


Business Transactional
CORRUPTION
Survey


Compendium of Key Policy Research

SERA

USAID STRATEGIC ECONOMIC RESEARCH AND ANALYSIS — ZIMBABWE

Closing Conference

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Compendium of Key Policy Research

SERA

USAID Strategic Economic Research and Analysis – Zimbabwe

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INTRODUCTION

Since 2011, USAID's Strategic Economic Research and Analysis (SERA) program has supported the Government of Zimbabwe in moving toward more inclusive growth built upon evidence-based policy analysis and research. Working in collaboration with the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU), the Zimbabwe National Statistics Agency (ZIMSTAT), and a host of government agencies and civil society organizations, the project has completed more than 40 policy studies. These studies range across Zimbabwe's economy, examining the agricultural sector, the business regulatory environment, economic competitiveness, financial policy, the mining industry, and more. These studies lay a solid foundation for Zimbabweans to make meaningful policy choices.

The studies have already produced results. SERA's Starting a Business study has helped show the path towards greater regulatory efficiency and an improved business environment. Bolstered by the project's evidence, the Cabinet has pushed the 100- and 200-Day Action plans, leading to amending the Companies Act and the Shop Licensing Act. SERA has also provided recommendations on helping the Government of Zimbabwe reduce the time to obtain a construction permit from 448 days to 120. SERA's support to the Ministry of Industry and Commerce (MIC) in drafting its Cost Drivers study has helped provide the evidence base for establishing the National Competitiveness Commission. SERA research has also aided the Ministry of Mines and Minerals Development (MMMD) in drafting a new Mines and Minerals Act based on international best practice. Wherever leaders have looked to achieve economic growth, SERA has been there to help find a way.

The busy decision-maker needs ready access to the essential findings. Therefore, we have consolidated a selection of SERA's policy studies addressing critical current economic issues into a set of briefs summarizing key findings and recommendations. Here you can find a short discussion of the issues and recommended policy actions to address each one.

It has been a pleasure for everyone at the SERA project to participate in Zimbabwe's advances toward greater economic prosperity. We hope these findings and recommendations will continue to have an impact on achieving inclusive growth in Zimbabwe.

ON THE BRINK OF BREAKTHROUGH: STARTING A BUSINESS IN ZIMBABWE

INTRODUCTION AND BACKGROUND

Awareness grows of the need for Doing Business reforms

1.1. There is a growing awareness by the Zimbabwean government of the need to reform its regulatory regimes for the establishment of new businesses to promote economic growth. Within a period of two to three years, Zimbabwe could go from being one of the world's worst performers on the Starting a Business (SAB) indicator of the World Bank's Annual Doing Business survey to one of the best by improving regulations on starting a business.

1.2. Significant investments in information technology (IT) have been undertaken over the last few years under the Office of the President and Cabinet (OPC), to provide a good foundation for successful reforms. Several government agencies have already adopted the existing robust SAP IT technology, which includes powerful database and information management tools and is being expanded to all departments.

Starting-a-Business reforms in support of ZimAsset

1.3. A Starting a Business in Zimbabwe assessment, published in 2015, focuses on improving the regulations for starting a business. It is the first of two studies commissioned by the Zimbabwe Investment Authority (ZIA) as part of its mandate to promote the conditions for attracting greater investment in the economy. A subsequent study concerns improving the regulatory environment within which businesses operate.

1.4. The SAB assessment, which includes recommendations, is designed to support implementation of the Zimbabwe Agenda for Sustainable Socio-economic Transformation (ZimAsset). The report focuses not just on efficiency reforms for business start-up. It also considers how SAB reforms can support ZimAsset targets such as increasing government revenues, making expenditures more effective, and improving national productivity and competitiveness.

Significance of Doing Business surveys

1.5. The World Bank's annual Ease of Doing Business survey is a useful diagnostic tool, helping to identify obstacles to business in the regulatory regimes it covers. A country's performance on the survey affects its international reputation as a destination for investment. Other international indices that influence investors also use some of the Doing Business results to grade countries.

Benefits of Starting a Business reforms

1.6. The SAB reforms outlined in the ZIA assessment are anticipated to result in direct increases in revenues and will improve the capacity of regulatory agencies to detect noncompliance, leading to indirect increases in revenues. For business, reforms will reduce costs of compliance, and will reduce incentives for noncompliance and increase the attractiveness of being a formal enterprise. The reforms will produce efficiency savings that are directly equivalent to new investment in Zimbabwe's businesses, leading to economic growth and job creation. Technology-based reforms also reduce opportunities for corruption.

KEY FINDINGS

Zimbabwe performs poorly Starting a Business indicators

2.1. Zimbabwe ranked 180th of 189 economies surveyed on the SAB indicator in the Doing Business (DB) 2015 report. [1] This puts the country 52 places behind the COMESA average of 128, ahead of only Eritrea, which ranked 183rd. Zimbabwe's overall Ease of Doing Business ranking for 2015 stood at171.

Cumbersome registration procedures

2.2. Starting a Business in Zimbabwe requires nine procedures, only one more than the COMESA average of eight. It takes 90 days to start a business in Zimbabwe, compared with a COMESA average of 31.

2.3. The current design of the new business registration process facilitates noncompliance. Zimbabwean businesses must register in sequence with the Registrar of Companies, Zimbabwe Revenue Authority (ZIMRA), National Social Security Authority (NSSA), and Zimbabwe Manpower Development Fund (ZIMDEF), and - if operating in Harare-

[1] The Doing Business report for 2015 was released on October 29, 2014, and is available online at http://www.doingbusiness.org/reports/global-reports/doing-business-2015.

then obtain a City of Harare shop license. Stakeholders estimate that not more than half of the new businesses that register with the Registrar make it to ZIMRA, and the numbers fall off at each step along the way.

2.4. Registration with NSSA adds 14 days and one procedure, while registration with ZIMDEF adds another procedure and one day, according to Doing Business 2015.

Municipal shop licenses create more than half of burdens

2.5. Four of the nine procedures of the Starting a Business survey involve the municipal shop license. Harare municipal procedures account for 54 of the 90 days. Licensing costs are also responsible for about 60 percent of the total costs reported on Doing Business for 2015—$580 of the $940 total costs. Massive noncompliance results in loss in revenues to the municipality.

2.6. National registration procedures present less difficulty, because, with the exception of the Registrar of Companies, registration is not a source of revenue but is necessary for revenue collection when the company begins operations. Reform does not threaten present revenue but will reduce the burden on business to comply and will increase agency capacity to detect avoidance and evasion.

REFORMS TO ATTAIN WORLD-CLASS STATUS

Streamline national registration process

3.1. Merge name reservation and company registration procedures. The Registrar of Companies is in a position to merge name reservation and company registration into a one-day, one-step process. It has already digitized the two key lists involved in name reservation—i.e., the list of company names that are already in use and the list of names and words excluded for social, political, religious, and other concerns.

3.2. Automate name reservation. The name reservation process needs to be automated to enable electronic submission of names. Applicants should be allowed to submit three to five names in order of preference, with the first available name automatically selected for company registration.

3.3. Implement a single, online application. Merge the two paper applications into a single electronic form that permits the applicant to simultaneously submit a list of proposed names and all information necessary for registration.

3.4. Flatten the fee structure. The Registrar of Companies may set up a flat fee, perhaps $150 for the one-step registration process. Standalone name reservations could be charged $15, to encourage use of the one-step procedure.

3.5. Eliminate reliance on paper certificates of incorporation. The final and official evidence of incorporation should be a record in the publicly accessible, online companies' database maintained by the Registrar of Companies, not a piece of paper. This is crucial in streamlining registration with other agencies, reducing risk from forgery, and making commercial transactions more efficient.

3.6. Require existing companies to re-register to populate the database. Registration procedures should be streamlined first to minimize the burden on companies and maximize the utility of the information required. The Registrar of Companies may require existing companies registered under the old paper-based system to re-register over a specified period. Because the process will have been streamlined, re-registration should be simple.

Incorporate ZIMRA Tax Registration into Company Registration

3.7. Adopt ZIMRA's BPN as a single universal business ID number. Consideration should be given to adopt the ZIMRA Business Partner Number (BPN) as the single unique number identifying a business for all government purposes. Each government agency gives a business its own unique identification, which imposes unnecessary administrative burdens on compliant businesses, and facilitates noncompliance because agencies are unable to share information and detect noncompliance easily.

3.8. Harmonize registration application. ZIMRA and the Registrar should work together on a single online application incorporating all information that each requires, since their requirements are the same. NSSA and ZIMDEF should also join process so that a single, consolidated registration process can extend to them, too.

3.9. Consider incorporating bank account opening into registration process. Zimbabwe's already-developed powerful e-platform under the leadership of OPC should enable stakeholders to explore with banks and the Reserve Bank of Zimbabwe the possibility of incorporating links that allow a new business to select a bank, and have the necessary information from the Registrar and ZIMRA sent to the bank, with the bank then sending the new account information back to ZIMRA and the company founders. This could enable the account to be entirely or mostly opened online, as part of a single registration process and ultimately eliminate two procedures and two days. ZIMRA is already working on eliminating the tax clearance required to open the account.

Merge NSSA and ZIMDEF registration

3.10. Consolidate registration: registrations with NSSA and ZIMDEF should be merged into the initial incorporation process under the Registrar.

City of Harare Licensing and Registration Options

Implement a comprehensive annual municipal business permit

3.11. There is need for a simple, new, and much less costly municipal business permit. The City should implement an annual permit fee of perhaps $100. The new permit should be payable initially at the time a new business enrolls with the Registrar of Companies, and thereafter when it files annual returns with the Registrar. Existing companies that re-register as proposed above should also be required to make the payment. Payments should be structured using the OPC national e-payments platform so that a single payment made by the business is automatically disbursed directly to the accounts respectively of the Registrar and the City.

Limit scope of shop license to risk management

3.12. The City should also consider using the shop license only for business activities that may present a significant health and safety concerns, such as restaurants, hotels, power plants, etc. Similarly, its municipal licensing system, which covers almost 150 different, often closely related activities, should be simplified.

Streamline shop license requirements

3.13. Shop Licensing Act procedures should be streamlined to two procedures and seven days as follows:

- Eliminate paper application. The form should be available online and should be submitted online. If the $20 being charged for the form is essential, it should be added to the license fee so neither the business nor the City must process two payments.
- Eliminate advertisement. Advertisement, which takes 34 days and costs $30, should also be eliminated for all applications except those that present zoning issues.

CONCLUSIONS

4.1. The findings and recommendations of the assessment were presented to a stakeholders' validation workshop on January 16, 2015 and it was agreed that the recommendations in this report could be implemented in a short time.

4.2. Since the dissemination of the report, the Government of Zimbabwe has commenced a process under its Rapid Results Initiative to adopt most of its recommendations.

Company registration requirement reforms

4.3. A major exercise has been undertaken, with SERA support, to modernize the Companies Act and bring its provisions up to the standards of international best practice. A brand new Companies Act has been drafted and is being put into the format of a Bill by the Ministry of Justice for presentation to Parliament.

4.4. It has been agreed that all companies should register under a unique identification number, and this number should be common across all government agencies. The ZIMRA BPN will be adopted for this purpose. This system is currently being implemented across all government agencies.

4.5. The process for name search has been streamlined and now takes only two days.

4.6. An online company registration and reporting system is now under design and is expected to be implemented before end of 2016. Once this system is put in place, company formation and reporting will become a web-based exercise without need for any paper-based filings.

Municipal licensing reform

4.7. The advertising requirement of new shop licensing applications has been removed through an amendment to the law. This reform, and the streamlining of other procedures, has resulted in the period required to obtain new licenses being reduced to 15 days and the period for renewal to 1 day.

4.8. Consideration is now being given to reducing the annual cost of a basic business license from $520 to $200. A revenue sensitivity study is to be undertaken to assure the City of Harare that reduction of this fee will improve compliance and therefore be revenue neutral.

This policy brief is based on the study *On the Brink of Breakthrough: Starting a Business in Zimbabwe,* January 2015. See http://www.zia.co.zw

IMPROVING THE BUSINESS ENABLING ENVIRONMENT – REFORMS AT THE MUNICIPAL LEVEL – CITY OF HARARE

INTRODUCTION AND BACKGROUND

City of Harare Business Licensing Requirements Burdensome

1.1 An earlier study commissioned by Zimbabwe Investment Authority (ZIA), "Starting a Business in Zimbabwe" showed that of 60% of the time and steps, and $580 of the $980 needed to start a business in Zimbabwe were attributed to Shop Licensing requirements and processes of the City of Harare (COH).

1.2 Starting in early 2015 the City Health Department (CHD) has been undertaking measures to enhance service delivery with development of a Guide to Business Registration. In addition, a Temporal Trading License at a cost of $160 has been introduced, to allow a business to start trading while their full application was being processed. Despite these initiatives, the situation is still far from being satisfactory and there are opportunities for major improvements in the system.

1.3 The current study, further explored recommendations from the "Starting a Business in Zimbabwe" study and outlined changes in procedures required to significantly streamline business registration, while boosting revenue collection by the City of Harare.

KEY FINDINGS

Challenges in Licensing Process

2.1 The licensing process faces multiple challenges:

- Registration is voluntary and there is no active call for registrations or renewals. Enforcement inspections are carried out by inspectors and the Municipal Police, but given the large number of business establishments and the busy schedule of pre-licensing inspections, unlicensed businesses are rarely picked up.
- Businesses are meant to inform CHD when they discontinue operations, however in practice the registration database contains companies that registered but failed to inform the City Council of the suspension of their operations.
- There are no automatic renewals which creates an unnecessary administrative burden both on businesses and the COH to repeat the registration process annually.
- No incentive to license. Compliance with licensing regulations would be higher if there

were incentives for licensing, or if a Municipal Business License was required for other purposes.

Challenges with Business Classification and Fees

2.2 Similarly there are challenges in the correct classification of businesses which impacts the fees that are to be assessed.

- Many businesses can be classified in various ways. For example an Accounting firm ($460 license fee) can also be an Administration Office ($345) or a Consultancy ($200). Though the inventory database is updated regularly, it still excludes many categories that have emerged over the years as a result of the developments in ICTs and the growth of the services sectors.
- There are consequently too many levels of licensing fees (15 levels), and this creates an extra task for the licensing officer and the applicant to agree on the correct classification and fee.

Revenue Estimates

2.3 The study estimates that there are a total of around 49,000 business establishments in the Harare area, which are required to license by the City By-Laws, the Shop Licenses Act, and the Liquor Undertaking Regulations. However, many are not licensed. Simplifying the licensing process, and providing financial incentives to do so, could enable COH to license 19,000 - 20,000 additional businesses. At a minimal rate of $200 per license, that simplification could lead to about $4 million in new revenue, an increase of 50% over the revenue collected in 2014.

Duplicate steps

2.4 Applications received from January to June pay the full license fee, and applications after 1 July pay half the fee. Having such regimented deadlines discourages business from applying throughout the year and incentivizes businesses to submit their applications at the same time. This causes an administrative burden arising from the volume of renewals at the end of the year. Some retail chains have to devote up to 3 months of executive time in the last quarter of the year to attend to regulatory compliance ahead of the effective date of the renewal on 1 January.

2.5 Renewals are handled in the same way as new applications – the same forms, $20 fee, and inspection are required before affecting the renewal. All licenses are renewable by 1 January, which places an annual burden on applicants and HCC.

2.6 Municipal By-laws on business premises provide the basis on which applications can be handled. Therefore the purpose of requiring applicants to advertise serves no purpose. Removal of this requirement would reduce the duration of the licensing process by at least 14 days.

2.7 The current by-laws mandate duplication by requiring recently constructed or refurbished buildings (i.e. in the last 12 months)m fir which the building plans have been approved as per by-laws and a Certificate of Inspection issued by City Architect, to undergo an additional health inspection. Such an inspection should only occur for premises where the applicant cannot produce a Certificate of Inspection or where the building is to be used for a purpose other than for which it was built and approved. Streamlining of these requirements would considerably reduce the time required to issue licenses. It would also allow inspectors to focus more on compliance and identifying shops and businesses in un-authorized premises.

Average time taken to obtain each license or permit

2.8 Small one-outlet shops indicated that it typically took them about two months to obtain a new license. However, large retail operators with more than five outlets in the city indicated that they are required to obtain separate licenses for each shop, and they have to complete application forms for each shop, even for renewals. Consequently, they find it necessary to have a dedicated administration team of 2 to 3 people who for about 4 months in the year work full time on licensing and related regulatory matters.

Over-regulation of retail business operators

2.9 Frequent, cumbersome renewals - The license period of 12 months is too short. On renewal all the forms have to be completed, inspections carried and advertising made all over again. It is unnecessary to repeat these procedures so frequently and costly to businesses to complete them.

2.10 Overregulation - There is over-regulation for all businesses, but more evident in retail chains (such as OK, Pick N Pay, TM Supermarkets, and Choppies), as well as the smaller retail outlets which sell food stuffs, where for each category of product handled they require separate licenses. COH is responsible for at least 8 of the up to 18 licenses that supermarkets are typically required to obtain to operate.

2.11 Duplication – In addition to being required to complete many forms, those forms are typically not coordinated with each other. As such, businesses are required to repeat information for each form, including providing standard information e.g. Company name, address, location, etc.

RECOMMENDATIONS

Application procedures

3.,1 The COH should distribute application forms at no cost. Applicants should also have other options through which they can apply, without visiting the City of Harare to collect the forms. One such solution would be for the COH to upload forms onto the City's website from where applicants can download, print and submit by email. The forms can also be placed in the reception halls of organizations such as ZIA, the Registrar of Companies, business membership organizations (BMO)s, and professional associations.

3.2 The provision for Temporal Trading Licenses should be removed and businesses should be allowed to trade from the date of submission of its application papers after the health inspection.

3.3 The Retail Shop licenses should be categorised based on the activities or lines of products that they intend to handle e.g. Category 1 – All products; Category 2 – All products excluding restaurant, take-away, etc. Category 5 – Groceries only.

3.4 To give effect to the recommendations (a – c) , the City should develop one comprehensive Application Form to be used for all licences, with a provision for the applicants to tick the box for the category of services or licence that they require without the need for a separate set of forms for the various service lines.

Pre-licencing Inspection

3.5 Pre-licencing inspection should be limited to situations where the applicant cannot provide a current (i.e. less than 12 months) Certificate of Occupation for the building and for business undertakings that pose a serious health risk like restaurants, medical facilities and hair salons.

3.6 Inspection should be done separately from licencing or renewal so as to shorten the time for approval of licence. Any non-compliance with the City's health regulations should be dealt with at the time it is identified and not linked to the renewal of the licence.

3.7 Inspectors should be able to issue final determinations at the time of inspection and leave a copy of the same at the inspected premises to save the applicant from a follow-up visit to COH.

Receipting and issuing licences

3.8 Receipting and issuing licenses should be combined, and the printed receipt also becomes the Licence. The latter can be cut out by the applicant for public display purposes.

Licence validity periods

3.9 All licences are issued with an expiry date of 31 December annually and are valid for one year. Licences should be issued to expire on the anniversary date of issue. This will assist the City and the businesses as it spreads the workload evenly and revenue throughout the year and allows proper utilisation of human resources.

3.10 At their own choice, applicants should be allowed to opt for longer licence periods of 3 or 5 years. Applications for longer periods should have a discounted fee e.g., 5%-10%, as the fees are paid in advance.

Renewal procedures

3.11 Application forms should not be completed on renewal. Rather, the City should issue a renewal notice/invoice in writing with a lapse date by which payment should have been received. The notice will have a provision that if there are any changes in the information and services offered by the applicant, he would have to complete forms to update the same. Payment of the amount would be the application for renewal. The receipt/licence would then be printed. This procedure is used extensively by insurance companies.

Advertising requirements for shop licences

3.12 The requirement for advertising Shop Licences should be dispensed with. There is no real benefit to be obtained from the exercise. The City By-Laws and other laws (e.g. Environmental Management laws) designating business areas and residential areas should be the basis of the City approving or turning down an application.

The Role of the Councillors in approvals

3.13 In line with current best practices in corporate governance and the principle of Subsidiarity and employee empowerment, the decision to approve or decline licencing should be a management or executive decision, with regular reporting to Council. Councillors should focus on policy, development and governance issues while management focuses on implementation of policy.

Revenue enhancing measures

3.14 The City should collaborate with the landlords of commercial properties, professional associations, and BMOs to facilitate licencing and collecting fees.

3.15 To encourage the businesses to voluntarily licence, the City should give financial incentives to the BMOs, professional associations and landlords - many of whom are keen to boost their revenues – in the form of commissions which would be credited to the applicant's account.

Impact of recommendations on staff numbers

3.16 The proposed procedural recommendations will not result in staff redundancies but will release staff from document processing and make them available to enhance revenue collection. Staff would be available to visit professional and business associations to make user-friendly arrangements for licencing and payments without the applicant visiting the City of Harare.\

IMPACT

4.1 The regulatory and procedural changes recommended by the study have been largely accepted and already implemented by the City of Harare. It is expected that these reforms will be rolled out to the rest of the country very soon. The following are the major reforms already put in place.

- The applications forms are now easily available and at no cost.

- Multiple application forms for different types of licences have been dispensed with and a single applicant can apply for multiple licences on one form.
- Inspectors have to issue their final report on site.
- The Shop Licences Act regulations have been amended to remove the advertising requirement for new licences.
- For new licences, the period for issuance has been reduced from 54 days to less than 15 days.
- Licences are now receipted and issued electronically and a licence can now be renewed any time in the year and is valid for 12 months up to the anniversary date of issuance.
- For renewals, inspections have been dispensed with, and issuance of annual licence is done immediately – normally within a few hours.
- The relevant Council officials have been empowered to take decisions on the issuance of new licences, with reporting to Council for good corporate governance purposes.

This policy brief is based on the study Improving the *Business Enabling Environment – Reforms at the Municipal Level: City of Harare*., July 2015. See: http://www.zia.co.zw

BUSINESS TRANSACTIONAL
CORRUPTION

INTRODUCTION AND BACKGROUND

Recent economic profile

1.1. The Zimbabwean economy has had mixed growth since the administration adopted the multicurrency regime in 2009, and the 2016 National Budget gave a subdued medium-term economic outlook, with GDP growing 1.5 percent in 2015 and 1.7 percent in 2016. The liquidity crunch is constraining a recovery in manufacturing, with capacity utilization declining from 57.2 percent in 2011 to 34.4 percent in 2016.

Cost-of-doing-business profile

1.2. The government's cost drivers study for 2014 and recent World Bank rankings for Doing Business indicate a high cost of doing business in Zimbabwe compared with regional peers. Transparency International's 2014 report on corruption ranked Zimbabwe at 156, compared with 31 for Botswana, 47 for Mauritius, and 67 for South Africa.

1.3. The recent experience of developing countries that have achieved sustained high growth shows that sound economic governance from high-quality institutions is central to creating such growth. Among the most important components of such governance is a stable and predictable business-enabling environment. To create such an environment it is critical that the government establish a business regulatory regime that facilitates business transactions rather than simply imposing an additional cost of doing business.

