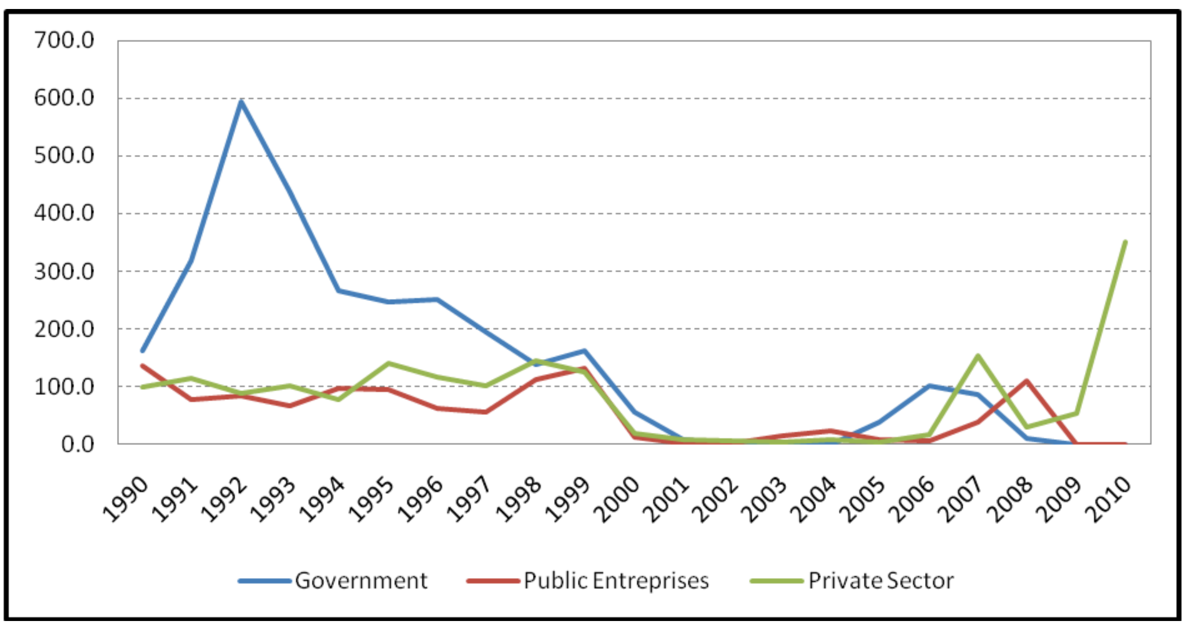


Source: Ministry of Finance and Reserve Bank of Zimbabwe

2.3 Long Term Offshore Loan Flows

Likewise, long term loan inflows declined precipitously over the period 1990 to 2000 and they virtually dried up between 2001 and 2004 before sluggishly recovering somewhat between 2006 and 2010.

Figure 3 Long Term Offshore Loan Disbursements US$M



Source: Ministry of Finance and Reserve Bank of Zimbabwe

The decline in long term capital flows reflects the suspension of balance of payments and budgetary support to Zimbabwe by multilateral financial institutions such as the IMF, the World Bank and the African Development Bank (AfDB). This coupled with the continued accumulation of external payment arrears since 1999 undermined the country's creditworthiness as bilateral and commercial creditors also suspended disbursements in respect of on-going projects. In consequence, Government, public enterprises and the private sector found it increasingly difficult to secure long term capital which supports sustainable growth and development as well as fast paced economic recovery. For instance, official long term loan disbursements which peaked at US$593 million in 1992 completely dried up over the period 2003 and 2004 as well as the period 2009 to 2010. Similarly, public enterprises also witnessed the drying up of loan disbursements over the period 2009 and 2010. Evidently, investors' long term perception of the country remains negative as evidenced by their endemic hesitancy to place their funds into the Zimbabwean economy through extension of long term loans.

2.4 Bilateral Investment Promotion and Protection Agreements (BIPPAs)

Regrettably, the implementation of the fast track land reform program entailed the violation of Bilateral Investment Promotion and Protection (BIPPAs) agreements that Zimbabwe signed with several European and African countries. In the process, the sanctity of BIPPAs with Germany, France, Switzerland, Netherlands and others was violated. In the region, over 200 South African farmers had their properties expropriated, regardless of a standing BIPPA between the two countries. In consequence, the Government of Zimbabwe has been engaged in legal battles with the Germany, South African and Dutch Governments over the breach of the respective BIPPAs. For instance, a group of Dutch farmers whose farms were seized under the land reform program took their case to the International Centre for the Settlement of Investment Disputes (ICSID) in April 2005, demanding that Zimbabwe honor its BIPPA with the Netherlands. The case was heard by a tribunal in Paris in November 2007, and the tribunal issued a verdict favorable to the farmers. Zimbabwe's government acknowledged that the farmers had been deprived of their land without compensation but disputed the amount the farmers claimed in damages. Similarly, the SADC Tribunal in Windhoek, Namibia, ruled in 2008 that Zimbabwe's land reform exercise discriminated against a group of white farmers who filed an application challenging the seizure of their farms. The Tribunal ruled that the government was in breach of the SADC treaty with regard to discrimination. The Government of Zimbabwe, however, did not recognize this ruling. These negative developments, however, undermined the country's appeal as a prime investment destination in the region and beyond.

2.5 Indigenization and Economic Empowerment Initiatives

The Indigenization and Economic Empowerment Act, 2007, as implemented by the Indigenization and Economic Empowerment Regulations, 2010, came into force on 1 March 2010. Under this law, all foreign firms should cede 51% of their total shareholding to indigenous and previously disadvantaged people. In this regard, foreign firms have already submitted their implementation plans. These initiatives to economically empower the indigenous people, have however, created additional negative investor perceptions as the memory of how the land reform program was executed still lingers vividly in the minds of investors. Consequently, the IMF in its June 2011 Article IV Consultation Report projects that the announcement of the fast-track indigenization of the mining sector in May 2011 will be a drag on the recovery and will cause economic growth to decelerate from 8.1% in 2010 to 5.5 percent in 2011. Accordingly, the IMF projects that foreign direct investment (FDI), particularly in mining, and portfolio investment will decline in 2011 due to the negative investor perception generated by the indigenization program.

2.6 Travel Warnings

In 2008, Japan, Germany and the United States of America issued travel warnings to their citizens to make safety considerations before visiting Zimbabwe. This follows the political violence that characterized the 2008 harmonized elections. Notwithstanding the negative effects that these travel warnings had on tourist arrivals from these major source markets, investors also adopted a wait and see attitude, while at the same time considering other politically stable and competing investment destinations. In the wake of the formation of the inclusive Government in February 2009, Japan, Germany and the Unites States of America lifted travel warnings. Although the arrival of tourists from these major source markets has since improved, investor perception as reflected by subdued capital flows remain negative.

2.7 Export Processing Zones

To enhance the country's appeal as an attractive investment destination, and promote export led growth, the Government of Zimbabwe through the Ministry of Finance established Export Processing Zones through an Act of Parliament in 1995. With the adoption of the Economic Reform Program in 1990, the Zimbabwe Government introduced the export Processing Zones Program (EPZ), alongside with the Zimbabwe Investment Centre (ZIC) as a tool for promoting active investment and sustained economic development. This was to be implemented through the Zimbabwe Export Processing Zones Authority – a quasi-Government body established through an Act of Parliament and tasked with the responsibility of promoting zone development and the carrying on of export oriented activities within such zones. In terms of scope of operation, EPZs represented a special type of development initiative, described as "an enclave treated as being outside the customs territory of the host state, where export oriented activities are undertaken in the manufacturing, processing, assembly and service sectors. Such services benefit from a favorable tax regime and nonpayment of duties. In Zimbabwe EPZs were implemented in the form of Industrial Parks as well as stand-alone EPZs.

