COMPETITIVENESS BULLETIN

MARCH 2022

NATIONAL COMPETITIVENESS COMMISION

"Enhancing Zimbabwe's Global Competitiveness."

TABLE OF CONTENTS

1. INTRODUCTION

1.1 The National Competitiveness Commission (NCC) is a statutory body established by an Act of Parliament [Chapter 14:36] of 2017 and it falls under the purview of the Ministry of Industry and Commerce (MoIC).

1.2 The Commission is mandated to facilitate the creation of a competitive environment for Zimbabwean business through the development, coordination and implementation of key policy improvements required for domestic, regional and global competitiveness. To execute this mandate, the Commission provides evidence-based research, policy and regulatory analysis to advice on measures that enhance national productivity and global competitiveness.

1.3 Amongst NCC's publications are quarterly competitiveness bulletins, highlighting the topical competitiveness issues within each quarter and prescribing recommendations towards achieving a highly competitive business environment in Zimbabwe.

1.4 The main objective of the Bulletin is to keep the nation abreast on competitiveness issues and inform policy on enhancement of global competitiveness.

1.5 This maiden Bulletin provides an overview of Zimbabwe's competitiveness, analysis on the cost drivers analysis, inflation and exchange rate developments and impact on competitiveness, and NCC milestones over the period under review.

NCC

NATIONAL COMPETITIVENESS COMMISSION

ENHANCING GLOBAL COMPETITIVENESS

2. OVERVIEW OF ZIMBABWE'S COMPETITIVENESS

2.1 The National Development Strategy 1 (NDS1) targets to improve both Zimbabwe's global competitiveness and ease of doing business rankings to below100 over the period 2021 – 2025.

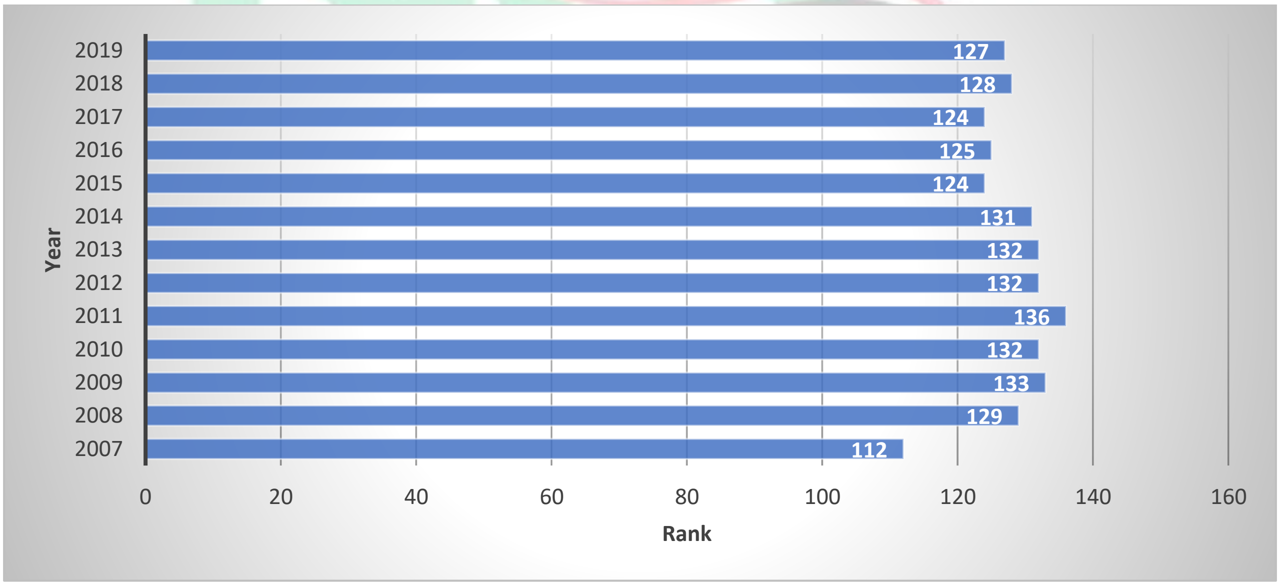
2.2 This is critical as competitive advantage becomes even more pronounced, given that firms are forced to face competition from domestic and international competitors as the country implements regional and multilateral trade agreements. To this end, countries are moving away from the traditional comparative advantage to competitive advantage.

