Zimbabwe Economic Policy Analysis and Research Unit

PATHWAYS TO IMPROVED COMPETITIVENESS

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Acronyms

ASYCUDA	Automated System for Customs Data
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Coronavirus Disease 2019
CZI	Confederation of Zimbabwe Industries
EPOs	Exclusive Prospecting Orders
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoZ	Government of Zimbabwe
IAPRI	Indaba Agricultural Policy Research Institute
ICT	Information and Communications Technology
IMF	International Monetary Fund
IMTT	Intermediate Money Transfer Tax
LPI	Logistics Performance Index
MW	Mega Watt
NDP	National Industrial Development Policy
OECD	Organisation for Economic Co-operation and Development
RBZ	Reserve Bank of Zimbabwe
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SIs	Statutory Instruments
SOEs	State Owned Enterprises
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollars
WEF	World Economic Forum
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZIMRA	Zimbabwe Revenue Authority

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Executive Summary

Competitiveness is a major preoccupation of the policy-makers in both developed and developing countries due to the strong correlation between competitiveness and income. A more competitive economy is one that is likely to grow faster over time and more attractive to capital and high profile entrepreneurs and labour. The importance of competitive advantage becomes even more pronounced as firms are forced to face competition from domestic and international competitors as the country implements regional and multilateral trade agreements.

Evidence abounds that Zimbabwe is not competitive. For example, Zimbabwe was ranked 127th out of 141 countries of the world in the 2019 Global Competitiveness Report. Similarly, the country was ranked 155th out of 190 economies under the 2019 World Bank's Doing Business Index. This low level of competitiveness weighs down on its economic growth prospects. The Ministry of Finance projected that the country's economy will decline by -3% to -6% in 2019 down from 2018 growth of 4%. This level of competitiveness will make it difficult for the country to achieve targets set in the Southern African Development Community (SADC) Industrialization Strategy and Roadmap 2015-2063 strategic pillars, namely industrialisation, competitiveness and regional integration. The SADC Industrialization Strategy recognises competitiveness as an active process to move from comparative advantage to competitive advantage. Further, the desire by the country to attain upper middle income status by 2030 should be anchored on the creation of a competitive and business friendly environment. Domestic and foreign investment thrives in an environment where policy interventions enhance business confidence and addresses impediments to competitiveness.

While government has made considerable progress in reforming the business operating environment including the setting up of a one stop shop investment agency, the economic environment still remains challenged. There is still evidence of weak institutional capacities among public institutions mandated with providing essential services to business operators be they regulatory institutions or utility providers. Investors have highlighted the cost of inefficiencies within these public institutions which results in delays in decision making. Transaction costs are also increased by cumbersome procedures and documentation, and length bureaucratic processes in processing business documents such as licenses and permits. Furthermore, corporate governance deficits; rampant corruption within the public and private sectors; infrastructure deficits particularly in road, rail, power, water, sanitation and telecommunication have all been cited as contributing to low competitiveness. This is because the infrastructure is either dilapidated or there is inadequate supply of it due to underinvestment in new one or maintenance of the already existing infrastructure to extend its economic life. Inadequate supply of logistical infrastructure for example, negatively impacts on production, movement of goods and communication thereby increasing the cost of doing business. Quality assurance infrastructure that ensures the produced goods conform to the standards dictated by the export market is inadequate in Zimbabwe.

The increasing levels of informality in Zimbabwe also present competitiveness challenges. For example, informal sector operators face binding credit constraints that limit their access to capital to expand their productive capacities; improve the level of

sophistication of their production processes and improve the quality and packaging of their products. Inevitably informal sector players face high explicit and implicit cost of doing business. In this regard, goods and services produced by informal sector players tend to be less competitive as compared to formal producers who have better business operating conditions and have access to cheaper lines of credit.

The macroeconomic environment characterised by high fiscal deficits, acute foreign currency shortages; debt overhang that limits access to cheaper lines of international credit; high inflation and the appreciation of exchange rate experienced in the post dollarization era, partly explain Zimbabwe's underperformance in enhancing its competitiveness position. This is against a backdrop of its regional counterparts undertaking reforms that have improved their competitiveness and made them magnets for foreign direct investment. Fostering macroeconomic stability is therefore imperative in creating predictable and conducive business operating environment that stimulates the investments in competitive enhancing initiatives. Further, thrust must be placed on policies that promote savings and effective deployment of the mobilised savings to stimulate growth enhancing investments.

In this regard policy interventions should foster policy predictability and credibility that buttresses public confidence and trust. Confidence and trust deficits have often been cited as reasons for limited impact of policy interventions. Furthermore, low labour productivity; human skills capacity gaps; weak innovation systems and under investment in research and development has also been cited as factors that are weighing down the country competitiveness. All these factors are critical in creating an environment that promotes innovation and unique and competitively priced valued added export products and services from Zimbabwe.

The country has taken deliberate steps to implement the institutional and legislative reforms to improve the easy of doing business and further enhance the country's competitiveness. However, the extent and pace of implementation of these reforms still lag behind what is required to create a highly competitive economy that is leveraging on the available productive technologies. Strengthening public institutional capacity to make them fit for purpose; adhering to time tested good corporate governance principles; completion of the process of aligning laws to the Constitution; eliminating/harmonising cumbersome regulatory procedures in either starting up or the entire export value chain among others will further enhance the country's competitiveness.

A key institution that needs to be capacitated to fully implement its mandate of promoting competitiveness is the National Competitiveness Commission. Some of its functions as outlined in the National Competitiveness Commission Act (Chapter 14:36) include the following:

- Monitoring evolving specific subjects and strategies for enhancing Zimbabwe's global competitiveness;
- Reviewing all existing and new business regulations to ascertain their impact on the cost of doing business and recommend amendments or repeals where appropriate to enhance competitiveness;

- Identify sectors of the Zimbabwean Economy that have potential for global competitiveness, whilst also paying attention to the structure and size of industry, technology gaps and skills, infrastructure and modernisation;
- Undertake research and maintain comprehensive national statistical database to be used for competitiveness across all sectors of the economy and
- Produce an annual benchmarking report on national competitiveness or the national Competiveness Report.

In this regard policy makers should benefit from a capacitated National Competitiveness Commission's research and advisory services. For example, routine assessments of the implications of new policy interventions; regulatory measures including Statutory Instruments and incentives schemes on competitiveness will inform policy makers to fine tune their interventions to foster competitiveness. Such assessments will avoid confidence eroding policy reversals and institutional turfism that compromises service delivery and ultimately competitiveness.

Reorientation of skills development policies by focusing on technical and vocational training that meet the requirements of industry will go a long way in enhancing competitiveness at industry level. The skills development programme should also be forward looking in terms of emerging technologies and production systems to create a pool of requisite skills required to boost value addition and beneficiation. The country's competitiveness can be improved by diversifying the export basket from primary products to differentiated manufactured exports. Expanding the array of manufactured exports will further enhance trade openness as the country exploits its comparative and competitive advantages based on its factor endowments. This will result in growth in diversified exports as well as foreign currency earnings from these exports. In this regard the trade promotion and facilitation measures adopted by government including the monetary and exchange rate policies should promote competitiveness.

1 Background

A major preoccupation of the policy-makers in both developed and developing countries is nowadays the national competitiveness and how they can increase it (Rusu & Roman 2018; Giurgiu & Dodescu, 2009). This is because there is a realisation that there is a strong correlation between competitiveness and income hence a more competitive economy is one that is likely to grow faster over time[1]. Further, in the face of globalisation as countries find themselves more integrated into the global economy through regional and multilateral trade agreements, the importance of competitive advantage becomes even more pronounced as firms are forced to face competition from domestic and international competitors. All economies must invest in broader measures of competitiveness today to sustain growth and income in the future (Schwab, 2018). Building economic resilience through competitiveness is more important than ever in today's volatile context, with a wide range of vulnerabilities, technological change, geopolitical tensions and potential flash points around the world (Schwab, 2018). Competitiveness measures and compares the effectiveness of countries in providing firms with an environment that sustains the domestic and international competitiveness of those firms[2]. Thus, it influences multinational companies' selection of their global locations. A competitive country is therefore more attractive to capital which is in particular foreign direct investment through these multinational companies. In addition, high profile entrepreneurs and high skilled labour also tend to follow such competitive economies.

Evidence abounds that Zimbabwe is not competitive. This low competitiveness weighs down on its economic growth prospects. According to the 2019 Global Competitiveness Report, the country was ranked 127th out of 141 countries of the world one place up the ladder from the 2018 score. Similarly, the country was ranked 155th out of 190 economies under the World Bank's Doing Business Index in 2018.

According to the International Monetary Fund (IMF)[3], Zimbabwe is in debt distress. It is currently not in a position to meet its foreign currency commitments. For example, the country's total debt stands at US$9.4 billion at end June 2019, with external debt constituting US$8 billion. As much as 74% of the external debt (US$5.9 billion) constitutes accumulated arrears (Government of Zimbabwe, 2019c). This debt position is stifling Zimbabwe from accessing new credit lines from international financiers. More so, the foreign currency shortages in the country have seen the Central Bank resorting to foreign currency prioritisation to critical segments of the economy. The results have been a starvation of the much needed foreign currency for raw material procurement by the productive sectors of the economy and their shrinking among other challenges. For example, the Confederation of Zimbabwe Industries (CZI) (2018) reported that the shortage of foreign currency in the economy is weighing down on local firms operations as they need to access foreign currency to import raw materials and intermediate inputs. Capacity utilisation is projected to decline to around 34% in 2019 from 48.2% in 2018 (CZI, 2019). Some of the producers have resorted to acquiring foreign currency from the

[1] http://reports.weforum.org/global-competitiveness-report-2014-2015/methodology/
[2] https://in.sagepub.com/sites/default/files/upm-binaries/18595_Chapter_5.pdf
[3] https://www.imf.org/external/pubs/ft/dsa/pdf/2017/dsacr17196.pdf.

parallel market at a premium thereby pushing the cost of the final products making them less competitive both on the domestic and export markets.

This scenario of shrinking industry and poor competitiveness seems not to be aligned to the strategy pillars of the SADC Industrialization Strategy and Roadmap 2015-2063[4] to which Zimbabwe subscribes. These include industrialization as champion of economic transformation and competitiveness. Further, the aspirations of Vision 2030 are anchored on creation of a competitive and friendly business environment and enhanced domestic and foreign investment among other values and objectives (GoZ, 2018b). Thus the Government of Zimbabwe considers competitiveness as a means to attaining an upper middle income by 2030.

Choosing the right policy to address this situation depends on identifying the cause of the lack of competitiveness, a phenomenon that varies between countries and over time[5]. Similar work has been done in 2015 to understand the country's competitiveness. This paper therefore seeks to update this work and interrogating the outcome of interventions government put in place after 2015. Further, the paper seeks to analyse the factors that explain poor competitiveness in Zimbabwe with a view to informing policy on the requisite interventions that government needs to put in place in order to increase the country's competitiveness. Whilst some effort has been made on re-engagement of the international community to resolve the country's external debt, inroads are yet to be reported.

1.1. Objectives of the study

- Analysis of Zimbabwe's competitive position,
- Assessing the factors that influence the country's competitiveness Policy and institutional frameworks in place to increase competitiveness and
- Propose pathways for increasing the country's competitiveness.

1.2. Methodology

Literature review was conducted to understand the current state of Zimbabwe's competitiveness; factors explaining this; policies in place to promote competitiveness and issues/gaps. Specifically, various documents and reports were reviewed to understand the business environment in Zimbabwe focusing on the quality of the institutions, state of the country's infrastructure; and its macroeconomic conditions. Some of these documents include the Global Competitiveness Report; World Bank's Ease of Doing Business Report; African Development Bank report on Zimbabwe's state of Infrastructure; Transparency International Corruption Report; and Southern African Development Community Industrialization Strategy and Roadmap 2015-2063; Government policy documents and reports and Acts; some of which include the national budget statements; National Industrial Development Policy; Local Content Strategy; In addition, the study tapped from the CZI 2018 Manufacturing Sector Survey;

[4] http://www.sadc-dfrc.org/sites/default/files/documents/forum/july2017/akweshie.pdf
[5] https://www.economicsonline.co.uk/Global_economics/Policies_to_improve_competitiveness.html

ZEPARU's report of the country's regional trade performance; Zimbabwe Revenue Authority reports; World Bank Indicators; Zimbabwe Power Company reports; among others. Further, various papers, policy documents and journal articles were also reviewed to infer its human capacity issues; innovation systems and markets. These include the National Critical Skills Audit Report; 2019 Global Competitiveness Report; and the Government's Doctrine for the Modernisation and Industrialisation of Zimbabwe through education, Science and Technology Development to achieve Vision 2030. Policy documents were also reviewed to understand the country's major sources of foreign currency and issues militating against its capacity to generate more. In addition, literature review was carried out to get an international perspective that could provide lessons on how Zimbabwe can increase its competitiveness and capacity to generate more foreign currency.

In addition, interviews with key stakeholders from government, private sector and academia were conducted to get more insights and opinion on how Zimbabwe can be more competitive than it regional counterparts.

2 Conceptual framework for competitiveness

There is no agreed definition to competitiveness. In addition, there are still many open questions related to competitiveness factors, the applicability and the practical approaches to foster competitiveness (Voinescu and Moisoiu, 2015). Economic literature has therefore proposed the use of indices for measuring a country's competitiveness and the Global Competitiveness Index is a widely-used tool. The Global Competitiveness Report aims to capture the factors that drive prosperity and growth across nations, focusing on a wide range of drivers that may influence productivity. It defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country ((Schwab, 2018). The other commonly used tool is the International Institute for Management Development competitiveness rankings on 63 countries over 340 criteria measuring different facets of competitiveness[6]. Another view looks at costs from an efficiency perspective that puts it relatively close to the productivity oriented work: The World Bank's work, for example, focuses on the impact of administrative regulations on the cost of doing business.

The Global Competitiveness Index Framework outlines 12 pillars of competitive as summarised hereunder. The first four pillars namely institutions, infrastructure, Information and Communications Technology (ICT) adoption and macroeconomic stability constitute the enabling environment.

[6] https://www.imd.org/research-knowledge/books/world-competitiveness-yearbook-2018/

Figure 1: The Global Competitiveness Index Framework

Source:[*http://reports.weforum.org/global-competitiveness-report-2018/chapter-3-benchmarking-competitiveness-in-the-fourth-industrial-revolution-introducing-the-global-competitiveness-index-4-0/*](http://reports.weforum.org/global-competitiveness-report-2018/chapter-3-benchmarking-competitiveness-in-the-fourth-industrial-revolution-introducing-the-global-competitiveness-index-4-0/)

The first pillar (see Figure 1) is on institutions and relates to issues such as property rights, efficiency and transparency of public administration, independence of the judiciary, physical security, business ethics and corporate governance. This relates to both public and private institutions. The quality of institutions impacts on a country's competitiveness as it influences investment decisions, production planning among others. In this pillar it is not only the legal framework that matters but government attitudes toward markets and freedoms and the efficiency of its operations: excessive bureaucracy and red tape, overregulation, corruption, dishonesty in dealing with public contracts, lack of transparency and trustworthiness, inability to provide appropriate services for the business sector, and political dependence of the judicial system impose significant economic costs to businesses and slow the process of economic development (Schwab, 2015).