The EPZ status was granted on condition that such a company undertakes a manufacturing processing or service utility which exports at least 80% of its production. Tax and duty concessions granted in relation to approved zones included:

- Exemption from income tax for the first five years of operation;
- Thereafter, the application of the rate of 15% to taxable income;
- Exemption from capital gains tax;

- Exemption from non-resident and resident shareholder's taxes, non-resident's taxes on interest, fees, royalties and remittances;
- Duty free importations; and
- Sales Tax on goods and services is refundable.

Fringe benefits arising from employment by a company in an EPZ included tax free in the hands of the employee to the tune of 50% of the employee's taxable income. Some of the incentives applicable to Export Processing Zones also included the following:

a) Favourable income tax rates (0% for the first five years of operation, and 10% thereafter);
b) Exemption from capital gains tax;
c) Exemption from certain withholding taxes; and
d) Duty free importations.

Over the period 1996 to 2001, the Export Processing Zone Authority approved a total of 212 EPZ projects of which 110 became fully operational. Over and above these, the Authority also approved 10 Industrial Development Parks that could be used for export processing zone purposes. About 34% of registered EPZ companies were foreign-owned while 66% were domestically owned during the reference period. The rate of project approvals, however, began to decline sharply against the background of unfavourable macro-economic and political developments and the depletion of the country's foreign exchange reserves. It is against this background that EPZs in general contributed a mere 2.7% to GDP and about 5% to export earnings in 2002. According to Tekere M (2001), The EPZ program had limited success largely due to difficulties in accessing the incentives offered, policy reversals, lack of co-ordination between Government departments and the general deterioration in the macroeconomic environment.

2.8 Establishment of One Stop Investment Shop and One Stop Border Post

In a bid to further improve the country's investment climate, Government established a one stop investment shop in 2010, re-profiling Zimbabwe's business competitiveness and offloading several bureaucratic burdens from potential investors previously exposed to protracted and disjointed regulatory approvals. The establishment of the one stop investment shop came just over a year after the opening of a one-stop border post at Chirundu in August 2009, the first in Africa, estimated to have cut transportation costs by at least 30%. The Chirundu border post, shared by Zambia and Zimbabwe, is the continent's second busiest inland port after Beitbridge. In consequence, Zimbabwe took bold strides towards cutting cargo turnaround time and the time taken to open a new business.

The one-stop investment shop, housed under the Zimbabwe Investment Authority (ZIA), has brought key regulatory authorities under one roof, namely ZIA, the registrar of companies, the Deeds Office, the Reserve Bank of Zimbabwe, Mines ministry, the Environmental Management Agency, the Immigration Control Department, Local Government and ZESA, among others. The institution is geared at reducing time taken to start a business to five days from nearly 100 days. This development is envisaged to improve the country's rankings under the Ease of Doing Business Index. Widely considered a proxy for economic competitiveness, the Ease of Doing Business Index compiled by the World Bank reviews regulations relating to starting a business (corporate law), registering property (real estate law), employing workers (employment law), protecting investors (corporate law), getting credit (collateral law), enforcing contracts (commercial litigation), closing a business (bankruptcy) and trading across borders (trade law).

2.9 Investment Opportunities in Zimbabwe

Zimbabwe boasts of the following compelling and lucrative investment opportunities:

- Abundant natural resources;
- An educated labour force;
- A relatively developed infrastructure;
- A relatively diversified financial services sector;
- Access to world markets through membership in SADC, and COMESA; and
- Government is a signatory to Multilateral Investment Guarantee Agency (MIGA), Overseas Private Investment Co-operation (OPIC), International Convention of the Settlement of Investment Dispute (ICSID), United Nations Commission of International Trade and Arbitration Law (UNCITRAL) and Bilateral Investment Promotion and Protection Agreements (BIPPA).

Zimbabwe has also signed Bilateral International Protection Agreements (BIPPAs) with the following countries:

United Kingdom	Yugoslavia
China	Iran
Germany	Denmark
Mozambique	Sweden
Malaysia	India
Netherlands	Indonesia
Portugal	Jamaica
Switzerland	Italy
Egypt	South Africa
Botswana	

Table 1 Sector Specific Investment Opportunities

Sector	Opportunity	
MANUFACTURING	Textiles	Cotton ginning, spinning, weaving, finishing textiles and knitting products
	Clothing & Footwear	Wearing apparels and footwear
	Chemicals	Fertilizers, insecticides, pests, paints, varnishes, soaps, detergents, inks, glues, polishes, pharmaceuticals, industrial chemicals, petroleum products, rubber and plastic products
	Wood & Furniture	Saw milling, wooden products, furniture and fixtures
	Metal& Metal products	Machinery and equipment, radio and communication equipment
	Technology	Information processing, computer assembly, solar technology and consumer electronics
MINING	Mining	Prospecting and mining of various minerals including gold, coal, diamond, granite and platinum (of which Zimbabwe has the second largest reserves in the world after South Africa) Opportunities also exist in the beneficiation of the minerals e.g. cutting and polishing of diamonds, jewelry manufacturing and tile manufacturing. Quarrying and mineral exploration
TOURISM	Infrastructure Development	Construction of hotels and lodges in designated Tourism zones
	Tourism services	Running and operating tourist facilities e.g. in the South East of the country
AGRICULTURE	Agro-processing	Zimbabwe as an agro-based economy opportunities abound for investment in value addition in the agriculture sector, for instance, meat processing, fruit juices, horticulture and floriculture, processing of cotton lint, sugar milling and timber processing.
	Agro-forestry	Primary production of food and cash crops, Primary horticulture, game, wild life ranching, livestock, Poultry farming, fishing and fish farming
SERVICES	Construction	Medium priced residential accommodation, Commercial and industrial buildings (industrial parks, factory shells & office accommodation
	Infrastructure	Development of Toll roads, building and upgrading of airports, construction of dams and bridges, building of power generators & transmission facilities, construction and upgrading of telecommunication facilities
	Transport	Road haulage, tourist transport, car hire and taxis

In addition, investment opportunities in the energy sector include methane gas drilling, thermal power projects, hydro and mini-hydro power generation projects and biodiesel production among others. Dualization of the Chirundu –Beitbridge and Harare to Bulawayo roads, upgrading of Kariba and Victoria Falls airports, construction of Kunzwi Dam, completion of Tokwe Mukorsi, Gwayi-Shangani Dam, construction of Mtshabezi water pipeline, Zambezi-Bulawayo pipeline and Harare Chitungwiza railway line are some of the significant infrastructural projects where investment opportunities abound.