2.3 Furthermore, innovation and global investments are flowing towards those countries deemed highly competitive, and this is fundamental towards achievement of Vision 2030.

Competitiveness

2.4 Zimbabwe's performance in the past decade has been improving, though not satisfactorily, as shown by its international competitiveness rankings by the World Economic Forum's Global Competitiveness Index (WEF-GCI) in Figure 1.

Figure 1: Zimbabwe's Global Competitiveness Index Rankings, 2007 – 2019



Source: World Economic Forum-Global Competitiveness Index

2.5 In terms of GCI, Zimbabwe attained its best ranking of 112 in 2007, after which it started sliding down to 127 out of 141 countries. This implies that Zimbabwe was competitive in 2007 than in 2019. It is important that authorities ensure the improvement in the performance of competitiveness indicators through continued implementation of business-friendly policies, +review of business regulatory and administrative environment, evaluation of processes and procedures with a view to reduce timeframes, thereby ensuring that local products are able to compete domestically and also penetrate the global market.

2.6 The key pillars that significantly undermine the country's competitiveness include weak institutions, low innovation capacity, weak business dynamism, poor health service provision, poor market system and product market.

2.7 Resultantly, Zimbabwe ranks lower than comparator countries and this constrains the country's capacity to take full advantage of preferences and opportunities availed under the bilateral trade agreements, which the country is a signatory.

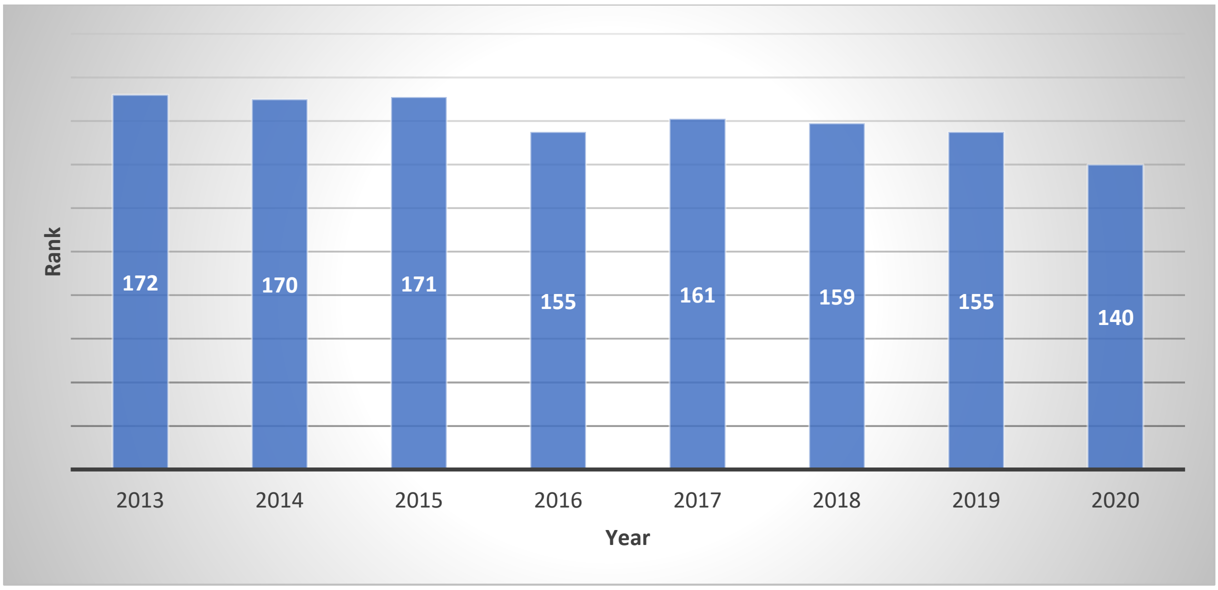
Ease of Doing Business

2.8 Furthermore, through the implementation of the World Bank's Ease of Doing Business institutional and legislative reforms namely, Deeds Registry Act, Judicial Laws Ease of Settling Commercial Disputes Act, Public Procurement Act, Companies Act and repeal of the Indigenization and Economic Empowerment Act, among others, Zimbabwe managed to move 32 rankings up between 2013 and 2020, to a rank of 140 out of 192 as shown in Figure 2.