Why research on business transactional corruption?

1.4. The Confederation of Zimbabwean Industries (CZI), Zimbabwe National Chamber of Commerce (ZNCC), and the Small and Medium Enterprises Association of Zimbabwe (SMEAZ) jointly commissioned[2] a survey to establish how members of these business membership organizations (BMO) saw the pervasiveness, and common forms, of corruption. The survey sampled 403 businesses during 2015 in the cities of Harare and Bulawayo, covering small, medium, and large enterprises.

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[2] *Technical assistance for the survey was provided by the USAID Strategic Economics Research and Analysis (SERA) program.*

KEY FINDINGS

Business transactional corruption has increased since 2013

2.1. Almost two-thirds of survey respondents believe corruption has increased substantially since 2013. Almost a third reported being subjected to requests or demands for bribes, or what they felt were unjust fines from public officials, on a daily basis for simply receiving basic services. Almost half reported facing such requests and demands at least monthly. Figure 1 plots the sentiments of the private sector on the perceived corruption profile of government agencies, including the Police, State Procurement Board, and ZIMRA.

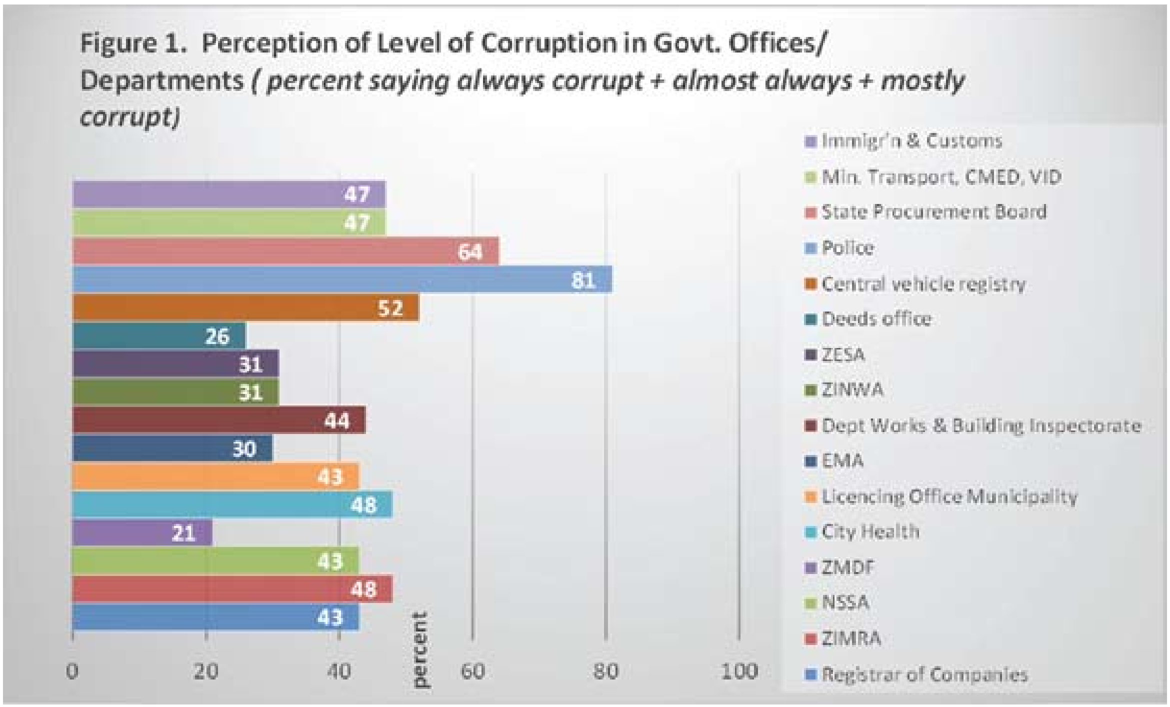


Figure 1. Perception of Level of Corruption in Govt. Offices/ Departments *(percent saying always corrupt + almost always + mostly corrupt)*

Private sector players negatively affected by transactional corruption

2.2. The survey also highlighted that most private sector companies find it difficult to comply with government regulations. Information on what is required is difficult to find, and usually requires visits to various government offices, little or no information is available online, and most processes are not conducted online. Moreover, even simple transactions typically take an inordinate amount of time, thus diminishing the productivity of business and providing opportunities for bribes to be solicited and paid in order to ensure greater speed of various transactions.

2.3. Small and medium enterprises, particularly those that have been registered for only a few years, find it more difficult than larger companies to stay informed of regulatory requirements. As a result, they are also more vulnerable to civil servants soliciting bribes.

Business regulatory regime and instruments such as permits are central to corruption

2.4. The many permits, licences and inspections required of companies (an average of 9 per year was reported for one surveyed business) and the extensive time involved in obtaining or scheduling them render permitting, licensing, and inspections easy targets for corrupt officials. The survey found that on average it takes 94 days for businesses to successfully apply for a permit or license and 24 days for an inspection.

Trading at border posts is prone to transactional corruption

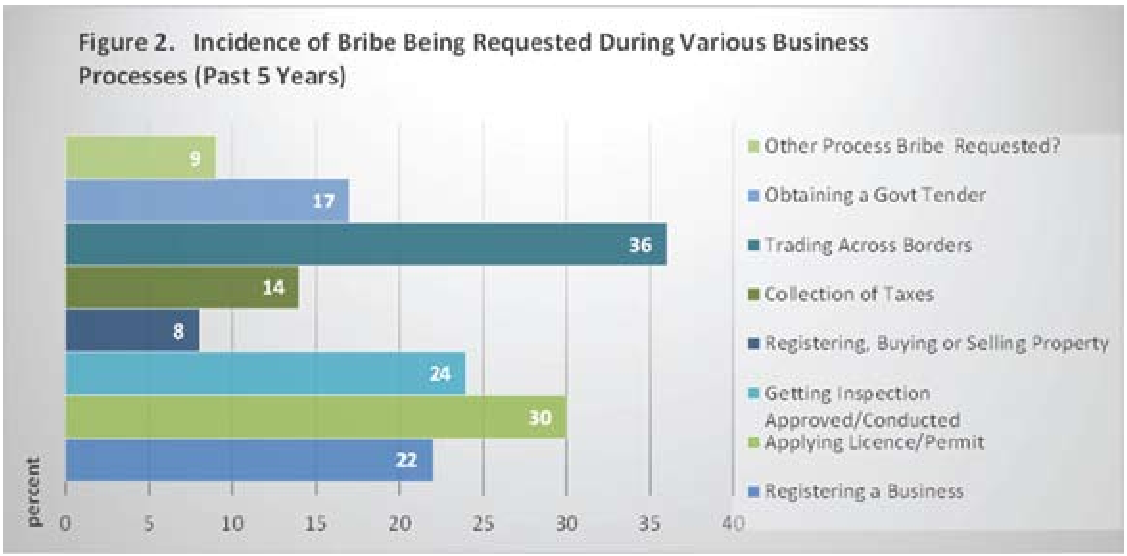
2.5. Corruption at the border posts appears to be rampant. Importers and exporters often stated that paying off officials is often required to clear goods. Often multiple officials are present at every stage of the customs process, and each requires a separate bribe. Corruption occurs more often in these transactions than in any other that the study examined (figure 2).

Government tender system is perceived to be prone to corruption

2.6. The business community has little confidence that the government follows procurement rules or that bids are kept confidential. The common sentiment the survey found is that there is no real competition for government tenders and that the same suppliers are typically awarded contracts time and again.

Taxation and transactional corruption

2.7. There is a strong sentiment within the business community that businesses are overtaxed and that the government does not spend tax dollars wisely. Yet a majority (58 percent) still maintain that it is never right to evade taxes owed by their business. Small- and medium-business owners are more likely than large-business owners to think evading taxes is justifiable.



Reporting business transactional corruption cases

2.8. Only 56 percent of respondents know where to report bribery, extortion, and other corruption. Usually businesses should report such instances to the police, and then the anti-corruption commission. Business are even less likely to report cases than they are to know where to do so, with just 27 percent stating that they are "very likely" and 14 percent, "likely" to report such a case. The overriding reason people would not report such an incident is their lack of confidence that anything would be done about it (83 percent). People regarded corruption to be endemic throughout the government.

POLICY RECOMMENDATIONS

3.1. Improve access to comprehensive information on the requirements for registering a business and the process for doing so, with information to be provided online.

3.2. Review business-related processes and legislation to identify loopholes, duplications, and inefficiencies, including where multiple government departments or agencies are involved, in order to streamline these processes and provide less scope for corruption and more accountability of individual agencies or departments.

3.3. Limit the discretionary powers of civil servants.

3.4. Reactivate and/or improve performance of government oversight authorities.

3.5. Automate business payments systems through e-money services and electronic systems for business transactions, such as for submission of tax returns.

3.6. Prosecute and sentence the perpetrators of corruption, including those involved at the highest level in government.

3.7. Advertise and act on whistleblower policies, including assuring informant protection.

3.8. Encourage and assist private sector organizations in developing and implementing sound internal compliance mechanisms.

3.9. Develop a Business Transactional Corruption Tracker/Barometer as a strategic tool to account for sectoral and regional corruption. This barometer could be generated every two years and serve as a viable policy advocacy tool for BMOs to facilitate objective and evidence-based policy discourse on corruption with key stakeholders such as government.

CONCLUSIONS

4.1. This survey provided objective information on the incidence of business transactional corruption in Zimbabwe. The survey found that there are significant costs of compliance to Zimbabwean businesses. A majority experienced demands for bribes in various forms in exchange for services and more timely service delivery.

4.2. The survey corroborates the World Bank Doing Business rankings indicating that it is difficult to do in business in Zimbabwe relative to its regional peers. As such, the survey provides sound intelligence to strengthen current government-wide doing business reforms currently being implemented and coordinated through the Government of Zimbabwe's Doing Business technical working groups (TWG):

a. starting a business
b. paying taxes and trading across borders
c. registering property and getting construction permits.

4.3. The study found that businesses across sectors and regardless of size endure substantial costs to doing business from transactional corruption. Because many of these costs are fixed the financial burden of transactional corruption is much greater for small and medium enterprises.

4.4. Survey participants indicated that transactional corruption has increased substantially in the last two years, being described commonly as "rampant" or "endemic." Most participants also consider the government's response to be inadequate to date. They also expressed the opinion that transactional corruption extends to the highest levels of government, and management-level perpetrators are not prosecuted.

Stakeholders within the public and private sectors urgently need to review the policies and practices in Zimbabwe's business regulatory environment to reduce corruption.

This policy brief is based on the *Business Transactional Corruption Survey*, March 2016. See: www.czi.co.zw, www.zncc.co.zw or www.smeaz.org.zw

BUILDING TRUST AND TRANSPARENCY IN THE ZIMBABWE MINING SECTOR

INTRODUCTION AND BACKGROUND

Growing importance of the mining sector in the Zimbabwean economy

1.1. Zimbabwe has a diverse array of mineral resources, which were recently developed on a scale that makes the mining sector a leading contributor to GDP. As of 2013 a World Bank study predicted that by 2018 mineral production could reach almost $5 billion and contribute $700 million to national revenues. Diamond production was a leading driver of increased mining output.

1.2. The growing importance of the mining sector generated increasing interest by all stakeholders in seeing it become more transparent and accountable to national interests. This is demonstrated by rising expectations among government, mining operators, civil society, and the general population about what mining revenues can do to alleviate the country's economic challenges and contribute to the country's development.

Transparency initiatives

1.3. The now dormant Zimbabwe Mining Revenue Transparency Initiative (ZMRTI) began under the previous Government of National Unity (GNU) to gain a better understanding of revenues coming from the mining sector, and steps were taken to try to move the country toward adoption of the Extractive Industry Transparency Initiative (EITI). The ZMTRI and the investigative work of civil society and the Parliamentary Committee on Mines and Energy continue to serve as a catalyst for discussion of revenue transparency.

1.4. There continues to be a heightened interest in and awareness of the need for transparency in the mining sector, as indicated by recent sentiments by the President and by key ministers who have spoken on the issue. This suggests there may be opportunities to increase transparency in the sector through some form of dialogue and knowledge-sharing.

Why conduct research on building trust and transparency in the Zimbabwe mining sector?

1.5. The lack of a shared knowledge base among stakeholders tends to breed suspicion and mistrust. In Zimbabwe large-scale, publicly traded mining companies are generally more open as they publish their information on operations and revenues. However, smaller companies, the informal sector, and the diamond sector are not. In addition, government does not always make public its information on the mining sector.

1.6. There is a high level of scrutiny and suspicion of mining companies by the government as it seeks additional sources of revenue, and seeks to plan for certain revenue targets. The lack of transparency affects the national budgeting process, as the Ministry of Finance and Economic Development cannot estimate the revenue to be generated from the mining sector, resulting in poor forecasting and the need to revise the budget later.

1.7. An increased flow and sharing of information about mining sector opportunities and risks can make it easier for decision-makers to consider which mining sector investments may bring the greatest benefit to the country and allow for better revenue projections.

1.8. SERA's study was undertaken to gauge the interest in possibly reviving ZMRTI and explore opportunities to promote broader transparency in the mining sector.

1.9. The study reviewed the progress made and challenges faced by ZMRTI while it was in existence and drew lessons to be learned for future transparency initiatives. The examination was done in the context of a broader assessment and stakeholder consultation on what kind of mining sector transparency initiatives could gain traction.

KEY FINDINGS

Buy-in from key stakeholders is needed for any transparency initiative to succeed

2.1. The key missing ingredient in ZMRTI was the lack of buy-in from key stakeholders. There is need for buy-in from key stakeholders starting with the Ministry of Mines and Mining Development. In particular, the support of top Mines Ministry officials (including the Minister, Deputy Minister, Permanent Secretary, and other top managers) is critical to the success of any future mining transparency initiative.

2.2. Furthermore, buy-in from other key government players, including the Ministry of Finance and Economic Development, the Revenue Authority (ZIMRA), and the Reserve Bank, as well as industry and civil society organizations, is also needed to make a transparency initiative work.

A common knowledge base about the sector and atmosphere of trust among stakeholders is needed

2.3. There is a need to build both a common knowledge base about the mining sector and atmosphere of trust among stakeholders to enable a productive discussion about transparency issues. These two goals are more important initially than trying to tackle a particular transparency-related issue, even one as critical as revenue transparency.

Additional findings

2.4. ZMRTI appears dead as an initiative, hampered by the fact that it was initiated by government officials associated with the opposition MDC Party, which was no longer in a power-sharing arrangement in the executive branch of government.

2.5. The Ministry of Mines and Mining Development, including the Minister of Mines, have made calls for transparency in the mining sector. The Minister is however opposed to EITI, as it is regarded to be a foreign initiative developed without Zimbabwe's participation. He would like to see "home-grown" Zimbabwe transparency initiatives.

2.6. Ministry of Finance and Economic Development officials have been public in their interest in pushing revenue transparency and possibly even moving toward EITI, but they recognize there is resistance to EITI from the Minister of Mines and others in government.

2.7. Some of the activities currently underway which may promote transparency include work being done by Mines and Finance authorities, including ZIMRA, on improving reporting and rationalizations of various taxes levied on industry by different government entities. There is also a joint initiative on reporting and publishing of data between the government and the Chamber of Mines.

2.8. The real urgency driving the government interest in transparency is the need to find more revenues to pay government bills. Companies want government revenue transparency so they stop being seen as the villains. Civil society wants accountability for use of nonrenewable resources and revenues derived from them. The Portfolio Committee on Mining Sector has also developed a keen interest in the transparency agenda, particularly following the signing of a memorandum between that Committee and the Zimbabwe Environment and Law Association (ZELA).

2.9. Broad support for transparency and accountability exists among stakeholders, but for some it is not just about revenue transparency, but also about transparency in awarding of contracts and concessions, benefit sharing, community development decisions, etc.

2.10. There is a fairly significant lack of understanding among parties about how the mining sector works: including operational and technical aspects, as well as mining finances. There is little to no understanding outside the private sector of how much of the market price for a mineral is eaten up by operating costs.

2.11. The diamond business is the least transparent part of the sector and the most politically charged. Most people want to stay away from scrutinizing it for now, and can do so, although there are strong feelings that the diamond business is where there is the least transparency, the most corruption, and the most lost revenue.

2.12. A number of key strategic policy initiatives speak to transparency, including Zimbabwe's new Constitution, the Zimbabwe Agenda for Sustainable Social and Economic Transformation (ZIMASSET), and the forthcoming Corporate Governance Code of Conduct. Thus any new transparency initiatives should be aligned with these higher-level policy initiatives.

POLICY RECOMMENDATIONS

Create a platform for dialogue to build trust among various stakeholders

3.1. There is need to create a platform for dialogue to build trust among the various players, starting from a common knowledge about how the industry works, including sources and uses of mining revenues. The forum must avoid tackling specific issues or problems, especially contentious ones, at first, but should instead serve as a vehicle for knowledge exchange and trust-building among key mining sector stakeholders.

3.2. Convene a small multistakeholder working group initially.

3.3. The working group could be convened by a research-oriented organization such as the Institute of Mining Research, which is regarded as a good apolitical stakeholder in mining sector discussions, to create an atmosphere that is not dominated by single stakeholder-agency views. Initial goals of the working group should be to gather and share information on how the mining sector functions.

3.4. The working group should be kept small at first, focusing on a few key government ministries, with industry participation coordinated through the Chamber of Mines. While initial meetings might include senior ministerial leaders to set the tone for collaboration, the goal would be to convene those managers who work on technical issues related to the mining sector within and across ministries and industry.

3.5. Working group discussions could progress from the very general cases to industry-specific aspects, such as technical aspects of mining a specific mineral, beneficiation, transfer pricing, and environmental or social issues arising from a particular type of mining (large-scale vs. artisanal mining).

Develop literacy guides and other nontechnical information

3.6. Alongside the knowledge exchange and capacity-building forums, the working group can oversee or support development of simple primers or literacy guides on three general topics: mining operations, mining finances, and environmental and social responsibility.

3.7. Literacy guides should provide factual information for technical and nontechnical audiences alike, including government officials and the general public, on how the industry works. These could be later supplemented by other primers developed to provide more detailed information on specific minerals or mining processes, or more in-depth explanations of financial, environmental, or social issues.

Working group-led workshops

3.8. The discussions could be expanded into forums or workshops developed and facilitated by the working group open to larger audiences within the sector, once a common knowledge base has been established. Initial focus should be on factual information and the parts of the industry that are already relatively transparent and open to dialogue, such as the practices of large, world-class mining operators active in Zimbabwe, as well as international best practices.

3.9. The working group should focus on information and knowledge-sharing, and should not be responsible for formulating policy or strategy. Ideally the group should create a common knowledge base and safe space to facilitate discussion of possible future policy reforms. These, however, may be better addressed by think tanks or other targeted task forces that may be created by government and industry to address specific challenges.

3.10. Information dissemination strategy that includes the literacy materials, workshops, and possibly other communications tools should be developed to encourage the broadest possible dissemination of basic information on the mining sector.

CONCLUSIONS

4.1. Share the mining sector transparency report with stakeholders to solicit feedback on recommendations.

4.2. Formally propose the creation of working group to the Ministry of Mines and Mining Development and Ministry of Finance to gain their support and buy in.

This policy brief is based on the study *Building Trust And Transparency In The Zimbabwe Mining Sector,* August 2014. See: http://www.zela.org/

GAP ANALYSIS OF MINERAL REVENUE DISCLOSURE AND THE INFORMATION NEEDS OF VARIOUS STAKEHOLDERS

INTRODUCTION AND BACKGROUND

Mining - a key economic sector

1.1 The mining sector has become a key economic sector in Zimbabwe, following the collapse and subdued recovery of manufacturing and agricultural sectors that previously contributed significantly to the national fiscus. The sector has largely been resilient despite being affected by falling commodity prices and a reduction in production due to increasing costs, scarce investment funds, and less friendly investor policies.

1.2 The Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM-ASSET) (2013-2018) Blueprint acknowledges mining as anchoring prospects for industrialisation through value addition and beneficiation. In addition, successive National Budget statements (2009-2015) from the Ministry of Finance and Economic Development recognized the mining sector as central to the socio-economic recovery of the country.

Opacity in the mining sector

1.3 The mining sector however, has hardly lived up to public expectations. Mining companies and government have been accused of withholding information on performance of the mining sector from the public. On one hand, statements from government representatives have repeatedly revealed dissatisfaction that mining companies are not remitting all that is due to government, while on the other the companies have maintained innocence. This has been compounded by civil society calls and campaigns for improved mineral revenue transparency.

1.4 To tackle the issue of transparency, the government attempted to implement the Zimbabwe Mining Revenue Transparency Initiative (ZMRTI). Although the ZMRTI implementation stalled after the tenure of the Government of National Unity, the government through the Ministry of Finance and Economic Development (MOFED) has repeatedly stated its intention to adopt and implement the Extractive Industry Transparency Initiative (EITI).

Transparency and accountability

1.5 The implementation of principles of transparency and accountability is an important part of good mineral resource management. These principles however, are necessary but not sufficient conditions for good exploitation of mineral resources for the benefit of the poor.

1.6 Disclosure of mining revenue data and mining related information is particularly important given that mineral resources are public resources and the resources are finite. It is imperative to identify, analyse and understand the current sources, nature and extent of public information disclosure in the mining sector to enhance transparency and accountability.

KEY FINDINGS

Gaps in the Auditor General's Reports

2.1 The Auditor General's reports provide important information with respect to mining and mineral revenue transparency and accountability, from key State Owned Enterprises such as the Minerals Marketing Corporation of Zimbabwe (MMCZ) and the Zimbabwe Mining Development Corporation (ZMDC). However, the Auditor General's Reports are not produced timely thus to some extend limiting their usefulness towards influencing policy changes. Furthermore, there is no sufficient evidence showing that there is follow up or continuity on the issues that the Auditor General would may have brought up in some of his/her audits.

Gaps in ZIMRA mineral revenue information disclosure

2.2 Although ZIMRA timeously produces quarterly and annual revenue performance updates, which are publicly accessible online and also published in newspapers, the information is not sufficiently disaggregated for public consumption. ZIMRA's reports disclose revenue collection per tax head, since other taxes are not unique to the mining industry alone but also applicable to other economic sectors with the exception of mineral royalty. It is, therefore, difficult to ascertain the contribution of mining companies to corporate income tax (CIT) or customs duty for instance.

ZIMSTAT information disclosure gaps

2.3 Trade information released by ZIMSTAT through its website provides export values of various minerals from 2009-2013, however it does not provide for the export quantities.

2.4 ZIMSTAT diamond exports are presented in kilograms as opposed to carats which make comparison with other sources like the Kimberly Process (KP), MMCZ, RBZ and Ministry of Finance and Economic Development which use carats.