The second pillar is on infrastructure. It looks at the quality and availability of transport, electricity and communication infrastructures. Robust infrastructure is critical for the effective functioning of the economy as it determines the location and the kinds of economic activities that can take place as well as the availability of information.

The third pillar focuses on ICT adoption. ICT facilitate access to basic services and enable new business models. It enables the rapid transfer of ideas and technologies and lowers the barriers to innovation, offering new ways to develop (Schwab, 2018).

Macroeconomic stability is the fourth pillar under the Global Competitiveness Index framework. It focuses on the fiscal and monetary indicators, savings rate and sovereign

debt rating. Stability of the macroeconomic environment impacts on the competitiveness of a country. For example, Government cannot efficiently and effectively deliver services demanded by industry if it is in debt.

Pillars 5 and 6 of the Global Competitiveness Framework are on health and skills and these two are constitute the human capital of a country. The focus is on the state of public health; the quality of basic (primary) education; the quality and quality of higher and tertiary education; as well as on- the – job training. On the one hand the health of the work force has an influence on the productivity hence competitiveness of a country. Sick workers increase the health bill to business; record high levels of absenteeism and are not as efficient. The education quality of a country determines the extent to which a country can nurture a pool of well-educated workforce who are able to meet the demands of globalised economies. Similarly, the extent of staff training through vocational and continuous on-the-job training is also critical as it ensures a constant upgrading of workers' skills.

Pillars 7 to 10 namely the product market; labour market; financial system and market size are grouped into what is called the markets under the Global Competitiveness Index Framework. Countries that have efficient products markets tend to be well positioned to produce the right mix of goods and services. More so, healthy market competition is critical in driving market efficiency and ensures that it is the most efficient firms in producing goods and services that will survive. In addition, the most ideal markets are those with minimal government interference; discriminatory rules to foreign direct investment as well as on international trade. Efficiency and flexibility of the labour markets also matters for ensuring that workers are allocated to their most effective use in the economy and provided with incentives to give their best effort in their jobs. Financial market development focuses on efficiency; stability and trustworthiness of financial and banking system. Sound and well-functioning financial sector plays a critical role on driving economic activity by efficiently allocating saved resources to most productive sectors of the economy. Therefore economies require sophisticated financial markets that can make capital available for private-sector investment from such sources as loans from a sound banking sector, well-regulated securities exchanges, venture capital, and other financial products (Schwab, 2015). The size of a market has an effect on productivity since it allows firms to exploit economies of scale.

The 11th and 12th pillars notably; business dynamism and innovation capability form the innovation ecosystem under the Global Competitiveness Index Framework. Efficiency and sophistication of business processes in the country are conducive for higher efficiency in the production of goods and services. Innovation is increasingly becoming a critical driver of productivity growth, particularly in advanced economies hence is increasingly becoming a priority.

3 Zimbabwe's competitive position

3.1 Status of Zimbabwe's competitiveness

The status of Zimbabwe's competitiveness in this paper is measured using how the country is fairing on 12 pillars of the Global Competitiveness Index framework explained in section 2 above.

Table 1: Ten-Year Comparison of Rankings by Pillar

PILLAR	2009-10 (133 Countries)	% from Bottom	2019-20 (141 Countries)	% from Bottom
1. Institutions	118	11.3	125	11.3
2. Infrastructure	101	24.1	129	8.5
3. Macroeconomic Stability	133	0	97	31.2
4. Health	119	10.5	135	4.3
5. Education/Skills	111	16.5	110	22.0
6. Product Market	130	2.3	136	3.5
7. Labour Market	125	6.0	115	18.4
8. Finance System	98	26.3	120	14.9
9. Market Size	130	2.3	129	8.5
10. Business Dynamism	121	9.0	129	8.5
11. ICT-Technology	130	2.3	112	20.6
12. Innovation	124	6.8	126	12.8
OVERALL	132	0.8	127	10.0

Source: www3.weforum.org

Zimbabwe has been stuck at the foot of the competitiveness table for the past 20 years. Its score in the current 2019/20 report is 44.3 which is below the Sub-Saharan average and below those of 8 SADC members.
The ten-year comparisons illustrated in Table 1 suggest:

- A marked improvement in macroeconomic stability from bottom of the class in 2009 to 31% above the bottom ranking country in 2019;
- Significant improvements also in ICT, technology, secondary education and skills and the labour market;
- Substantial deteriorations in infrastructure, the financial system, and health.

Four lessons stand out:

(i) Micro-economic performance, dominated by the private sector, is superior to that of state-dominated pillars, including institutions, infrastructure, health and the banking sector, governed by the central bank.

(ii) The improvement in macroeconomic stability maybe short lived in an environment of rising inflation, unemployment and poverty levels as well as depreciating currency. The recorded improvements could also result from the ranking system used by the World Economic Forum (WEF) which averages

inflation, growth etc. over the last 10 years, which in Zimbabwe's case includes the post hyperinflation recovery growth period (2009 to 2012) followed by a period of declining growth thereafter. In 2019, Zimbabwe is the worst performer in Sub-Saharan Africa in terms of GDP growth, inflation and currency stability.

(iii) Zimbabwe's overall score, admittedly on amended criteria, is only marginally better in 2019 than a decade earlier, highlighting the need for sustained improvements in fundamentals. The marginal improvements in macroeconomic stability are based improvements in trade balance, achieved through import compression which has depressed growth as well as short run fiscal and monetary policies measures which may not be sustained in medium term if key macroeconomic fundamentals keep changing in the negative direction.

(iv) Competitiveness is a function of investment in both tangible and intangible capital. In recent years Zimbabwe has under-invested in infrastructure and capital investments as evidenced by the use of obsolete equipment and technologies in the productive sectors of the economy. The implementation of the new National Industrial Development policy should not only focus on reviving once-competitive industries, but promote investments in new competitiveness enhancing industries and value chains as well as utilisation of innovative technologies.

3.2 Reasons for Zimbabwe's Low Competitiveness Rankings

3.2.1 Enabling environment

Consultations from stakeholder's highlighted corruption, cost of doing business and lack of policy consistency as major factors determining low competitiveness in Zimbabwe.

3.2.1.1 Weak institutional capacity for service delivery

Zimbabwe ranked number 125 out of 141 countries on the quality of institutions under the 2019 Global Competitiveness Report. State owned enterprises and parastatals play a pivotal role in provision of essential services. The biggest challenge in Zimbabwe is that these have not been functioning well owing to weak institutional capacity and inefficiencies to take care of business and private property. Weak institutions continue to hamper competitiveness (Schwab, 2018). Government inefficiencies are characterised by delays, cumbersome procedures and documentation, lack of ease of doing business, and too much red tape that is not conducive to business.

Poor corporate governance among these institutions is glaring. Some of them have been running without boards or substantive Chief Executive Officers implying that no concrete decisions were made regarding the excellent running of such institutions. Further, despite exposure of poor corporate governance and rampant corruption (in the form of misuse of public funds, flouting of tender processes clearly outlined in the Public Procurement and Disposal of Public Assets Act [Cap 22:23] among other tendencies in

such organisations by the Auditor General's Reports[7] no action is done to stamp corruption as well as to prosecute the corrupt public officers. Inefficient procurement systems result in the ballooning of the government debt.

Some of the consulted stakeholders cited collusion tendencies between state actors and private interests that have created artificially high barriers for entry and operation in certain sectors of the economy forestalling the efficient operation of competitive markets and their attendant benefits. In addition, some cited delays in implementation of the provisions of the Constitution as contributing to inefficiencies in service delivery. Further, limited institutionalised support for emerging or small businesses or emerging industries was another weakness cited during consultations.

The government has 23 regulators in export related business which require streamlining to avoid unnecessary duplication of mandates and related costs. Furthermore, proliferation of regulators handling export related businesses results in high transaction costs related to this is the need to improve coordination of services among government departments and ministries within the context of a whole government approach thus eliminating the silo mentality which results in institutions acting at cross purposes.

3.2.1.2 *Slow Pace of Competitiveness Enhancing Reforms*

Reforms are a critical pathway to enhancing competitiveness. A number of policy documents have pronounced government's commitment to undertake significant reforms, such as improving the ease of doing business, improving competitiveness, and opening the country to international investors and financiers in order to attain the desired growth trajectory (GoZ, 2018b). More so, a number of institutions have been created to foster competitiveness. These include the National Competitiveness Commission and the Zimbabwe Investment Development Agency. Furthermore, Government identified the necessary reforms to address constraints to ease of doing export doing business. Commercial courts have also been established to expedite resolution of commercial disputes. Concerns with regard to property rights; security of tenure on agricultural land; independence and competence of courts and the extent to which the country honours Bilateral Investment Promotion and Protection Agreements however, have been highlighted as some of the factors impeding attraction of competiveness enhancing investments. For example, Zimbabwe was ranked: 113 out 141 countries on judiciary independence and 137 out of 141 on property rights in the 2019 Global Competitiveness Report. The Global Competitiveness Reports inform investors' perceptions of a country with regards to the competitiveness of its business operating environment. Thus, low rankings in the global competitiveness reports on different competitiveness categories send adverse signals to the potential investors which also reflect in low FDI flows into the country.

The gestation period for the crafting and implementation of the National Quality Policy; the National Industrial Development Policy; the Local Content Strategy is long resulting in delays in the implementation of competitiveness enhancing measures within these frameworks. For example, the country's last industrial policy lapsed in 2016 and a draft

[7]See the June 2019 Report of the Auditor General where serious governance issues; misappropriation of public funds; among other corrupt tendencies are raised.

was compiled in 2017. The new National Industrial Development Policy was launched in June 2019. The National Quality Assurance Framework is still work in progress. Such policy and strategy gaps reflect the slow pace of policy decision making processes in government or institutional capacity challenges to design competiveness enhancing policy frameworks. The new trade policy has also been on the cards since 2016 and this undermines the country's strategic positioning in regional and global markets. The impact of policies on the country's competitiveness is time and context sensitive. In this regard it requires agility on the part of policy makers to speedily design and implement policies, reforms and strategies that respond to the dynamics obtaining in the business operating environment that have adverse implications on firms' and the country's competiveness.

3.2.1.3 *Corruption and its Implication on Competitiveness*

Rampant corruption both in public and private sectors was cited by most of the consulted stakeholders as one of the greatest setbacks to the country's competitiveness. As high as 83% of the surveyed companies in the CZI 2018 Manufacturing Sector Survey, confirmed that corruption adversely affects their businesses. Similarly, Zimbabwe was ranked (160/180)[8]as one of the highly corrupt countries in the Transparency International Corruption Perception Index. The 2018 Auditor General Report highlights risks of financial losses due to fraud; unauthorised expenditures and allowances in public institutions including State Owned Enterprises (SOEs)[9]. Public media have highlighted cases of corruption in SOE which undermine service deliveries[10]. Some of the recurring discrepancies, observed in the Auditor General's reports particularly related to procuring of goods and services, may have been occasioned by outright corrupt activities. Corruption increases the cost of doing business and lowers the competitiveness of products produced by firms absorbing the corruption induced costs[11]. Thus, dealing decisively with corruption by all institutions mandated to fight corruption and inculcating a culture of integrity in business operations will lower transaction costs within the economy which will in turn enhance competitiveness.

[8] https://www.transparency.org/cpi2018

[9] See detailed analysis of 2018 Auditor General's Report on the following link: http://zimcodd.org/wp-content/uploads/2020/02/Analysis-of-Auditor-Generals-Report-5.pdf

[10] See https://www.sundaymail.co.zw/auditor-generals-report-public-officials-to-face-heat; https://www.herald.co.zw/arrest-corrupt-elements-in-public-sector-chiri/ and https://businesstimes.co.zw/ag-report-puts-zacc-to-test/

[11] See Zimbabwe Corruption in Business Survey Report on the following link: https://www.smeaz.org.zw/downloads/Zimbabwe%20Corruption%20in%20Business%20Survey.pdf

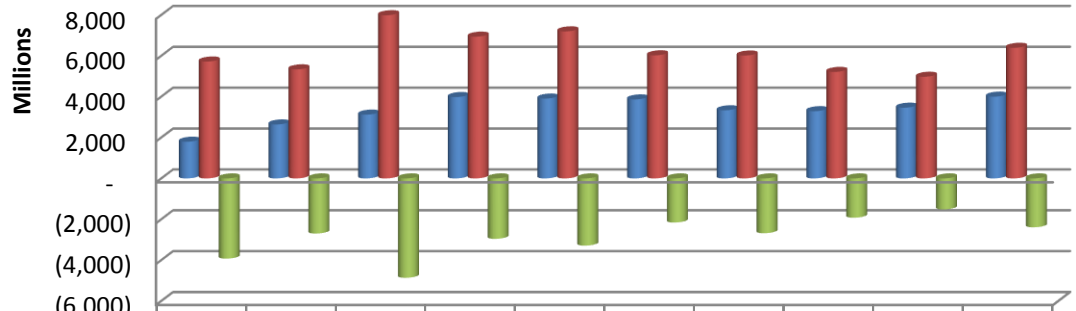
3.2.2 Challenges in Implementation Trade Agreements

Zimbabwe has been facing challenges in implementation of its regional integration commitments as evidenced by application for derogations in the implementation of the SADC Trade Protocol as well as delays in the implementation of the Interim Economic Partnership Agreement as signed in 2009. Further, the country has not fully exploited market opportunities offered by all its markets with trading partners. For example, the SADC region constitutes an average market share of 90% to Zimbabwe's total intra-African trade, indicating the region's significance as both a source of imports and an export destination (Nhara, 2017). This further indicates limited market diversification where the country is only utilising a few markets despite it being a signatory to various regional and international trade arrangements that offer preferential market access. Sub-optimal utilisation of preferential market access in regional trade agreements is induced by the country's underperformance in producing competitive exports particularly in differentiated manufactured goods. Low levels of productive capacities in the private sector have militated against the country to effectively participate and exploit trade opportunities offered under SADC and IEPA. Lessons can be drawn from countries like Mauritius which has high competitiveness rankings and is a strong participant in regional and economic arrangements.

3.2.2.1 *Limited participation in regional and global value chains*

Zimbabwe recorded a significant increase in exports between 2009 and 2018 reflecting moderate performance. Figure 2 reveals that exports grew by 122.84% between 2009 and 2018. On the other hand imports generally grew by 39.59% between 2009 and 2011 before they receded to a moderate growth of 11.74% in 2018 when compared to 2009 largely reflective of import restrictive measures implemented by Government as well as acute shortages of foreign currency that reduced the capacity to import.