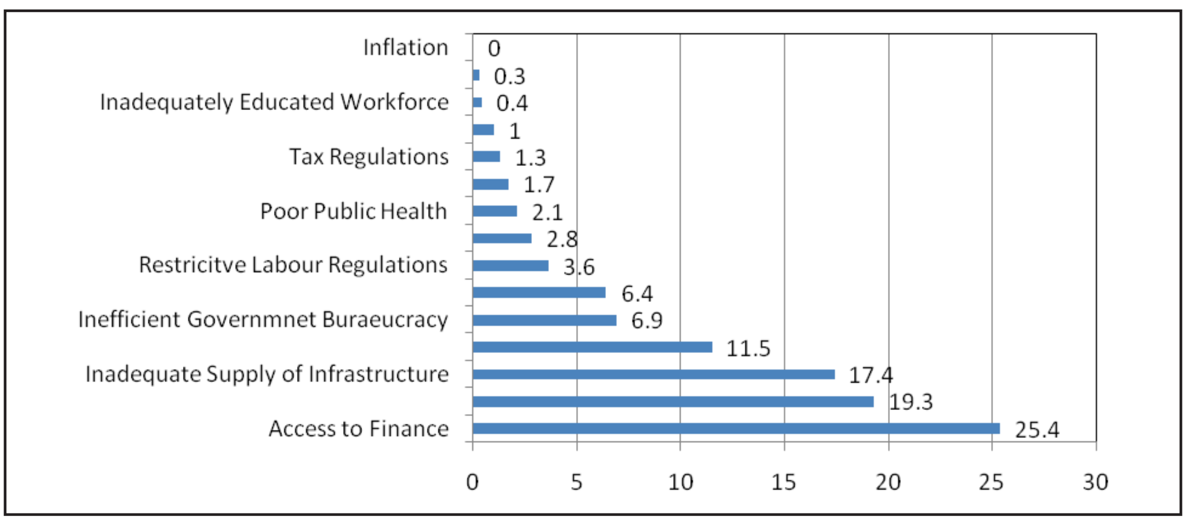
2.10 Liberalization of Exchange Controls

The inception of the multiple currency system at the beginning of 2009 saw the liberalization of current account transactions as well as the partial liberalization of the capital account of the balance of payments. Effectively, exchange controls were liberalized except for some capital account transactions. To this end, the remittability of dividends and profits has been fully liberalized. In view of the vulnerability of capital account liberalization and its susceptibility to speculative attacks, loans in excess of US$5 million have to be approved by the External Loans Coordinating Committee (ELCC) comprising officials from the Reserve bank of Zimbabwe and the Ministry of Finance.

2.11 Deteriorating Investment Climate

Notwithstanding the abundance of investment opportunities, the establishment of export processing zones, a one stop investment shop and border post, coupled with the restoration of macroeconomic stability within the context of the multiple currency system and the subsequent establishment of the Inclusive Government foreign direct investment inflows to Zimbabwe have remained subdued. According to the 2010 Global Competitive Index[1], Zimbabwe continues to be among the lowest ranked countries included in the GCI, ranked fourth to last at 136th overall, although there have been some improvements in individual areas. The assessment of public institutions, while still weak, has improved measurably, increasing from 125th last year to 113th this year. Specific areas of improvement are ethics and corruption (up from 122nd to 103rd), government inefficiency (up from 124th to 105th), and the security situation (up from 85th to 66th). On the other hand, some major concerns linger with regard to the protection of property rights (ranked 136th) and undue influence (126th), where Zimbabwe continues to be among the lowest ranked countries. Despite efforts to improve the macroeconomic environment—including the dollarization of its economy in early 2009, which brought down inflation and interest rates—the situation continues to be bad enough to place Zimbabwe last out of all countries in this pillar (139th). Weaknesses in other areas include health (ranked 135th in the health sub-pillar), low educational enrollment rates, and official markets that continue to function with difficulty (particularly with regard to goods and labor markets, ranked 130th and 129th, respectively).

Figure 4: Global Competitiveness Index



Source: Global Competitiveness Report, 2011

[1]The Global Competitiveness Index (GCI) measures national competitiveness by capturing micro and macroeconomic fundamentals of national competitiveness. Competitiveness is defined as a set of institutions, policies, and factors that determine level of productivity of a country.

Limited access to finance, political instability, inadequate infrastructure, government instability, and inefficient Government bureaucracy, ranks high as the impediments to the country's competitiveness. The Index of investment freedom compiled by the Heritage Foundation and Wall Street Journal ranks Zimbabwe at 178 out of 179 countries reviewed, only better than North Korea. These statistics, although debatable methodologically in other circles, provide consistent indicative trends of a country's investment climate relative to other destinations that are competing for capital which usually shy away from the vagaries of adverse investment climates. In addition, investors use these indicative numbers as guideposts before they commit substantial resources to any country.

Table 2: Ease of Doing Business Indices

Indicators	Rank (out of 183)
Ease of Doing Business	157
Starting a Business	143
Registering property	82
Getting Credit	128
Protecting Investments	120
Paying Taxes	131
Trading and Crossing Border	168
Enforcing Contracts	110
Closing a Business	156

Source: World Bank, IFC (2011)

According to the World Bank in its Ease of Doing Business Index, Zimbabwe ranked 157 out of 183 countries, which is a very low ranking. Furthermore, Zimbabwe ranked second-to-last out of 133 countries in the World Economic Forum's Global Competitiveness Index for 2009-10. And the Vancouver-based Fraser Institute's 2008-09 Annual Survey of Mining Companies ranked Zimbabwe 65th out of 71 regions surveyed on the attractiveness of government mining policies. These rankings collectively act as a dashboard which in the Zimbabwean context provides adverse signals to that the investment climate in Zimbabwe requires attention in order to situate the county as prime investment destination. On the other hand, UNCTAD's FDI Potential Index over the period 2005-2007 ranks Zimbabwe as number 59 out of 141 reviewed countries. This reflects that though the country's investment climate has great scope for improvement, the country's potential to attract FDI remains bright. It is against this background that this study seeks to investigate the sentiments among the investor community with a view to proffer appropriate policy advice that informs policy making in the area of investment promotion for sustained growth.

Table 3: Competitiveness and Corruption Index

Index	Year	Zimbabwe's Ranking
TI Corruption Index	2009	146 out of 180
Heritage Economic Freedom	2009	178 out of 179
World Bank Doing Business	2010	159 out of 183

Source: US Department of State

2.12 Objectives of the Study

a. To assess the country's investment climate over the period 2009-2010;

b. Ascertain investor's perceptions about Zimbabwe's investment environment under the current policy environment saved by a multiple currency system;

c. Identify the factors that investors place utmost importance on in the making of investment and business decisions in developing countries such as Zimbabwe;

d. Proffer appropriate policy advice to improve the country's investment environment to support sustainable economic growth and development.

CHAPTER 3: LITERATURE REVIEW

3 Introduction

An investment climate is defined as a set of location specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand. Government policies and behaviors exert a strong influence through their impact on costs, risks, and barriers to competition (World Development Report, 2005). The investment climate includes economic incentives, which are shaped by macroeconomic and regulatory policies and public administrative procedures, and incentives embodied in institutional arrangements, such as security of property rights, the rule of law and governance stability (Clarke R.G, et al 2006). A good investment climate fosters productive private investment—the engine for growth and poverty reduction and is usually accompanied by the following positive factors:

i. It creates opportunities and jobs for people;
ii. It expands the variety of goods and services available at affordable costs, to the benefit of consumers; and
iii. It supports a sustainable source of tax revenues to fund other important social goal
iv. Other key features of a good investment climate—include:
    - o Efficient infrastructure; and
    - o Efficient finance markets.

Improving the investment climate— the opportunities and incentives for firms to invest productively, create jobs, and expand—is the key to sustainable progress in the effective eradication of poverty and improvement in the livelihoods of the general populace. Principally, the investment climate influences the decisions of firms of all types: the decision of the farmer to sow more seed; the decision of the micro-entrepreneur to start a business; the decision of the local manufacturing company to expand its production line and hire more workers; the decision of the multinational to locate its next global production facility (ibid).