Publicly Listed Companies

2.5 Publicly listed companies furnish detailed information on mineral production, reserves, community social investments, environmental management on top of operational and financial information crucial for mining revenues transparency and accountability. The information is easily accessible to the public online and also on the relevant Stock Exchange website or company website.

2.6 Zimplats furnishes its overall annual contribution to the fiscus which provides an opportunity for government to publicly disclose what it has received to allow public reconciliation in line with EITI guidelines and the Publish What You Pay (PWYP) campaign. The only drawback is that Zimplats' fiscal contribution is lumped which makes it difficult to analyse performance of specific revenue heads. For instance, Pay As You Earn (PAYE) an indirect tax contributed to by employees is mixed up with other direct taxes. Consequently direct tax contributions by Zimplats are clouded.

2.7 For Canadian Listed Companies[3] information is available on the System for Electronic Document Analysis and Retrieval (SEDAR), an online filing service for Canadian public companies. This site provides public access to securities documents and other information filed by public companies[4]. This serves as a credible source of information as companies are liable for information disclosed. The main gap is that SEDAR is difficult to use. The website does not have a search function and the files are too large. Another challenge may also be that there are not many Zimbabwe based mining companies that are listed on the Canadian Stock Exchange.

2.8 The Zimbabwe Stock Exchange does not have specific additional reporting requirements for listed mining companies as is the case with the Australian Stock Exchange.

Level of Disclosure in State Owned Mining Companies

2.9 With respect to SOEs, there is some level of disclosure. MMCZ and ZMDC have audited financial statements. In addition, their performance falls under the scrutiny of the Office of the Auditor General. However, the disclosed information is often very late, not complete and has to be pulled from a wide variety of sources. The deficiency of material mineral production and exploration data is quite evident from ZMDC's public reports.

2.10 There is very little information flow or official engagement with local communities where ZMDC joint ventures and or subsidiaries are concerned.

Voluntary Disclosure by Privately Owned Mining Companies

2.11 Mining companies that are privately owned are not legally obliged by the Companies Act (Chapter 24:03) to publicly disclose results of their operations and financial performance.

2.12 This has contributed to the high levels of secrecy or non-disclosure of mining related information, with the diamond mining operations in Marange being a case in point. The little information that is available is drawn from the usually late consolidated financial

[3] *Canadian Stock Exchange listed mining company is Caledonia Mining which runs Blanket Gold Mine*

[4] *http://www.sedar.com/*

statements of the ZMDC or piece-meal disclosures on diamond dividends and royalties from the National Budget Statements.

2.13 There has been voluntary disclosure of information on mineral revenue to government, the distribution of working capital and CSR, by Mbada Diamonds, though the disclosures have been infrequent.

2.14 Private companies that have public companies as shareholders are expected to publish their audited financial statements; such is the case with Marange diamond mining companies including Anjin, Mbada Diamonds and Diamond Mining Company.

National Budget Statements

2.15 The disclosure of revenue streams in National Budget Statements is not effectively disaggregated. Revenue streams are broadly classified under various tax and non-tax revenue heads grouped together, which makes it difficult to clearly track mineral revenue contribution to the Treasury. This is notwithstanding the fact that royalties from different minerals and dividends from SOE such as Zimbabwe Mining Development Corporation (ZMDC) are grouped under non-tax revenue and have been notable contributors to this revenue stream.

2.16 Thus, while it can be argued that there is disclosure of mineral revenue contribution (as a contribution to the non-tax revenue strand) this disclosure is largely unhelpful as it is difficult to disentangle the contribution of mineral revenues from the broad categorisation of non-tax revenue

2.17 Within Zimbabwe's national budgets, mineral revenue is generally not earmarked for specific projects with the exception of the $600 million diamond revenue that was anticipated or projected in 2012.

Stakeholders mining disclosure information needs

2.18 CSO representatives interviewed argued that it is possible to get up to date statistics on gold and platinum yet the same does not hold true for diamond production. The specific issues on disclosure that civil society actors stated as important included;

- Mining agreements/Contracts/Licence Awardees
- Production Data
- Tax payments disaggregated by type of tax
- A mining register or map (cadastre)
- Timely production of audited financial reports of SOEs
- Proactive sharing of information by government entities; and private and public companies

2.19 Community members interviewed stated that there is very little transparency and accountability in terms of how the mines operate in their areas. Their concerns are more inclined towards concern over the social and environmental aspects of the mining ventures. The specific information that the communities would want to see disclosed includes;

- Employment data/statistics
- Local procurement information
- Companies' compliance with the Indigenisation and Economic Empowerment Act particularly when the companies would transfer 10% of their shareholding to the local communities
- Production data
- Mineral Prices
- What the mining companies pay to local authorities in levies and fees
- Information on how long the companies will be operating in their areas
- Information on how the companies are addressing their environmental impacts
- Corporate social responsibility plans and budgets

RECOMMENDATIONS

Business Environment and Industry Backbone Support

3.1 There is need to support some standard reporting on mineral revenue in the National Budget Statements. Currently, the information on mining and mining revenue differs from one budget statement to another.

3.2 The government is encouraged to publish the available mineral revenue data it has at its disposal.

3.3 The Auditor General's reports must provide some follow up on concerns that would have been previously unearthed in preceding reports.

3.4 The civil society and the media need to be capacitated with the knowledge of currently available information, as well as the necessary skills to analyse it. Though calls have been made for transparency and accountability and disaggregated data, there has been very little analysis of that which is already available.

3.5 Parliamentarians also need to be capacitated to interrogate the Auditor General's reports and to make follow ups with respect to National Budget Statements. The Ministry of Finance and Economic Development, through the National Budget Statements has since 2013, repeatedly mentioned the state's intention to adopt and implement EITI yet the legislature has to date not held the executive to account on why nothing has been done in this policy direction to date.

3.6 Government's efforts towards adopting EITI or some transparency and accountability initiative needs to supported. A mandatory standard reporting initiative would ensure that all mines are subject to the same disclosure requirements and would also ensure that there is consistency in terms of reporting formats.

3.7 There should be determined attempts to encourage the mining companies that are already disclosing information to go a step further in terms of disaggregating the data that is produced particularly with respect to payments to government. Disaggregated data on the payments made to government would assist in terms of getting a fair view of the companies' contributions to Treasury.

3.8 There should be consistent disclosure of mineral revenue earmarking in the National Budget.

CONCLUSION

4.1 The study revealed that there is some level of transparency with respect to the disclosure of mining and mineral revenue related information, albeit this disclosure is not consistent and varies from listed companies to SOEs. The available information provides enough bases for civil society actors, community members, the media and Parliamentarians to interrogate mining company operations.

4.2 However, there is evidence that there has been very little analysis of the information that is publicly available. There has been no in-depth analysis of the Auditor General's reports into the operations of SOEs; the audited financial statements of the SOEs; the National Budget Statements (mining related information) and the financial statements and quarterly updates provided by the large scale listed mining companies.

4.3 This is not to say that there are sufficient levels of transparency and accountability. Indeed, there is need for the production of more consistent information particularly where SOEs are concerned. The Auditor General's reports are also not timeously produced and completed.

4.4 Civil society, the media and communities have a role in interrogating and using the data that is already available to hold corporates and public officials to account.

This policy brief is based on the study *Mineral Revenue Disclosure and the Information Needs of Various Stakeholders: A Gap Analysis*, June 2016. See: www.zela.org

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ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT
ZEPARU

MINING SECTOR POLICY

INTRODUCTION AND BACKGROUND

1.1. Zimbabwe has a rich and diverse minerals base that can and should contribute even more to the country's growth and development. More than 40 minerals are extracted by numerous mines as opposed to other African countries where no more than three minerals are mined with a few large-scale operations.

1.2. Mining already is a crucial source of fiscal revenues and foreign exchange as well as jobs. The sector contributed an estimated 15 percent to GDP, 58 percent to total exports, and 13 percent of the country's fiscal revenues. It employed more than 45,000 people and accounted for 50 percent of Zimbabwe's foreign direct investment.

1.2. Prospects for ZIMASSET, the country's economic blueprint, rest squarely on leveraging mining sector growth and the sector's contribution to foreign currency earnings. Furthermore, the sector also has a significant impact on revenue generation, poverty alleviation, empowerment, and environmental justice.

1.3. ZEPARU commissioned a study, published in 2012, to review the state of mining sector activities in Zimbabwe and provide a comprehensive analysis of key policy issues for making the industry an engine of economic growth and transformational development benefiting the Zimbabwean people.

KEY FINDINGS

2.1. Infrastructure (power, transport, and water) is in need of rehabilitation and expansion, especially for bulk minerals such as iron ore and coal. Higher infrastructure costs (power and transport) will render viable only the higher-grade deposits or reserves. Hence, the mining sector needs strategic interventions to get back to and surpass its former capacity.

2.2. The level of royalties increases the necessary investment hurdle rate and consequently increases the requisite cut-off grade, sterilizing resources on existing mines and rendering nonviable potential new investments projects (mines) that fall between the two cut-off grades.

2.3. The gold and platinum industries appear to have the greatest immediate prospect for rapid expansion and greater value addition. Almost all platinum production is exported as concentrate or matte/leach alloy for refining in South Africa. [5]

2.4. Possibilities of extracting oil from coal have been considered on since the 1950s, yet nothing of material significance has been done to date. The potential for gasification of Zimbabwe's substantial coal reserves and the tapping of the coal bed methane (CBM) reserves is once again being considered. The CBM resources in the Hwange/Lupane basins are estimated at over 27–40 trillion cubic feet of sulfur-free methane gas, which rank Zimbabwe's resources at 11th globally, after South Africa. Plans exist for a power-generating station fueled by CBM in Lupane; the reserves are currently being appraised for this. CBM could also be used to make nitrogenous fertilizers and other methanol chemicals, also to reduce iron ore to iron/steel. Investors have expressed interest in these coal gasification and CBM projects.

2.5. Although asbestos is being increasingly replaced in the West because of health hazards, new markets are opening in Asia. A small proportion of production was consumed locally for the manufacture of asbestos cement products; the possibility of local asbestos spinning for the manufacture of fireproof material was investigated in the 1990s, but no plant was built.

2.6. Although Zimbabwe produces all the constituents of stainless steel—ferrochrome, nickel, and iron—policy interventions to resuscitate Zimbabwe Iron and Steel Company (ZISCO) have yet to be realized. Roughly 80 percent of iron and steel production was exported when ZISCO was operating. ZISCO had a maximum capacity of 1 million metric tons and operated the only integrated steelworks in the region outside South Africa, with much the exports going to regional customers. There has been no ore or steel production since 2007 due to the economic crisis and ZISCO's high debt burden.

2.7. Additional studies: A survey by the Chamber of Mines of Zimbabwe in 2012 estimates that the mining sector would require US$3-5 billion in investment to increase production to an average of over 80 percent of capacity within three to five years. The same sentiments are echoed by a World Bank study conducted in 2012 estimating that US$5 billion in investment is required to realize mineral revenues of about US$5 billion, fiscal revenues of over US$700 million, and employment levels of around 33,000 by 2018.

POLICY RECOMMENDATIONS

Strategy, governance, and artisanal mining

3.1. Zimbabwe's Resource-Based Development Strategy should move from the first and

[5] *Zimbabwe has the world's second largest reserves of platinum group metals after South Africa.*

second phases of industrialization to the third and fourth—in other words, from resource exploration, infrastructure development, resource consumables, and human resources development to resource clusters, research and development, lateral migration, and diversification. This recommended move is due to the decreasing importance of resources comparative advantage and an increasing relative importance of a skills-based competitive advantage.

3.2. The current "colonial" minerals governance regime ("free mining") needs to be fundamentally overhauled to encourage discovery of new mineral deposits and maximize the developmental impact of known mineral assets. In this regard, a mineral cadaster information management system (MCIMS) needs to be established as soon as possible.

3.3. For gold mining, instruments for supporting artisanal and small-scale mining (ASM) need to be rebuilt in the critical areas of finance, technical assistance, and marketing.[6] Consideration should be given to simplifying the Mines and Minerals Act (MMA) to encourage exploration licenses and Artisanal Small Mining (ASM) prospecting licenses.

Establish Linkages

3.4. Zimbabwe needs to use its mineral resources endowment to catalyze wider national economic growth and development through maximizing economic linkages. The linkages are as follows:

3.5. Fiscal linkages: Mineral resource rents must be captured, through the introduction of a resource rent tax, and reinvested into building long-term physical and human (knowledge) infrastructure, to underpin future national competitiveness, and into minerals development (exploration and technology development) to prolong the life of the minerals sector.

3.6. Backward linkages: The minerals inputs sectors (capital goods, consumables, services) need to be expanded to take advantage of the increasing local demand, through measures to optimize the local content of mining purchases. Realization of backward linkages opportunities could catalyze wider industrialization through the production of capital goods. Backward linkages and local content[7] should be a clear objective of the MMA. The Ministry of Mines and Development should be empowered to include such provisions in concessions and leases.

3.7. Forward linkages: Minerals could provide critical feedstocks into other job-creating sectors provided that they are beneficiated into appropriate intermediate products such as iron/steel, polymers, and base metals for manufacturing; nitrogenous and phosphoric

[6] Please note ZEPARU has undertaken a more detailed study on best practices on supporting Artisanal and Small scale Miners which was an offshoot of this study.
[7] Zimbabwean value added as a percentage of total purchases of goods and services.

fertilizers for agriculture; cement, steel and copper for infrastructure; and fossil fuels for power. However, mineral beneficiation is energy intensive (smelting, for example). Beneficiation also requires state facilitation through incentives and disincentives, such as a small export tax to encourage domestic value addition if such addition can clearly be added domestically.

3.8. As examples of forward linkages, Zimbabwe's CBM and shale gas resources need to be assessed for possible power generation plants to diversify the energy mix and to meet projected demand. Development of the contemplated Lupane Combined Cycle Gas Turbine Power Station should be expedited; so should an investigation into the viability of producing gas-based chemicals and fertilizers. The use of platinum group metals (PGMs) by Zimbabwe and South Africa in the production and storage of power (via fuel cells) should be explored to stimulate local value addition.

3.9. Knowledge linkages: Maximization of human resources development (HRD) and research and development (R&D) opportunities is essential for realizing full benefits from the backward and forward linkages. No resource-based country has industrialized without significant investment in human and technology development. Joint strategies with the private sector should be pursued through public-private partnerships (PPPs), including the reinvestment of resource rents into knowledge development. Failure to attend to HRD and R&D will severely compromise and constrain all other resource-based development plans and interventions.

3.10. Although literacy rates and primary school attendance are high in Zimbabwe, the education and training of engineers, scientists, artisans, and technicians is critical to the development of technologies and products. Also critical is investing in universities, colleges, training centers, and research institutions. The tertiary educational institutions need to be fed from the schooling system with adequate graduates with math and science competency (A levels). Investment thus should be directed at upgrading the math and science capacities within the school system. The recent Government initiative to provide tuition fees to those who pursue science subjects at A Levels under the Science Technology Engineering and Mathematics (STEM) program will help to rebuild the skills base.

3.11. A survey should be conducted to identify the critical needs for technical skills. A national minerals (and linkage industries) HRD strategy should be put in place. Institutions to develop mineral technology should be rebuilt: Institute for Mining Research, Government Metallurgical Laboratory, and Bulawayo School of Mines.

3.12. Spatial linkages: Mine operators can often finance and develop major infrastructure that could be used by other sectors such as agriculture, forestry and manufacturing. This can happen if the operators, as a condition of their mineral leases and mining concessions, create adequate capacity and allow third-party access to roads, power supply, or other infrastructure at nondiscriminatory prices.

CONCLUSION

4.1. Zimbabwe's mineral endowment could move beyond helping to rebuild the economy. The endowment could also catalyze wider industrialization, growth, and development. This will not necessarily happen under the current "free-mining" mineral regime with limited conditions on mining leases. The mineral regime needs to be substantially overhauled to facilitate the maximization of the developmental impact of finite resources on this and future generations, through ensuring that all the economic linkage opportunities are realized.

This policy brief is based on the *Mining Sector Policy Study*, December 2012.
See: www.zeparu.co.zw

POSITIONING THE ZIMBABWE TOURISM SECTOR FOR GROWTH

INTRODUCTION AND BACKGROUND

1.1 With SERA support, ZEPARU undertook this study as part of a wider research program on the key drivers of Zimbabwe's economic growth. The objective of this study was to identify issues and challenges that affect the growth of the tourism sector in Zimbabwe and recommend strategies to position the sector on a sustainable growth path supporting the country's medium term growth objectives.

KEY FINDINGS

2.1 The study found that Zimbabwe's tourism sector affords great opportunities while also facing many challenges. Globally, tourism is one of the world's fastest growing industries. Its rapid expansion has made it a key driver of economic development in both developed and developing countries, both of which are using it for sustainable development and poverty reduction.

2.2 In Zimbabwe, tourism is a large and rapidly growing sector with more than 2.5 million arrivals each year. It has also generated rapidly expanding revenues increasing from $500 million in 2015 to $900 million in 2015. From these impressive numbers the government has noted the sector's importance for the country's development by identifying it as one of the four pillars of economic development, together with agriculture, mining, and manufacturing. As a key source of exports and foreign exchange, there is a clear opportunity for the GOZ to promote growth through economic policies that promote domestic and international tourism as a focal point for economic growth and development.

2.3 On the downside, Zimbabwe's tourism sector faces many constraints to growth. These constraints particularly include a lack of airline connectivity, insufficient infrastructure, and a skills gap. As the economy declined airlines increasingly found Zimbabwe to be an unviable market, poor road conditions have limited ground transportation to major tourism attractions, and skills flight has left the industry without a viable talent pool. The industry has been further suffered from poor marketing strategies and programs, little domestic tourism promotion, unfriendly visa policies, and congestion at ports of entry. Together these constraints undermine a promising industry's contribution to growth, exports, earnings, employment, and poverty reduction.

2.4 Addressing the key challenges to accelerating the growth of the tourism sector requires the government and private sector to share responsibility for investing in infrastructure.

POLICY CHALLENGES

Lack of Internal Airline Connectivity

3.1 Tourism is an export product consumed at source, hence access to the source is key. However, the Zimbabwe's tourist destinations are highly inaccessible by air. The problem is exacerbated by the country's poor road network, characterised by potholes, poor signage, and high accident rates. There is also a lack of luxury coaches linking tourist destinations with the major cities and towns, except for the Harare-Bulawayo-Victoria Falls route. The problem is compounded by the presence of numerous police check points on all roads, which unnecessarily lengthens travel time and creates the perception foreign tourists that the country has become a police state.

Poor Marketing Strategy and Programmes

3.2 Consultations revealed that industry stakeholders widely believe that there is underinvestment in marketing Zimbabwe's plethora of scenic resources. Despite the effort that the Zimbabwe Tourism Authority (ZTA) has been making in marketing the country, the public and private sectors can do far more to aggressively and innovatively advertise the sector. In expanding their advertising, these actors should make strides to advertise all of Zimbabwe given that the country is awash with tourist products rather than over-concentrating on Victoria Falls. Many key attractions are underutilized due to lack of promotion, and promotion that is too focused on a limited number of attractions.

Lack of Domestic Tourism Promotion

3.3 Domestic tourism is a major component of any country's tourism industry. It provides a sustainable base for the local industry when there is a downturn in international tourist arrivals, and in Zimbabwe domestic tourists constitute the largest market segment for the country's accommodation sector with the exception of Victoria Falls. In the majority of the country's resorts domestic tourists make up 80% or more of the clients in hotels and lodges. A domestic tourism strategy could play a critical role in outlining the different initiatives that the government can institute to promote domestic tourism and outlining private and public sector promotion strategies.

Lack of Skills and Experience

3.4 Zimbabwe's tourism industry was critically affected by the flight of skilled and experienced labor that took place during the economic downturn from 2000 to 2008. For instance, currently executive chef and managerial positions in the hotel industry are largely filled by staff with limited experience and technical skills. As the industry grows employers are struggling to find experienced and skilled middle managers.

Lack of Institutional Coordination

3.5 Unfortunately, the tourism sector is affected by policies that originate from a broad range of ministries that govern various aspects of the sector. As such, a lack of effective inter-ministerial policy coordination has hampered growth. The different government institutions promulgate policies and regulations without considering their impacts on other sectors. As a result, companies in the tourism industry are charged a multiplicity of levies by different government departments, making it time consuming and costly for business to pay the necessary fees and taxes.

Unfriendly Visa Policies and Congestion at ports of entry

3.6 The current visa policies discourage tourism development, as tourists face a jumble of entangled policies and requirements to obtain a visa. Extending its online visa applications would reduce costs of entry and promote tourism. The current stringent visa system could be relaxed without compromising the country's security system. Congestion at the various border posts is affecting the smooth passage of tourists. Accelerating the creation of a Port Authority coordinating operations between government departments at the border posts standardize operations and reduce barriers to tourists.

POLICY RECOMMENDATIONS

4.1 Establish a tourism revolving fund drawing on lessons from Mauritius. The Tourism Fund which is provided for by the Tourism Act in Mauritius develops and maintains tourism related projects, including but not limited to eco-tourism and cultural tourism. Creating a similar well-capitalized fund in Zimbabwe could ensure that fund members continually channel investment into the industry. As such, they would be able to create, improve, and link tourist attractions.

4.2 Address internal and external air and ground connections to the country and tourist resorts. This is very important given that tourism is an export product that is consumed at source; hence it is critical for tourists to be able to efficiently access the source. Improving access will require developing air linkages, particularly internally, and the road network linking all the tourist destinations.

4.3 Decongest the border posts as time spent at the border is a major deterrent to visiting

Zimbabwe. Introducing computerized and synchronized traffic and human management systems at border posts, particularly Beitbridge, will substantially improve transit times and the country's image. There is also an urgent need to diminish police road blocks, which create a negative perception for visitors.

4.4 Skills needs can be addressed from both a short term and long term perspective as follows:

Short Term Recommendations

- Identify retired and semi-retired experienced personnel with skills in different facets of the industry and use them to run a series of intensive training workshops throughout the country.
- Identify individuals with outstanding management knowledge in the industry or other service sectors and use them to implement intensive training seminars for lower- and middle-management staff from industry organizations; and
- Select senior managers within the industry to go on short term exchange programs (one –six months) to countries that have excellent reputations for service delivery and management in the tourism industry

Long Term Recommendations

- Establish a national advisory committee on tourism training and manpower development (Private sector, Ministries of Higher Education, Tourism and Hospitality Industry, Labour and Social Welfare).

4.5 The Ministry of Tourism and Hospitality Industry and ZTA needs to undertake a range of feasibility studies on potential new tourism products to be disseminated to a wide audience, both locally and internationally.

4.6 The Ministry of Tourism and Hospitality Industry in collaboration with the Ministry of Finance should urgently engage the banking sector to expedite universally using plastic money in the country. Visitors can be good or bad ambassadors for the country, and the ease of accessing their money and Zimbabwe's payment systems will strongly impact their impressions.