Figure 2: Zimbabwe's trade flows with the world between 2009 and 2017



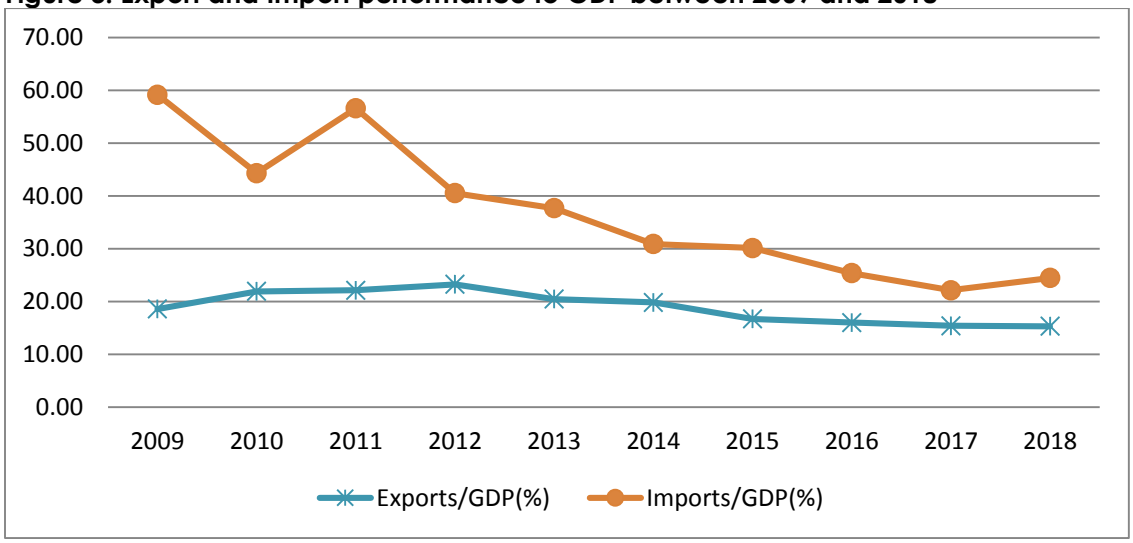
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Exports	1,795,	2,640,	3,121,	3,980,	3,907,	3,866,	3,332,	3,289,	3,459,	4,000,
Imports	5,719,	5,337,	7,984,	6,936,	7,194,	6,023,	6,013,	5,211,	4,973,	6,390,
Trade balance	(3,924	(2,696	(4,862	(2,955	(3,287	(2,157	(2,681	(1,922	(1,514	(2,390

Source: ZIMSTAT

Figure 2 further illustrates that Zimbabwe spends more on imports than it receives as export earnings although the trade deficit has somewhat shrunk from the highest of $4.86billion in 2011 to $2.39 billion in 2018.

A closer look at import to GDP trend reveals a huge decline from 59.17% in 2009 to 24.47% in 2018. Exports to GDP were subdued over the period 2009 to 2018 (see Figure 3). For example, a moderate increase of 5.69% from 18.57% in 2009 to 23.26% in 2012 was observed before it declined to only 15.32% in 2018. This picture reveals a fall in importance of trade in its contribution to boosting the production capacity of the country over time.

Figure 3: Export and Import performance to GDP between 2009 and 2018



Source: ZIMSTAT

Further, Zimbabwe's exports lied between 0.015% and 0.022% of the total world exports between 2009 and 2018[12].

Zimbabwe's exports lack diversification and the volumes are still suboptimal. Further, the country is reliant on a few export products that are mostly primary in nature. For example, gold; flue-cured tobacco; nickel; ferrochrome; chrome; industrial diamonds, jewellery; cotton; platinum and cane sugar dominated the country's export basket, contributing above 80% of the country's exports in 2018 (Reserve Bank of Zimbabwe (RBZ), 2019). Primary and semi processed commodity prices are vulnerable to fluctuations in international markets. Decline in the country's manufacturing base due to de-industrialisation has reduced the production of high value manufactured exports thus narrowing the export basket. Revitalising and growing the manufacturing sector will aid in achieving the goals of value addition and beneficiation as well as export led growth which have been key pillars in government policy and plans in recent years.

By virtue of it largely exporting primary commodities, Zimbabwe is participating in the lower end of regional and global value chains and missing out on the supply of high value manufactured products demanded by the regional and global markets. This also means the country's production process is not sophisticated. Instead, Zimbabwe is using proceeds from low valued exports to purchase highly priced intermediate manufactured imports necessitating the foreign currency shortages.

The African Continental Free Trade Area presents opportunities to scale up production of competitively priced manufactured exports in sufficient volumes to satisfy the huge African market. This entails addressing the capacity challenges which have militated against the production of quality export products to feed into the existing and new export markets. The country can only benefit from the trade agreements and protocols that it has signed if it increases its productive capacity and adopts export friendly policy regimes. Improvements in the exchange rate policies, establishment of one stop border posts, improvements in the transport and logistics systems, adoption of efficient customs procedures, facilitation of movement of traded goods and persons will further enhance the export of goods and services. A closer analysis of the export basket also reveals that it is dominated by merchandise exports with little contribution from trade in services such as tourism, health, finance, banking, insurance, consultancy among others.

3.2.2.2 *Poor infrastructure and logistics*

Sound infrastructure is a key driver of country competitiveness. Critical infrastructure such as road, rail, power, water and sanitation, telecommunication is either dilapidated, inadequate or erratic in supply. It is estimated that Zimbabwe would require about US$34 billion in the upgrade and development of infrastructure between 2019 and 2030 (African Development Bank, 2019). This state of infrastructure negatively impacts on production and movement of goods thereby increasing the cost of doing business. For example underinvestment in upgrading and improving efficiencies of the railway system has forced the business community has to resort to use road transport to move bulky goods. Using road transport to move bulk goods is not only more expensive than alternatives such rail but damages the road system due to wear and tear. The African Development Bank (2019) reported that the low availability of locomotives and other rolling stock and the old and poorly maintained track have been among the main causes of the decline in service levels of the railway. Poor road network with potholes increases the cost of maintenance of damaged vehicles and overall logistical costs. As much as 87% of the surfaced road network is considered to be in fair to poor condition (African Development Bank (2019). The country had a score of 40 out 100 with a ranking of 129/141countries on infrastructure in the 2019 Global Competitiveness Report.

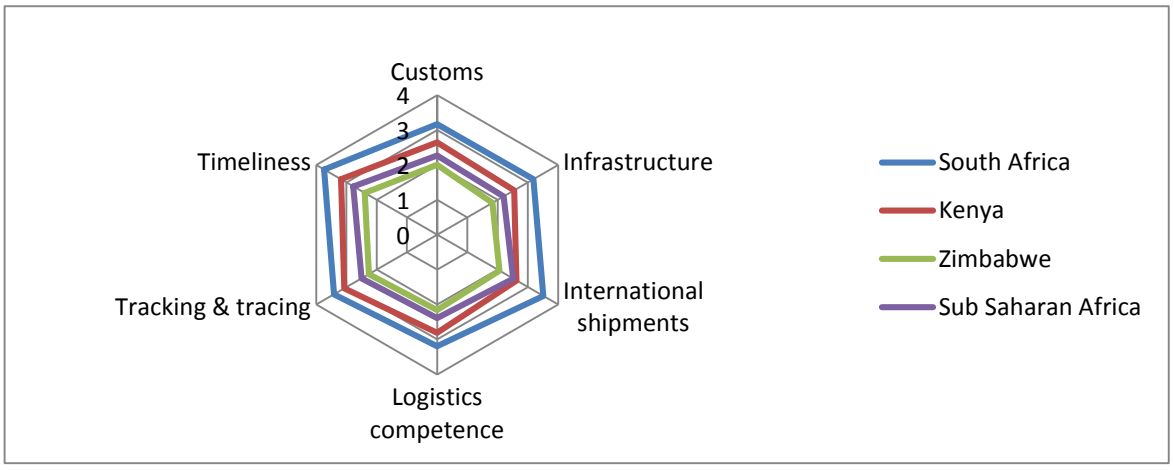
Poor air freight connectivity is yet another challenge as Zimbabwe is poorly connected to regional and international destinations. According to the World Bank Logistics Performance Index (LPI) (2018) that measures countries' trade logistics efficiency, Zimbabwe was ranked 152 out of 160 countries.

Figure 4: LPI Ranking for Zimbabwe between 2012 and 2018

Source: https://lpi.worldbank.org

Its mean LPI score of 2.17 was 51% of the highest performer, German which had a mean score of 4.19 between 2012 and 2018. Figure 4 shows that Zimbabwe's overall LPI ranking was at its best at 103 out of 155 countries (with a score of 2.55) in 2012.

Figure 5: Logistics Performance Index for Kenya, South Africa and Zimbabwe against Sub Sahara Africa average



Source: ZEPARU (2018a) ***Assessment of Zimbabwe's trade performance within the context of SADC, COMESA, the Tripartite Free Trade Area (TFTA) and the Continental Free Trade Area,*** *ZEPARU, Harare*

This is clear evidence that over the recent years Zimbabwe was increasingly lagging behind other countries of the world on logistics performance. As illustrated in Figure 5, its general performance on trade logistics and infrastructure in particular, is below the Sub Saharan averages and those of its regional counterparts like Kenya and South Africa. Improving industrial growth and competitiveness led by vibrant value-chains requires improved efficiencies in border administration and transport infrastructure among others.

In terms of energy, Zimbabwe suffers a huge deficit. It is currently producing around 908MW[13] against power demand of about 2,200 MW[14] per day. Some of the power generation challenges include dilapidated power generation infrastructure; heavy reliance on hydro power which is increasingly susceptible to the adverse effects of climate change in cases of frequent droughts; equipment vandalism; foreign currency shortages; and high debtors' book. Independent power producers that had been given licences to generate power and feed it into the national grid have not been producing any power citing limited installation capacity. Limited progress has been made with regards to scaling up investment in renewable energy projects such as solar power generating plants to leverage on the abundant exposure to the sun in Zimbabwe. For example, only 5% of the total energy production capacity is from renewable energy[15]. Scaling up investment in energy infrastructure and addressing the energy deficit is a key pathway to improving competitiveness. This may require enhancing the implementation of public private partnership (PPP) in the energy issue sector.

Furthermore, efforts to improve competitiveness have been hindered by high costs associated with access and utilization of ICTs. This has been necessitated by under investment in ICT infrastructure to improve connectivity. Competitiveness is also enhanced through producing products that meet internationally set standards. Zimbabwe has inadequate quality assurance infrastructure that ensures the produced goods conform to the standards dictated by the export markets. The National Quality Assurance Framework which is expected to provide guidance of quality standards is still work in progress. The post COVID-19 business operating environment dictates a new focus from low labour costs advantage to adoption of new technologies; production of quality products and improvement in supply chain efficiencies as the main drivers of competitiveness.

3.2.2.3 *High cost of doing business*

A ZEPARU (2014) study identified labour, power, water, finance, transportation costs (see Table 1), tariffs and trade taxes, taxation and information technology as key cost drivers in Zimbabwe's economy. Although real wages, cost of water and power are increasingly being eroded by inflation and thus becoming cheaper in the region, the other factors remain a challenge for business. For example, the level of taxation in Zimbabwe is relatively high. There has been a major switch from direct taxation on employment (pay as you earn) and profits towards indirect taxation of goods and services – VAT, excise, customs and the intermediate money transfer tax (IMTT). Concerns have been raised with regards to the implications of the shift in from direct to indirect taxes on competiveness. For example, an increase in duty on fuel has been highlighted as being anti-competitive and inflationary. While the IMTT is acknowledged to have improved fiscal revenue, concerns have raised with regards to its effect on increasing the cost of doing business which has adverse implications on competitiveness.

[13] Power generation statistics on http://www.zpc.co.zw/ as at 5 July 2019.
[14] Government of Zimbabwe (2018a) **The 2019 National Budget Statement. 'Austerity for Prosperity'** http://www.veritaszim.net/node/3343
[15] https://www.worlddata.info/africa/zimbabwe/energy-consumption.php

World Bank (2019a) observed that the time it takes to get connected to the electrical grid, and the reliability of the electricity supply and transparency of tariff setting are key constraints to business in Zimbabwe. For example, it takes 106 days to get electricity in Zimbabwe against 18 days for the best regulatory performance. More so Zimbabwe was rated zero on a scale of 0 to 8 in terms of electricity reliability and transparency of tariffs against best performers who scored 8. An important reason for this is drought and its negative impact on Kariba power generation. Zimbabwe is sitting on a huge power deficit of 1,292MW alluded to above and the country is going through massive load shedding programme of up to 16 hours per day. This is certainly costly for business as it has to either cut on production or run on fuel powered generators. Lack of affordable lines of credit for retooling and scaling up is another major setback for the private sector. Real cost of finance which was high during the multiple currency regime period has now fallen following the reintroduction of mono currency in June 2019 and the increase in inflation which has resulted negative real interest rate. However, while the real cost of capital has fallen, there are other challenges including high inflation and shortages of foreign currency that make the business operating environment uncompetitive.

Multiplicity of regulatory agencies and the uncoordinated licensing regime has increased the cost of compliance faced by business operators particularly export companies. High transaction costs due to cumbersome and length compliance processes and procedures undermine firm competitiveness. The 2019 World Bank Doing Business observed that it takes 88 hours to in Zimbabwe to comply with border requirements when exporting which is slightly below the sub Saharan average of 97.3 hours. The report further notes that it takes 228 hours to comply with border processes importing into Zimbabwe which is 3 times the time taken when importing into Rwanda and 1.8 times the Sub Saharan Africa average (see Table 2).

Table 2: Trade costs for Zimbabwe and other countries in 2018

	Rwanda	**Zimbabwe**	**Sub Saharan Africa**	**OECD High Income**	**Best Regulatory Performance**
Time to export : border compliance (hours)	83	88	97.3	12.5	1
Cost of export: Border compliance (USD)	183	285	605.8	139.1	0
Time to export: Documentary compliance (hours)	30	99	72.8	2.4	1
Cost of export: Documentary compliance (USD)	110	170	168.8	35.2	0
Time to import : border compliance (hours)	74	228	126.3	8.5	0

Cost of import: Border compliance (USD)	282	562	684.3	100.2	0
Time to import: Documentary compliance (hours)	48	81	97.7	3.4	1
Cost of import: Documentary compliance (USD)	121	150	283.5	24.9	0

Source: World Bank Doing Business 2019 Reports for Mauritius, Zambia and Zimbabwe: www.doingbusiness.org

Harmonisation of the licensing regimes, adoption of internet based compliance processes and creation of a single window which links all trade related institutions through a computerised system will go a long way in reducing transaction costs and enhancing efficiencies which are all key pathways to enhancing competitiveness. Thus, scaling up of the implementation of e-government project and facilitating interface of government institutions and departments is key to creating a competitive business operating environment.

Delays in movement of goods inland and across the borders takes time and is costly (see Table 2). Zimbabwe Revenue Authority (ZIMRA) embraced the ASYCUDA World, a system for customs clearance. In 2018 ZIMRA successfully upgraded from ASYCUDA World from version 4.20 to 4.3.2 to address the frequent downtimes that the version 4.20 had experienced. This has stabilised the system and increased uptime to an average of 99%. Delays in rolling out the one stop border concept (currently being implemented at Chirundu) to all entry and exit points continues to undermine improvements in border efficiencies which is critical to improving export competitiveness. Expediting completion of the redevelopment of Beitbridge and transforming it into One Stop Border Post will improve transit times at this busiest port and gateway to land locked/linked Southern Africa.