3.1 Empirical Evidence – China and India

Evidence from China and India reflect stellar economic performance in recent years accompanied by significant reduction in poverty. These positive developments are traced to improved investment conditions that resulted in inordinate foreign direct investment flows being absorbed by these two economies. Following the introduction of rudimentary systems of property rights and private enterprise in the 1980s coupled with trade liberalization, China adopted a broad program to improve the investment climate. Similarly, India introduced reforms to reduce tariffs and loosen licensing requirements in the mid-1980s, before extensive trade liberalization measures aimed at further dismantling cumbersome licensing procedures in the 1990s were adopted. Against this background, private investment as a share of GDP nearly doubled in both countries (World Development Report, 2005). In addition, Per capita GDP in China rose tenfold from US$440 in 1980 to US$4,428 in 2010, and India's almost quadrupled from US$670 in 1980 to US$2,570 in 2010. In both cases, poverty levels declined dramatically through deliberate policy measures to employ sustain initiatives geared improving opportunities and incentives for firms to invest productively. In consequence, investment climate improvements in China and India have driven the greatest reductions in poverty in an unprecedented manner, and 400 million people were lifted out of poverty in China alone. The increases in income were also matched by gains in health outcomes. In China, life expectancy rose by four years, from 66.8 to 74.7 years from 1980 to 2010 respectively, and infant mortality fell from 49 to 16 per 1,000 live births over the comparative period. Similarly, life expectancy in India increased from 54 year in 1980 to 66.8 years in 2010, while infant mortality declined by a massive 40 percent, accompanied by a precipitous decline in malnutrition.

3.2 The Case of Uganda

The benefits of a better investment climate are not limited to large countries. Many countries in Africa have experienced limited or negative growth, with investment climates often clouded by historical legacies, political instability, excess government interference, and other factors that stifle opportunities and incentives for firms to meaningfully invest. This notwithstanding, in the early 1990s Uganda embarked on a program to improve its investment climate. Simultaneously, macroeconomic stability was achieved, while expropriations by a previous political administration were reversed. In addition, trade barriers were reduced, and comprehensive tax and judicial reforms were undertaken. Similarly, private sector participation and competition were introduced in telecommunications. While there is still great scope to improve the investment climate in Uganda, the share of private investment in GDP more than doubled between 1990 and 2000. Per capita GDP rose to US$508.9 in 2010, resulting in the significant decline of the population living below the poverty line.

3.3 Evidence from the Caribbean Countries

In a survey conducted to investigate 42 aspects of the investment climate in 8 categories in the Caribbean Countries, the results confirmed that investors attach more importance to the quality of infrastructure than any other aspects of the investment climate. This is particularly so for those in transport and retail/wholesale trade businesses. In addition, labor market issues, including the cost and availability of workers at different skill levels, labor productivity, labor market flexibility and labor relations, also rank high on investors' decision making list. By contrast, market access for either input supplies or final products, and administrative procedure for business approval and land accessing are low on investors' mind when evaluating investment options. Firms in different businesses, however, attach varying degrees of importance to the various factors affecting investment climate. As manufacturing firms tend to be more export-oriented, they care a great deal about exchange rate stability and shipping services and ports, but are less concerned about access to land or anti-competitiveness practices. Services sector firms, on the other hand, because they their focus on the local market, tend to care more about political and regime stability and local market size, but less about the availability of unskilled labor.

Moreover, although firms do not attach equal importance to all aspects of the investment climate, very rarely would a firm claim attaching no importance to any issue that could potentially affect its business operation. Therefore, it should be underscored that even though this benchmarking exercise strives to identify the most critical aspects of the investment climate in the Caribbean, policy makers in the region should not neglect the relatively minor aspects of the business environment either. The survey provided enough country-specific information to allow a more in-depth cross-country comparison of the most important strengths and weaknesses of five Caribbean countries. The study concludes that:

- Barbados comes out strongly in terms of its policy and legal environment, as well as its FDI framework, but falls behind in taxation, including both tax rates and tax administration, and customs;
- The Dominican Republic excels in labor supply and other aspects of the labor market, as well as relatively good tax and customs systems, but is the weakest among the five when it comes to qualify of life;
- Grenada offers good infrastructure and a pleasant life style, but falls behind in FDI framework, market access, tax and customs procedures, and all aspects of the labor market;
- Jamaica provides the best market access and the best infrastructure facilities in the region, but is weak in terms of government bureaucracy and administrative obstacles to growth and
- Trinidad and Tobago boasts of policy and macroeconomic stability and an abundant power supply, but lags behind on with regards to serious crime and security concerns and anti-competitiveness practices.

A study by Ajayi S.I (2006) reveals that the investment climate in Africa at large has been characterized by perceived riskiness of investment in Africa, price and exchange rate instability, and the relatively mediocre nature of reforms in Africa relative to other regions of the world. Some African countries have lost their relative position in attractiveness to FDI flows while others have improved theirs. In all cases it is shown that policies do matter. As such, FDI flows are influenced by both pull and push factors. It is noteworthy that while the list of factors is fairly long, not all determinants are equally important to every investor in every location at all times.

3.4 Findings from Surveys in Southern Africa

In a review of survey-based evidence, Hess (2000) assesses the investment climate in each of the SADC economies, and highlights the major factors deterring foreign direct investment. The survey reveals that the following factors rank high in deterring foreign direct investment in the Southern African region:

- Unstable political and economic environments;
- Inefficient and cumbersome bureaucracies, which can breed corruption;
- A lack of transparency;

- Inadequate infrastructure, most notably for telecommunications, transport, and the erratic provision of electricity and water; and
- High taxation.

Additionally, the study found that further weaknesses associated with investment conditions in one or more economies in the region include:

i. Weak private sector institutions;
ii. Visa requirements and availability of work/residence permits;
iii. Underdeveloped financial sectors;
iv. Differing product standards;
v. Small domestic markets;
vi. Shortages of skilled labour;
vii. Low productivity;
viii. Archaic legislation; and
ix. Uncertain or restricted land ownership.

Hess (2000) also emphasize that a stable macroeconomic and political environment creates a conducive investment climate that augers well for the meaningful attraction of FDI. As such, investors require as much certainty as possible about the direction of the economy and they prefer slightly less-than-optimal but predictable policies over optimal policies that may be reversed.

CHAPTER 4: METHODOLOGY

4 Investor Perception Survey

The study makes use of an investor perception survey administered to selected foreign direct investment entities in Zimbabwe's broad sectors namely, mining, manufacturing, tourism and the financial services sectors.

4.1 Respondents

The questionnaire was administered to Finance Managers or Economists of selected foreign direct investment entities across the key sectors of the economy. Interviews were conducted with the Zimbabwe Investment Authority as well as the Chamber of Mines to extract their views on the country's investment climate.

4.2 Sampling Technique and Data Description

The study employed the stratified sampling technique, in which FDI entities are divided into sectoral clusters in order to ensure that the sample is representative of all the key sectors of the Zimbabwean economy which host FDI enterprises. Subsequently, proportionate sampling was used to select a representative sample from all the key sectors of the economy namely, mining, manufacturing, financial services, agriculture, construction, telecommunications, retail, insurance and tourism. The sample frame was developed from a comprehensive list of firms registered by the Zimbabwe Investment Authority (ZIA) and the Reserve bank of Zimbabwe. Regrettably, responses from sectors such as the mining, energy, financial and agricultural sector were not favourable on the back of accelerated indigenization initiatives. To adequately cover key sectors such as the mining sector, interviews covering the broad aspect of the investment climate were held with the Chamber of Mines. Representative bodies for industry and tourism were, however, forthcoming and provided key responses. The selected foreign direct investment entities were then interviewed to collect information on the country's investment climate. The questionnaire extracted information over the period 2009-2010 to cover the evolution of the investment climate during the multiple currency system.

4.3 Target Variables

The questionnaire to be designed for use in the survey will focus on the following key variables:

- Barriers to entry and competition policy;
- Political environment;
- Investment regulations;
- Tax policies;
- Business and Government relations;
- Labour regulations;
- Economic Policy Environment;
- Crime; and
- Access to and cost of capital.