4.7 ZTA should organize a series of workshops for critical actors in the sector to provide guidance and the importance and means of utilizing ICT in the industry.

4.8 Enhancing domestic tourism will require deliberate strategies targeting the following:

- Developing a coordinated domestic marketing program involving ZTA, the private sector, National Parks, and National Museums and Monuments;
- Undertaking awareness programs by ZTA highlighting the country's tourist attractions

for different market segments including schools, institutions of higher learning, companies, and the general public. Expanding domestic tourism requires developing a culture of holiday taking;

- Rethinking the private sector pricing model to encourage domestic tourists to access holiday products; and
- Producing local media programs highlighting the country's tourist attractions and the benefits of taking local holidays.
- Developing and promoting new tourism products, including community-based products focused on preserving nature and Zimbabwean culture and heritage.

4.9 Enhancing the participation of women in the tourism sector can start by identifying successful women in senior management positions who can mentor and role model for women in middle management positions. Steps should also be taken to improve women's access to project funding for investing in tourism activities. Strengthening the Association of Women in Tourism could expand the involvement of women in the sector and provide a platform for women's empowerment through engagement and employment in the tourism industry

4.10 Introduce the Tourism Satellite Accounting system to effectively track and account for the contribution of tourism to growth.

4.11 Government should reconsider the current funding model of the Parks and Wildlife Authority drawing of the experience of both Botswana and Kenya. The current model has proved inadequate for the authority to drive sufficient funds for effectively discharging its duties, hence its over reliance on operator fees.

The policy brief is based on the study *Positioning the Zimbabwe Tourism Sector for Growth: Issues and Challenges,* April 2013. See: www.zeparu.co.zw

USAID FROM THE AMERICAN PEOPLE

ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT (ZEPARU)

COST DRIVERS OF THE ZIMBABWEAN ECONOMY

INTRODUCTION AND BACKGROUND

1.1. The analysis summarized in this briefing was carried out in response to a request by the Ministry of Industry and Commerce to ZEPARU to evaluate cost drivers affecting Zimbabwean businesses' competitiveness. Since Zimbabwe adopted the multicurrency regime in 2009, industries have experienced a marked increase in the cost of doing business. This high cost is harming Zimbabwean companies both domestically and internationally. The lack of competitiveness on part of Zimbabwean industries has resulted in the country's import bill continuing to rise compared with exports.

KEY FINDINGS

2.1. The study embarked on a regional comparative analysis of these factors driving the cost of production vis-à-vis those obtained in South Africa, Mozambique, Zambia and Botswana. The chief issues follow.

Labor

2.2. Minimum wage levels in Zimbabwe were higher compared with most countries in the region. Zimbabwe's minimum wage levels were lower than South Africa's, although South Africa's worker productivity exceeds Zimbabwe's by a wide margin. Zimbabwean wage growth was highest at 28.6 percent a year, followed by Zambia at 19 percent, with South Africa, Mozambique, and Botswana below 10 percent annual growth.

Minimum Wage, USD per Month, 2009-2013

Country	2009	2010	2011	2012	2013	Total Change (%)	Average Annual Growth (%)
Zimbabwe	90.0	189.4	166.5	167.4	246.5	173.84	28.6
Zambia	65.8	58.4	83.9	75.8	131.7	100.27	19.0
South Africa	507.0	516.4	543.1	621.6	646.4	27.51	6.3
Mozambique	88.7	95.5	99.8	108.6	111.6	25.79	5.9
Botswana	97.2	108.1	98.4	92.5	105.0	8.04	2.0

Source: World Bank, Doing Business 2014.

2.3. Zimbabwe has comparatively high cost and pricing structures. Also of concern to industrialists is the labor code (laws) which they consider to be archaic and needing modernization in line with international trends. Redundancy dismissals remain lengthy and prohibitively expensive in Zimbabwe.

Electricity

2.4. Electricity costs in Zimbabwe remain the least competitive in the region. Supply is dominated by government-owned utilities, namely the Zimbabwe Power Company (ZPC) and the Zimbabwe Electricity Transmission and Distribution Company (ZETDC). Pricing remains highly uncompetitive.

2.5. The country is inefficient in thermal power production, a development which ends up chewing up the vast benefits from hydroelectricity production. Also, production capacity remains low compared with optimum demand because of imported power.

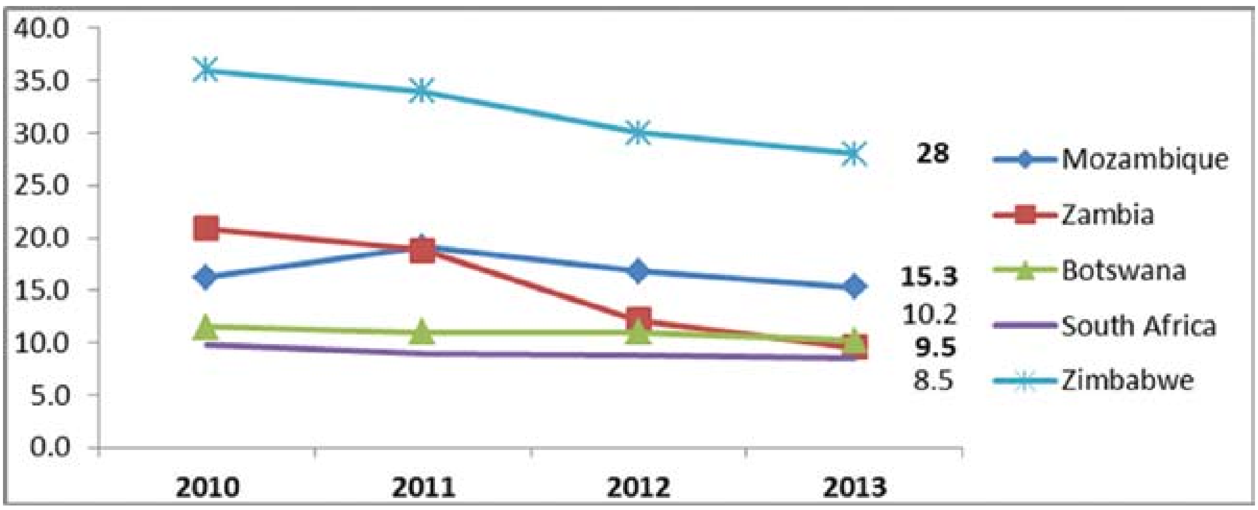
Water

2.6. Zimbabwe's water charges remain relatively lower than those of Botswana and South Africa. However, water is expensive when the fixed-charge element is included. In rural areas and small cities which cannot afford water treatment, Zimbabwe National Water Authority (ZINWA) is responsible for water supply. As part of its mandate it sells water to farmers who would have contributed to construction of dams or borehole drilling. This discourages investment in this much needed infrastructure.

Finance

2.7. Access to finance is very difficult and expensive owing to high average borrowing costs as shown in the graph below.

Percentage Average Lending Rates 2010–2013



2.8. Perceived country risk and limited investor confidence drive higher rates. These factors constrain the financial sector's ability to mobilize funds for investment. High nonperforming loans, high bank concentration of assets, and high operating costs further exacerbate the situation. Firms are unable or constrained when it comes to capital acquisition, purchase of inputs at convenient prices, and financing investments.

Tariffs and trade taxes

2.9. Export costs average 18.8 percent of freight value and a whopping 28.8 percent for imports. Costs include document preparation; customs clearance and control; port and terminal handling; and in-land transportation, with the latter being the largest component of these costs. The comparative figures place Zimbabwean businesses at between a 3 and 5 percentage point disadvantage vis-à-vis Botswana and Zambia when exporting, and more than 10 percentage points when importing.

2.10. The gap with South Africa is even wider (the costs of exporting are nearly double and three times those of importing). Zimbabwe's tariff policy places producers and exporters at a competitive disadvantage, with most tariffs being twice as high as those obtaining in the region. Onerous regulatory fees charged under the EMA Act coupled with lack of transparency about the regulations on compliance costs affect profitability.

Information communication and technology

2.11. As published by the International Telecommunication Union (ITU) which assumes a standards level of usage in the fixed-telephony, mobile-cellular (including SMS), and fixed broadband, Zimbabwe was found to be the second most expensive after South Africa. Broadband consumption and demand remain very low because of the prices.

Scale

2.12. Low capacity utilization, particularly in manufacturing, has a huge effect of increasing the unit cost of production. This in turn makes Zimbabwean goods less price competitive. The legal framework governing labor, property taxes, and many statutory obligations make it difficult to lower unit costs.

Agricultural sector

2.13. The Zimbabwean economy is agro-based. All sectors of the economy depend on the strength of agriculture as 70 percent of Zimbabweans derive their incomes and livelihoods from agriculture-related activities. The performance of the sector is therefore an important enhancer of economic activities given its strong forward and backward linkages with key sectors of the economy.

2.14. Areas of concern are the land reform program, contract farming, the fertilizer industry, the prevailing agriculture model, how the means of production are grouped (labor, management, skills, capital), and private sector participation.

Government payments

2.15. This is crippling many sectors of economy. The fertilizer, pharmaceutical, and construction industries are among those hurt by long delays in receiving government payments, delays which have brought some companies to a standstill. Companies are pressurized to meet tax and operational obligations on revenue on which there are outstanding debts.

Skills

2.16. The international isolation of Zimbabwe in the last ten years has resulted in a skills gap in both the public and private sector.

POLICY RECOMMENDATIONS

3.1. Zimbabwe has developed a competitiveness pricing gap as evidenced by the generally high prices charged for its goods and services compared with other countries in the region. Zimbabwe remains very uncompetitive in cost of capital, labor, and transport and logistics, to mention just a few areas. Reducing the costs of these critical cost drivers will improve competitiveness of businesses and enhance economic performance. Within this context, specific actions and policy options that the Ministry of Industry and Commerce could advocate for reducing costs to private enterprises are detailed below.

Reforms to the labor code and wage-setting practices

3.2. The current labor code and practices need to be reformed as they create expectations at the industry level that are then reinforced by practice elements.

3.3. Wage increases need to be aligned with productivity for the economy to remain competitive, more so during this dollarized environment.

3.4. Redundancy dismissals remain lengthy while severance payments are high and need to be aligned with regional ones if not lower.

3.5. Collective bargaining needs to be switched from the NEC to the company level.

3.6. Wage-setting in central and local government and state-owned enterprises needs to be revised because high labor costs are passed along as higher utility and service charges.

Tariffs reduction, streamlining of permits, and trade facilitation

3.7. Simplify the tariff structure, rationalize; eliminate the import surtax; and reduce tariff levels at least to regional levels.

3.8. Licenses and permits (import and export) should be rationalized with a view to eliminating them where prudent, and private sector compliance should be coordinated across ministries and departments.

3.9. A holistic review of fees, taxes and levies being charged business should be undertaken with a view to reducing them and improving on the country's competitiveness.

3.10. A trade information portal responsible for publishing and making available information for traders to speed up border procedures should be established.

3.11. Standards and screening mechanisms should be created at the customs and broker level to curb delays often caused by custom brokers who often incorrectly complete paperwork to clear merchandise across borders, adding to trade delays.
3.12. Appropriately branded security checks should replace numerous roadblocks on major highways.

Property valuation
3.13. Update property valuations regularly to reflect market conditions. Among the potential benefits is a reduced impact of taxation on struggling businesses.

Power production
3.14. Optimize power production through increased private sector participation. Increased private sector participation in thermal power operations could help in boosting power generation. Separating Kariba and using its advantages strategically for expansions into increased hydropower generation and budget support can also be considered.

Finance
3.15. Perceived country risk, found to be the major cost driver of interest rates, needs to be address. The country needs to address issues affecting Ease of Doing Business rankings.

Risk reduction and FDI
3.17. Introduction of business-friendly reforms, including improved labor practices and eased international trade, will help to improve the predictability of business outcomes in the Zimbabwean economy and thus contribute to risk reduction. This will also help improve Zimbabwe's business image abroad.

Currency
3.18. In the absence of the option of currency devaluation, the only available option to close the competitiveness gap is for government to adopt the internal devaluation strategy adopted by Latvia and other Baltic States. This will involve a systematized cost-cutting measure across all the sectors of economy, incorporating a reduction in employment costs in government, the private sector as well as parastatals, local authorities, and other public institutions.

CONCLUSION
4.1. The study highlighted the following as the major cost drivers: labor, power, water, finance, transport and logistics, tariff and trade taxes, information and communication technology, lack of skill and delays by government to pay for goods and services. These cost drivers impact differently on the firms' production functions and were found to be very relevant and significant to the generality of all Zimbabwean firms.

This policy brief is based on the study *Cost Drivers Analysis of the Zimbabwean Economy,* October 2014. See www.zeparu.co.zw

PAY STRUCTURE AND LABOR COSTS IN ZIMBABWE

INTRODUCTION AND BACKGROUND

1.1. The study forming the basis for this policy brief analyzes the country's wage structure and its determinants in the public, quasi-public, and private sectors. The study reviews public sector wages, public-private wage differentials, and the institutions governing the determination of wages from 2009–2015. It offers policy recommendations on how to achieve an efficient and equitable wage structure.

1.2. Concerns are growing about the need to improve Zimbabwe's competitiveness. Yet there are limited options, given that currency devaluation unfeasible under the multicurrency system. One possibility is adjustments through the labor market. Some scholars and policy makers have argued that to close the competitiveness gap with South Africa and other countries, unit labor costs must be reduced.

1.3. Wages play a central role in the allocation of labor inputs to their most productive and efficient uses. Therefore, the wage structure will have an impact on employment, prices, and competitiveness. Wages also play a fundamental developmental role in the distribution of income and reduction of poverty. Declining labor earnings are often linked to problems of: growing inequality, social exclusion, a rise in crime, or even social and political unrest.

1.4. The shrinking of the formal economy in Zimbabwe through deindustrialization resulted in the share of informal employment rise from 84.2 percent in 2011 to 94.5 percent in 2014. An explanation often given for inadequate growth of formal employment is that excessive labor costs discourage businesses from hiring more workers. Excessive labor costs arise when total compensation for workers falls out of line with productivity, or rigidities in the legal and institutional environment prevent a match between compensation and productivity.

KEY FINDINGS

2.1. The public sector wage bill seriously threatens fiscal and macroeconomic stability in

Zimbabwe. The public wage bill as a share of GDP rose from 6.4 percent in 2009 to 21.5 percent in 2015. In 2013, Zimbabwe had the highest wage bill as a share of government expenditures among its peers, at 56.9 percent. The wage bill has crowded out necessary public investment in capital projects and the social service.

2.2. A comparison of the wages of public sector workers with those of the total private sector in Zimbabwe leads to a conclusion that public sector workers earn a substantially higher premium. Also, huge income disparities exist between the wages of top management and those of ordinary workers in most enterprises, especially parastatals.

2.3. The income disparities between the highest and lowest paid have continued to widen since 2009. This is a consequence of the different ways of determining the levels, with collective bargaining at the lower echelons and entitlement-based contracts at the top. The national average minimum wage in Zimbabwe was $263, and the national average inclusive of allowances was $336, as of 2015.

2.4. The analysis of unit labor costs reveals that labor costs are generally high in Zimbabwe relative to the rest of Africa and Asia. This is more pronounced in parastatals. While government has issued a directive to limit wages of managers of parastatal and local authorities, the situation on the ground shows that senior managers in these organizations continue to receive unsustainable wage and nonwage benefits that are out of line with the government directive. In many cases, nonwage benefits exceed the basic salary.

2.5. The existing system for public sector employees allows worker groups and organized professional associations to lobby for wage increases in the absence of a formal process that accounts for cost-of-living growth and changes in the labor market. This has resulted in the public wage bill growth unsustainably surpassing economic growth. There is no coordination between the timing for salary consultations and the budget process, thereby leading to anomalies in salary and conditions of service determination and outcomes.

2.6. There is lack of effective coordination among the key institutions involved in public sector wage determination, namely Ministry of Public Service Labor and Social Welfare, Civil Service Commission (CSC), National Joint Negotiating Council (NJNC), and the Health Services Board (HSB). This has resulted in:

- diverging views within the Apex Council, leading to lack of clarity on common positions
- duplication of negotiating structures for the health sector and other public services

- no proper collective bargaining for civil servants compared with the private sector.

POLICY RECOMMENDATIONS

3.1. Institute a cap on the public sector wage bill. This means the Public Finance Management (PFM) Act should be amended. To be in line with regional and international best practice government should: allocate a minimum of 30 percent of the budget to development expenditure. This implies that recurrent expenditure (including the wage bill) should not exceed 70 per cent of the budget; and that expenditure on wages and benefits does not exceed 35 per cent of taxes and 10 percent of GDP.

3.2. Institute biometric payroll registration. The Civil Service Commission should undertake a process of biometric payroll registration of all public sector employees and pensioners to strengthen payroll administration. Through the use of biometrics, public service employees and pensioners can be accurately identified, and ghost workers removed from the payroll. This initiative has been successfully implemented in Ghana, Nigeria, and Kenya as part of their payroll audits.

3.3. Make government leaner and more efficient. This is necessary given the size of the economy as well as the population. Strong political will and commitment is needed for such a reform process to succeed. Mechanisms for evaluating public service employee performance should be crafted objectively and inclusively, after which, arrangements for dismissing any nonperforming employees should be institutionalized.

3.4. Expedite reform of State-Owned Enterprises (SOE), which have been a drain on the fiscus, to turn them into autonomous and profit-oriented institutions with pro-market regulations and good corporate governance mechanisms.

3.5. Pass a Statutory Instrument to limit parastatal and municipal wages. This is to ensure compliance with the government directive to cap salaries and allowances for managers in SOEs and municipalities at a maximum of US$6,000 a month. In addition, wages in the parastatals should be compressed to reduce the difference between highest and lowest paid.

3.6. Institute a framework to set the time frames for wage setting that allows inputs from consultations to be incorporated in the National Budget. This institutionalized framework should be respected by all parties to ensure transparency during the salary consultations. It further limits distortions in salary determination and keeps wage-bill expenditure in line with national income.

3.7. Adopt integrative collective bargaining in the public and private sectors. In order to achieve long term sustainability of wages both in the public and private sectors, it is critical for the parties to look at all the factors that are relevant in the negotiations. Two sets of factors allow an integrative approach to collective bargaining: (i) external or push factors, and (ii) internal or permissive factors. The internal factors (permissive factors—ability-to-pay variables) should define the final outcome of collective-bargaining processes.

3.8. Adopt growth-friendly tax reforms to lower labor costs. The government should consider adopting a more growth-friendly tax system. This can be achieved by shifting the tax burden away from direct income toward consumption, immovable property, and the environment. Personal and corporate income taxes, as well as social security contributions, are the most distortive taxes, having sizable adverse effects on labor use, productivity, and capital accumulation.

3.9. Resuscitate the National Productivity Institute (NPI). The (NPI) would come up with national and sectoral scientific benchmarks to guide productivity bargaining. The NPI should develop and disseminate knowledge and experiences in productivity, with the objective of strengthening the performance and competitiveness of the economy, while also fostering improvements in working conditions and quality of life.

3.10. Strengthen the Tripartite Negotiating Forum (TNF). Having a stronger, more inclusive, and more efficient TNF would help to ensure ownership of policies and encourage social cohesion. Government should create a national framework for social dialogue that is inclusive along the lines of NEDLAC in South Africa, or Economic and Social Councils implemented in other countries. Participation in the TNF should be broadened to include all the key stakeholders and coverage should extend beyond labor market issues.

3.11. Realign the role of the NECs so that they do not just focus on wages but also consider issues of human resources development, productivity and competitiveness at both the sectoral and national levels. Furthermore NECs should:

- Facilitate the development of social plans through social dialogue. Social plans incorporate re-training, re-skilling and re-deployment programs for retrenched workers. This will ensure employment security and integration of retrenched workers into the mainstream economy. Lessons can be drawn from the South African experience on social plans.
- Strengthen monitoring and compliance mechanisms of sectoral agreements.
- Design strategies for strengthening value chains in their particular sectors as a way of encouraging and promoting the integration of the informal sector into the formal economy.

3.12. Harmonize and coordinate institutions dealing with wage determination in the public sector. The institutional frameworks for wage consultations and bargaining for various subsectors in the civil service should be maintained, since each subsector has peculiar needs and interests. However, there is need to ensure effective coordination between the Ministry of Public Service Labor and Social Welfare, CSC, NJNC and HSBNP, to limit divergence of views and ensures clarity of purpose. In order to do this, the NJNC and the HSBNP should be merged as the central voice for workers in the public sector on issues of basic salaries and allowances, since the two institutions have similar structures. Specific sectoral interests can be dealt with by the respective associations.

3.13. Reform labor legislation in the public sector. There is need to harmonize sectoral legislation with the main Labor Act, given that the plethora of legislation governing the public sector often results in lack of coordination within the public sector. There is need for social partners to revisit this process. This was once spearheaded by the tripartite social partners in 2010 and then abandoned. Harmonization should also inform harmonization of the institutions dealing with salary negotiations.

3.14. Reduce informal employment. The government should reduce informal employment by lowering the cost of transitions to formality through the creation of an enabling policy, and a regulatory environment that reduces barriers to formalization. Workers' rights can be protected by promoting a greater awareness of the advantages and protection that come with formalization. The institutional framework for micro, small, and medium enterprises (MSME) should be modernized to improving their access to financial markets assistance for technological development.

CONCLUSION

4.1. Legislative and institutional changes are needed to lower the public sector wage bill and reduce wage disparities. This can be done in a way that safeguards livelihoods. Moreover, steps to reduce informality would improve protection and earnings for workers.

This policy brief is based on the study *Remuneration Structure and Labor Costs in Zimbabwe: An Analysis of Flexibility, Competitiveness and Equity,* April 2016.
See: www.necf.org.zw

MAIZE MARKETING AND PRICING IN ZIMBABWE

INTRODUCTION AND BACKGROUND

Recent economic profile

1.1. Agriculture is central to the Zimbabwean economy. The Comprehensive African Agriculture Development Programme emphasizes the prospects for the country to register a higher path of economic growth through agriculture-led development. The country's 10-point plan for economic growth emphasizes revitalization of agriculture and the agro-processing value chain, as well as value addition in agriculture. An efficient agricultural marketing system is necessary to ensure a competitive agricultural sector.

1.2. Maize is a staple food crop in Zimbabwe, accounting for over 50 percent of the average calorie consumption for about 13.1 million people, according to 2012 figures from the Zimbabwe National Statistics Agency (ZIMSTAT). Besides its use in human food, maize is a main energy source in animal feed. An estimated 2.1 million metric tons of the commodity is consumed each year in Zimbabwe. The crop is grown by over 90 percent of the 1.6 million farming households distributed across the country, on over 60 percent of the total cropped area, taking up 80–90 percent of the total land area under cereals, and consumes more than 50 percent of fertilizer purchased in Zimbabwe, government reports show.