3.2.3 Macroeconomic Conditions and their Implication on Competitiveness

Macroeconomic stability is a key enabler to sustain a competitive business operating environment and robust economic performance. Government projected that the economy to grow within the range of -3% to -6% in 2019[16] down from the 2018 projected growth of 4%. Acute foreign currency, rising inflation and declining domestic savings are expected to adversely affect the growth of the economy and its competiveness. Zimbabwe's macroeconomic stability was ranked 97/141 countries with a score of 73 out of 100 in the 2019 global Competitiveness Report.

3.2.3.1 Expansionary Fiscal Measures

Between 2015 and 2018, Zimbabwe pursued an expansionary fiscal policy that led to ballooning fiscal deficit rising from US$123 million in 2015 to a staggering US2.865 billion in

[16] Government of Zimbabwe (2019 c)2020 Pre-Budget Strategy Paper http://www.veritaszim.net/sites/veritas_d/files/2020%20Pre-Budget%20Strategy%20Paper.pdf

2018 (Government of Zimbabwe , 2018a). Although fiscal expenditure has been somewhat contained through austerity measures under the TSP. The composition of the high fiscal expenditures which were skewed towards recurrent expenditure left little room for growth enhancing infrastructure development. For example, 78.95% of the 2019 National budget was allocated for recurrent expenditure and this is projected to slightly fall to 75.1% in the 2020 National Budget. Financing of the fiscal expenditures through selling of treasury bills to banks was not only inflationary but induced erosion of competitiveness through increased inflation.

3.2.3.2 *Debt distress and implications*

The country's external payment arrears position grew from US $109 million in 1999 to US$ 5.9 billion in June 2019 with accumulated arrears constituting 74% (Government of Zimbabwe, 2019c). Domestic debt grew from US$275.8million in 2012 to US9.6 billion in 2018 (see Table 3) and was financed through Central Bank advances and issuance of treasury bills (ZEPARU, 2018b). The external debt projected at US$8.16 billion in 2018, remains a major constraint to the country's competitiveness in the face of high inflation and depreciation currency. The high levels of indebtedness and accumulation of arrears has restricted the country's capacity to access lines needed for economic recovery and growth. Constraints in accessing lines of credit adversely affected private sector investment programmes to scale up productive capacities and adoption of efficiency enhancing technologies that are key pathways to increased competitiveness. Huge debt further implies that the government would not be in a position to efficiently deliver competitiveness enhancing public services needed by the business community.

Table 3: Zimbabwe's Domestic and External Debt between 2009 and 2019[17]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total External Debt	5270	5320	5613	5847	6160.5	6704.3	7030.0	7186.5	7508.1	8164.0	US$8100 (ZWL$58.800)
Domestic Debt	-	-	-	276	375	1,676	2,239	4,033	7,134	9,624	ZWL$$8,800 (US$1,329)
Total debt	5,270	5,320	5,613	6,123	6,536	8,380	9,269	11,220	14,642	17,788	ZWLl66,800 (US$16,914)

Source: Zimbabwe Aid Debt and Management Office (2019), Government of Zimbabwe (2019)

The increase in debt over this period was not met with commensurate increase in the economic growth to sustain its servicing in future but has contributed to increased country risk profile. Further, it restricts the country from accessing concessionary loan facilities. Over the years, the country's relations with the international community have not been sound and the country suffered international isolation which has compounded the country's challenges with regards to accessing lines of credit. The re-engagement efforts being pursued by government can be a key driver of competitiveness if they

[17] 2019 figures are recorded as at June 2019

succeed in unblock lines of credit allowing capital starved Zimbabwean firms' access to fresh capital.

3.2.3.3 *Foreign currency shortages*

Foreign currency shortages have been a recurring challenge in the Zimbabwean economy demonstrating in part, the country's limited capacity to generate foreign currency and the inefficient foreign currency allocating mechanisms. In this regard foreign currency shortages in part explain the accumulation of arrears; challenges faced in procuring critical imports such as medical drugs, fuel, power and intermediate inputs among others. The level of foreign currency reserves in 2018 were equivalent to 0.4 months against the IMF benchmark 3 months cover or the agreed SADC macro-economic convergence target of 6 months.

According to the Reserve Bank of Zimbabwe 2019 Monetary Policy Statement, the major sources of foreign currency in Zimbabwe include exports- 67.7%; diaspora remittances – 9.5%; loan proceeds- 13.1% ; Non-Governmental Organisation international receipts- 8.4%, income receipts – 0.9% and foreign investment – 0.4%[18].

The biggest challenge in Zimbabwe is not so much on how much foreign currency is generated (US$6.3 billion in 2018 as compared to US$5.5billion in 2017[19]) but also on how it is utilised. Improving the efficiency of foreign currency allocation mechanism and plugging the loop holes through which foreign currency is lost to the country are critical to closing the trade deficit. The country's trade deficit is worsening as Zimbabwe continues to import an estimated 40 percent of non-essential goods which could be manufactured locally[20]. Furthermore, weaknesses in the country's customs border management systems punctuated by porous borders results in loss of customs revenue owing to corruption and smuggling. All these lost resources could be leverage on to boost the country's productive base and ultimately the competitiveness levels.

3.2.3.4 *High inflation*

The Zimbabwean economy is once again being characterised as a high inflation country with inflation rising to a staggering 351%[21] as at September 2019 from 5.39% in September 2018 (See Figure 6). The country's inflation rate is way off the SADC macro-economic convergence targeted rate of less than 3%. The business operating environment is increasingly becoming uncompetitive and high inflation creates uncertainty which discourages long term investments. Planning horizons become shorter and companies adopt capital preservation strategies which may also sterilise capital.

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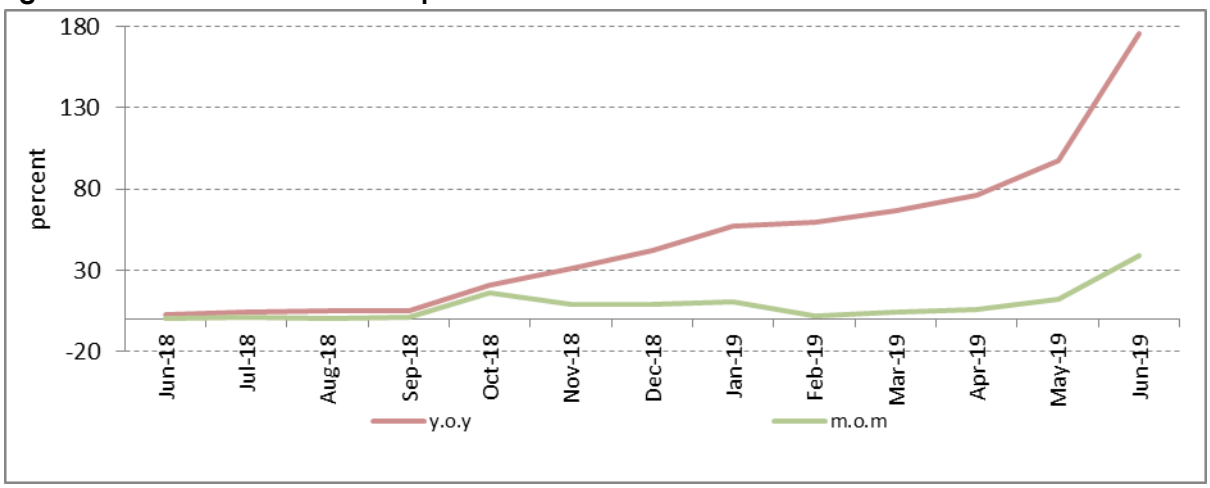
[18]Reserve Bank of Zimbabwe (2019) Monetary **Policy Statement: "Establishment Of An Inter-Bank Foreign Exchange Market To Restore Competitiveness"**
https://www.rbz.co.zw/documents/mps/mpsfeb2019.pdf

[19] Reserve Bank of Zimbabwe (2019) Monetary **Policy Statement: "Establishment Of An Inter-Bank Foreign Exchange Market To Restore Competitiveness"**https://www.rbz.co.zw/documents/mps/mpsfeb2019.pdf

[20]http://www.zimtreasury.gov.zw/index.php/media-centre/166-re-industrialising-zimbabwe

[21] Implied inflation , calculated using ZIMSTAT month on month inflation

Figure 6: Trend in inflation for the period June 2018 to June 2019

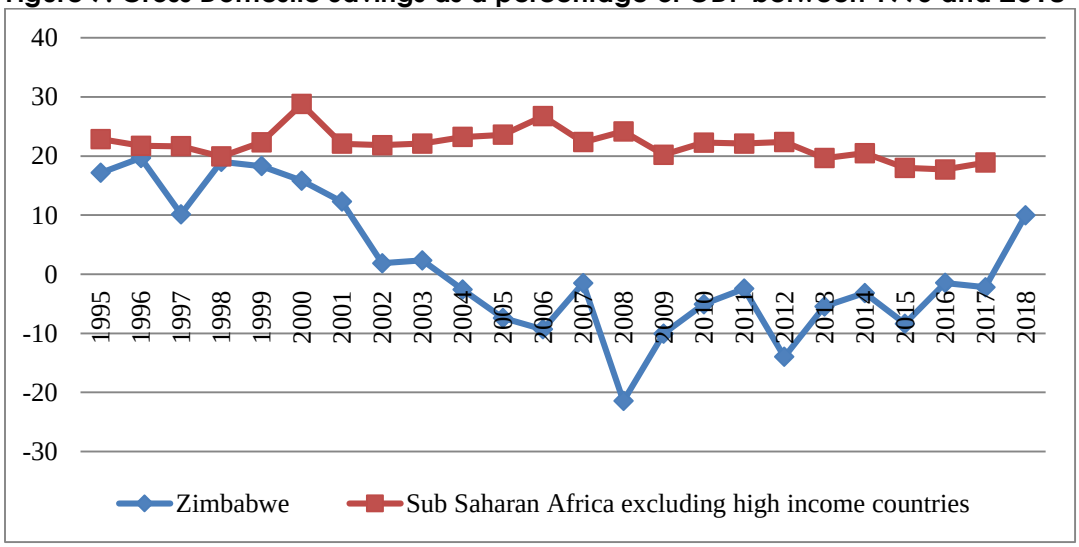


Source: ZimStat

3.2.3.5 *Low savings and investment*

Level of savings is a major determinant of long run growth[22]as they provide a pool of investible funds. The country's registered negative savings over the period 2004 and 2017 with an average share of savings to GDP standing at -5.81%. This savings performance was at variance with the Sub Saharan average of 21.56% over the same period (Figure 7).Whilst positive performance was noted in 2018 at 9.10 %, it remains way below the 35% target set for that year under the SADC RISDP[23]. Incapacity to mobilise domestic resources through savings starves the potential investors of the much funds for investment due to binding credit constraints.

Figure 7: Gross Domestic Savings as a percentage of GDP between 1995 and 2018



Source: https://data.worldbank.org/indicator/NY.GDS.TOTL.ZS?locations=ZW

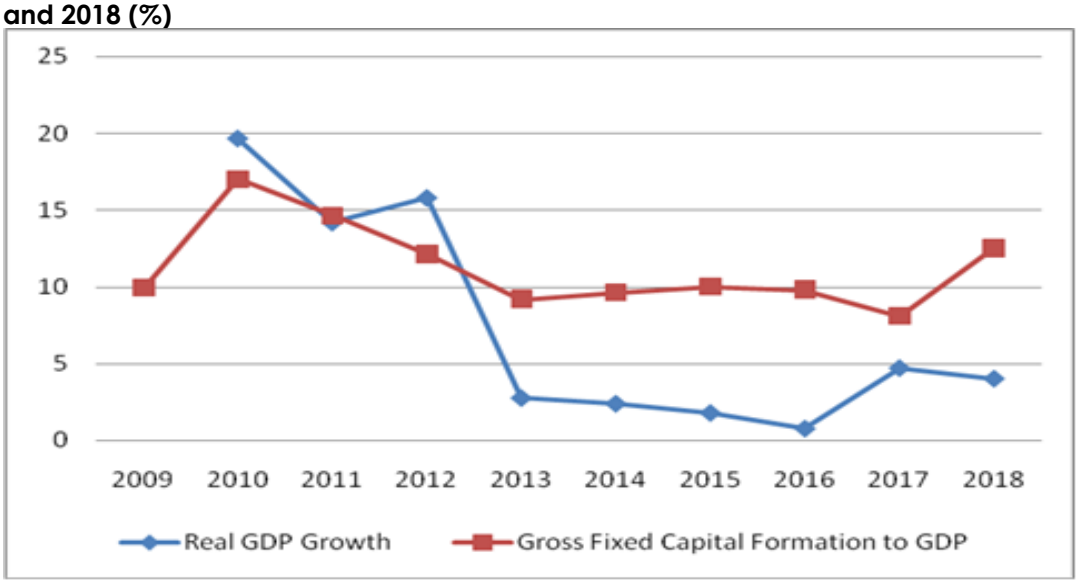
[22]*http://www.unrisd.org/80256B3C005BD6AB%2F(httpAuxPages)%2F2893F14F41998392C1257BC600385B21%2F$file%2FChina's%20growth%20miracle%200808.pdf*

[23]http://www.acismoz.com/wp-content/uploads/2017/06/000121.pdf

Consequently, the gap between the country's savings and investment rates widen as reflected in Figure 7. The gap widened between 2002 to about 2015 before narrowing down thereafter. The main reason for this development has been low disposable incomes or capacity to save by the general public as well as low confidence in the financial system. Low confidence arising from the legacy issues arising from the loss of value due to hyperinflation and through the conversion to the multiple currency regime in 2009 continues to be a deterrent to savings mobilisation initiatives.

Statistics show that Zimbabwe suffers from underinvestment (see Figures 7 and 8) as evidenced by low capita to output ratios; subdued investment performance and the widening gap between savings and investment. Zimbabwe's gross capital formation to GDP was 11.82%[24] between 2009 and 2018 against a SADC RISDP benchmark 30% between 2008 and 2018.

Figure 8: Comparison of Gross fixed capital formation to GDP to Real GDP growth between 2009 and 2018 (%)

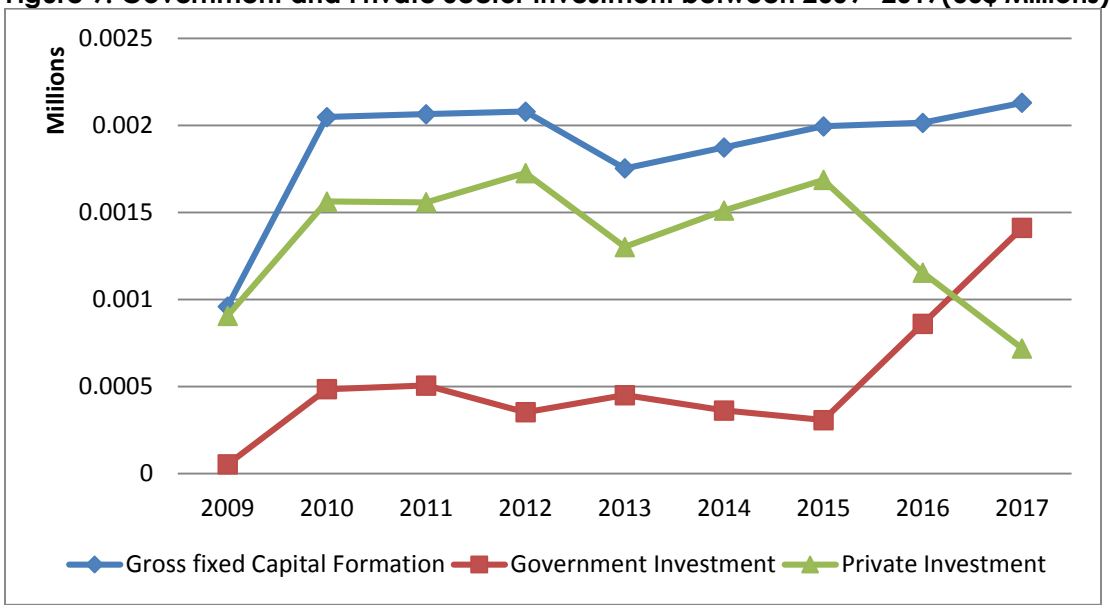


Source: https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS?locations=ZW and RBZ

Figure 8 shows divergence between real GDP growth and gross fixed capital formation (as a measure of investment). The divergence implies a low efficiency in the investment undertaken between 2012 and 2018 as the invested capital did not yield as much output.