CHAPTER 5: INTERPRETATION AND ANALYSIS OF RESULTS

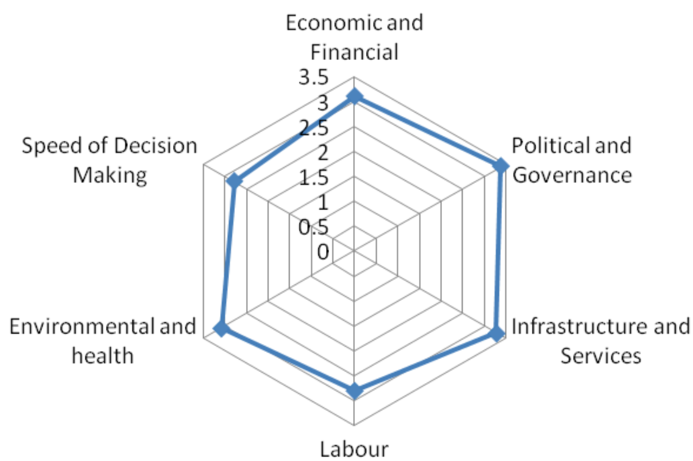
5 Introduction

In order to derive indications of key factors that investors consider before making investment decisions in Zimbabwe, specific firms and representative organizations were required to rate the importance of various aspects of these investment factors in investment decisions. The respondents rated in terms of the effects of each factor to their investment decision on a scale 1-5 with 1 representing the strong positive effect that the factor has on investment decisions, while 5 represents the strong negative effect that the respective factor has on investment decisions. This chapter details the findings of the investor perception survey and looks at the sectors under consideration and each investment climate component. In the mining sector, a broad overview was given by the Chamber of Mines covering key investment climate factors that are relevant and specific to the sector.

5.1 Importance of Investment Climate Factors

The figure below depicts the important investment climate ratings by all respondents in the selected sectors of the Zimbabwean economy

Figure 5 Investment Climate Factors

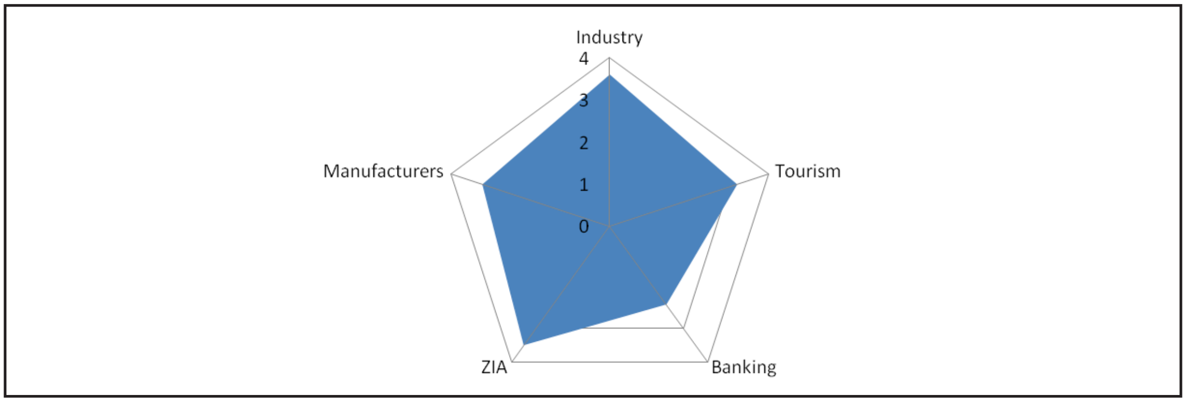


Evidently, infrastructure and services as well as political governance factors were highly rated as having a strong and negative effect on the country's investment climate in Zimbabwe particularly if they are not conducive. Adverse developments in economic and financial factors as well as environmental and health factors also compromise the country's investment climate and its attractiveness to both local and foreign investors. Moderate considerations were, however, attached to labour and speed of making decisions by government.

5.2 Economic Factors

Respondents from industry and the manufacturing sector in particular, the Zimbabwe Investment Authority (ZIA) as well as those from the tourism sector attached prominence to economic and financial factors as having a relatively strong and negative effect on the country's investment climate.

Figure 6: Importance of Economic and Financial Factors



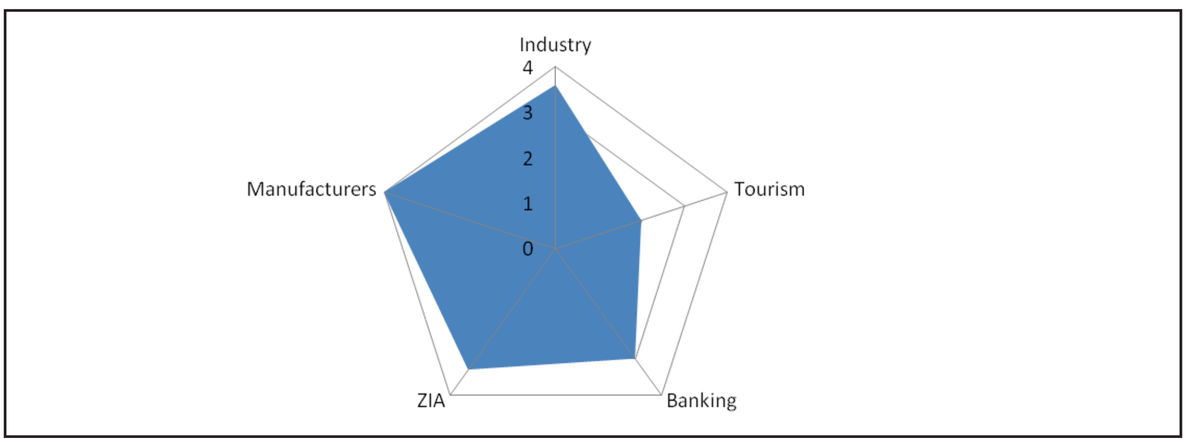
NB: Manufacturers represents responses provided by selected manufacturing sector firms Industry represents responses provided by representative bodies in industry

In particular, the deterioration in domestic economic conditions as was experienced over the period 2000-2008, severely undermined the country's appeal as a competitive investment destination. Additionally, lack of credit lines from both domestic and international sources coupled with instability in the financial sector have far reaching and adverse effects on the country's investment climate. Contraction in economic activity conspires with financial instability to erode corporate profitability and disposables incomes culminating in loss of business and viability of investment entities. In consequence, already existing investment enterprises would seek to disinvest and find favourable destinations for their capital as was experienced during the hyperinflation period in Zimbabwe.

5.3 Political and Governance

Industry, selected manufacturers, ZIA and the banking sector ranked political and governance factor as critical in the creation of a conducive investment climate in Zimbabwe. Despite the negative implications of the political environment on tourism sector investments and viability, the tourism sector did not attached great prominence to political and governance factors.

Figure 7: Importance of Political and Governance Factors

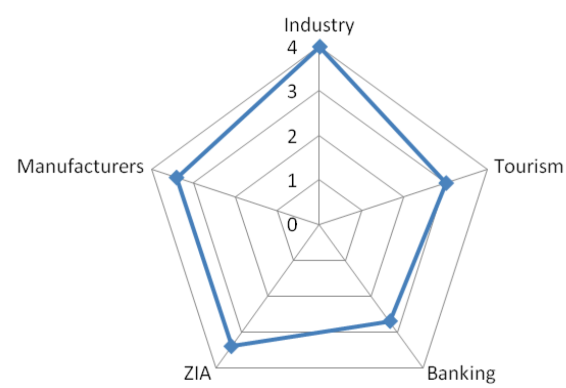


This notwithstanding, the tourism sector highlighted that lack of law and administration, lengthy bureaucratic processes, corruption and crime are important factors that militate against initiatives geared at meaningfully attracting foreign direct investment to Zimbabwe. Undoubtedly, political uncertainty that has characterized election periods in Zimbabwe since the turn of the century created a lasting negative investor perception, which may take time and concerted efforts to reverse.