1.3. Despite long efforts by government to strengthen the maize sector through market and price interventions such as input subsidies, price controls, trade restrictions, and stock holding, maize production has been stagnating. Since the early 2000 Zimbabwe has been a net importer of maize. Past policy efforts have been criticized for being inconsistent and ad hoc. There is need to ensure efficiency in agricultural marketing through following best practices in market and price interventions.

PRICING AND MARKETING POLICIES

2.1. Maize input subsidies have failed to deliver expected results due to administrative failures such as (1) delayed disbursements of inputs, (2) inadequate input packages, (3) poor targeting of farmers and (4) corruption in distribution of inputs.

2.2. The price support, particularly the setting of a higher noncompetitive minimum price, had more costs than benefits to society because (1) the current low productivity implies a limited impact from price incentives, (2) the government lacks capacity to pay for higher prices, (3) high and noncompetitive prices compromise industry viability, and (4) high prices hurt consumption, contradicting food security objectives. Price supports for unproductive farmers, along with administrative failures in the form of delayed payments, will produce very little income gain for farmers.

2.3. There are generally observed conflicts between policies aimed at improving food security and supporting producer prices to improve farmer incomes. Higher prices for producers frequently lead to higher consumer prices, which reduce real incomes and end up harming maize consumers, most of whom are smallholder farmers themselves. A higher price for maize, a raw material in food processing, induces higher production costs and reduces competitiveness. Price increases and import restrictions on maize have resulted in industry contraction and real-wage declines that work to suppress maize consumption by farmers and urban workers.

2.4. Trade protectionist policies such as import bans and high tariffs have negative long-term effects on competiveness. These policies contradict existing trade protocols that Zimbabwe has endorsed such as the SADC and COMESA Free Trade Area (FTA). If the local market is to be protected from imports, policy should promote the import of raw materials to support established agro-processing infrastructure, boosting local industry, employment, and the national tax base. In the long term, local industries will benefit from competition by continuously improving their capabilities and competency to match international standards, and to compete effectively in regional and international markets.

2.5. The Strategic Grain Reserve (SGR) level set by government was unattainable due to limited funding. The current low capacity utilization of installed plant/infrastructure by the Grain Marketing Board (GMB) incurs huge fixed costs for the economy.

2.6. The SGR and input subsidies constitute huge government expenditure. The bulk of spending associated with government financing of the SGR and input subsidies has been through credit financing. Government has procured the bulk of the seeds and fertilizer over the years from input suppliers on credit to support input subsidies, while grain procurement and handling for SGR was also undertaken on credit by delaying payments for farmers and facilitating payments through borrowing from the open market in the form of AMA-CBZ bills. In 2014, government debt to input suppliers for seeds amounted to about US$30.6 million, unpaid farmers and AMA-CBZ bills amounted to US$103.8 million, and money was owed to GMB in the form of Agency fees. Maize marketing and pricing policies have thus added to government indebtedness, contributing 1.7 percent to the total national debt position of US$8.4 billion. The crowding out of the private sector in grain and inputs trading activities has further limited fiscal space and general employment as well as incomes.

POLICY RECOMMENDATIONS

Encourage free marketing of maize

3.1 Price incentives on maize should not be the center of policy intervention at the moment because it is ineffective given productivity challenges, the limited capacity of government to support farmers through higher prices, and the negative effects on industry viability. In the medium to long term, in order to balance the need to protect smallholder farmers with the need to promote industry viability, a two-tier marketing channel should be considered. This channel would be similar to the one in place during 1996 that provided GMB the latitude to set floor prices for the SGR and liberalized trade for the rest of the grain market. This would create a basis for an open grain market system, a regime which would allow private millers, traders and farmers to trade freely on the open market. Government should stem policy uncertainty by providing stable signals that stimulate production and investment in agriculture, affording players, particularly private sector ones, sufficient scope to plan with some measure of certainty for medium- to long-term investment projects.

Address productivity challenges through supply-side factors

3.2 To improve maize production and competitiveness, policy should for the moment be directed toward meeting productivity challenges through appropriate supply-side factors such as human capital development, proper administration of input subsidies, improved access to private input markets, contract farming, climate risk management, more emphasis on gender dimension of maize production, farmer organization into meaningful economic units, and land administration and governance as well as enhancing the capacity of key institutions such as research and extension to serve farmers.

Introduce strategic planning for implementing input subsidies

3.3 This study recommends continued support for farmers through input subsidies in the short term with a strategic shift to block subsidies targeting appropriate segments of farmers by location and farmer types. Government should commit Treasury funds to this effect as well as attract developmental partners. In the medium to long term, the subsidy level for all classes of farmers should be gradually reduced as farmers graduate to independent and commercially viable entities. Administration of input subsidies needs improvement to ensure timely disbursement and supply of adequate input packages, and should target farmers in natural regions I, II, and III who have a comparative advantage in maize production.

3.4 The SGR policy should be maintained to ensure emergency supply in light of increasing shocks and disturbances from climate change in the country. However, the quantities for SGR will need to be revisited with the target of streamlining stock holding in line with sound inventory management practices. Treasury funding for SGR has proved unreliable under the current fiscal scenario, and poses a risk to guaranteeing the strategic mobilisation of grain for food security. Government should consider dedicating a fund to guarantee availability of this basic commodity whenever needed.

Commercialize infrastructure for GMB reservoirs

3.5 The current initiative of leasing excess infrastructure to private players should be promoted to reduce inefficiencies and use of public funds to maintain idle infrastructure. Further engaging the private sector through joint ventures and public private partnerships through a Warehouse Receipt Systems (WRS), as proposed by the Ministry of Agriculture Mechanization and Irrigation Development (MAMID), to facilitate grain storage and trade in the country could be considered.

Diversify commodity base of SGR and overhaul its organization, management

3.6 The commodity base of the SGR should be diversified to include other basic and nutritious commodities such as beans, ground nuts, small grains, cow peas, cassava, and rice. This is to avoid the risks of depending on one commodity and strengthen the perspective of food security to include health and nutrition. The organization and management of the SGR within GMB calls for clarity on the management of a social entity and commercial entity by one organ. This poses challenges of conflict of interests. Clearly drawing lines of management and operations for the two corporate dimensions (i.e., public and commercial) will help better ensure key stakeholders' (the public and government) expectations on accountability, corporate governance, and transparency, and ensure greater efficiency and effectiveness in the management of GMB.

This policy brief is based on the study *Maize Marketing and Pricing in Zimbabwe*, June 2015. See: http://www.necf.org.zw/

ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

RESOLVING CORPORATE FINANCIAL DISTRESS

INTRODUCTION AND BACKGROUND

1.1. The post-dollarization economic crisis has thrown more and more companies into financial distress—i.e., lacking funds to pay accumulated debt and facing possible shutdown. Under such conditions, formalized mechanisms can often help a company negotiate mutually beneficial adjustments with its creditors. Such adjustments are designed to make future debt payments more realistic and to eventually give the creditors a greater return than they would have received if the debtor had shut down and gone into liquidation.

1.2. An insolvency resolution regime normally consists of specialized judicial procedures, judges and court personnel, and private professionals, who serve as liquidators or administrators (in Zimbabwe referred to as judicial managers) of such companies.

1.3. An insolvency resolution regime can give a debtor breathing room to negotiate a broadly effective adjustment of the claims creditors might have against it. It imposes a temporary moratorium on creditors' claims against the debtor. During this period, the debtor's management is either displaced or closely watched by an experienced insolvency resolution professional. Various rules encourage creditors to offer the debtor working capital during these proceedings. Any debts incurred to workers and other suppliers of the company after the commencement of the case are given favored treatment.

1.4. The appointed insolvency resolution professional usually has the authority to reverse transactions that have unfairly benefited particular creditors or shareholders at the expense of the creditors in general. He or she can also break unfavorable contracts of the debtor with little downside risk.

1.5. A progressive and effectively enforced insolvency resolution regime can have benefits beyond the companies and creditors affected. Such regimes reduce financial risk, giving creditors greater confidence, thereby inducing them to lend on more generous terms. They also increase opportunities for companies to reorganize themselves so that they remain viable competitors in the marketplace. When this is not possible, liquidation under a progressive insolvency resolution regime can help recycle assets into the hands of new owners with the incentives to use them more effectively.

1.6. The country's insolvency resolution regime consists of the High Courts of Harare and Bulawayo, the Master's Offices associated with each, the administrators and judicial managers registered with the Council of Estate Administrators, and the Official Gazette. Together, these institutions and individuals implement the Insolvency Act and the Companies Act.

1.7. The main types of insolvency actions available under these two laws are judicial management and wind-up (liquidation). Judicial management is designed to give creditors a temporary respite from enforcement of claims of creditors while wind-up allows for the orderly gathering and sale of the debtor's assets in order to pay the claims of creditors.

1.8. In each action it is possible for the debtor to enter into a scheme of arrangement. Under this procedure, creditors can vote on a plan that would adjust their claims against the debtor if approved by a majority of creditors holding 75 percent of the debt.

KEY FINDINGS

2.1. The financial challenges facing the country have placed many companies under judicial management or wind-up due to their inability to pay their debts. The number of filings for judicial management has increased substantially in recent years and is likely to continue to increase in the near future. In a number of instances, it appears that judicial management has been used by debtors to stem the efforts of creditors to initiate a wind-up.

2.2. Judicial management proceedings have been criticized as continuing for too long and for failure to put companies back on solid financial footing once the proceedings are over. Judicial managers have found it difficult to reshape the workforce of debtors they are working with and to obtain new capital from banks to restart operations.

2.3. Further complicating these efforts is the lack of an efficient mechanism for restructuring the ownership of a company under judicial management, to dilute current shareholders, and allow new shares to be issued to creditors in lieu of payment. While schemes of arrangement can be used to restructure the rights of both shareholders and creditors, these tools have been underused in recent years.

2.4. Wind-up proceedings have been subject to some criticism as well, primarily their tendency to result in a piecemeal asset sale rather than the sale of a company as a going concern. In general, though, there is a perception that these proceedings are underused—too many companies are sitting in judicial management that should instead be wound up.

2.5. While there is some controversy over whether judicial management and wind-up proceedings can be considered successful, there appears to be broad consensus on the need for improving the country's insolvency resolution regime, especially given the mounting financial challenges that Zimbabwe faces.

RECOMMENDATIONS

3.1. Broadly speaking, Zimbabwe could pursue a range of reform options that would likely improve the insolvency resolution regime to a certain degree. On one end of the spectrum, these options include focusing solely on improved implementation and transparency of current procedures. On the other end, they involve drafting a new unified insolvency law based on international best practices, or, in a somewhat groundbreaking approach, abandoning structured negotiations (such as judicial management and schemes of arrangement) in favor of market-oriented mechanisms for adjusting ownership and creditor claims on an accelerated basis.

3.2. To produce the greatest impact over the shortest time, one promising option involves a combination of regulatory issuances under current law supplemented by a few key legislative amendments to the Companies Act and Insolvency Act where it is clear that a key reform requires a change of law.

3.3. Another promising option would be substitute current judicial management proceedings with those similar to the business rescue proceedings recently adopted in South Africa. While having shortcomings, the business rescue proceedings in South Africa have been praised as a substantial leap forward in improving that country's insolvency resolution regime. That, plus the similarity of the two country's legal systems, makes this a choice worth considering.

3.4. If policy makers decide to reform the country's insolvency resolution regime, there are numerous opportunities to consider. The following, however, should be considered high priority:

- Establishing more consistent and transparent standards for regulating insolvency-resolution professionals and enhancing mechanisms that sanction individuals from deviating from these standards.
- Increasing transparency with respect to implementing the regime, both within

particular cases and in the performance of the system in its entirety.

- Encouraging the earlier use of schemes of arrangement or other rescue mechanisms that would adjust creditor and shareholder claims to a level that would allow troubled companies the room to resume or increase operations.
- Giving insolvency resolution professionals or new owners of troubled companies more legal flexibility to streamline operations in order to return to profitability and to repay adjusted claims.
- Simplifying both rescues and liquidations by consolidating and reducing the number of statutorily recognized classes of creditors.
- Adjusting downward the current 75 per cent approval rule to increase the possibility that reasonable schemes of arrangement or other rescue plans gain approval.

3.5. While the above reforms would amount to a substantial step forward, it should be acknowledged that they are in themselves insufficient to turn around the country's corporate sector. This is especially true if potential investors hesitate to commit.

3.6. The following are initial suggestions that, if adopted, might be able to facilitate resolution of financial distress.

- Encourage greater investment and make it easier for businesses (both healthy and troubled) to compete for customers, both in Zimbabwe and abroad.
- Create more flexibility with respect to claims of the tax authorities and parastatals against troubled companies.
- Create an integrated approach that would address bank nonperforming loans, bank recapitalizations, and out-of-court restructurings in line with international best practices.

CONCLUSION

4.1. The country's insolvency resolution regime could benefit from an upgrade to make it more efficient, predictable, and transparent. If done correctly, such an upgrade could give creditors more confidence in their lending and provide indebted companies a more realistic opportunity to resolve accumulated debt and streamline operations in order to return to financial health.

This policy brief is based on the study *Enhancing Zimbabwe's Regime for Resolving Corporate Financial Distress: Current Challenges and Possible Solutions,* February 2014.
See: www.zeparu.co.zw

PROPOSED MACROECONOMIC STABILIZATION MEASURES

INTRODUCTION AND BACKGROUND

1.1. This policy brief offers a focused set of measures on how Zimbabwe can stabilize its economy. Emphasis will be placed on short-term and urgent measures.

1.2. Zimbabwe's GDP growth slowed to single digits beginning in 2013 after a period of more robust growth that followed dollarization in 2009. The economy has been facing a large overhang of domestic and external debt, trade imbalances of $3 billion, fiscal deficits leading to delays in payment of public sector salaries, and a liquidity crisis threatening to unravel the financial sector.

1.3. The government response has been fourfold: (1) The Reserve Bank of Zimbabwe (RBZ) announced new currency-management measures on 4 May 2016 that included proposals to introduce bond notes pegged to the U.S. dollar and backed by a $200 million credit facility from the Africa Export-Import Bank. The new currency was expected to be in circulation in October 2016. (2) Exchange controls have been instituted whereby RBZ must approve all external transfers and import payments. In addition, individuals leaving the country can carry out no more than $1,000. (3) Controls and bans (Statutory instrument 64) have been imposed to reduce imports from South Africa and promote domestic production. (4) The government is staggering salary payments to civil servants, with many of them receiving their salary in the month after they earned it.

KEY FINDINGS

2.1. Although use of the dollar and the rand was even in the early years of dollarization, preference has been progressively toward the dollar because of its appreciation against the rand. By 2016, only 5 percent of economic agents used the rand. As a consequence, there is a huge unsatisfied demand for the dollar, leading to a dollar shortage.

2.2. The wrong choice of the dollar for transactions went unnoticed in the initial years of dollarization (from 2009 to 2011) because the dollar/rand exchange rate was relatively stable. When the rand started depreciating against the dollar from 2012, goods produced in Zimbabwe became uncompetitive and the already high cost structure further increased this lack of competitiveness. This resulted in increased imports from South

Africa. This increase worsened the liquidity situation because these imports are paid for in dollars.

2.3. Dollarization is essentially an austerity measure to bring about macroeconomic stability quickly while permanent solutions are being sought to grow the economy. Since a government cannot resort to monetary financing due to loss of monetary autonomy, dollarization requires a government to operate balanced budgets. However, Zimbabwe violated this rule from 2012 when it started operating budget deficits.

2.4. The government has, since 2012, issued Treasury Bills, notes and bonds with tenures ranging from 35 days to 12 years with an outstanding amount of over $1 billion. However, there is no lender-of-last-resort facility in place to accept these Treasury Bills as collateral and be able to provide a repurchase facility. Treasury Bills issued were largely through private placings rather than through auction or tender, and lacked standard features.

2.5. Dollarization is usually adopted as a stabilization measure when a country faces acute macroeconomic instability, including hyperinflation, that renders the domestic currency worthless. However, use of the U.S. dollar as both a reference and transactional currency is unsustainable. The recommendations below consist of currency-related short-term and medium-to-long-term measures.

POLICY RECOMMENDATIONS

Urgent measures

3.1. In order to restore trust and confidence both within the country and outside, a number of policy measures need to be urgently implemented.

3.2. The best route of restoring the trust of foreign investors is to repeal the controversial Indigenisation and Economic Empowerment Act in its entirety pending the drafting of an investor-friendly law. Alternatively, the Presidential Statement issued in April 2016 to clarify the government position on the Indigenisation Policy should be urgently legislated and the Act amended as such. Since the clarification exempts the financial sector from 51 percent local ownership, the immediate effect of legislation is to restore confidence and increase foreign participation in the financial sector and hence inject liquidity in the economy. Existing international banks would become more willing to import liquidity from their foreign parent companies.

3.3. Secondly, the government should re-assess the bond note project which has created loss of confidence in the financial sector, resulting in a sustained slow-motion bank run (capital flight) that is only being slowed by limits on withdrawals. The facility of $200 million negotiated with the African Export-Import Bank could be used to increase liquidity in rand to the economy.

3.4. Thirdly, the RBZ should progressively reverse its policy that has cut off foreign inflows and remittances (including export proceeds) from being retained in bank's nostro accounts. This will instill confidence in the banking system.

3.5. Fourthly, because a large proportion of the population depends for survival upon the informal economy of which cross-border trading is a major component, the government should relax import controls. Cross-border trading is providing livelihoods to many unemployed people so that the relaxation of import controls would go a long way to portraying the government as caring.

3.6. Fifthly, sectors like mining that create foreign receipts should not line up for foreign currency to order their supplies, as this is akin to killing the goose that lays the golden eggs. Allowing the mining sector to access foreign currency on demand will restore confidence and expedite the generation of badly needed foreign receipts.

Monetary Regime

3.7. The monetary regime should be one that restores competitiveness and provides sufficient liquidity in the economy. The currency that is closest to achieving these objectives is the rand. Using the rand would enable the economy to ride on the competitiveness of South Africa brought about by the depreciation of the rand for as long as the rand continues to trade at historical lows against the U.S. dollar.

Short term

3.8. Changing to the rand would trigger a correction of the cost structure of the economy because prices of goods and services would be benchmarked with those in South Africa. This would provide impetus to public sector reforms such as the rationalization of the public sector wage bill, since it would be possible to benchmark wage rates with those of South Africa.

3.9. The rand would inject liquidity in the economy because most of the external trade is conducted with South Africa. Rand currency circulation would be only a two-way flow, unlike the dollar, which has multiple flows. In addition, South African banks operating in Zimbabwe could be called upon to provide rand liquidity and be de facto lenders of last resort.

3.10. Because Zimbabwe's foreign reserves and hard cash balances (including nostro accounts) have been severely depleted, randization would require external borrowing to inject rand liquidity. Paragraphs 3.11–3.15 elaborate on this funding requirement.

3.11. The first option is the adoption of the rand as the currency for all transactions within the current, inefficient multicurrency regime. The rand would thus replace the U.S. dollar as the reference currency. While this would entail conversions of all domestic dollar contracts into rand, in order to maintain confidence the conversions should not be forced on economic agents. The public and firms should be given the flexibility to maintain original dollar bank balances and contracts and only convert into rand at their chosen appropriate time.

3.12. However, public sector wage contracts would require to be converted using an endogenously determined rate that reflects competitiveness (competitiveness rate) benchmarked with South Africa, the major trading partner. The competitiveness (nonmarket) rate to be used for conversion could be determined through a social contract between employers and labor. Being the largest employer, the government should take the lead in converting its payroll, tax collection, and public service costs, including municipal and parastatal revenues and costs, into rand. The private sector is expected to follow its lead.

3.13. The main advantage of this option is that there is no need to change the legislation that now permits a multicurrency system. The switch to rand for transactions can be done immediately through a government declaration that the rand is the new unit of account. Although there may be some initial price volatility, it is likely to be short-lived as prices begin to reflect competiveness and productivity. For the first time, prices would be benchmarked with those in the SADC region, especially with those in South Africa.

3.14. A second option is to adopt the rand for transactions as in the first option but treat other currencies in the multicurrency basket as foreign currencies that can be subject to exchange controls. In this instance, organizations and the public could only get U.S. dollars, euros, pounds, etc. if they are transacting outside the SADC region, and then will be allowed to open foreign currency accounts (FCAs). This option would require the government to effect legislation establishing the rand as the only legal tender for domestic transactions. Subjecting the U.S. dollar to exchange controls while using the rand for transactions would enable the RBZ to accumulate foreign reserves without competing with firms and the public for the same currency, as is the case now.

3.15. A third option is to consider joining the Common Monetary Area (CMA). Unlike the other two options this option might not be implemented immediately as it requires negotiations that may take several months or years.

3.16. The change of the currency regime alone would not solve the initial position of the current cash shortage. This was estimated at $586 million as of April 2016 by Exotix (2016), from data obtained from RBZ. This is the amount which bankers estimate would be required to restore hard cash balances to 20 percent of total system deposits, stabilizing liquidity. Thus the government may need to obtain $586 million that would be injected into the economy in rand. The African Import-Export Bank facility of $200 million originally meant for bond notes can be used for this purpose and used to inject rand liquidity into the economy. The government could also run down its stock of foreign reserves, estimated at about $350 million.

3.17. Furthermore, to conserve liquidity in the economy, it is prudent policy to limit further accumulation of dollar liabilities except those matched by the funding currency.

Medium term

3.18. In the medium-term (1–5 years), exports outside SADC that are priced in dollars need to be promoted. When converted to rand, exports would increase liquidity in the economy. Furthermore, any further depreciation of the rand would translate into more liquidity as tourist receipts outside SADC and other international flows priced in dollars flow into the country. In order to maintain the confidence of exporters, it is advisable to avoid forced conversion of export receipts into rand. Rather, the market should drive this conversion through exporters needing to meet domestic costs and tax payments.

Long term

3.19. Notwithstanding the above measures, the long-term solutions in addressing liquidity challenges entail improving trade competitiveness, promoting tourism, removing impediments to FDI, and restoring confidence in the banking system so that money flows through the system.

Broad-based Reforms

3.20. In the medium- to long-term, it is recommended that government should implement a package of reforms with the assistance of multilateral financial institutions, some of whose goals include:

- Improved fiscal and public sector performance
- Increasing valued-added manufactured exports and promoting a high degree of exposure to foreign trade
- Leveraging on the investment in education and training
- Simplifying the tax system and broadening the tax base
- Sustaining a business- and investment-friendly environment
- Improving public spending on growth-enhancing infrastructure development
- Fostering increased value addition and beneficiation, and strengthening of value chains of the mineral wealth
- Developing robust capital markets, especially the bond market.

CONCLUSION

4.1. The study was limited to the diagnosis of the current crisis and recommending macroeconomic stabilization policy options. Its scope is largely limited to providing short-term policy measures. The necessary medium- and long-term policy measures that need to be addressed have been simply outlined because these can only be effectively tackled when the macroeconomic environment has been stabilized.

This policy brief is based on the *Study on Zimbabwe's Macroeconomic Stability,* August 2016.