2.9 However, there are still some outstanding regulations impeding on competitiveness namely, Trade Measures Act 1988, Sugar Production and Control Act 1964, Food and Labelling Regulations Act of 1977 and Statutory Instrument 147 of 2012, among others.

2.10 These old regulations present a compliance burden for business, much to the negative impact on national competitiveness.

Figure 2: Zimbabwe's Ranking on World Bank Ease of Doing Business, 2013 – 2020



Source: World Bank

2.11 Figure 2 shows that, Zimbabwe has been improving on the ease of doing business reforms since 2013. Out of 190 countries, Zimbabwe managed to improve from a rank of 172 to 140. As a measure of competitiveness, an improvement in the ranking shows that the reforms being implemented are making Zimbabwe a better investment destination.

Competitiveness Benefits

2.12 The following benefits are attributed to the ease of doing business reforms and interventions to enhance competitiveness: -

- Encourages productivity growth, real income gain and sustainable development through creation of a conducive environment for innovation and investment;
- Promotes consumer welfare and wellbeing through encouraging provision of goods and services at competitive prices;
- Promotes efficiency through introduction of new products and new production methods, thus resulting in higher quality goods, better services and lower prices;
- Supports export development and diversification;
- Promotes efficiency in the goods market as it forces decisions on service delivery by the Government to become market driven;
- Improves the country's trade balance due to increased exports and import substitution;
- Helps to reduce some of the inflationary pressures in an economy; and
- Assist in building national resilience and absorb exogenous shocks.

2.13 This calls for Government to continue monitoring and evaluating the implementation of ease of doing business reforms, so that the country consolidates the gains from the initial reforms and enhance Zimbabwe's global competitiveness.

2.14 Furthermore, benchmarking and learning from the Rwandan experience, given that Rwanda is one of the most consistent reformers in improving competitiveness and the business environment was critical to improve the ease of doing business and competitiveness in Zimbabwe.

Rwanda Experience

2.15 The Commission conducted a management benchmarking visit to Kigali, Rwanda from 28 February to 05 March 2022. This was due to the fact that, the 2019 World Economic Forum's Global Competitiveness Index (2019), ranked Rwanda the 100^{th} most competitive country with the World Bank Ease of Doing Business 2020 ranking it the 38^{th} best country. This makes it the second best country under the ease of doing business after Mauritius which was ranked the 13^{th}, making them the only two African countries ranked in the top 50. Furthermore, in its quest to foster international competitiveness, Rwanda has been forging international alliances with key Development Partners in the area of national competitiveness. In light of the above, Zimbabwe, has a lot to learn from Rwanda.

(NCC team in Rwanda)

2.16 The following were the identified key success factors and lessons learnt, among others:

- Political will;
- Change of mindset and management across all the sectors of the economy;
- Total buy-in and ownership from all stakeholders;
- All Government officials to be well informed of the new reforms for clients to be directed accordingly;
- Doing business reforms anchored on a strong governance framework;
- Timeous budget allocation and responsibility are key in the successful implementation of reforms;
- Macroeconomic stability and inclusive growth;
- Safety and security;
- Automation of Government services;
- Incentives are not static and should be regularly reviewed;
- Coordination and collaboration for industrial development;
- Prioritization of sectors for value chain analysis;
- Leadership commitment to reforms, trade facilitation and regional integration;
- Alignment of reform objectives to the doing business indicators;
- Public-Private Sector Partnerships; and all relevant stakeholders' consensus.

2.17 Based on the lessons learnt from Rwanda, successful reforms call for leadership commitment across the board, mindset change, alignment of reform objectives to the doing business indicators and public-private partnerships.