5.4 Efficiency and Cost of Infrastructure and Services

All respondents ranked lack of efficiency and high cost of infrastructure services as an albatross around Zimbabwe's investment climate. In this regard, the deterioration in infrastructure and lack of maintenance increased the cost of doing business in Zimbabwe and relegated the country to an unfavourable investment destination. In particular, industry and ZIA rated this factor as having a relatively strong and negative effect on the country's investment environment.

Figure 8: Importance of Efficiency and Cost Infrastructure and Services

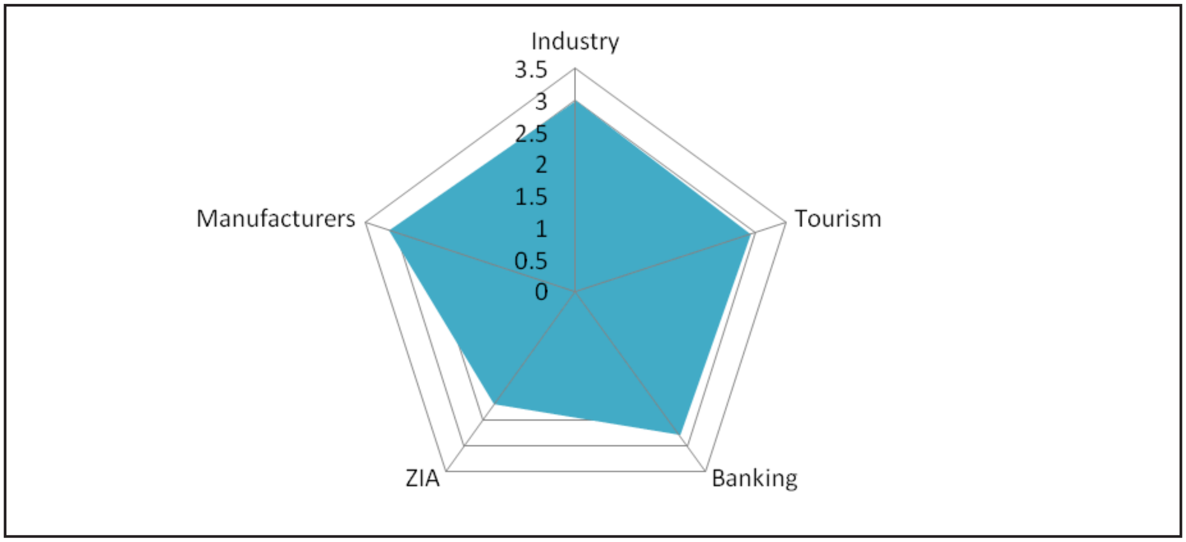


High air and transport costs, reliability of electricity and water supplies, high immigration and services costs were rated as having very strong and negative effects on efforts aimed at attracting foreign direct investment into Zimbabwe.

5.5 Labour Factors

Conditions prevailing in the country's labour market were highly rated by the banking sector, the manufacturing sector, tourism and industry at large. Notably, stringent conditions regarding the engagement of expatriate labour, high staff turnover, relatively high minimum wages thresholds and the exorbitant costs of hiring qualified management and professional staff were ranked as having a relatively strong negative effect on efforts to attract investors. In particular, the banking sector, industry, and the tourism sectors reported negative effects of labour factors on their investment decisions. These findings attests to the fact that flight of skills experienced in Zimbabwe as critical staff relocated to South Africa, UK, Canada, New Zealand, USA and Australia among others. Staff productivity was, however, rated to have no effect on investment decisions in the manufacturing, tourism, and the banking sector.

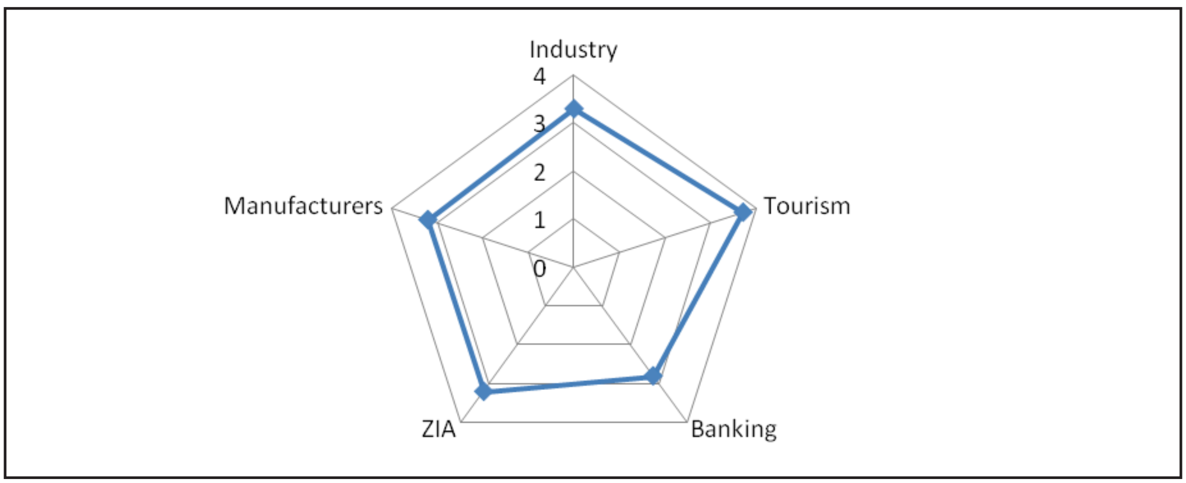
Figure 9: Importance of Labour Factors



5.6 Environmental and Health Factors

The banking sector and industry revealed that their investment decisions in 2009 and 2010 were adversely influenced by the effects of tuberculosis and HIV and AIDS on the country's labour force. In addition to being a human catastrophe in terms of lost lives, HIV/AIDS undermines economic development. The pandemic affects labour productivity, turnover, absenteeism and medical expenditure and corporate and national level. The tourism sector and ZIA, however, indicated that over the same period, the depletion of natural resources and environmental degradation at large coupled with stringent requirements by the Environmental Management Agency (EMA) negatively affected investment decisions.