FINANCIAL LIBERALIZATION AND CRISIS: EXPERIENCE AND LESSONS FOR ZIMBABWE

INTRODUCTION AND BACKGROUND

1.1. The history of Zimbabwe's financial sector since 1980 has been dominated by episodes of financial repression. The main instruments of financial repression have been interest rate ceilings, selective credit rationing, restrictions on capital remittance, exchange controls, taxes on financial assets, zero-interest reserve requirements, and a mesh of liquidity ratios. Inflation tax has also been used as a subtle form of financial repression.

1.2. Episodes of financial repression in Zimbabwe have been accompanied by low savings, excessive credit rationing, and low investment. The quality and quantity of investment suffered as bankers adopted credit-rationing policies and practices that encouraged inefficient and capital-intensive projects. Banks are also likely to have invested less in risk assessment and monitoring systems especially where banks were forced to lend to targeted sectors. During this period there was implicit deposit insurance based on the notion government would bail out troubled banks to avoid systemic failure. Implicit deposit insurance created opportunities for moral hazard behavior within the banking system—bankers made risky investments, knowing that if these investments went bad, government would not let a bank collapse.

1.3. The main policy recommendation from financial development literature was to liberalize the financial sector. This entailed decontrolling interest rates as well as removing other controls that inhibited development of the money and capital market. It was envisaged that positive real rates of interest would stimulate financial savings and thus expand real supply of credit within the financial sector. The increase in credit was expected to consequently increase the volume of investment in productive sectors of the economy. This would ultimately stimulate growth not only through increased volume of investment but also through increases in the average productivity of capital. Increased productivity was expected to arise from the elimination of low-risk, low-yield investments in favor of high-risk, high-return investments because of the adoption of market-determined interest rates and appropriate risk assessments.

1.4. The following four distinct periods characterize development of Zimbabwe's financial sector:

Administratively controlled interest rates and credit rationing (1980—1990)

1.5. The financial sector during this period was characterized by administrative controls on deposit and lending rates; implicit and explicit taxes on their financial products; credit rationing; and government ownership of banks, especially development financial institutions. The administratively controlled interest rates were infrequently adjusted to take into account rising inflation. The average annual economic growth rate for 1980–1989 was 2.7 percent, below the population growth rate of about 3 percent. During 1986–1990 the economy averaged modest annual growth of 4 percent, with the highest growth rate occurring in 1990.

Reform period (1991–1999)

1.6. The reform period was characterized by high lending rates, which increased the real cost of borrowing. The real lending rate exceeded the real return on capital, and the return on most investments did not exceed 4 percent. Consequently, most companies downsized by retrenching workers; de-industrialization in the manufacturing sector deepened; and economic growth fell far below the pre-reform levels.

1.7. Early in the period investment had increased. The increase was based on expectations about future profitability. Investment rose from an average of 16.8 percent of GDP in 1986–1990 to 21 percent of GDP in 1991–1995.

1.8. Paradoxically, the increase in investment was associated with lower GDP growth. The decline in domestic demand due to drought and the harsh economic conditions prevailing under the Economic Structural Adjustment Program (ESAP), begun in 1990, sharply reduced production levels, so that new capacity remained underutilized.

1.9. Also, aggregate savings declined, contrary to expectations that positive real interest rates would stimulate savings. The savings rate as a percentage of GDP fell by 0.2 percentage points from the 1986-1990 average of 17 percent.

1.10. There were challenges with regards to timing and sequencing, including partial implementation. Macroeconomic stability, characterized by low inflation and sustainable budget deficits, is regarded as a key desirable precondition for financial reforms to be effective. Partial implementation of reforms is evidenced by slow progress in the privatization and commercialization of public enterprises that continue to be a burden on the public finances to this day.

1.11. The government managed to commercialize only one public enterprise, the Examinations Branch, and abolished the Central Purchasing Authority out of a target of ten by the end of 1995. The issue of public-enterprise reforms remained as unfinished business and high on the government policy agenda in 2016 when a decision had once again been made to prioritize the reform of ten public enterprises.

Period of reform reversals (2000–2008)

1.12. This period can be characterized as a period of financial reform reversal which started in 1997 when bureaux de changes (currency exchanges) were closed following the currency crush. The genesis of intense parallel market activities that characterized the period 2000–2008 can be traced to this policy decision. There was also increased financial sector fragility as financial reforms were undertaken before the regulatory framework was strengthened and the macroeconomic environment stabilized.

1.13. Weak supervisory and regulatory frameworks created an environment conducive to banks adopting riskier investment strategies, which led to bank failures. As the value of the banks' capital fell, banks had a greater incentive to take risks. Insider lending, abuse of depositors' funds, and flouting of corporate governance procedures were some of the irregularities that increased. Confidence in the banking sector plummeted as banks failed to honor their obligations to depositors as local currency ran out during the hyperinflationary period. A number of banks were put under curatorship, and banking licenses of some of these banks were canceled. The policy response of monetary authorities to these emerging challenges was to halt and reverse the financial sector reform measures through reinstating controls.

Dollarization/multi-currency period (2009–2013)

1.14. Adoption of the Multi-Currency Regime (MCR) in early 2009 transformed the macroeconomic policy environment in Zimbabwe. The MCR brought hyperinflation to an end; helped to stabilize the economy; and ignited the recovery of the banking sector as banks rebuilt their deposit base and expanded credit, which facilitated economic recovery as reflected by positive economic growth. The MCR is also credited with bringing stability and restoration of confidence in the financial sector while at the same time imposing binding liquidity constraints.

1.15. Policy challenges for financial sector over this period included: restoring confidence in the financial sector; restoring the Reserve Bank of Zimbabwe (RBZ) as the lender of last resort; strengthening the supervisory and regulatory frameworks, in particular regulations of mobile banking; and deepening the financial sector. However, deeper financial reform measures that enhanced financial inclusion were not achieved. A well-functioning, healthy, and competitive financial sector acts as an effective tool in enhancing opportunities and fighting poverty through offering people a wide range of financial products and services, which include: savings, credit, payment, and risk-management services.

KEY FINDINGS AND RECOMMENDATIONS

2.1. The study upon which this policy brief is based notes the following important lessons:

- The context and initial conditions under which reforms are undertaken are critical for success. To a large extent the outcomes of financial reforms in the 1980s and 1990s were shaped by the prevailing macroeconomic environment, which was characterized by high inflation and excessive budget deficits.
- Financial sector reforms are not a once-off event but a complex and continuous process designed to make the financial sector more robust and resilient to dynamic shocks.
- The growth-enhancing financial deepening that follows liberalization is not a smooth process, but rather takes place through boom-bust cycles. To minimize the possible negative impacts of the business cycles, there is need to implement legislative and regulatory reforms that support the expanding financial sector and the emergence of sophisticated financial products.
- Weak contract enforcement mechanisms are likely to undermine effectiveness of financial reforms especially with regards to international lending to the nontradable (NT) sectors.
- At the "tipping point," beyond which it is unlikely that capital outflows will reverse, authorities should focus on what to do after the crisis instead of attempting to forestall the crisis. Delaying an inevitable crisis will tend to make the effects of the full-blown crisis far worse.
- Financial reforms need to be supported by complementary policies. For example, the country's taxation system needs to be reformed to conform to the demands of a reformed and deepened financial sector.
- Cautious and gradual approaches to financial reforms have tended to generate better outcomes than the rushed or "big bang" approach as authorities have policy space to take corrective actions and maintain financial sector stability.

CONCLUSION

3.1. The agenda for financial reforms remains as unfinished business in Zimbabwe as the sector grapples with building confidence and the deposit base; implementation of financial inclusion strategies; dealing with cash shortages and rolling out plastic money products; and adapting to wide use of electronic transactions that are revolutionizing the concept of banking and delivery of financial services in general. More in-depth research is required to inform this debate and offer policy alternatives as opposed to reliance on anecdotal evidence. Inevitably this debate will usher in another phase of financial reforms as Zimbabwe navigates unfamiliar territory.

This policy brief is based on the study *Financial Liberalization and Crisis: Experience and Lessons for Zimbabwe,* July 2013. See http://www.zeparu.co.zw/

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ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

FINANCIAL INCLUSION STRATEGIES

INTRODUCTION AND BACKGROUND

1.1. A FinScope survey on financial inclusion in Zimbabwe conducted in 2011 found that only 24 percent of the total adult population was banked. A large population was identified as not having access to financial services at all either through the formal or informal system, with 40 percent in the case of the whole population and 51 percent in the case of the rural population. With 65 percent of the population living in rural areas, the urban-rural divide with regard to financial inclusion was strong, the survey found. Forty-seven percent of adults were banked in the urban areas compared with 12 percent banked in the rural areas.

1.2. Financial exclusion in Zimbabwe tends to be correlated with poverty. For instance, Matabeleland North province with the highest proportion of financially excluded adults is one of the country's poorest provinces. Considering that 60 percent of the sampled adult population was female, poverty levels and financial exclusion were presumably greatest among women.

Reasons for exclusion

1.3. Lack of enough money to justify having a formal account ranks high, followed by administration charges of maintaining an account and by distance from banks. The FinScope survey reports only 5 percent of those living in the rural areas had access to a bank within 30 minutes, compared with 49 percent of Zimbabweans in urban centers.

1.4. The financial inclusion situation of micro, small, and medium enterprises (MSME) is documented by the FinScope MSME Survey Zimbabwe 2012. The survey found that

- 43 percent of MSME owners were excluded from either formal or informal financial services;
- Only 14 percent utilized products/services from commercial banks
- Up to 50 percent utilized the informal financial sector
- Financial inclusion was higher among small and medium enterprises (SME), women, registered/licensed businesses, and in urban areas and main urban centers (Bulawayo and Harare)
- Savings were mainly kept at home and borrowing was predominantly from family/ friends.

1.5. Barriers to financial inclusion included:
- Lack of enough money as income from MSMEs is too low and irregular while bank charges are too high and insurance is expensive
- Many MSMEs lack required formality and documentation such as addresses and financial records; and
- Distance from banks.

Policy background

1.6. The National Microfinance Policy published by the Reserve Bank of Zimbabwe (RBZ) in 2008 and subsequently enacted as the Microfinance Act in August 2013 follows best international practice to a large degree. The Act was developed collaboratively by government ministries, apex organizations of microfinance institutions (MFI), and money lenders. The Act seeks to promote development of a robust, inclusive financial sector. The Act outlines strategies that include the development of an appropriate regulatory and supervisory framework for the microfinance sector, and encouragement of commercial banks and building societies to go downstream into microfinance.

1.7. The Microfinance Policy goes a long way toward reflecting international best practice but does not follow through with its stated intent to regulate interest rates as a means of protecting the poor. Both international experience and Zimbabwe's own track record with its Interest Rates Moneylending Act have shown that regulating interest rates of MFIs is counterproductive.

1.8. Agency banking is on the rise, even though policy makers have not yet finalized agency banking guidelines. The Zimbabwe Postal Service (ZimPost) has been contracted by a number of financial institutions as their banking agents. The postal service has an estimated 250 post office outlets countrywide and is present in every administrative district in the country. ZimPost is providing agency banking to clients of the People's Own Savings Bank (POSB), AfrAsia Bank Zimbabwe Limited, EcoCash, Tetrad, and Western Union, making use of a vast network of post office outlets.

1.9. Econet through its EcoCash product is also offering agency banking facility to a number of banks integrated to its EcoCash platform. Econet allows its clients to access their bank accounts through the vast network of EcoCash agents around the country. The banks currently integrated on the platform are AgriBank, Steward Bank, ZB, Bank and CBZ bank.

1.10. Transactions that are handled by agencies are mainly limited to withdrawals, deposit taking, and bill payments. Agencies can handle neither loan and credit applications nor funds transfers due to the principal agent agreement agreed upon by the bank and the agent. Most agents are located in premises that are not properly secured; hence, they do not usually hold large sums of cash for security reasons. As a result, they tend to face liquidity challenges such as running out of cash on certain days such as pensioners' paydays.

KEY FINDINGS AND POLICY RECOMMENDATIONS

2.1. Fostering inclusion requires a policy framework and specific actions. Both are outlined below.

Policy framework

2.2. A strategy for financial inclusion should be an integral component of a country's financial sector development, and key stakeholders should build a common vision of inclusive finance. Thus policy makers should complement efforts toward financial inclusion by adopting the World Bank Financial Inclusion Strategies Reference Framework. Its components could tailored as follows:

Stocktaking

2.3. The Reserve Bank of Zimbabwe (RBZ), Ministry of Finance and Economic Development, and other financial sector players need to better understand the baseline or starting point for access to and use of financial services and barriers to financial inclusion, and how to address both within limited institutional capacity and resources.

Targets and objectives

2.4. Targets for financial inclusion indicators should be informed by data and diagnostics, and progress in meeting targets can be tracked through those indicators. The private sector should be encouraged to contribute in setting targets and objectives as they will be key actors in reaching them. Targets set without private sector involvement may be unrealistic.

Public sector actions: policies, regulation, and financial infrastructure

2.5. The Ministry of Finance and the Reserve Bank of Zimbabwe should implement a comprehensive package of reforms to encourage financial sector activities and innovation to be in line with targets of the financial inclusion strategy. Financial infrastructure is essential to enable lower costs and risks for financial-service providers serving new low-income customers. Regulation should target the elimination of barriers and bottlenecks that impede private sector action.

Monitoring progress

2.6. Ongoing monitoring of financial inclusion targets and objectives is necessary to assess the effectiveness of the reforms, products, or delivery mechanisms introduced, and associated risks, so that changes can be made to the strategy implementation as needed.

Specific actions

Transform the People's Own Savings Bank

2.7. The POSB should be turned into a full-fledged commercial microfinance bank offering diverse services including credit to small-scale businesses and small landholders. Because its current core capital base is clearly inadequate for it to leverage its countrywide network, the government should consider recapitalizing the POSB through public-private partnership.

Promote setting up of microfinance banks

2.8. This can be done by encouraging commercial banks and building societies to go downstream into microfinance, either wholesaling funds to MFIs or retailing to consumers of MFIs, and establishing a credit reference bureau to enhance credit risk-management practices. With nearly 200 MFIs operating in the country, full and public disclosure of services and interest rates would create competition among them, resulting in lower interest rates charged to clients. Furthermore, it is necessary to deregulate deposit and lending rates. Thus, small banks that are struggling to raise capital could be persuaded to transform into microfinance banks and still be able engage in the same business operations; existing MFIs could also find it attractive to upscale to microfinance banks.

Promoting technological innovation

2.9. Banks need to move away from the traditional brick-and-mortar model, especially when targeting the rural communities and informal sector. Banks should use technology to provide "branchless" banking. Innovative technology like e-banking and cell phone banking lowers the cost of providing financial services, and results in relatively low banking charges and fees.

2.10. The government should complement the innovative drive of the private sector through proactively reviewing the legal framework and guidelines. Government should ensure that the legal framework and guidelines are not lagging behind and do not frustrate new initiatives in the financial sector. A supportive legal framework is crucial for banks to offer new products and services that are targeted at the unbanked. Government should also work closely with the private sector, especially retailers, to promote the use of new products.

Restore confidence in the banking sector

2.11. Restoring confidence in the banking sector is a good starting point in promoting financial inclusion in the country. The central bank should remain proactive and ensure that the banking sector is safe and sound by enhancing and making sure that corporate governance laws and guidelines are followed. This will go a long way toward rebuilding confidence in the sector as the general public mistrusts bank executives. Addressing the issue of high bank charges and returns on savings is also important.

Promoting expansion of products

2.12. Banks need to expand their product portfolio and offer products tailored for the poor. In order to fully deliver financial inclusion to the poor, banks need to include micro insurance services. Micro insurance services would enable microenterprises to buy insurance to cover potential losses that could hinder business growth.

2.13. The regulatory authorities should also allow and promote the registration of community- based savings and credit arrangements as they are more accessible to the local communities and they can have far-reaching impact on poverty alleviation in rural economies. These arrangements can be tailor-made to fund community-based development projects.

Address barriers to financial inclusion

2.14. Actions should address the following elements:

Low income (low per capita GDP). Reducing personal taxes would increase disposable income and, hence, savings.

Lack of trust. Improving corporate governance in the financial sector and capitalizing the Deposit Protection Corporation to play a more active role in insuring deposits would improve trust and, hence, participation.

Inconvenience. Convenience could be improved through retail agent banking, POS devices, mobile banking, increased number of bank branches.

Credit risk. Informational infrastructure is necessary to establish a Credit Bureau to share information on credit defaulters.

Cost. Incentives such as tax rebates on certain consumables used in the financial sector, along with appropriate infrastructure, would lower costs.

CONCLUSION

3.1. The barriers to banking uncovered by the FinScope survey are many but most can be addressed by public policy. The design of financial inclusion strategies should necessarily take into account poverty levels and the use of informal financial services. Government intervention should be targeted and should explore the formalization of informal services where they are used widely, especially in Masvingo.

This policy brief is based on the study *Financial Inclusion Strategies for Making Markets Work for the Poor,* January 2014. See: http://www.zeparu.co.zw/

THE PENSION INDUSTRY IN ZIMBABWE

INTRODUCTION AND BACKGROUND

1.1 The Pension Industry Study was commissioned by MoFED in October 2015 to expand evidence-based research to support policy reform in the Non-Bank Financial Sector of pension schemes and pension products provided by the life insurance industry. The study was motivated by the observation that the pensions industry has experienced corporate governance challenges during the hyperinflation era of 2008, which has compromised its capacity to meet liabilities as they accrued.

1.2 This has had a negative effect on the welfare of pensioners, and hence financial sector stability. It is therefore, meant to assess the efficacy of the industry to sustain its mandate beyond the hyperinflation era, as well as provide government with appropriate reform entry points to stabilize and grow the industry.

Structure of the Zimbabwean Pension System

1.3 Zimbabwe has a three-tier Pension System. Tier 1 covers the National Pension System (NPS), which is the basic compulsory pension for employees working in the formal economy. Tier 2 covers the employer sponsored pensions which are provided through Private Sector Employer in single employer schemes; Private Sector Employers in multi-employer schemes that are members of the National Employment Councils; Public Sector Pension, for public service employees only; and Local Authority Employers, for employees of local authorities only. Tier 3 refers to individual savings or pension options.

Unprecedented Challenges that affected the Pension Industry

1.4 Few pension industries around the world have encountered and withstood such difficult economic shocks and destabilizing events as those experienced by pension schemes in Zimbabwe. Officials were often unable to respond to the challenging circumstances that resulted from unprecedented back-to-back economic shocks including deep recession, economic sanctions, hyperinflation, growing national debt, bank closures, cash shortages, Zimbabwean dollar conversion and constant budgetary struggles to finance growing pension liabilities with increasingly limited financial resources. Institutional weaknesses further magnified these problems.

1.5 Key pension industry institutions such as the Ministry of Finance and Economic Development (MoFED), Ministry of Public Service Labour and Social Welfare (MoPSLSW), National Social Security Authority (NSSA) and Insurance and Pensions Commission (IPEC) operate in an environment of weak governance that is characterized by weak financial controls. The institutions have demonstrated limited capacity to address complex obstacles leading to inappropriate financial decisions, a development that could be blamed on weak technical capacity.

KEY FINDINGS

Lack of confidence by the public that the government will protect their pension rights.

2.1 A three-tiered Pension Industry provides old age income through a basic social security system and optional employer sponsored pension schemes. Scheme features overlap allowing individuals and their families to customize old age savings. There is no evidence that the majority of Zimbabwean households use the Pension Industry to maximum potential. Contributors and survivors do not believe the government will protect their rights.

Lack of technical understanding by senior policy making officials.

2.2 Members of Parliament, Ministers and senior and mid-level government officials are limited in evaluating options to overcome the problems plaguing the Pension Industry and creating more robust financial markets and monitor progress of implementation of approved options.

System-wide lack of international standards of governance.

2.3 The government has been unable to respond proactively and institute requirements of good governance, transparency, accountability, accurate recordkeeping and public disclosures that would apply equally to Tier 1 and 2 schemes.

System-wide lack of international standards of financial reporting.

2.4 The entities of the Pension Industry do not uniformly follow international financial reporting standards to process financial transactions. IFRS is an approach to creating, reconciling and auditing transactions that ensures uniformity and is designed to create stability and transparency.

Leadership role of IPEC is not fully utilized.

2.5 As the regulator of the Pension Industry IPEC is strategically positioned to define compliance of processes. Compliance should apply to MoFED, PSC and PSC Pension Office for the public sector and NSSA management of NPS as well as the private employer pension schemes.

Inconsistent application of Prescribed Assets (PA) mandated bonds.

2.6 The MoFED has set a 10 percent threshold for investment in Prescribed Asset designated bonds for private sector employer pension schemes and life insurance companies. There is therefore, no need for excluding the public sector from investing in the same the same bonds.

All pension scheme (NPS, Public Service and Private Sector Pensions) legislation lack a requirement for financial sustainability.

2.7 Legislation does not state how financial sustainability will be obtained for changes in each of the factors listed below;

- Increasing or decreasing contributor salaries;
- Increasing or decreasing factor to index pension payment;
- Increasing or decreasing rates of employer and employee contributions;
- Increasing or decreasing the maximum pensionable salary ceiling amounts on which contributions are calculated;
- Adjusting the pension formula to calculate each pensioner's lifetime benefit;
- Adjusting the 1/3 to 2/3 split between commutation and monthly pension;
- Increasing or decreasing the normal pensionable age;
- Converting from an unfunded pay-as-you-go scheme to a partially or fully funded scheme in which contributions are invested;
- Adjusting actual investment gains and losses to projected investment returns;
- Increasing or decreasing administrative expenses;
- Waiving employee mandatory salary deductions; and
- Granting past service credits for which contributions have not been made.

Financial sustainability of the National Pension System (NPS) is compromised by policy and process weaknesses:

2.8 NSSA investment weaknesses include: financial mismanagement, investment fraud; lack of accurate reporting of investment transactions; lack of routine investment performance review; an Investment Policy Statement that requires updating to assure more dynamic scrutiny of changing market conditions; and lack of use of an independent licensed custodian to assure documentation of transaction records that would settle all trades and calculate investment performance.

2..9 NPS does not have a formal indexation policy, such as indexing pension payments to a consumer price index or the year-over-year change in the rate of inflation. Lack of indexation weakens NSSA's ability to manage pension increases.

NSSA hindered by a weak communication strategy with employers, contributors and pensioners which impacts on contribution compliance.

2.10 Opportunities are missed to interact with employers to identify and participate in ensuring records of their contributor records are current. Claims procedures are not clearly communicated requiring in-office visits that are cumbersome and time consuming and do not consistently produce accurate information. Effective communication relies on repeated interactions and facilitates two-way exchanges.

Lack of documentation on critical policy exceptions.