[24] World Bank Indicators

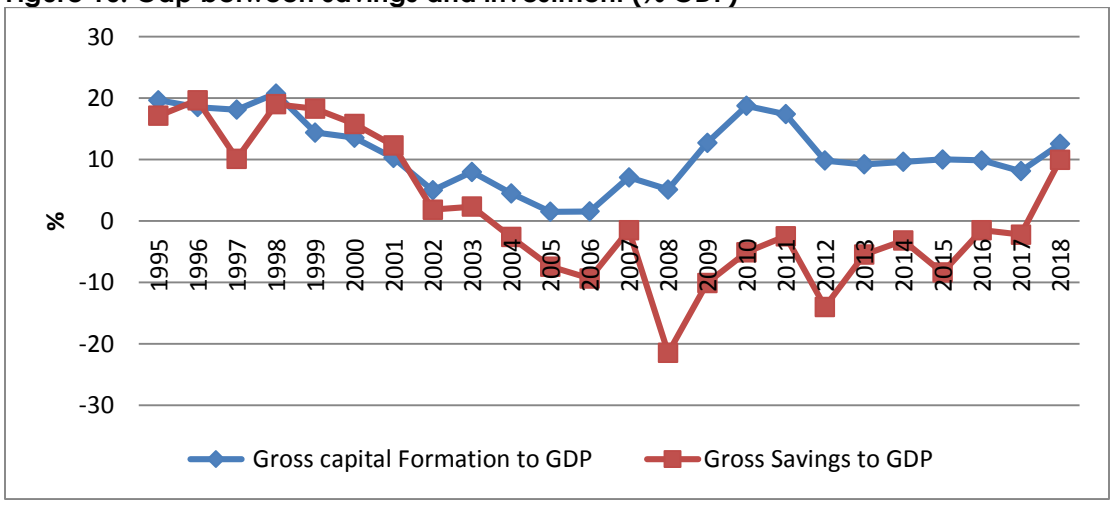
Figure 9: Government and Private Sector Investment between 2009 -2017(US$ Millions)



Source: Ministry of Finance and Economic Development 2019 Macroeconomic and Fiscal Framework

Figure 9 also shows that there was subdued investment performance in Zimbabwe between 2009 and 2017. A number of reasons explain this underinvestment by both the private and public sectors. For example, low levels of savings contributed to binding credit constraints which reflected in low investment as shown in Figure 10. Further, negative real interest rates that have been necessitated by increasing inflation rates are a major deterrent to domestic savings mobilisation initiatives. Lowering and stabilising of inflation rates will facilitate achievement of sustained economic growth rates at the back of increased growth enhancing investments.

Figure 10: Gap between savings and investment (% GDP)

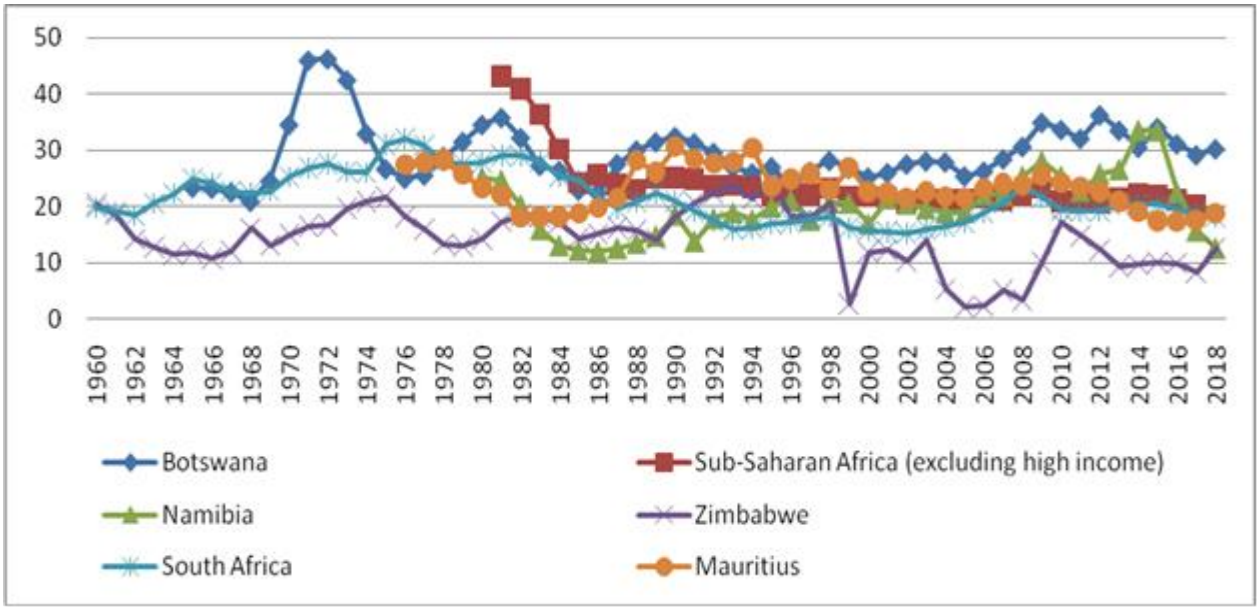


Source https://data.worldbank.org/indicator/

Investment has been a key driver of high growth economies. For example, China's investment to GDP ratio, averaged 39.94%[25] since 1978 when the country embarked on economic reforms. For Zimbabwe to attain middle income country status, the country needs to operate on a high investment trajectory.

Figure 11 illustrates the levels of gross fixed capital formation to GDP for selected highly competitive southern African countries. The Figure clearly highlights the centrality of investment to a country's competitiveness.

Figure 11: Gross fixed capital formation to GDP for selected African countries between 1960 and 2018



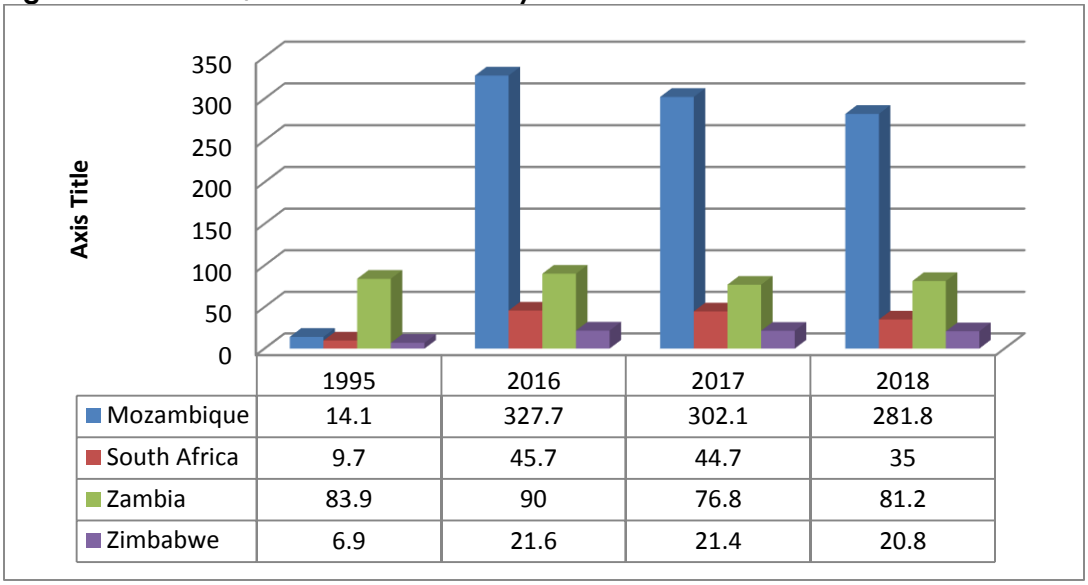
Source: https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS

Highly competitive countries such as Mauritius, South Africa, Botswana and Namibia registered high levels of investment in the period under review as compared to Zimbabwe. Zimbabwe's Gross fixed capital formation to GDP averaged 18.2% between 1980 and 1995 before sliding to an average of 10.3% between 1996 and 2018 and it lied well below the respective sub Saharan averages of 27.6% and 21.5% during that period (see Figure 11).

UNCTAD 2019 shows that in 2018, Mozambique received $2.71billion; South Africa $5.33 billion, Zambia $569 million while Zimbabwe received US745 million (see Figure 12). The foreign direct investment attracted in the country in 2018, which represent around 3% of the country's GDP, is inadequate to ignite the country's take off to become an upper middle income by 2030. Amounts attracted by the regional peers show that there is scope for the country to attract more FDI if the key constraints in the operating environment are addressed. This includes the country risk perception that weighs it down on the country's ability to attract foreign capital which is timid by nature.

[25] *World Bank Indicators*

Figure 12: FDI as a % of GDP in selected years



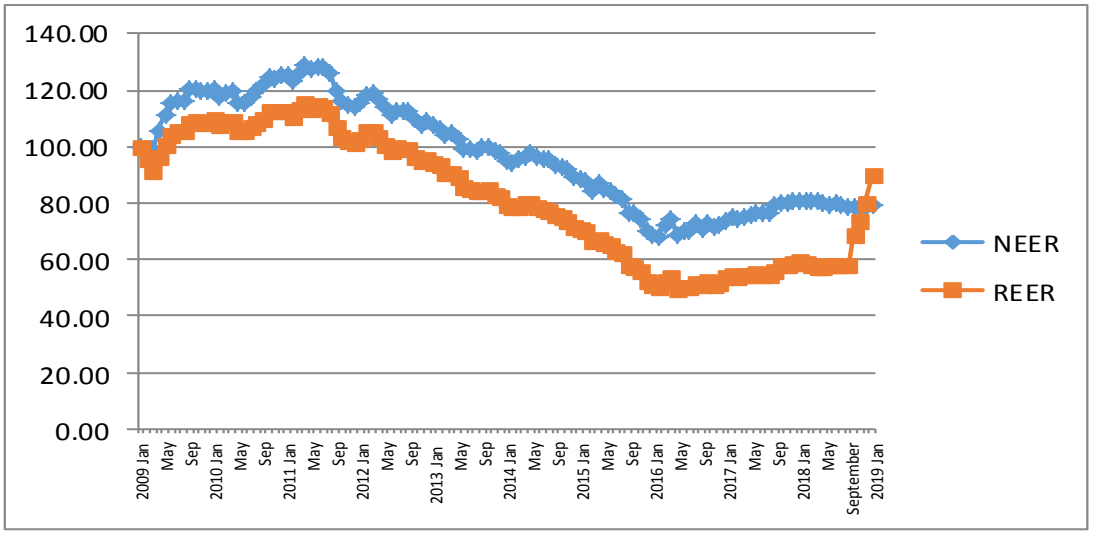
	1995	2016	2017	2018
Mozambique	14.1	327.7	302.1	281.8
South Africa	9.7	45.7	44.7	35
Zambia	83.9	90	76.8	81.2
Zimbabwe	6.9	21.6	21.4	20.8

Source: https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx

3.2.3.6 *Appreciating exchange rate in the multi-currency regime*

Use of the overvalued United States Dollar as the major currency of transacting since dollarization in 2009 has undermined Zimbabwe's export competitiveness, while imports, especially from the major trading partner South Africa, have become cheaper due to the depreciation of the rand (Kanyenze, Chitambara and Tyson, 2017). Figure 13 shows appreciation of the real effective exchange rate for Zimbabwe particularly between mid-2012 and mid 2016 before it began losing value again. This was on the back of the nominal appreciation to the United States Dollar, then the major trading currency during the multiple currency regimes.

Figure 13: Zimbabwe's Nominal & Real Effective Exchange Rates (2009 January Base)



Source:https://www.rbz.co.zw/index.php/financial-markets/nps/28-external-statistics/556-nominal-real-effective-exchange-rates-2009-2018

Now the country is somewhat competitive on exchange rate basis but the local currency (ZWL$) is depreciating by day owing to sky rocketing inflation. Removing impediments in the operation of the interbank market system introduced in February 2019 and stabilisation of inflation will further stabilise the exchange rate.

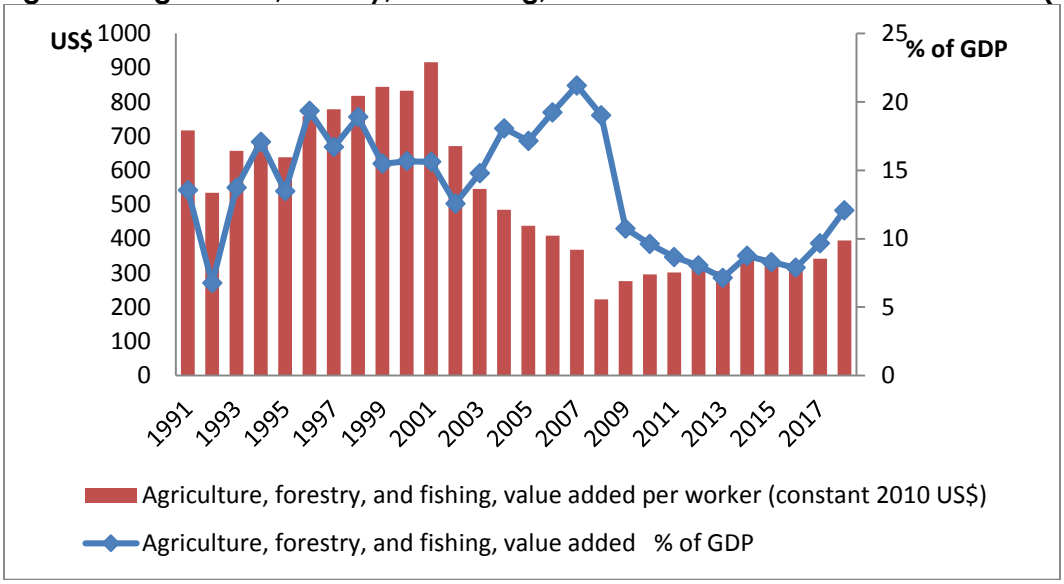
3.2.4 Low productivity and suboptimal performance of the key sectors of the economy

3.2.4.1 *Agriculture*

RBZ (2019) highlighted that agricultural exports contributed 22.6% of the total merchandise in 2018. Zimbabwe can do a lot better in agricultural exports than its present performance. The agriculture sector which is the primary source of raw materials for other sectors of the economy like manufacturing is underperforming due to many challenges which include low productivity, lack of funding, unresolved land tenure issues among other reasons.