Figure 10: Importance of Environmental and Health Factors

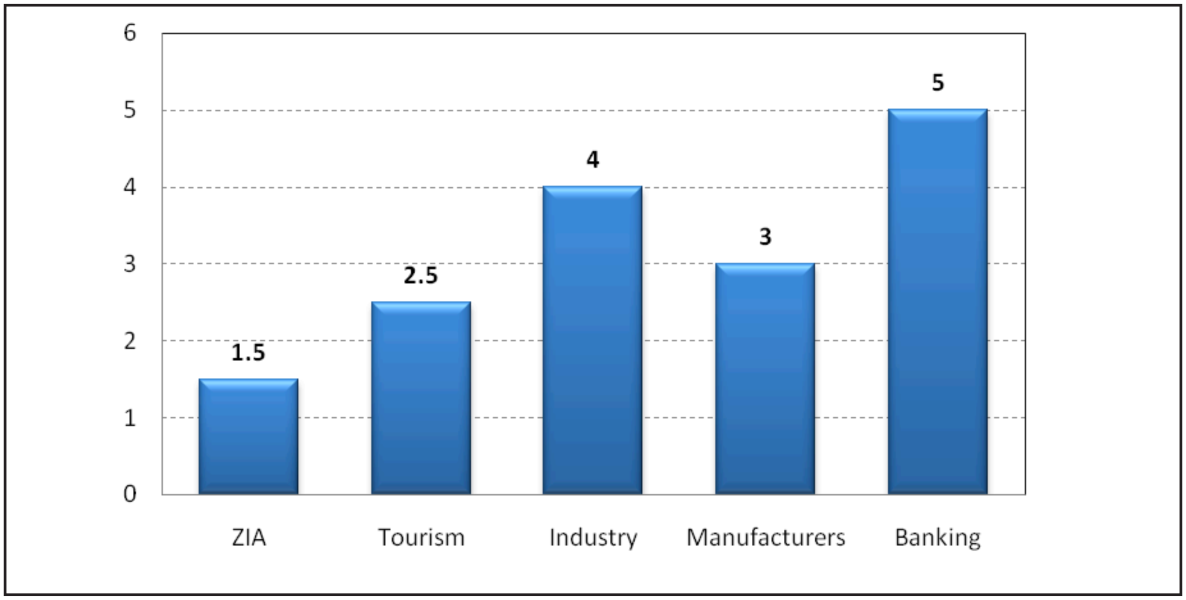


The availability of health care services was rated as having a strong positive effect on investment decisions in 2009 and 2010 by the tourism, ZIA, and the banking sector

5.7 Policy Climate

Industry and banking sectors attached importance to the present policy climate as having strong and negative effects on the country's investment climate. This in the main reflects lack of policy consistency and frequent policy reversals that occasion investor uncertainty.

Figure 11: Importance of Policy Climate: Ratings



Selected manufacturers that responded to the survey, however, indicated that the present policy environment has no effect on investment decisions in the sector.

5.8 Direction of Investment Over the Next 3 -4 Years

On the back of investor uncertainty, respondents from all the sectors indicated that over the next 3-4 years, their focus is mainly on building their human resource base in view of the negative effects of brain drain. As such, prominence will be attached to staff training programs, research and design, and to a limited extent investment in technology. Regrettably, all sectors interviewed in this survey either want to maintain their current operations or out-source expertise on a need basis.

5.9 Investment Climate in The Mining Sector

5.9.1 Power Shortages

According to the Chamber of Mines which is a private sector voluntary organization[2], mining sector operations heavily depend on reliable power supplies. Mining operations consume electricity, which propels blast furnaces, smelters and conveyor belts. Erratic power supplies that have been experienced in the new millennium have adversely affected the country's mining sector as a favourable investment destination in the region and beyond. Against the background of persistent power shortages, the Zimbabwe Electricity Supply Authority (ZESA) entered into power supply arrangements with selected mines in 2011. This notwithstanding, other mining houses particularly small and medium scale miners in the gold sub-sector are yet to secure favourable power supply arrangements. Lack of short term solutions to the country's power shortages dampens the mining sector's foreign direct investment prospects.

5.9.2 Indigenization and Economic Empowerment Initiatives

Pursuant to the issuance of the Indigenization and Economic Empowerment Statutory Instrument 34 of 2011, a deadline was set on 9 May for all foreign owned mines to submit indigenization plans. The investment landscape of the mining sector was significantly transformed (Chamber of Mines, 2011). Under the indigenization guidelines, the mining industry was given 45 days to submit compliant indigenization plans to cede off 51% of foreign shareholding to locals. Additionally, a six (6) month time frame was set for the disposal of shares to designated domestic entities. The country's indigenization timelines, however, compare unfavourably with those prevailing in South Africa where the Mining Charter has a 26% BEE minimum requirement to be achieved over a ten (10) year time frame. In view of the huge capital outlays that are characteristic of mining sector investments, the indigenization initiatives have ushered in uncertainty in the mining sector and have resulted in the slowing down of foreign investment inflows into the mining sector.

5.9.3 Environmental Requirements

In view of the negative spillover effects of mining sector operations on environmental degradation notably deforestation, the Ministry of Environment and Tourism enacted the Environmental Management Act (Chapter 20:27) in 2002. The Act was aimed at providing for the sustainable management of natural resources and protection of the environment; the prevention of pollution and environmental degradation. The Environmental Management (Environmental Impact Assessments and Ecosystems Protection) Regulations, deal with the regulation of the Environmental Impact Assessment (EIA) process and protection of

---

[2]The members include mining companies, suppliers of machinery, spare parts and chemicals, service providers including banks, insurance companies, consulting engineers, and various mining related professional bodies and individuals.

ecosystems. Part 11 of the Act provides that no industrial project shall be implemented without an EIA having been done. These regulations provide the method of doing the EIA. The developer has to submit a prospectus to the Agency (see section 16.4.1) which issues a license if satisfied by the contents of the prospectus. The prospectus has to contain details of the environmental impacts of the project and the measures to be taken to contain or mitigate against such impacts. The Agency will not issue a license if it is not satisfied that the developer consulted with all stakeholders in the preparation of the prospectus.

Commencement of the following mining sector activities requires an EIA:

a. Mineral prospecting;
b. Mineral mining;
c. Ore processing and concentrating; and
d. Quarrying.

The stringent environmental regulations promulgated by EMA have grown to be a stumbling block to investment initiatives meant to benefit the mining sector.

5.9.4 Skills Shortages

In the wake of the progressive decline in the Zimbabwean economy over the period 2000-2008, the country experienced severe brain drain as skilled personnel migrated to South Africa, and other regional and international destinations. The mining sector was not spared with the exodus of skills in search of better working conditions. The skills flight in the mining sector was exacerbated by the placement of numerous mining houses namely, Shabani Mashava Mine, Falgold, Bindura Nickel Mining Corporation, Freda Rebecca Mine and Ziscosteel among others under care and maintenance. In consequence the country lost specialized skills in the form of geologists, mine engineers, mine surveyors, quantity surveyors and civil engineers critical for mining operations. The shortage of skills has of late emerged as a deterrent for investors willing to set shop in Zimbabwe's mining sector. A deficit of professionals in the mining sector was estimated at around 3,000 in 2007 (Thondlana, 2007).

5.9.5 Policy Consistency

The amendment of the country's Mines and Minerals Act has been prolonged. The constant review of such key pieces of legislation that directly affects the mining sector creates a fertile ground for speculation and uncertainty in the mining sector. Against this background, the finalization of the Mines and the Minerals Act remains key to efforts geared at improving investor confidence particularly in the legal framework guiding mining sector activities. According to the Chamber of mines, as long as amendments remain outstanding, the investment environment remains unsettled and adds to the high country risk rating.

CHAPTER 6: CONCLUSION AND POLICY RECOMMENDATIONS

6 Introduction

An ideal investment climate plays a major role in the promotion of market related growth and the effective reduction of poverty. In turn, the upliftment of living standards and the reduction of poverty are contingent upon the realization of broad- based economic growth which will only be attained when firms improve labour productivity through investing in human and physical capital, and technological capacity (broadly defined to include investment in knowledge, equipment and organizational structure. However, firms will only invest when the climate is conducive. The investment climate influences investment decisions for firms of all types both foreign and domestic. In this regard the decision of the farmer to expand farming activities, the decision of the micro -entrepreneur to start a business, the decision of the manufacturer to expand production lines and hire more workers and the decision by multinational corporations to set up shop in a foreign country all depend on the investment climate. Against this background, the Government of Zimbabwe can focus on areas on which it has influence such as security of property rights, approach to regulations and taxation, infrastructural adequacy, the operations of financial and labour markets, and broader features of governance such as corruption.