2.11 MoFED has proceeded with critical policy exceptions without securing approval and without documenting the financial impact of the exception. MoFED should prepare and secure documentation of the decision (after the fact) to waive the employee mandatory salary deductions of 7.5 percent for 83 months and the decision to "deem" the contributions to have been made for purposes of calculating pension payments and commutations. Public Service Commission Pension Office lacks documentation describing how commutations are "queued" when insufficient budget capacity restricts ability to pay commutations, e.g., description of the "queuing order."

RECOMMENDATIONS

3.1 Shift IPEC to Risk-Based Supervision with focus on preventive, protective and punitive to strengthen the environment in which private sector employer pension schemes operate. This will create change between the IPEC Board and IPEC professional staff. Change will also occur among employers; contributors; pensioners; survivors; other financial sector regulators: banking and securities; and professionals that support the employers and pension service providers: actuaries, auditors, accountants and attorneys.

3.2 Standardize all pension schemes i.e. NPS, Public Sector and Private Sector schemes. Each should be mandated to have the following:

- Good governance
- Improve technical competency of pension trustees and Board members
- Investment
- Establish written Investment Policy Statement consistent with the Security Exchange Commission of Zimbabwe (SECZ).
- Contract with licensed Independent Custodian. All investment transactions (buys and sells) should be cleared through the custodian. The custodian would settle and pay for each trade / transaction and validate that the transaction was in compliance with the currently approved investment policy statement.
- Contract with licensed Investment Manager
- Expand investment options to allow cross boarder investments. In an effort to de-

risk current investment policies, the IPEC and SECZ would recommend a phased-in plan over 24 months to allow up to 10 percent of the value of a pension scheme to be invested outside Zimbabwe once the scheme had attained the IPEC 10 PA mandate.

- Expand PA mandate to NSSA and public sector pension scheme (i.e. after Public Service scheme is converted to partially funded)
- Financial Reporting
- Mandate use of Independent Auditor
- Define allowable pension administration and investment fees
- Define required financial reports
- Recordkeeping
- Reduce administrative fees while improving accuracy in administration
- Establish minimum administrative requirements to become licensed pension administrator

3.3 Convert the Public Sector Pension Scheme from an Unfunded to a Partially Funded Scheme. Substantial infrastructure would be needed to support the conversion. Costs of creating additional infrastructure should be evaluated as well as the conversion itself. The very basic infrastructure that should be developed immediately include

- Establishing a Public Sector Pension Fund (PSPF)
- Establishing the PSPF Board comprised of technically competent members
- Establishing a long-term financing plan to begin the process to create a Partially Funded Public Sector Pension Scheme

3.4 Establish a Work Plan to address NPS contribution arrears of private employer pension scheme. IPEC and NSSA should jointly identify employers that are no longer operational and contact their employees and to identify which employers are still operational and seek to work out a payment plan.

3.5 Training & Capacity Building

- Develop and implement three training programs related to Governance, Investment, Financial Reporting and Recordkeeping for key government officials in MoFED, IPEC, MoPSLSW, NSSA and members of Parliament
- Provide technical financial analysis of each key pension policy issue to demonstrate and train on how decision makers can be supported with informed financial analysis.

This policy brief is based on the study *Pension Industry in Zimbabwe: Its Reform, Development and Contributions to Safety Nets and Long Term Savings*, April 2016.
See: http://www.necf.org.zw/

AGRO-INDUSTRY/FOOD AND BEVERAGES VALUE CHAIN

INTRODUCTION AND BACKGROUND

1.1. From 2000 to 2008 the economic picture was of severe challenges of hyperinflation and general decline. Agriculture, the inputs backbone of agro-industries, was at the center of this decline. After rebounding, the sector shrank 2.6 percent in 2013, surged 23 percent in 2014, and then fell 3.6 percent in 2015. The outcome for 2016 is without doubt going to be in the negative.

KEY FINDINGS

Cross-cutting issues

2.1. The study summarized in this brief identified cross-cutting issues affecting the selected subsectors: liquidity; lack of security due to lack of title or long-term leases by farmers; high cost and erratic supply of utilities; inefficient and outdated production technologies; post-harvest losses; uneven competition against low-cost, imported, genetically modified (GMO) agro-industry products; poor linkages between value chain players with no long-term contractual arrangements to secure inputs; and a plethora of licenses and regulations.

Dairy and dairy products

2.2. The dairy industry is well developed with seven main processors among smaller ones. It produces a wide range of dairy products. Annual milk-processing capacity is about 400 million liters a year; however capacity utilization is less than 50 percent. The national dairy herd is small, resulting in the production of only 1.2 million liters of milk a month versus demand of 15 million liters. The shortfall is met by imports, mainly from South Africa.

2.3. Equipment is inadequate and technologies below international standards. Only a third of farms have a full range of equipment: milking machines, cold storage facilities, forage cutters, and hay bailers. Farmer financing is limited by lack of security but is supplemented through finance from contract farming with processers who have access to bank financing in addition to internal resources. Competiveness remains hindered by high production costs.

Fruits and vegetables

2.4. Production, mainly in winter, is concentrated around Harare, Mashonaland East and West, and Manicaland. The value chain is an important source of inputs for the beverages and preserves processors. Inputs for the exotic fruits and vegetables are mainly local up to 80 percent. Imported inputs include seed and seedlings. Fifty-seven percent of the large estates had formal agreements with their input suppliers. Water, fertilizer and labor are major input costs. Power outages affect especially the large estates resulting in reduced yields and crop failure.

2.5. On the whole there are no links between processors and producers which is a weakness in moving ahead with value chains.

2.6. Output has fallen since about 2000 with the decline in large-scale, mechanized production. Most farmers' produce no longer meets quality standards. A few still produce to export standards, enabling them to export to the United Kingdom and Holland. Smallholder farmers near Harare sell to markets such as Mbare.

2.7. Finance is a problem. A few estates were getting bank loans at high interest rates of 15 to 20 percent and tenures of only 1 year. Processors and aggregators/middlemen are the price setters, leaving the farmers feeling short-changed.

Soybeans

2.8. Soya (soybeans) has been a high-value cash and food crop rich in protein for humans and livestock. About 90 percent of the crop is for the processing industry, accounting for 30 percent of the cooking oil production. The major inputs are sourced locally.

2.9. Some inputs such as microbial inoculants, which aid in growth and nitrogen fixing, are imported. The cost of the inoculants is two to four times higher in rural areas where the small-scale farmers live compared with $5 in the towns. The same situation applies in the pricing of fertilizers.

2.10. Production has been fluctuating since the 1980s. The area planted to soybeans sharply decreased in the 2002/2003 season immediately after the land reform program. Production peaked at 15,000 metric tons in 2009.

2.11. Cooking oil, the main soy product (70 percent of sales) is sold domestically together with the byproduct soybean cake, which is sold to stock feed manufacturers such as Feedmix, National Foods and Probrands. There is strong competition from cheaper imported cooking oil. Cake is in high demand, especially for poultry, and has been in short supply in recent years.

2.12. Trade and labor regulations and licensing permits are significant constraints.

Sugarcane

2.13. Sugarcane production takes place under irrigation in the Zimbabwe Low veldt. Annual sugarcane production is 3.1 million metric tons (tonnes). There are tentative plans to grow it in other parts of the country provided there is water, given the sugarcane-favorable soils and climate in at least five other provinces. There is potential for both the present large estates and resettled farmers to produce more sugar cane, up to 4.4 million tonnes between them.

2.14. Production is mainly by large estates, in the Triangle, Mkwasine, Hippo Valley and Mwenezi areas—28,494 hectares in total. Other growers including newly resettled farmers who occupy about 15,880 hectares, producing 20 percent of the sugarcane. The South African agro- processing Group Tongaat Hullet owns 50.4 percent of Hippo Valley and wholly owns Triangle.

2.15. The main byproducts are ethanol and molasses, and several new ethanol projects are envisaged for the Low veldt. The whole industry employs about 18,000 people. The sugar industry is a growth area locally and a potential actor in the global value chain.

Beef and beef products

2.16. The cattle population in Zimbabwe was 5.2 million head before the 2016 drought. Ninety percent of the herd is owned by the A1 smallholder farmers since the land reform program. Commercial livestock farming has declined. Cattle come mainly from the provinces of Matabeleland North and South and Masvingo.

2.17. Inputs, which are on a cash basis, include veterinary drugs, feed, genetic resources, forage and grazing land. Feed is more expensive than the regional average due to the country's anti-GMO stance. The cost of live animals is more competitive at an average of US$1.23 per kg, lower than regional and international prices in the range of US$1.24–2.26. The cattle population density is the highest in the region.

2.18. Abattoirs (slaughterhouses) can handle up to 1.5 million head of cattle a year. Actual slaughter is 27 percent of this capacity due to the small cattle population. End markets and trade include 11,000 tonnes of beef consumed in the country monthly. Zimbabwe no longer exports beef to the EU market.

2.19. Wholesale meat prices are not internationally competitive, higher than those from competitor countries in the region. Cattle sales are through auctions owned by major cattle auctioneers such as Cattle Company Sales, Agric Auctioneers and CK Hollanda in

Mashonaland, Matabeleland, and Manicaland, respectively.

2.20. Small-scale communal area farmers sell their cattle largely through Rural District Council auctions and through middlemen. Compliance costs are high. Zimbabwe imports beef and live cattle from within the region, putting further pressure on the local cattle producers.

Beverages

2.21. The beverages sector has strong linkages for inputs with agriculture and with technology and service providers. Production consists of alcoholic and non-alcoholic beverages. Major processors are Delta Corp., Mazoe Citrus, Schweppes, Beitbridge Juicing Pvt. Ltd, Dairibord Holdings, and African Distillers. Direct processing and production feeds from the cereals, dairy, and fruit value chains. Additives are imported, including hops and stabilizers. Juice beverages rely on concentrates from local citrus companies.

2.22. Delta produces lagers, and imports some from South African Breweries. Brewing includes sorghum opaque beer and distilled beverages. Dairy-based products, fruit juices, and cordials are also produced. There has been an influx of imported pure fruit juices, which the government has attempted to stem through duty protection. Because of shortages of raw materials, processors are operating below capacity.

2.23. Large operators have well-established brands and have adopted international quality standards; some control their supply chain through contract farming. Revival in disposable incomes should stimulate local demand and see growth into the region.

Cereals and cereal products

2.24. Cereals are important for food security and for inputs for the country's agro-based economy. Deliveries of grains to the Grain Marketing Board, the custodian of the country's strategic reserve, steadily declined since about 2008 from a peak of 430,000 tonnes. They were at 50, 000 tonnes by 2009 and have not recovered sustainably because of shortages of inputs and competition from independent buyers.

2.25. Cereals include grain sorghum which is better adapted to the drier parts of the country although people view it as a poor person's crop, produced with inappropriate technology. A small proportion of sorghum is contracted for Delta Corp.'s brewing operations.

2.26. Irrigated cereals are wheat and barley, wheat being the second most important staple food for Zimbabwe's strategic grain reserve. Barley is grown under contract farming for the brewing of lager beer chiefly for Delta Beverages. Barley yields per hectare are between 310kg and 1,800kg, with evidence that improved farming could raise yields to 5.5 tonnes per hectare.

2.27. Wheat production has not taken full advantage of the irrigation potential of 120, 000 ha. Capacity utilization has only been 45000 ha (37.5 percent). Annual wheat output has declined from 325,000 tonnes to an average of 153,000 in the 6 years before 2014. The decline has hurt the operations of wheat flour millers and the related bakery industries. Regulation of wheat prices has compounded the situation, with confectionary producers resorting to cheaper imports.

2.28. The most important cereal crop from the standpoint of food security standpoint and economic impact is maize (U.S.: corn). It is the most easily grown crop throughout the country. The value chain comprises input suppliers, producers, traders, processers and the end market.

2.29. The domestic requirement for maize is 1.8 million tonnes a year, with 350,000 tonnes going to commercial use. Production trends are failing to meet the national requirement. In the 2016 drought year the country has appealed for international support of up to $1.5 billion for food imports, the bulk being maize imports.

2.30. Maize supports 486 millers downstream with an annual capacity of 27 million tonnes of maize meal but with only 59.9 percent capacity utilization. Maize-related products include maize meal, maputi (corn flakes), samp (dried, stamped, and chopped kernels), animal feeds, and cooking oil. The future of the maize value chain as with other agro-industry value chains generally lies in better utilization of existing irrigation infrastructure and its enhancement, large-scale farming systems, and mechanization.

RECOMMENDATIONS

3.1. Government must work closely with representatives of the sector, to do everything to ensure stability in farming and turn around its fortunes. A clear message must be sent that the land invasions that characterized the land redistribution exercise will no longer be permitted.

3.2. The much-talked-about agricultural policy under the Ministry of Agriculture Mechanisation, and Irrigation Development (MAMID) urgently needs to be finalized to give a clear sense of agriculture's direction, giving potential investors unequivocal guarantees that their investment in agriculture will not be expropriated.

3.3. Sector-specific strategies for all the agro-industry/beverages value chains discussed herein must be elaborated through a participatory consultative process involving all the subsector value chain actors, strengthening the cohesion of the stakeholders in the process for mutual support and benefit. The strategies need time-framed objectives and realistic targets.

3.4. Government needs to redouble efforts to attract investment, which would help overcome the numerous constraints bedevilling the value chain: inadequate state of technology, insufficient production capacity, and shortage of capital generally. Corruption must be dealt with.

3.5. A study needs to be conducted on the feasibility of giving some form of title to the small-scale communal area farmers perhaps through some form of fixed property offered by relatives as a proxy so that the farmers are able to use such as security. Water harvesting and small-scale irrigation projects should be encouraged and initiated in the communal areas.

3.6. Zimbabwe needs to adopt a development agenda that transforms a proportion of income from the narrow formal sector and invests it in the informal sector, including small-scale farming. This would enhance the integration of production and marketing within the national economy while also triggering linkages and connectivity of value chains at the regional level.

3.7. The government must put in place comprehensive regulation and stimulation mechanisms to facilitate value-chain and export promotion strategies, and progressively remove the enormous challenges stemming from shrinking domestic market options. Central government must play an active role in the rationalization and alignment of fiscal, infrastructure, and human resource development.

CONCLUSION

4.1. Although the majority of the subsectors of the value chain have been facing difficulties in recent years, the very difficulties offer opportunities if the public and private sectors work closely together. Government has a special leadership role to create an enabling business environment for the agricultural industry, food and beverage value chains given the historic importance of agriculture in the Zimbabwean economy.

This policy brief is based on the study *Agro-Industry/Food and Beverages Value Chain Diagnostic Study,* March 2014. See: http://www.zeparu.co.zw/

COTTON-TO-CLOTHING VALUE CHAIN

INTRODUCTION AND BACKGROUND

1.1. The textiles and clothing subsector is an important arm of Zimbabwe's manufacturing sector. The combined textiles and clothing industry accounted for 12 percent–15 percent of manufacturing gross output in 1985–1995. From 1995–2004 the index of the volume of textile and clothing production by volume, with 1990=100, dropped to around 70. The collapse of the subsector therefore leaves a very big structural hole in the manufacturing sector. The links of the cotton to clothing (C2C) value chain have weakened to a point where the textile segment has been decimated. The garment industry depends on imported cloth.

KEY FINDINGS

2.1. The study summarized in this brief found that the C2C value chain that had become integrated from cotton growing right through to garment and clothing manufacture has been under progressive stress. The stress intensified particularly after the Fast Track Land Reform Programme (FTLRP). After the resultant economic crisis setting in from 2002, the integrated value chain was no longer able to withstand external competition.

Cross-cutting issues and common problems

2.2. The issues common to all segments of the value chain are as follows:

- The overall macroeconomic environment, with government policies that business does not find conducive, such as the indigenization, and levels of corruption that discourage both local and foreign investment.
- The would-be enablers that have turned into major cost-drivers, specifically electricity, water and transport that are frequently just not available or are costly and not reliable.
- Antiquated plant and machinery frequently breaking down and needing a lot of spares or outright replacing.
- Cash-flow problems given an acute shortage of liquidity leading to shortage of working capital.
- Rigidity on the labor market given the complicated regulations on hiring and

dismissal of labor together with collective bargaining provisions that are not productivity linked.

2.3. Some of these will have particular ramifications in the discussion of the C2C value chains below.

Cotton growing

2.4. Cotton growing has supported up to 300,000 rural households or 1.6 million people. The majority of the farmers are women. There are important livelihood issues associated with the demise of cotton growing.

2.5. Cotton production has declined 60 percent from a peak of above 350,000 tonnes (metric tons) in the 1998/99 season to just below 144,000 tonnes in 2012/2013 and remained more or less at these low levels since then. Yields per hectare ranged between a low of 254kgs/ha in 1991, a drought year, to 1102kgs/ha in 1995, a good agricultural season. For the period 1989–2013 the level hovered around 700–800kg/ha—less than 50 percent of those found achievable on dry land with no irrigation, with fully funded inputs, even with not so good management. Government has continued to reject GMO cotton which can lead to significant yield improvements.

2.6. The smallholder farmers do not use irrigation in the main. New cotton varieties can yield up to 4000kg/ha under irrigation. Tillage technology is largely the ox-drawn plow.

2.7. The quality of cotton lint has also deteriorated with the advent of new merchants after 2002. A 2016 survey documented a serious decline in the quality of Zimbabwe lint since 2009, resulting in loss of premium on the international markets.

2.8. Farmers' organizations such as ZFU are uniquely suited for assistance to smallholder farmers. ZFU has a countrywide network of regional and local area officers who provide extension services to members. However the abilities of these officers to expand the farmers' knowledge horizon to include own value-addition to seed cotton and more direct links with the ultimate market for ginned cotton, the international cotton spinners, was not evident.

2.9. There is no robust regulatory regime to curb side marketing and all unfair business practices including abuse of monopoly power at the price negotiations between farmers and ginners and other merchants.

2.10. There is no program to take over from the now problematic practice where contractors/ginners are primarily responsible for providing finance to the smallholder cotton growers.

Cotton ginning

2.11. The ginning industry is an important link between farmers, oil expressers and spinners. With the decline in cotton production the link was under serious risk of collapse. The ginners would find it difficult to survive without the farmers as they would have to import feedstock from elsewhere within the region. The logistics for imports from further afield are not cost effective.

2.12. COTTCO has been the main player and market leader till the recent crisis (2015) when it temporally slid into judicial management under a mountain of debt which the government was considering whether to assume in a reorganization of COTTCO, which had been a model of successful privatization starting in 1995.

2.13. Ginners have played a mentorship role for the smallholder farmers including finance, extension services, research and transport of seed cotton for purchased contract cotton, and even free cotton. Support, however, dropped 46 percent in 2013 to US$22.7million from the previous year.

2.14. COTTCO stands out as having contributed 49 percent of the year's production, with the remaining 15 ginners accounting for the balance. The new players from Asia accounted for above 56,000 hectares of cotton in 2013, confirming the growing trend of Chinese participation in cotton growing and other downstream segments.

2.15. The problem of side marketing led all the ginners to reduce the levels of support. Meanwhile, ginning capacity in Zimbabwe totals 650,000 tonnes a year. COTTCO alone had ginning capacity of 265,000 with 9 state-of-the-art ginneries spread across the major cotton growing areas. If COTTCO received only about 70,000 tons as indicated, barring any carryover stock, that is a serious situation of capacity underutilization. The installed capacity is far in excess of annual cotton seed production. The highest annual production of seed cotton was in1998/99 at 353,000 tonnes.

2.16. Production in 2014/15 as already indicated was only 100,000 tonnes and 2015/16 is likely to be worse given the El Niño-induced drought affecting the whole Southern African region. Lint exports are declining as a result and even faster given the decline in quality of lint as well with loss of price premiums.

2.17. The oil expressers will also be faced with a shortage of cottonseed for their operations.

Textiles

2.18. The structure of the textile industry had consisted of a number of large companies, by the country's standards, which were vertically integrated and formed the backbone of the industry. Small specialist firms then developed from these large organizations. The large businesses were: David Whitehead Textiles (DWT); Modzone (former Cone Textiles); Qualitex and Zimbabwe Spinners and Weavers (ZimSpin)

2.19. The businesses were similar in size and comprised weaving, knitting, dyeing, printing, and finishing value chains. Annual lint consumption by the textile companies was 17,000 tonnes. The firms also produced a range of fabric by weight. Eighty percent of the yarn was consumed in house, the balance being exported or sold locally to third parties. Fabrics were sold in loom-state as unprocessed, partially processed, or in the finished form for both the local and export markets.

2.20. The textile industry has experienced very deep decline to a point where only a few of the original players remain. The number of textile companies declined from 200 at the peak to 8 at the time of the study (2014) and most of these under judicial management. Only ZimSpin was still standing out of the large companies above. David Whitehead was struggling to emerge from judicial management as of 2016.

2.21. Conditions for the industry deteriorated further with the generally difficult macroeconomic environment over the last decade-and-a-half. A major issue for the whole of the C2C value chain is the serious shortage of electricity and the frequent and sudden power cuts. This affects quality and adds to cost through high rejects

2.22. Employment levels had fallen from a peak of 24,000 to less than 4,000.

2.23. For a sustained revival, the business environment needs to be significantly improved and FDI relations continuously nurtured to attract the kind of capital necessary for investment in textiles: an integrated plant costs at least US$100 million.

Clothing Manufacture

2.24. Clothing is generally a labor intensive, high-intensity competition business with low barriers to entry. It is among the foremost employers of both unskilled and semi-skilled labor. According to the Zimbabwe Clothing Manufactures Association, ZCMA, there were 495 clothing firms in the subsector in 2000, and these employed 20,000 people. By January 2011 the number of firms in the subsector had dropped to 296 and the number in employment was 9, 000.

2.25. The industry is facing profitability and competitiveness problems largely as a result of having to import fabric from Asia, low capacity utilization, and weak domestic demand. It could not compete against the influx of clothing from low-cost Asian producers and against a deluge of secondhand clothing on the local market. However there were signs that some of the importing retailers' prices were beginning to be similar to the prices offered by local producers because of large markups compared to source markets such as South Africa.

2.26. Zimbabwean clothes manufacturers—for example Carousels and Archer Clothing, both in Bulawayo, and a few others—that used to be subcontracted by some big South African clothing firms, like Mr. Price, were no longer getting contracts. The high cost structure, particularly the labor rates, of Zimbabwean firms after the onset of the multicurrency regime, had managed to shut the door to those previous arrangements. The clothing industry is relying on imported inputs since the local textile industry cannot supply their quality requirements or the range of inputs.

2.27. The Zimbabwe Manufacturers Association (ZCMA) reported that employment had started to increase and was at approximately 6,000 in 2013, having fallen below that figure at some point. The small revival owes to the nature of the textile sector, which is not just focused on the value addition of cotton as a raw materials supplier for the clothing industry but can also produce many other final goods. Likewise the clothing industry manufactures many different items of clothing from many different types of fabrics. The clothing industry is able to operate by importing its raw materials from other countries and being run successfully.

RECOMMENDATIONS

3.1. Government needs to speedily address the infrastructure needs of the C2C sector, and of the country generally, with special reference to electricity and water and rail and road infrastructure. Within transport, priority should go to rail infrastructure.