Farm productivity as measured by agriculture value added per worker is very low declining from a peak of US$916.14 in 2001 to US$395.16 in 2018 (see Figure 14). However, caution needs to be exercised with regards to the quality of the data given that estimates of the agricultural workforce enormously fluctuate.

Figure 14: Agriculture, forestry, and fishing, value added between 1991 and 2018 (US$)

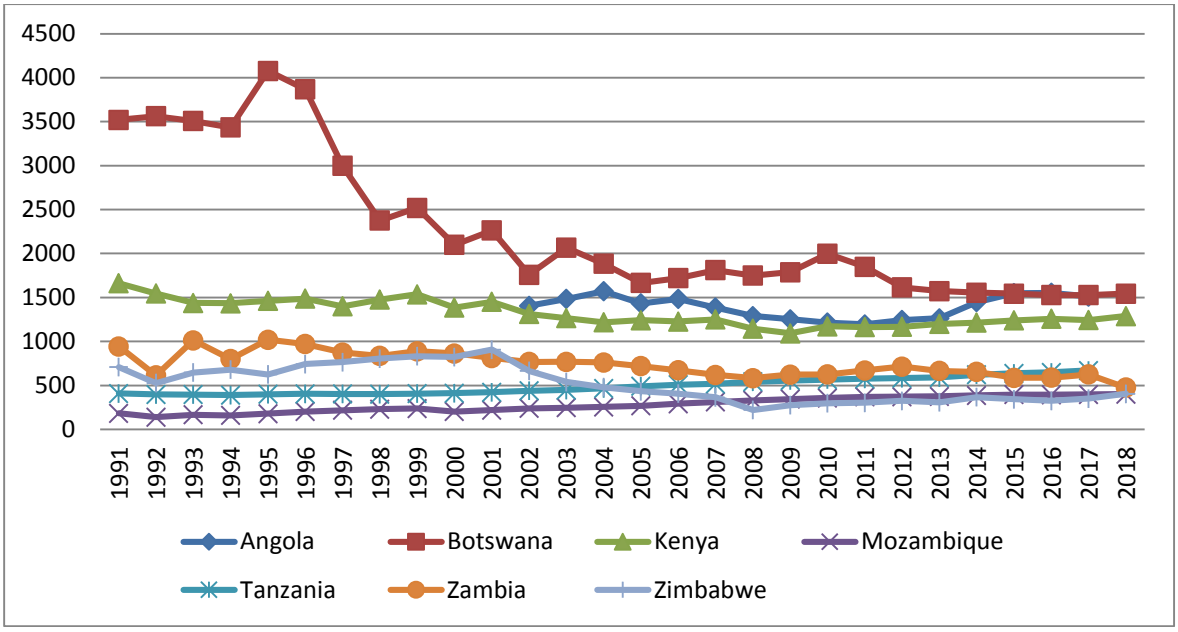


Source: https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=ZW-ZF

Some of the reasons behind the decline in farm productivity include dilapidated irrigation and storage infrastructure, erratic power supply much needed for irrigation and other farm activities making the use of generators unsustainable. Further, limited agronomic skills among the active farmers have been a major reason behind low crop productivity. Some of the new farmers that were allocated land in the fast track land reform programme from the year 2000 did not have the requisite agronomic skills to sustain the levels of productivity on the acquired land. Underinvestment in research and extension

services by government contributed to low farmer productivity which in particular had adverse implications on agricultural exports competitiveness. Zimbabwe's agriculture productivity prior to the land reform period of 2000 stood at US$732.73 between 1991 and 2001 compared to US$376.95 between 2002 and 2018. Further, the country rated poorly as compared to its regional comparators (see Figure 15).

Figure 15: Agriculture value added per worker in selected African countries between 1991 and 2018 (US$)



Source: https://data.worldbank.org/indicator/NV.AGR.EMPL.KD

Low productivity on farms translates into shortages of key raw materials into agro-processing industries raw thus undermining their viability as well as services sectors such as hotels and restaurants that heavily depended on the agricultural sector for the supply of food stuffs. Whenever there are gaps in local agricultural production the resultant gap is closed through imports which present another challenge with regards to the country's balance of payments position. For example, Zimbabwe is importing around US$500 million worth of cereals annually, as productive levels in agriculture and industry remain low. Maize production in the 2018/19 stood at 776,635 metric tonnes a figure that is 46% of the previous agricultural season (Government of Zimbabwe, 2019b). Whilst this was largely caused by the severe drought, it left the country with a grain deficit on 761,332 metric tonnes and is supposed to be closed by imports. In this regard, scaling up agricultural productivity, strengthening agricultural value chains and adopting drought mitigating measures are key pillars to enhancing competitiveness.

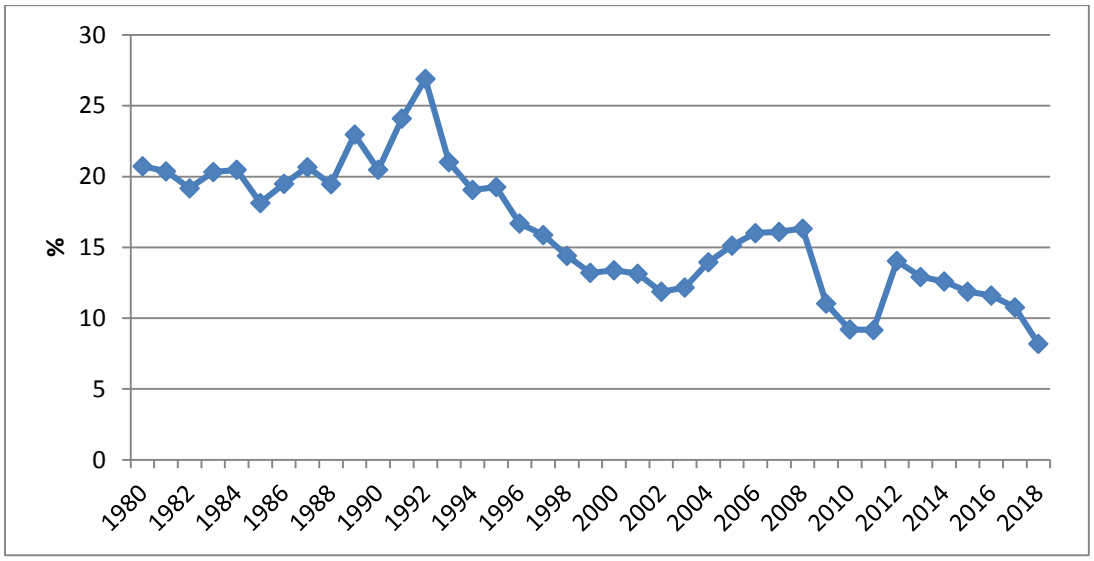
Scaling up investment in the agricultural sector and adopting appropriate technologies is key to increasing agricultural productivity. Government is party to the Malabo Declaration that commits at least 10% of national budgets to be allocated to agriculture. Over the years, National Budget allocation to agriculture has been around 5%. Some effort was however, made in the 2019 budget to align the budget with the international

commitment. Government initiatives to resolve outstanding land reform issues through compensation of the former farm owners will assist in attracting investment capital to the agricultural sector. The Government however, notes that the resources required to compensate and put closure to this important issue is obviously beyond the capacity of the Budget to finance highlighting the need to mobilise resources through international financial institutions and development partners (Government of Zimbabwe,2018a). Thus the capacity of the Government in resource mobilisation becomes a critical factor in unlocking land value through long term investments on the farms.

3.2.4.2 *Manufacturing*

Manufactured exports contributed 16.9% of the country's exports in 2018 (RBZ, 2019). Evidence shows that there is an overall decline in manufacturing sector performance since the country's independence. For example, Figure 16 illustrates that manufacturing value added as a share of GDP increased gradually from 20.72% in 1980 to a peak of 26.9% in 1992 before it plummeted to an all-time low of 8.18% in 2018.

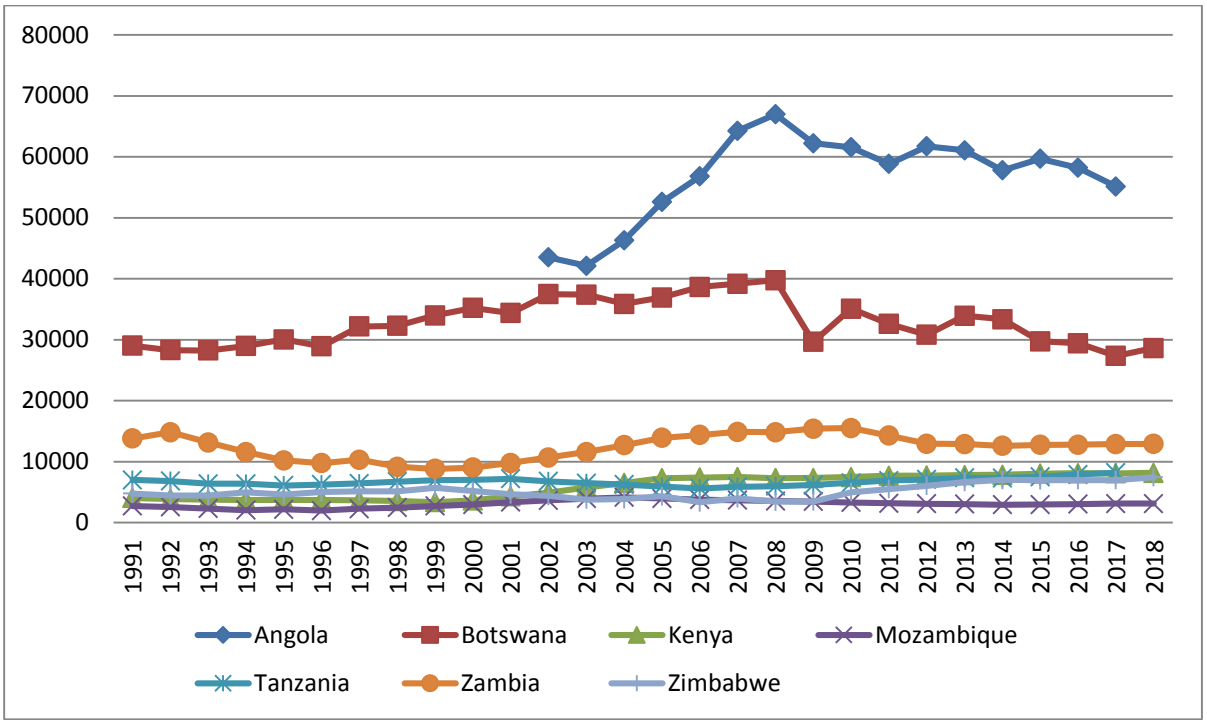
Figure 16: Manufacturing value added as a % to GDP (1980-2018)



Source: https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=ZW-ZF

Further, industry productivity was also subdued in comparison to the performance of a few selected African countries (see Figure 17).

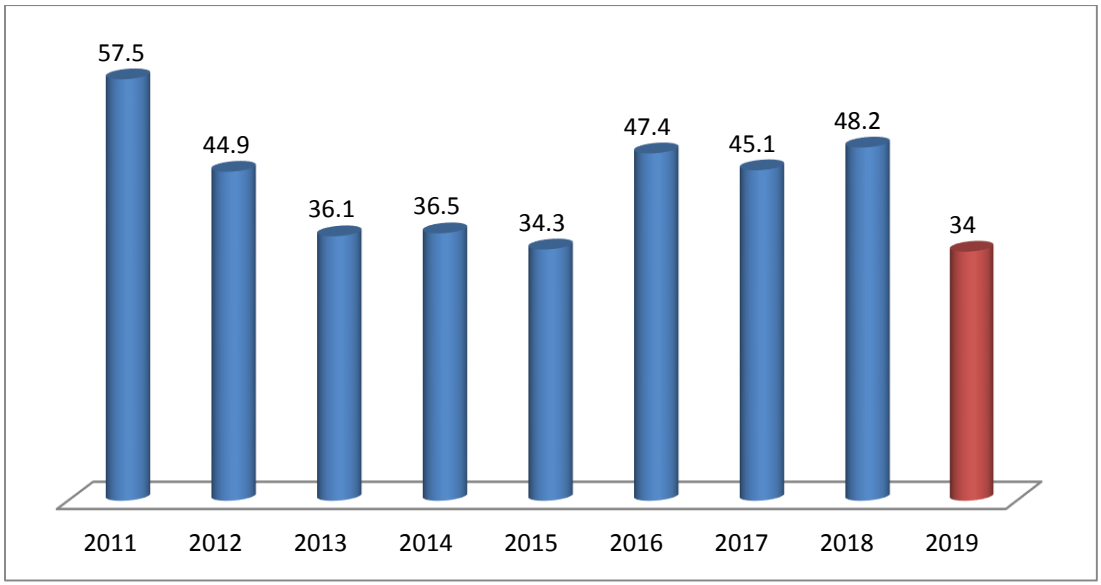
Figure 17: Industry Productivity per worker in selected African countries between 1991 and 2018 (US$)



Source:https://data.worldbank.org/indicator/NV.IND.EMPL.KD?end=2018&locations=ZW-ZM-BW-AO-TZ-KE-MZ&start=2008

In addition, the manufacturing sector has been operating way below installed capacity for a very long time (see Figure 18).

Figure 18: Capacity utilisation for the manufacturing sector between 2011 and 2019



Source: CZI Manufacturing Sector Surveys

The CZI is expecting industry capacity utilisation to fall from 48.2% in 2018 to 34.3% in 2019 amid deepening economic challenges. Obsolete equipment that the industry has been identified as one of the major causes for low capacity utilisation and lack of research and development to keep up with the faster changing consumer needs and preferences (CZI, 2019). Thus, the country's manufacturing sector production processes largely lack sophistication. The other challenges militating against manufacturing sector performance relate to the shortage of foreign currency to import raw materials and intermediate inputs (CZI, 2019). Inefficiencies from obsolete equipment and technologies increase the cost of production which ultimately makes the exports less competitive.

3.2.4.3 *Mining sector*

Zimbabwe is yet to exploit its full mining potential. Although the mining sector contributed 60% of total exports in 2018, limited mineral exploration; depressed mineral production; declining mineral diversification; as well as limited value addition and beneficiation hamper the country's capacity to earn more foreign currency from this sector.

ZEPARU (2018c) noted that systematic green-field exploration in Zimbabwe virtually stopped following the economic challenges that characterized Zimbabwe since the mid-2000. It showed that there were no issuance of new Exclusive Prospecting Orders (EPOs) between 2005 and 2017 with the exception of 2014 when 4 EPOs were issued. In 2018 there was renewed interest by government to issue out EPOs. As at December 2018 there were nine (9) EPOs that had been gazetted while three (3) of the expired EPOs were set for renewal. Improving viability of mining activities will attract capital into exploration that will lead to the establishment of new mines.