6.1 Policy Recommendations

In view of the numerous and varied factors analyzed in the foregoing and how they affect each sector, there is need for a sectoral approach to addressing impediments to the attraction of investment. Undoubtedly, the creation of a conducive investment climate remains key to the successful re-orientation of the Zimbabwean economy onto a sustainable growth and recovery path. As such, prominence should be attached to the sprucing up of the country's image, through deliberate on- the ground measures to benchmark the country against regional and international standards. Government officials should be trained to issue well calculated and well considered statements that are consistent with efforts to attract investment.

In view of lucrative investment opportunities that abound in the Zimbabwean economy, great significance should be attached to the creation of an enabling environment that seeks to promote the following key virtues of a favourable investment climate:

- Macroeconomic stability;
- The institution of congruent and consistent policies with no room for policy reversals;
- Strengthening the up-holding of property rights and the sanctity of investment promotion agreements;
- The rehabilitation and maintenance of infrastructure particularly roads, telecommunication and rail networks;
- Improved electricity and water supplies;
- Expediting the policy decision making processes;
- Streamlining investment registration procedures that buttress the establishment of the

One Stop Investment shop;

- Instituting deliberate staff retention skills to ensure that critical skills are not lost to the region and beyond;
- The re-introduction of export processing zones to promote investment in export oriented industries;

As such Government should complement already existing enabling factors by focusing on areas within its purview.

Table 4: Government Policies and Behaviours that Affect Investment decisions

	Government Has Strong Influence	Government has Less Influence
Costs	1. Corruption; 2. Taxes; 3. Regulatory burdens, red tape 4. Infrastructure and finance costs; and 5. Labour Market Regulation.	**1.** Market determined prices of inputs; and **2.** Economies of scale and scope associated with particular technologies.
Risks	6. Policy predictability and credibility; 7. Macroeconomic stability; 8. Property the sanctity of rights; 9. Enforcement of contracts; and 10. Expropriation.	**3.** Consumer and competition response; **4.** External shocks; **5.** Natural disasters; and **6.** Supplier reliability.
Barriers to Competition	11. Regulatory barriers to entry and exit 12. Competition law and policy 13. Functioning financial markets; and 14. Infrastructural development and maintenance	**7.** Market size and distance to input and output markets; and **8.** Economies of scale and scope in particular activities.

6.2 Areas for Further Study

The study can be extended to focus on key factors raised as key stumbling blocks to the meaningful attraction of foreign direct investment and the transformation of the country's appeal to assume its position as a safe and favourable investment destination in the region and beyond. The study can also be expanded to compare factors that domestic investors consider compared to factors that foreign direct investment enterprises consider. Additionally, in view of the transformation that the indigenization and economic empowerment law has made to the country's investment conditions, there is need for a fully-fledged study on the views of FDI entities and domestic investors has so far affected their investment decisions.

6.3 Limitations of the Study

Due to endemic apprehension by respondents in key sectors of the economy, presumably on the backdrop of intensified indigenization and economic empowerment initiatives, the study only focused on foreign direct investment enterprises in the banking, tourism, mining, and manufacturing sector as well as representative bodies in industry and the country's Investment Promotion Agency. Once the indigenization drive is settled and clarified, there is scope to expand the study to cover the following sectors:

- Agriculture;
- Textiles and Clothing;
- Energy and power generation;
- Information Communication Technology;
- Construction;
- Medical Services;
- Retail and wholesale trade;
- Transport;
- Electric and electronics; and
- Food processing.

REFERENCES

i. Ajayi, I.S. (1999). The Challenges of Financing Development in Africa. UNECA Discussion Paper Series ESPD/DPS/99/2. United Nations Economic Commission for Africa, Addis Ababa, Ethiopia.

ii. Ajayi I.S, (2006), Foreign Direct Investment in Sub-Saharan Africa: Origins Targets Impact and Potential: African Economic Research Consortium, Kenya.

iii. Bashir A.H.M (1999), Foreign Direct Investment and Economic Growth in Some MENA Countries Theory and Evidence, Department of Economics, Grambling State University.

iv. Gwenhamo F (2009), Foreign Direct Investment in Zimbabwe: The Role of Institutional Factors, Working paper No. 144, University of Cape Town.

v. Heritage Foundation (2011), Investment Freedom.

vi. Hess R. (2000), Constraints on Foreign Direct Investment, Macmillan, Commonwealth Secretariat.

vii. Jenkins C and Thomas I, (2002), Foreign Direct Investment in Southern Africa: Determinants, Characteristics, and Implications for Economic Growth and Poverty Alleviation.

viii. Smith H, (2011), Zimbabwe, The Impact of the Indigenization Legislation on Foreign Investments, Energy Infrastructure and Mining Newsletter.

ix. Tekere M. (2001), Trade Liberalization Under Structural Adjustment Program: Impact on Social Welfare in Zimbabwe, Trade and Development Studies Centre.

x. United Nations Conference on Trade and Development (1999), Foreign Direct Investment in Africa: Performance and Potential, United Nations, New York and Geneva.

xi. Thondlana B. (2007), Zimbabwe's Embattled Mining Sector Short of 3000 Professionals, Mining Weekly, Creamer Media Pvt Ltd.

xii. United Nations Office of the Special Advisor, Foreign Direct Investment in Africa, Policy Brief No. 4.

xiii. US Department of State (2010), Investment Climate in Zimbabwe, Bureau of Economic Energy and Business Affairs.

xiv. World Bank (2004), Benchmarking Foreign Direct Investment Climate in the Caribbean, Foreign Investment Advisory Services (FIAS).

xv. World Bank (2004), Investment Climate Assessment: Improving Enterprise Performance and Growth in Tanzania.

xvi. World Bank (2005), World Development Report, The investment Climate, Growth and Poverty.

xvii. World Bank (2011), Ease of Doing Business Index.

xviii. World Bank (2011), Global Competitiveness Report, International Finance Corporation.

ANNEXURE:

Key Investment Factors by Sector

Sector/ Institution	**Strong Positive Effect**	**Strong Negative Effect**
Banking	• Regional economic situation; • Domestic market size • Regional market size • Regional political scenario • Foreign policy • Inland transport efficiency • Inland transport costs • Banking Services efficiency	• Present Policy Climate • HIV/AIDS • Tuberculosis
Industry		• Availability of local and international business finance • Domestic political scenario • Regulatory framework/state intervention • Composition of Government spending • Import competition • Smuggling • Bureaucracy/regulatory framework • Import/export controls • Legal system • Electricity and water supply efficiency • Airport and air transportation efficiency • Stringent labour regulations.
Tourism	• Availability of local business finance • Appreciation of domestic currency • Availability of regional business finance • Financial system stability • Market share expansion • Proximity to major markets • Availability of health care services • Availability of technically trained staff • Labour legislation • Inland transport efficiency • Electricity supply efficiency • Telecommunication services efficiency • Internet efficiency • Efficiency of ZIA • Efficiency of Ministry of Finance, and Ministry of Economic Planning and Investment promotion	• Domestic market size • Domestic economic situation • Composition of Government spending • Monetary policy • Domestic political scenario • Foreign policy • Corruption • Security/crime • Regulatory framework/bureaucracy • Land law and administration • Speed of decision making by the reserve bank of Zimbabwe • Airport and air transportation costs • Land cost • Electricity supply cost • Telecommunication services • Customs service costs • Municipal services • Banking services costs • Stringent labour costs • Depletion of natural resources

rdgraphix

Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU)
55 Mull Road, Belverdere,
Harare, Zimbabwe.
Tel: +263 4 778423
Fax: + 263 4 778415
Email: administration@zeparu.co.zw
Web: www.zeparu.co.zw

ISBN: 978-0-7974-4923-7