3.2. Opportunities must be explored for the textile and clothing industries in Zimbabwe to supply the COMESA and SADC regional markets, through regional cooperation of regionwide clusters, to better meet the exacting demands of those markets.

3.3. Government should spare no effort in creating and sustaining an enabling environment, dealing decisively with corruption. There is an urgent need to clarify the status of third-generation, non-black Zimbabweans who could have the resources to specifically invest in the textiles and clothing industry but are hesitant because they are not sure they are immune from property and asset confiscation by black Zimbabweans.

3.4. The C2C value chain needs medium- to long-term, low-priced lines of credit to finance operations, together with technical assistance for the sector to upgrade its business systems and practices in all areas.

3.5. The government needs to come up with an overall long-term strategy for the entire C2C value chain with clear transition mechanisms, precise goals, practical objectives, realistic deliverables, and timelines. The entire value chain has been characterized by policy, institutional, regulatory, and marketing failures at various points of history.

CONCLUSION

4.1. While the value chain is facing major difficulties, it can be revived by support to the cotton famer to improve yields, enticed back into the crop through appropriate incentives and through cooperation with the end market of international spinners. There is excess ginning capacity which can benefit from increased volumes of better-quality cotton. The clothing industry can continue to survive through imported inputs, sourcing from the regional market where possible, while the textile sector continues to seek capital injection, looking to supply beyond the small domestic market even as that market grows, providing new local demand for textiles.

This policy brief is based on the study *Zimbabwe's Cotton to Clothing Value Chain,* February 2014. See: http://www.zeparu.co.zw/

ENGINEERING AND METALS INDUSTRY VALUE-CHAIN

INTRODUCTION AND BACKGROUND

1.1. Zimbabwe had a vibrant and diversified engineering and metals sector that initially came about during the colonialist UDI period as part of a nationalist survival strategy. Abundant coal, chromite, iron ore, nickel, and platinum group metals (PGM) enabled development of the sector. Engineering and metals spawned value chains (VCs) that were integrated into regional and global value chains (GVCs). Yet new technologies, new products, globalization, and trade treaties, combined with a domestic economic slowdown, have completely changed the field of play.

1.2. The metals engineering industry in Zimbabwe, which refines and smelts raw materials for use in various sectors, comprises heavy and light engineering. The heavy engineering companies are further classified into electrical machinery/equipment and non-electrical machinery/equipment. The key players in the heavy engineering sector, like Morewear Industries, use advanced technology. However, non-electrical manufacturing companies encountered numerous impediments, causing many to close. The equipment they used was generally obsolete, resulting in higher production costs, reducing their competitiveness on the global market. The light-engineering subsectors manufacture low-cost technology products, incorporating imported components and using little or no automation or computer-aided processing.

1.3. Production of ferrous metals fell significantly during a period of economic decline, resulting in the closure of ZISCO Steel at Redcliff in 2003/4.

KEY FINDINGS

2.1. Zimbabwe has become mostly an end market for finished products of regional and global value chains and a source of inputs for advanced value chains elsewhere. The overall ratio of engineering and metal products exports to imports by value was 41:59 during 2008–2012, a trade deficit.

2.2. Two-stage value-chains—extraction and refining— were found in many nonferrous metals in the country, such as platinum-group metals (PGM) and chrome. This is the result of the abundance of major raw materials required for the sector.

2.3. The engineering, iron, and steel 2015–2020 strategy study found that the envisaged use of import tariffs under the Ministry of Industry and Commerce's 2012 Industrial Development Plan and Trade Policy was contrary to the trade treaties, and the tariffs protected nonoperational firms.

2.4. Growth and value addition in the metals and engineering sector had been largely hampered by pricing and marketing policies, a restrictive regulatory framework, shortage of skills, insufficient infrastructure, and unstable macroeconomic policies.

2.5. Rail networks that are vital to the sector have been hampered by power shortages and poor maintenance. General economic decline created parts shortages and a lack of recapitalization. Rail transportation of goods declined from 18 million metric tons in 1998 to 2 million metric tons 2010. Increasing reliance on trucks, three times more expensive than rail for the industry, pushed up the production costs in the sector.

2.6. High energy tariffs have contributed to a lack of competitiveness for products coming out of all stages of the engineering and metals value chain. Power projects to increase capacity are no longer being undertaken in an environment of integrity and procurement to Zimbabwe's best advantage.

2.7. Local authorities have had limited ability to refurbish aging water reticulation systems, resulting in erratic water supplies to critical operations in the engineering and metals sectors. The Zimbabwe National Water Authority (ZINWA) has lacked the capacity to ensure adequate supplies of water to consumers.

2.8. Despite policies and initiatives to promote development of technical skills, tertiary education has been underfunded and harmed by an exodus of talent—a "brain drain." Only 5 of Zimbabwe's 13 universities were technical institutions at the time of the study (2014) summarized in this brief. The two chief initiatives are the Zimbabwe Manpower Development Fund (ZIMDEF), which was designed for students to acquire practical skills, and SIRDC, set up under the Research Act of 1986, to cater to the research and development needs of industry.

2.9. Financing is a sectoral constraint. Issues include a shortage of liquidity, high interest rates on short-term loans, and the unavailability of long-term loans for recapitalization. Engineering and metals has long been perceived to be a high risk sector because of policy inconsistencies that make it difficult to ensure sustained industry competitiveness.

POLICY RECOMMENDATIONS

3.1. The engineering and metals value chain should be upgraded and modernized at all stages. Resuscitating the value chain for iron and steel products is critical to restoring the entire sector's value chain. A stainless steel production line should be introduced in view of the fact that all the required inputs—chrome, iron and nickel—are locally available.

3.2. Zimbabwe should become a global competitor in the production of refined metals, especially PGMs, chrome, and iron ore. Zimbabwe could aspire to establish jewelry fabrication and catalytic converter sectors given the availability of PGMs and gold, not to mention diamonds.

3.3. At the same, a medium- to long-term objective would be to produce formed and fabricated metal products, adding domestic value. Only the excess after fabrication and forming ought to be exported as refined metal.

3.4. Because funding is critical, joint ventures with dominant multinational companies in high-volume markets can be a good option.

3.5. Significant investments should be made in the railroad network and in power generation. The sectors are also major employers and hence can contribute to the reduction of unemployment in Zimbabwe. "Tenderpreneurship" trends that have become the culture in energy projects need to be eradicated; failure to eradicate will result in exorbitant electricity tariffs that will further erode the competitiveness of local manufactures.

3.6. On the trade and tariffs front, reviving ZISCO would enhance the chances of engineering, iron, and steel products to qualify under rules of origin in regional markets; imposition of a small tax would discourage the export of selected minerals. While assistance and protection is important, these must not be excessive or insensitive to consumer wellbeing and should be reviewed frequently for continued relevance.

3.7. The regional market that has traditionally been the major export market for foundry products could be strengthened explored with a strategically well-organized marketing approach. These products would include grinding media (high chromium and forged steel media); wire rode products (ropes, chains and slings); and cast products (mantle, bowl, milliners, locomotive wagons, frames, slag pots, ladles). Zimbabwe is capable of producing these products if the existing manufacturing infrastructure is upgraded and well supported by an enabling environment.

3.8. Vehicle manufacturing has potential to grow, considering both the indicative local and export demands. The electrical machinery sector had the potential to grow as well, considering several regional and domestic power projects in the cards. Makers of locomotives and rolling stock have the potential to grow when the National Railways of Zimbabwe (NRZ) is rehabilitated. There are export opportunities for rolling stock.

CONCLUSION

4.1. Zimbabwe possesses the mineral resources and manufacturing infrastructure to restore and strengthen this sector throughout the value chain. For metals, this includes both ferrous and nonferrous metals. For this strengthening to happen, it is important to identify and cultivate areas in the sector where Zimbabwe has specific advantages. Also, it is important to ensure adequate supplies of capital and power, replace obsolete machine, replace and repair dilapidated infrastructure, and ensure the workforce is technically trained.

This policy brief is based on the study *Engineering and Metal Industry Value Chain Analysis*, published March, 2014. See: http://www.zeparu.co.zw/

ZIMBABWE CHEMICAL INDUSTRIES VALUE CHAIN

INTRODUCTION AND BACKGROUND

1.1. Zimbabwe's chemicals industry is limited by insufficient domestic supplies of crude oil and natural gas, from which many chemicals are derived. The country also has had to import such bulk chemicals as caustic soda, ammonium nitrate, and magnesium sulfate. A government policy of import substitution in the 1990s led to construction of refineries and plants. These included Zimchem Refiners, National Chemical Products and the expansion of ZFC factories. The Zimbabwe Government is a stakeholder in key chemical supply companies.

1.2. The chemicals sector is the fourth-largest manufacturing employer, behind food products; mining, engineering, and metals; and clothing, textiles, and apparel.

1.3. Fertilizer manufacturers dominate the industry, accounting for 32 percent of production. These manufacturers have remained operational despite the economic downturn in the previous decade. Government specifically prioritized fertilizer production in its Industrial Development Policy for 2012–2016.

1.4. Sixty-eight percent of chemical products consumed in Zimbabwe are imports, consisting primarily of diesel and gasoline (petrol), petrochemical derivatives, pharmaceuticals, plastics, and polymers.

KEY FINDINGS

2.1. Although the chemical industry is well diversified, it is still dominated by the fertilizer industry, which is chiefly government owned. At the same time, the government is increasingly short of financial resources.

2.2. Fertilizer production has decreased considerably in the past 10 years owing to depressed economic activity. Projections issued in 2013 show companies struggling due to nonpayment of consignments by government, lack of lines of credit, antiquated machinery, equipment breakdowns and incessant power cuts.

2.3. As indicated above, the chemical industry as a whole, like other industries in Zimbabwe, is hobbled by outdated technology, a shortage of working capital and absence of lines of credit, inadequate and erratic supply of power, fuel, and water; unfair competition from imported products; high import duties on raw materials; and dilapidated infrastructure.

2.4. Other constraints common to industry at large include nonpayment for consignments; policy inconsistencies as particularly exemplified by the economic empowerment and indigenization rules; global economic declines; difficult external relations; persistent occurrence of liquidity problems; and the negative effects of sanctions.

2.5. The major cost drivers for chemical industries as a whole were found to be raw materials, 19 percent; electricity, 23 percent; and other forms of energy 13 percent; plant maintenance and repairs, 15 percent; and salaries 20.1 percent. These 5 out of the 11 categories of source inputs and supplies contributed up to 91 percent of the total cost structure of business on average.

2.6. The industry is biased toward internationally uncompetitive upstream sector and a neglected downstream sector that has great potential for development. Chemicals exports from Zimbabwe have been depressed at an annual average of about 18 percent of gross output. Reversing this bias would help the industry to increase domestic, value-added production, increasing employment and, ultimately, exports.

2.7. The industry faces coordination and regulatory challenges in state procurement demand, licensing procedures, and price administration. Meanwhile, private players are pursuing backward and forward integration in the industry.

2.8. Zimbabwe has abundant coal that could be exploited to benefit the chemicals industry. The shortage of feedstock for the petrochemical segment could be alleviated by activating the Lupane project to extract coal bed methane (CBM), or adopting coal gasification. Use of methane would be cheaper and less energy-intensive than the current method (water electrolysis).

2.9. On the administrative front, coordination is weak among concerned ministries. Gaps exist in budgeting and execution. Land procurement and resettlement are delayed. Staff lacks training, and there are too few incentives to curb "brain drain."

2.10. Information is lacking among producers and traders about pricing structures and potential markets, which translates to uninformed profitability expectations.

RECOMMENDATIONS

Business Environment and Industry Backbone Support

3.1. Government should be to be ready to offload some of its equity in the chemical industry to strategic partners with the capital resources to turn around the industry.

3.2. Enhance available coal resources to benefit from Zimbabwe's comparative advantage. Remove barriers to investment—i.e., promote investment by locals and foreigners alike—and create investment-readiness in the chemicals industry.

3.3. Ensure that the mix of monetary and fiscal policies is such that firms have better access to credit and that interest rates are not at levels that deter investment.

3.4. Expedite commercial exploitation of coal bed methane (CBM) deposits in partnership with regional value-chain players such as Sasol of South Africa.

End-Markets and Trade Policy

3.5. Reduce import tariffs on raw materials, to between 0 and 5 percent

3.6. Introduce export incentive arrangements to boost local production and create surpluses for the export market

3.7. Reduce tariff charges on inputs for the exported value-added goods.

3.8. Develop the domestic chemical industries' market share by encouraging state companies to buy locally.

3.9. Government should honor its debt to fertilizer-producing companies as part of resuscitating the industry

3.10. Subsidize farmers through input vouchers that can be redeemed at local retail stores rather than through direct distribution

3.11. Identify poor farmers to whom to channel input vouchers at a reasonable cost.

Infrastructure Development

3.12. Establish and maintain a sound regulatory framework that rewards investment into key infrastructure development and ensures a timely return on investment. Tax breaks should be honored, foreign direct investment encouraged, and a favorable value-added tax system introduced.

3.13. Pass laws that bring accountability to management of public funds in state-run entities.

Capacity Building

3.14. Foster scientific and technological innovation by investing 1 percent of the country's GDP in research and development (R&D). The private sector should enter into partnership with research institutions through commissioned research.

3.15. Develop and adopt a framework that employs a more diverse use of different types of financial instruments for supporting research, mainly a shift toward fiscal incentives for supporting private sector research.

3.16. Ensure the production of high-caliber personnel from Zimbabwean tertiary education institutions by equipping the teaching and learning infrastructure in the institutions: equipped lecture rooms, libraries, laboratories and workshops.

CONCLUSION

Many opportunities exist for a dynamic chemicals industry that adds value domestically and creates export opportunities. This industry requires natural resources, fresh investment, supporting infrastructure, and adequate human capital. Zimbabwe's abundant coal can be exploited to provide feedstock. The right mix of partnerships, policies, and incentives will attract investment in the industry and supporting infrastructure. Investment in human capital through improved education and research will assure continued innovation and competitiveness.

This policy brief is based on the study *Zimbabwe Chemical Industries Value Chain Analysis,* March 2014. See: http://www.zeparu.co.zw/

WOMEN AGRIBUSINESS ENTREPRENEURS IN ZIMBABWE: EVALUATING ACCESS TO CAPITAL AND MARKETS

BACKGROUND AND INTRODUCTION

1.1 Globally, women own smaller businesses and concentrate in less profitable sectors, mainly due to restrictions on obtaining financing, inputs, or training. In Zimbabwe, women business owners operate in a very challenging environment. Entrepreneurs in Zimbabwe operate in an unpredictable policy environment that impacts the country's business climate. In its 2015 report on Zimbabwe's national competitiveness, the National Economic Consultative Forum (NECF 2015) found that policy inconsistencies have created uncertainties that deter investment. Along with all entrepreneurs, Zimbabwe experienced a deteriorating economy caused by hyperinflation and rising unemployment. With the adoption of multicurrency regime in 2009, the economy has stabilized but not recovered. Uncertainty and volatility have led to decreased formal-sector employment and an enlarged informal sector as people struggle to find jobs. That said, Zimbabwe is rich in agricultural and other natural resources. The infrastructure for market access—roads and ICT, for example—is solid, even if needing considerable maintenance and investment. The country's workforce is relatively well-educated

1.2 A significant number of women operate businesses, but overwhelmingly in the informal economy. Almost half of all women in Zimbabwe engage in entrepreneurial activities, the vast majority in informal, micro-businesses connected to the agricultural sector. Women entrepreneurs face barriers specific to their gender. The study found that women business owners reported that they lack access to collateral for loans, typically use their own resources to finance business expansion, and are less likely to participate in business associations Overall, little information exists on the scope and scale of woman-owned businesses in Zimbabwe, the sectors they concentrate in, and the specific challenges they face.

1.3 Thus, the expansion of woman-owned businesses is hindered in ways that policymakers, donors and business associations might be able to address. It is against this background that the ZNCC Women's Desk, through technical support from the USAID-Strategic Economic Research and Analysis (SERA), sought to map the policy and regulatory framework affecting women entrepreneurship in Zimbabwe with focus on access to capital and markets within the agribusiness sector. The research team performed the literature review and field work in June and July 2016.

PURPOSE OF THE STUDY

2.1 The purpose of the study was to explore implications of regulations, policies and practices facing woman-owned micro, small, and medium enterprises (MSMEs) in Zimbabwe's agribusiness sector, which is the sector that employs the most women. Specifically, this study investigates the constraints on access to capital and markets faced by women entrepreneurs in agribusiness and examines existing efforts to expand access. The study mainly focuses on value-added activities. The assessment also considers women's participation in agricultural production to the extent that inadequate access to capital and markets constrains the growth of women producers and limits the supply of farm goods to processors.

2.2 The research specifically covered a review of the business-enabling environment to establish the extent to which it was either supportive or restrictive to women entrepreneurial initiatives and the institutions and policies that help or hinder women doing business, specifically accessing finance and markets. The researchers interviewed more than 60 representatives from the government, private sector, civil society, and research and training institutions in and around Harare, Mutare and Nyanga.

KEY FINDINGS

Access to Capital

3.1 The unpredictable policy environment, the current cash shortage, the planned reintroduction of bond notes and the insecure immovable property market has creates a cycle of limited risk taking, underinvestment and low productivity. Access to capital is the main constraint MSME owners face to start, operate and grow a business. Most business owners use their own savings to launch a business. However, women entrepreneurs, particularly young women, are faced with additional challenges to accumulate savings for initial start-up capital as fewer women hold salaried, especially well paid, formal sector employment than men.

3.2 Considering the insecurity of agricultural land tenure, banks accept almost exclusively real state in urban centers as collateral for access to finance. However, this practice severely restricts the availability of bankable collateral, which in particular affect women, as fewer women than men own immovable bankable property. While there is some positive policy development to access finance, notably the introduction of a collateral registry and national credit reference registry, women entrepreneurs in Zimbabwe are reluctant to take financial risks due to the significant uncertainties in the business environment.

3.3 Smaller businesses find it difficult to meet the stringent requirements from the banking system, but more banks are starting to recognize the need to tailor their products and services to SMEs.

3.4 To better serve women in business, the Reserve Bank of Zimbabwe will require banks to establish Women Entrepreneur Desks and report sex-disaggregated data by the end of 2016. The majority of microfinance institutions engage in payroll lending and consumer loans rather than business or development loans. These loans have high interest rates and short loan periods, making them unsuitable for agriculture or agribusiness loans. Consequently, there are limited opportunities for entrepreneurs, especially women, to access credit.

Recommendations to Improve Woman-Owned Businesses' Access to Capital

3.5 To create a more stable and enabling environment for access to capital and business growth considerable land tenure reviews and reforms will be required. Such reforms will require political commitment, as well as significant time and financial resources. Acknowledging these overarching issues, the following recommendations support the implementation of the National Financial Inclusion Strategy and focus on activities that can be implemented in the immediate to medium term.

- Support the Reserve Bank of Zimbabwe to undertake more in-depth research investigating why women are underserved by financial institutions.
- Reserve Bank should roll-out awareness building initiatives among women about the introduction of the Collateral Registry to enhance financial inclusion for women entrepreneurs.
- Support financial institutions to introduce more loan products that are tailored to needs of agribusinesses
- Train commercial banks' SME units in gender awareness and mainstreaming
- Provide young women entrepreneurs with more comprehensive support to start, maintain, and expand their businesses
- Strengthen linkages between MFIs and savings and lending groups.

Access to Markets

3.6 Women business owners are faced with a number of constraints to access markets to start and grow their businesses. Women are more likely to operate their businesses in the informal sector, while men are three times as likely as women to register their business. Micro and small businesses find the licensing registration process cumbersome and expensive, which is a greater burden for woman-owned businesses since women have less savings, make less money in their business and are more exposed to harassment from government officials during the registration process.

3.7 However, informality restricts women's access to market information, networking, business linkages and training opportunities. Physical markets offer the first entry point for many informal, small and expanding agricultural producers, traders or wholesalers. However, unsafe or inadequate physical market infrastructure, such as inadequate bathrooms and safe and affordable accommodation are unconducive for women entrepreneurs' economic participation.

3.8 Women business owners need more information and access to advice and support to understand market preferences and standards for the domestic and international market. The export support ZimTrade is providing is highly regarded by the business community, but there is demand for more such services both for the domestic and export market. Moreover, following the economic downturn, government and private sector-led marketing linkages have diminished.

3.9 The lack of institutional support for aggregation, grades and standards result in considerable difficulties for buyers to source input and for sellers to find markets. Business associations can provide agribusinesses with information on market demands, standards and market-linkages or provide linkages to other organizations that can supply such information. However, women are less likely than men to join organizations that supply such information. There is growing awareness of the importance of including women in business associations, both as members and in leadership positions.

3.10 Business associations can provide women in business access to a host of services including networking and mentoring opportunities, linkages to business development services and training, market linkages, market information as well as support in accessing finance. While there are a number of organizations focused on supporting and engaging with women in business, a majority of women entrepreneurs are not a member in a business association due to lack of access or information about available opportunities.

3.11 Finally, women entrepreneurs need assistance to enhance their business development skills in terms of business planning, accounting and marketing. However, there are limited opportunities for longer, more comprehensive and tailored training and mentoring which is more likely to support and propel woman-owned businesses in the economy.

Recommendations to Improve Woman-Owned Businesses' Access to Markets

3.12 A lack of overall economic stability hampers market access. Government, business association and private actors are stepping in to address market access gaps, but unfortunately, the size of their interventions is small compared to the needs of business owners. Considering these constraints, and to support the implementation of Zimbabwe Agenda for Sustainable Socio-Economic Transformation 2013-2018 and the Framework for Broad-Based Economic Empowerment for Women and Communities, these recommendations focus on supporting activities that can be implemented in the short to medium term.

- ZNCC should work with government to accelerate the implementation of policy reforms that simplify and expedite business registration and licensing
- Government agencies/ Ministries should facilitate information-sharing among gender focal points within the different ministries, at all levels
- Gender focal Points in line ministries should be assigned higher rank up to Principal Director level for effective engagement in the national budget process so as to influence resource allocation
- ZNCC should engage the Ministry of Industry and Commerce to speed up the process towards establishing the Commodity Exchange
- Mobilize the necessary external support for business associations to continue to expand their outreach to current and aspiring women entrepreneurs
- Encourage existing market linkage associations, and market information and access programs to link up with women agribusiness owners and groups
- ZNCC and other tertiary institutions should provide more in-depth business training and targeted mentorship support to women entrepreneurs throughout the country
- Support further research on women in business associations and women's role in value addition in agriculture
- Encourage the formation among women of formal groups, including trade and commodity associations
- Set priorities the development, by government and donors, of physical market infrastructure that meets women entrepreneurs' needs

This policy brief is based on the study *Women Agribusiness Entrepreneurs in Zimbabwe: Evaluating Access to Capital and Markets*, August 2016. See: http://zncc.co.zw http://www.necf.org.zw/

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