The average capacity utilisation for the mining industry was 75% in 2018 with inadequate foreign exchange shortages, capital shortages, high cost structure, obsolete equipment and power outages as the major constrains weighing down capacity utilization in the mining industry (Chamber of Mines, 2018). Further, the gold, chrome and semi-precious minerals sub-sectors are increasingly dominated by under capacitated small scale miners whose production capacity is hindered by use of rudimentary equipment and limited geological information about the location of the mineral deposits.

As of 2015, five minerals (gold, platinum, palladium, nickel and diamonds) accounted for 83% of total mineral revenue and gold alone accounted for 40% of the total mineral revenues (Chamber of Mines, 2015). These mineral exports are dominated by raw and semi-processed materials with very limited value addition implying that they are susceptible to mineral price volatilities. Chamber of Mines (2018) cited capital constraints, inadequate foreign exchange allocations, inadequate and expensive power, low feedstock, and low commodity prices as some of the reasons why Zimbabwe's mineral value addition and beneficiation drive is low. Addressing these constraints will not only improve competitiveness of the mining sector but will unlock value in terms of more export revenue and fresh capital into the sector.

3.2.4.4 *Impact of Zimbabwe's export incentive regime*

Zimbabwe offered a number of export incentives to stimulate exports over the years. These incentives include duty free rebate on importation of raw materials and capital goods; tax holidays; special initial allowance for new business; incentives for export processing zones and now Special Economic Zones. For example, the RBZ introduced the Export Incentive Policy in September 2016 at 5% of Gross Export receipts initially targeting production of minerals and tobacco. This policy was later rolled out to diaspora remittances as well as the rest of the export sectors. The RBZ issued export incentives amounting to US$743.2 million between September 2016 and 21 September 2018 on US$ 12.6 billion worth of exports over that period[26]. These export incentives were scrapped in February 2019. The effectiveness of these incentives was in part eroded by the harsh operating environment prevailing in the country. In this regard policy measures that improve the overall business operating environment are key to improving the effectiveness of export incentives and the drive towards an export led growth.

3.2.5 Informality compromising competitiveness of the country

As much as 60.6% of Zimbabwe's economy is informalised (Medina and Schneider, 2018). Informal sector players face numerous challenges including unconducive business operating environment; cost competitiveness; access and availability of finance; lack of collateral; as well as limited adherence to standards in production of goods and services which all adversely affect the competitiveness of this subsector of the economy. Zimbabwe was ranked number 167 out of 190 countries on starting a business under the 2020 World Bank's Ease of doing business. Major issues related to the number of procedures and time it takes to start a business; but most critically the cost of starting the business. For example, the cost of starting a business in Zimbabwe is 76.6% of income per capita as compared to the Sub Saharan average of 36.6% and 0% in best regulatory performers (World Bank, 2019a).

Another challenge with informality is the lack of decent and productive work resulting labour underutilization, low incomes and low productivity. The 2019 World Development Report highlighted that lack of quality private sector jobs leaves talented young people with few pathways to wage employment (World Bank, 2019b).

There are on-going efforts to formalisation of the informal sector thereby creating pathways to competitiveness. For example, the Reserve Bank of Zimbabwe is implementing a National Financial Inclusion Strategy that is targeting to increase the overall level of access to formal financial services within the country from 69% in 2014 to at least 90% by 2020 and to increase the proportion of banked adults to at least 60% by 2020[27]. In this regard a number of non-bank services geared towards increasing access to financial services such use of mobile money; agent banking and low cost accounts were rolled out. The cash shortages being experienced in the market and the premiums and taxes being charged to use the mobile money are rolling back the success of

[26] Reserve Bank of Zimbabwe (2018) Monetary Policy Statement: Strengthening The Multi-Currency System For Value Preservation & Price Stability https://Www.Rbz.Co.Zw/Documents/Mps/Mpsoct2018.Pdf

[27] https://www.rbz.co.zw/documents/BLSS/FinancialInclusion/FinancialInclusionStrategy.pdf.

formality in Zimbabwe. More so the ease of doing business reforms initiated in 2015 are meant to create an enabling environment for the informal players to formalise.

3.2.6 Policy Instability and Implications on Competitiveness

Policy instability characterised by frequently changes in policy interventions announced through statutory instruments create an unpredictable policy environment (see Box 1). For example, the period 2009-2019 witnessed frequent changes in the currency regimes which have eroded confidence in the financial sector. In addition, policy gaps caused by delays in the finalisation and implementation of key economic policies undermine policy credibility and predictability. Investors require a stable and predictable policy environment. Improving on stakeholder consultation on key policies increases stakeholder ownership and thus increasing chances of success in implementing the policy.

Box 1: Examples of Frequent Changes in Policy Interventions cited by Stakeholders

Monetary Policy

- In 2009 Zimbabwe adopted the multiple currency regime
- Introduced the bond coins in 2014 and subsequently bond notes in 2016 on a fixed exchange rate of 1:1.
- Bond notes were not introduced as a currency but an export incentive which monetary authorities assured the nation was not in any way going to impact on their bank balances.
- The bond notes however, soon began losing value against the United States Dollar.
- In October 2018, the government separated the RTGS balances from the Nostro accounts and acknowledged that RTGS rate was not at par with the United States Dollar.
- On 24 June 2019, the authorities formally abandoned the multi-currency regime, replacing it with mono currency.

Trade Policy

- Several import products were for example, removed from the Open General Import Licence through various Statutory Instruments (SIs) later consolidated as SI 122 of 2017[28]
- These SIs include SI 8 of 1996; SI 22c of 2000, SI 137 of 2007, SI 138 of 2007, SI 150 of 2011, SI 6 of 2014, SI 126 of 2014, SI 18 of 2016, SI 19 of 2016 and SI 20 of 2016; and SI 64 of 2016.

- SI 122 was then suspended indefinitely in November 2018 to allow companies and individuals with offshore and free funds to import specified basic commodities that are in short supply.[29]

[28] https://www.tralac.org/discussions/article/12411-zimbabwe-re-brands-statutory-instrument-si-64.html

[29] http://www.zimfa.gov.zw/index.php/component/k2/item/14-government-has-amended-indefinitely-statutory-instrument-si-122-of-2017

Agricultural policy

- Agricultural policy has adversely affected production of maize and wheat due to unintended market distortions (Food and Agriculture Organisation (FAO), 2007).
- little incentive for farmers to produce beyond their subsistence needs, given the lack of alternative marketing channel and price controls with static procurement prices in an environment of hyperinflation resulting(FAO, 2007).

Policy measures that foster predictability and credibility buttresses public confidence and trust provide a conducive environment to improve in competitiveness. One key policy that is key in improving competitiveness is the National Industrial Development Policy (NDP). Implementation of the NDP needs to focus retooling of the manufacturing sector to replace obsolete equipment, resuscitating viable firms that are struggling to recover and promoting new and innovative industries that can create unique competitive advantages for Zimbabwe. There is need for the country to strategically reposition and leverage innovative technologies to enhance its competitiveness. Industrial processes in Europe are more advanced based on artificial intelligence and other advanced technological innovations technology whilst Zimbabwe still relies on antiquated industrial technologies. In this respect, the country needs to align its human capacity to these new types of industries as currently, the skills set in the industry is very different from what is demanded for by the modern manufacturing sector thereby constricting Zimbabwe to low competitiveness levels.

3.2.7 Human skills capacity gaps

Zimbabwe's health system is faced with serious challenges that impact on the health status of its human resource hence its efficiency. This is amid poor public funding to the sector. For example in 2019, the Ministry of Health and Child Care was allocated a total of $755.84 million a 59.2% of 2018 National budget allocation. This represents a 7.05% share of the National Budget up from 5.84% in 2018. The allocation significantly fell short of the country's commitment to the Abuja Declaration where15 % of the National Budget should be allocated to health. The country's health status had a poor ranking (135/141) on the 2019 Global Competitiveness Report with a score of 41 out of 100.

The other challenge is the huge gaps in human skills and training needed for the production of competitive goods and services. The country had a scoring of 49 out of 100 and was ranked 110/141 countries in the 2019 Global Competitiveness Report. A National Critical Skills Audit that was conducted in 2018, huge skills deficits with wider gaps in science related areas as compared to business and commerce as well as applied arts and humanities (see Table 4).

Table 4: Summary of Skills Audit conducted in 2018

No	Sector	Availability	Surplus/ Deficit
i.	Engineering and Technology	6.43%	-93.57%
ii.	Natural and Applied Sciences	3.09%	-96.91%
iii.	Business and Commerce	121%	21%
iv.	Agriculture	12%	-88%
v.	Medical and Health Sciences	5%	-95%
vi.	Applied Arts and Humanities	82%	-18%
	Average	**38.25%**	**-61.75%**

Source: Government of Zimbabwe (2018c) 2018 National Critical Skills Audit Report https://library.buse.ac.zw/docs/gvt-publications/critical-skills.pdf

A number of factors explain these skills gaps. One of them includes the loss of skilled labour to the diaspora owing to prolonged economic challenges for nearly two decades. This state of skills gap was even highlighted by some of the consulted stakeholders who stressed that the education system in Zimbabwe up to University is not producing the graduates with requisite skills to respond to the changes in the world of work and demands for the modern economy. The 2015 National Competitiveness Report weighs in on this by highlighting that one of the constraints Zimbabwe is faced with is how to align the obtaining mismatch between education curriculum and industry skills requirements (National Economic Consultative Forum, 2015). Many jobs today, and many more in the near future, will require specific skills—a combination of technological know-how, problem-solving, and critical thinking as well as soft skills such as perseverance, collaboration, and empathy (World Bank, 2019b). In a 2015 capacity needs assessment of the mining sector study conducted by ZEPARU, it was established that most skills and knowledge on the sector belonged to the knowledge tier and that the current skills and knowledge are not sufficient to propel the country to the required levels. He study further noted that skills gaps exist in adaptability, analytical skills, business knowledge/acumen, global perspective, innovation, persuasion and influence and problem solving.

The Zimbabwean government is implementing scientific and skills focus educational system known as Education 5.0. This is a new education system seeks to impart knowledge that is suitable for the exploitation of locally available resources for its transformation to an industrialised and modernised economy (Government of Zimbabwe, undated). Further, efforts are under way to craft a Technical and Vocational Education and Training (TVET) Policy to equip human resources with requisites skills for industry. Whilst it might take time to reap the fruits of this initiative, it has potential to address skills gaps that inhibit enhanced productivity and competitiveness of the Zimbabwean economy.

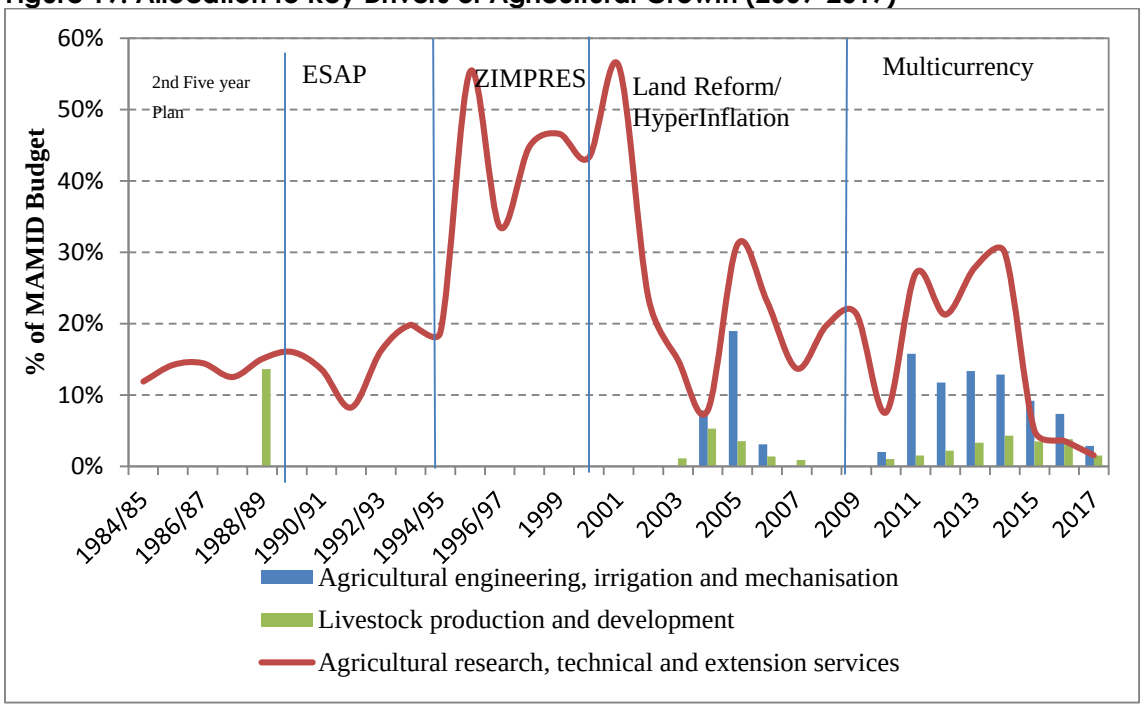
More so the TVET programme that used to produce artisans who have been driving the manufacturing and mining sectors had weakened due to underinvestment and policy shift from robust human capital development programmes reminiscent of the 1980s and 1990s.

3.2.8 Innovation Ecosystems and Competitiveness

This category has two pillars namely innovation capability and business dynamism. Innovation capability is comprised of indicators on the 'softer' and less tangible aspects of idea generation, captured in the Interaction and diversity, as well as Research and development (to develop inventions) and Commercialization (the capacity to successfully bring innovation to the market) sub-pillars (Schwab, 2018). Business dynamism on the other hand captures administrative requirements (the extent to which the regulatory framework supports creative destruction by making it easy to found and close companies) and Entrepreneurial culture (a country's willingness to take risks and embrace disruptive ideas) (Schwab, 2018).

The Government committed a 0.3% of GDP funding towards research and development in the 2019 National Budget against at least 1% of GDP level of funding. Just zooming in on research and development funding to one of the key sectors of the economy, evidence reveals that there has been some under allocation to agricultural research and extension services between 1984 and 2017. Improvements in crop productivity however, require quality investments in research and extension (Indaba Agricultural Policy Research Institute (IAPRI, 2017). Government expenditure in the agricultural sector was mainly towards administration and general expenditure. Allocation to agricultural research, technical and extension services increased from an average of 14.6% in the decade 1984/5 – 1994/5 to an average of 46.6% during the ZIMPREST era (see Figure 19) before it tumbled to only 1.5% in 2017.

Figure 19: Allocation to Key Drivers of Agricultural Growth (2009-2017)



Source: IAPRI (2017) *Public Expenditure and Agricultural Policy: Policy Issues, Opportunities, and Recommendations for Zimbabwe*. IAPRI, Lusaka.

This underinvestment to key drivers of agricultural growth such as research and extension services partly explain the low productivity in the agriculture sector as alluded to above.

Innovative ecosystem ranking on the Global Competitiveness Report of 2019 was poor. Zimbabwe was ranked number 126 out of 141 countries on innovation capabilities and 129 out of 140 on business dynamism. The worst performing indicator under business dynamism was administrative requirements and the country was ranked 135th out 141 countries, but performed relatively well under entrepreneurial culture where it was ranked 66th out of 141 countries.