2.18 To this end, NCC proffered the following recommendations in order to improve ease of doing business and competitiveness among others:

- Capacitation of the National Competitiveness Commission (NCC), Parliament of Zimbabwe, Zimbabwe Anti-Corruption Commission (ZACC) and the Zimbabwe Investment Development Agency (ZIDA) to effectively deliver on their respective mandates with a view to enhance national competitiveness and improve on ease of doing business;
- Fast track automation of Government services to include e-registration, e-filing, e-payment and m-declaration. This will include acceleration of innovation and transition of innovative information technologies;
- Speeding up the interface of Government Departments and Agencies as espoused in the Zimbabwe Investment and Development Agency (ZIDA) Act, with a view to reduce

cumbersome administrative processes, business procedures, cost of applications, regulatory requirements & compliance costs;

- Constitutionalizing a National Coordination Committee for industrial development to include relevant Government Ministries, Departments and Agencies, Regulatory Authorities and Private Sector;
- Establishment of the Private Sector APEX Board to sit in the National Coordinated Committee and conducting regular Public Private Sector Dialogues and Sector specific Working Group meetings;
- Promotion of the development and implementation of Regulatory Impact Assessment Framework aimed at improving the quality of business regulations, administrative processes, doing business procedures and the overall national competitiveness, among other issues; and
- Expediting enactment of the Compulsory Specifications Act and launch of the National Infrastructure Quality Policy, and development of an SME Strategy.

3. EXCHANGE RATE AND INFLATION DEVELOPMENTS IMPACT ON COMPETITIVENESS

3.1 One of the key objectives of NDS1 is macroeconomic stability through achieving and maintaining single digit inflation as well as establishment of a market determined competitive foreign exchange rate regime. This in turn is critical for enhancement of productivity and competitiveness of Zimbabwean economy.

3.2 Currently, the economy is experiencing exchange rate induced inflation. The exchange rate pass-through to inflation in Zimbabwe is mainly through: -

- Indirect price increases of the final goods through imported input prices; and
- Directly affecting price of imported substitute goods and those subject to trade in an open economy.

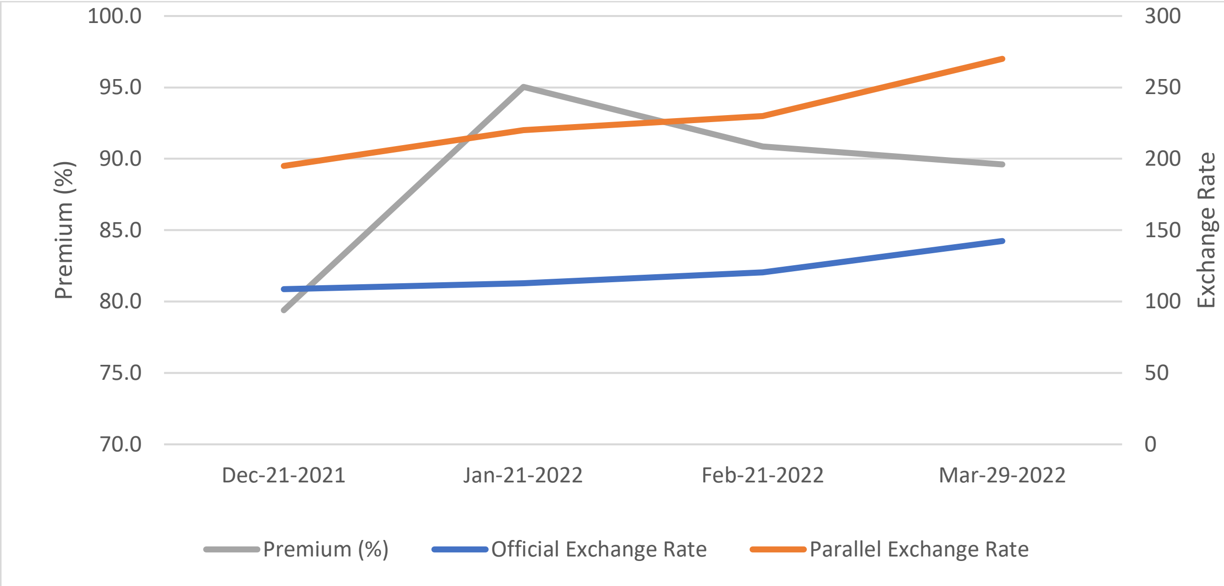
3.3 The degree to which domestic prices adjust to exchange rate movements is key in understanding inflation dynamics and also guiding fiscal and monetary policy interventions in Zimbabwe.

Exchange Rate Developments

3.4 Zimbabwe is experiencing a dual exchange rate system, characterized by both formal and parallel market rates that have a negative impact on industrial viability and productivity, hence competitiveness. The local currency has been continuously depreciating since its re-introduction in June 2019. To address this, the Reserve Bank of Zimbabwe (RBZ) introduced a foreign exchange auction system in June 2020, which resulted in temporary stabilization of the exchange rate from August 2020 to September 2021.