3.2.9 Markets

As alluded to in Section 2 of this paper, four pillars namely financial markets; labour markets; product markets and market size constitute this market category under the Global Competitiveness Index framework.

A developed financial sector matters for a country when it comes to competitiveness. This is because it facilitates the pooling of resources; ensures that the saved resources are efficiently allocated to the most productive sectors of the economy as well as guaranteeing the appropriate regulation of financial institutions to avoid financial crises that may cause long-lasting negative effects on investments and productivity[30]. Zimbabwe's financial market has lost a number of institutions critical to business financing. Before financial liberalisation the financial market was composed of commercial banks, building societies, discount houses, leasing houses, development finance houses and venture capital among other specialist financing houses (Abel et al, 2018). Zimbabwe was ranked number 120 out of 141 countries of the world in terms of its financial system (under the Global Competitiveness Index Report of 2019) with the Hong Kong being the best performer in this category.

The labour market pillar captures the efficiency and flexibility of a country's labour market to reallocate workers to their most effective use in an economy based on their skills set, thereby ensuring their increased productivity. This pillar looks at indicators such as redundant costs, hiring and firing practices, cooperation in labour – employer relations, flexibility in wage determination, active labour policies among others. Zimbabwe had an average score of 52 out of 100 on its labour markets ranking number 115 out 141 countries under the Global Competitiveness Index Report of 2019.

Product market pillar captures the extent to which a country provides an even playing field for companies to participate in its markets using indicators such as market power, openness to foreign firms and the degree of market distortions.[31] The product market ranking for Zimbabwe under the Global Competitiveness Index Report of 2019 had a weak score of 38out of 100 and the country ranked 136 out of 141 countries. This pillar is composed of indicators such as distortive effect of taxes and subsidies on competition, extent of market dominance, competition in services, prevalence of non-tariff barriers,

[30] http://reports.weforum.org/global-competitiveness-report-2018/chapter-3-benchmarking-competitiveness-in-the-fourth-industrial-revolution-introducing-the-global-competitiveness-index-4-0/

[31] http://reports.weforum.org/global-competitiveness-report-2018/chapter-3-benchmarking-competitiveness-in-the-fourth-industrial-revolution-introducing-the-global-competitiveness-index-4-0/

trade tariffs, complexity of tariffs, efficiency of the clearance process, and services trade openness. Competition is important as it supports productivity gains by incentivizing companies to innovate; update their products, services and organization; and supply the best possible products at the fairest price[32] thereby enhancing a country's competitiveness.

Market size also matters in determining a country's competitiveness. Large markets not only increase productivity through economies of scale but also incentivise innovation. The country realised a declining real GDP growth from around 19.7% in 2010 to 5 in 2018 (see Figure 8). Zimbabwe was ranked 115th out of 141 countries in the 2019 Global Competitiveness Report.

4 Suggested pathways for increasing competitiveness

Zimbabwe's low competitive position will hinder the country from growing fast; achieving the upper middle income status by 2030 and meeting its regional commitments under the SADC Industrialisation Agenda and roadmap; one of whose strategic pillars is on competitiveness. Crafting appropriate policies in order to address this problem requires an understanding of some of the reasons behind poor competitiveness in Zimbabwe as these vary with country and time. Some of these include unconducive business environment; huge human capital skills gap; weak innovative systems that militate against Zimbabwe's efforts in creating a unique selling proposition on the international market. The Government may therefore consider the following pathways to increasing the country's competitiveness.

4.1 Prioritising Macroeconomic Stability

- There is need for the government to prioritise macroeconomic stability initialed at least, by a phased timetable for reaching the SADC macroeconomic convergence targets on inflation; fiscal deficit; public debt; economic growth; domestic savings; domestic investment among others. Furthermore, such stability should encompass growth targets.
- Macroeconomic stability is critical as it guarantees a predictable and conducive environment to the investors allowing them to make long term decisions and operate viably.
- There is need for the government to pursue sound fiscal and monetary policy management that emphasises minimal state intervention through fiscal and monetary instruments. The fiscal discipline being implemented through the TSP requires sustaining and deepening. Under the monetary policy, there is need for the Central Bank to create an efficient exchange rate system that is market oriented. The interbank market system to be allowed to operate based on the market signals of demand and supply.

[32] http://reports.weforum.org/global-competitiveness-report-2018/chapter-3-benchmarking-competitiveness-in-the-fourth-industrial-revolution-introducing-the-global-competitiveness-index-4-0/

- The government needs to timely implement economic policies to ensure increased exports and growth. These include the trade policy, the local content strategy and the recently launched industrial development policy.
- The country needs to mobilise savings through rebuilding public confidence in the financial markets. This will create a pool of resources to fund development of real sectors and infrastructure.

4.2 Strengthening public institutional capacity

- Government to strengthen public institutions to ensure efficiency and effective service delivery. This can be through adherence to best practices on corporate governance and adequately capacitating these institutions. Strong institutions are important for increasing Zimbabwe's competitiveness and the growth of its economy. Institutions must be seen to be dispensing services for which they were created in fair, objective and efficient manner. For instance courts of law must be seen to uphold investors' interests with regard to property rights with the enforcement authorities acting in compliance with such legal obligations as court orders. In addition, Zimbabwe needs to uphold judiciary independence as part of strengthening its institutions. Further, the parastatals such as ZESA and local government institutions need to be strengthened to ensure reliable supply of quality public services such health, roads, electricity and water.
- Government to eliminate red tape by rationalising cumbersome procedures to reduce the number of regulatory agencies they have to deal with in either starting up or when conducting export business.
- There is need for full implementation of the recommendations suggested by the annual audit reports of the Auditor General's Office linked to misuse of public funds, flouting of tender processes and other poor corporate governance tendencies within the public sector.

4.3 Fostering Investment Promotion

- Government efforts to enhance the ease of doing business since 2015 are acknowledged. However, the pace at which they are being implemented needs to be increased. These could include reducing the regulatory compliance costs by streamlining regulatory requirements. Further, there is need to ensure that the recently enacted ZIDA effectively delivers on its mandate. Speedy and effective implementation of policies such as the National Industrial Development Policy; Local Content Strategy; Trade Policy (whose crafting is still in progress); and National Export Strategy whilst ensuring their coordination will be key in enhancing competitiveness of the country. In addition, there is need to capacitate and operationalize the National Competitiveness Commission for it to fully render the much needed research and advisory services on competitiveness in Zimbabwe.

- Zimbabwe to expedite the re-engagement process with the international community and financial institutions towards debt arrears clearance in order for it to regain international good will and access to global capital. Further, re-engagement with international community is critical for Zimbabwe as it will

provide the requisite guarantees for potential investors with an interest in Zimbabwe as an FDI destination.

- There is further need to restore relations with the international community through honouring its international loan commitments as they fall due. Observing rule of law, respect for human rights, ensuring security of private property and other economic reforms that the government committed to implement are some of the areas the international financiers expect Zimbabwe to honour as part of the reengagement process.
- The government needs to reduce country risk profile by implementing measures to ensure a stable macroeconomic environment.
- Zimbabwe further needs to work on its credit rating in order to access the global bond market.
- Enforcing the respect for property rights and upholding the independence of courts as alluded to above will go a long way in building investor confidence thereby attracting both domestic and foreign capital flows into Zimbabwe.
- There is need for putting in place deliberate policies to promote domestic investment, which plays an important role in availing long term stable financing and is an important consideration by foreign investors.

4.4 Ensuring access to affordable working capital

- Ensure access to affordable working capital for business retooling and development. In agriculture sector for example, the contract farming model that has been successful in tobacco and cotton can be replicated to other crops. Further, there is need for government/ private sector to provide capital expenditure loan facilities for expanding export-oriented production of horticulture - flowers, vegetables and irrigated production of tree nuts and fruits in the drought-prone regions of Zimbabwe. Access to finance for retooling and adoption of modern technology cannot be over emphasised.

4.5 Reorientation of skills development policies

- There is need for human capital development through investment in all levels of education and training. The education system has to be more attuned to the fourth revolution that emphasises on technological innovations such as artificial intelligence, robotics, 3D printing and block chain. These skills are increasingly shaping the way counties are benefiting from global trade and Zimbabwe should not be left out.
- There is need for reintroduction of artisanal training programmes to produce employees with practical skills needed for the production of goods both for the domestic and export markets. On the job training is also key in sharpening employee skills base as well as attaining improvements in management quality. Government policies on technical and vocational training as well as education 5.0 to be promoted and effectively implemented if Zimbabwe is to create a pool of requisite human resource skills with which to produce competitive goods and services. In fact, there is a mass of evidence to suggest that on-the-job training programmes are more effective than traditional training schemes in educational institutions.

- Thus the re-orientation of the educational system will avoid the churning of graduates with academic qualifications disconnected with the practical skills requirements of modern industry.

4.6 Fostering trade openness

4.6.1 Promotion of export growth, diversification and value addition

The country's competitiveness can be improved by increasing export volumes; diversifying the export basket from primary products to differentiated manufactured exports as well as expanding the array of export products through non-traditional exports. This further enhances the country's trade openness as it exploits its comparative and competitive advantages based on its factor endowments. This will result in growth in foreign currency earnings from these exports. In this regard the trade promotion and facilitation measures adopted by government including the monetary and exchange rate policies should promote competitiveness. Growth in exports can be facilitated through exploitation of regional trade arrangements as well as increased trade in services taking advantage of the relatively highly skilled human resource.

Increasing export volumes can be achieved through revamping agricultural production to feed into the manufacturing sector. The country's export potential can be increased by addressing challenges linked to low labour productivity, agriculture infrastructure investment related to irrigation development, storage facilities, farm mechanisation; storage and key enablers like power and water. Extension services impact on farmers' agronomic skills cannot be over emphasised. Further, there is need to strengthen value chains with potential including soya, leather, cotton and horticulture. Increasing agricultural production will strengthen agro processing value chains as this ensures availability of domestically sourced goods for other economic sectors such as manufacturing and tourism among others. Similarly, growth in mineral exports can be achieved by increasing investment in minerals exploration and production; enhancing mineral diversification; as well as value addition and beneficiation. Further, there is need to support production capacity of the manufacturing sector by creating the conducive environment for business. In addition, the export dominance of primary and semi-finished products call for the need to support the manufacturing sector capacities for value addition and beneficiation of export products.

Opportunities for *increasing trade in services* lie in consultancy across the borders; finance and banking; tourism and hospitality as well as insurance among others. Further, opportunities are in medical tourism but require retooling of hospitals as currently the infrastructure is inadequate with most of it dilapidated. In addition, the health care facilities need to be manned by qualified personnel who are adequately remunerated.

Further, in order to gain a bigger market share in the regional and international markets, Zimbabwe has to produce goods that meet international standards in terms of quality and price. However, upgrading export quality requires industry investment in modern production processes. Service delivery of the exported product also needs to be improved. Examples include customer service and timely delivery of export goods. This

requires both concerted efforts from government and private sector to improve their production efficiencies that reduce cost of production hence making exports cheaper.

4.6.2 *Increasing labour productivity in various sectors of the economy*

There is need for government to ensure adequate supply of key enablers such as water and power to producers across sectors. In the case of the agricultural sector, this can be achieved by ensuring dedicated power supply to the farmers in the short term whilst long term solutions such as adoption of green energy and boosting hydro energy are being worked out. The latter can be guaranteed through rehabilitation and development of irrigation system. More so, investment in farmer agronomic skills through the provision of adequate and relevant extension services cannot be overemphasised. In addition, the land reform issue needs to be brought to finality in order to attract long term investment on the farmers. The current government and development partners' efforts on the same are commendable and should be expedited if agricultural sector is to be competitive. In addition, the contract farming models that have largely been implemented in tobacco and cotton can be rolled out to other crops.

4.6.3 *Enhancing trade facilitation*

- This can be achieved by addressing logistical challenges linked to customs; infrastructure; timeliness etc. Government needs to *enhance trade facilitation* by improving connectivity to global markets and reducing trade costs. This can be achieved by eliminating customs delays at the country's ports of entry. The government may consider expeditious implementation of the one stop Beit Bridge Border post concept with a view to modernise the border processes and enhance transparency and speed in the movement of goods and persons across the border. Further, rolling out the one stop border post concept to all the country's ports of entry and exit will be key in facilitating the movement of traded goods as well as persons. Investment in critical infrastructure as suggested below will also facilitate trade and enhance Zimbabwe's competitiveness.
- The Government should *embrace e-commerce platform in order to reduce the human interface* when offering services to the business community which tends to breed corruption. Further, regulatory processes that facilitate trade need to be streamlined and modernised.

4.6.4 *Critical infrastructure investment*

- The government needs to facilitate investment in infrastructure rehabilitation and development like energy, transport, water, communication, national quality infrastructure e.g. laboratories, cold chains facilities for animal products and allow the development of frozen products among others through Public Private Partnerships (PPPs). These require building the government's capacity to conduct feasibility studies and come up with bankable projects.
- The government needs to deal with power generation constraints constricting the sector to deliver the required energy. Some of the options include refurbishing the existing power generation infrastructure; charging cost reflective tariffs; as well as completing the installation of prepaid meters to avoid non-payment by power users. There is need for diversification of power generation through exploiting renewable energy resources such as solar and gas. Government needs to

deliberately reduce high import duties on solar components and remove administrative challenges around the application of licences. More so, it is imperative for government to expedite the integrated power project and cancel the contracts of failed independent power producers and replace them with well-resourced ones if power challenge is to be resolved in Zimbabwe.
- The government needs to conform to international standards through investing in and upgrading national quality assurance infrastructure.

4.7 Fostering transition from informality to formality

- There is need for government to step up its efforts towards ease of doing business. Procedures to start a business need to be simplified by further streamlining the procedures, reducing the time it takes as well as cost of starting a business. Further, informal sector must be incentivized to formalize rather than feeling taxed.
- On creating a better labour market, the job creation theme for 2020 and beyond under the Transitional and Stabilisation Programme is commendable. This should however, be augmented by the operationalisation and streamlining of the National Employment Policy Framework of 2010 in all the sectoral and national policies so as to ensure decent employment. Further, creating code of conduct for the employment of workers as well as setting minimum wages for the informal sector could be considered in order to promote efficiency in the allocation of labour.

4.8 Promoting public confidence

- The Government needs to increase its communication on economic policy processes. For example, the public needs to be informed on what the TSP seeks to achieve as well as the progress made in its implementation. Countries like Kenya have a vision 2030 with a website where the public can visit and track how the country is performing on each of the targets. The same can be done for the national development polies such as the TSP and its successors. Further, there is also need for right communication on policy issues and their implications as well as sticking to policy pronouncements.
- The government needs to follow due processes of the Constitution and embrace inclusivity in policy formulation processes.
- This also requires nurturing a culture of public dialogues and inclusive consultation of all policy actors when designing new policies and plans using existing platforms/structures for a start.
- There is need for government to create an investor friendly business operating environment that facilitates investors to take risks. There is need to upscale its support to the already existing businesses, a move that will improve the foreign investor perception about Zimbabwe's investment climate.
- Government to stamp corruption as it is increasing the cost of doing business and making the country less competitive. Fighting corruption requires institutional strengthening; political will and recovering ill-gotten wealth.

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