3.5 Figure 3 depicts exchange rate developments from January 2020 to March 2022.

Figure 3: Exchange Rate Developments, December 2021 – March 2022



Source: RBZ and NCC Compilation

3.6 As shown by Figure 3 above, the auction exchange rate closed the year 2021 at USD1:ZW$108 compared to US$1:ZW$195 on the parallel market. However, by March 2022, the rates had increased to US$1:ZW$142.4 and 1:270 on the auction and parallel markets, respectively. This translates to 31.9% on the auction and 38.5% on the parallel market in the first quarter of 2022.

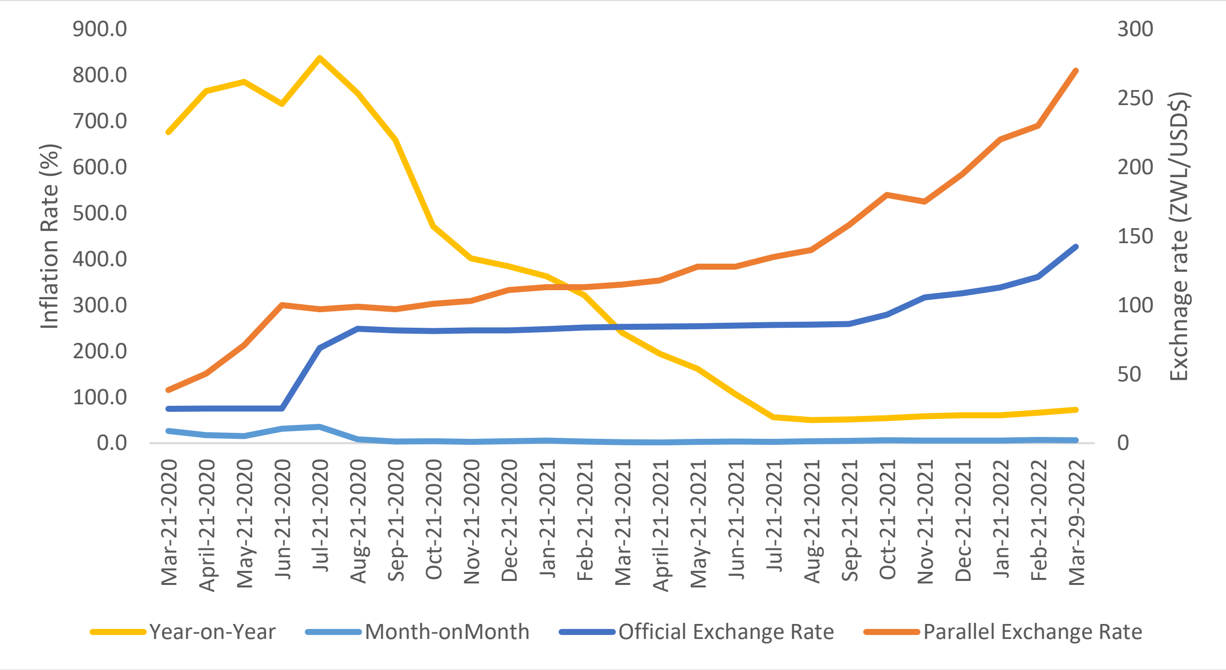
3.7 This is mainly attributed to low confidence levels in the local currency, as payments in local currency are quickly converted into the US$, a more stable currency to hedge against loss of value. As a result, this increased demand for the US$ on the parallel market against dwindling supplies of foreign currency, leading to continuous depreciation of the local currency. This was also execerbated by delay in the opening of the 2022 auction market forcing some companies to resort to the parallel market for the much-needed foreign currency to meet their foreign commitments.

3.8 In addition, inefficiency on the auction market due to time lags between allotments and actual disbursements of winning bids is also a cause for concern with companies resorting to the parallel market to compensate for the lag. This has a negative bearing on both exchange rate and inflation with continued arbitrage prevailing resulting in indexation of prices of goods and services.

Inflation Developments

3.9 Inflation developments obtaining in Zimbabwe follows the parallel market rate movements as shown in Figure 4.

Figure 4: Exchange Rate and Inflation Nexus, March 2020 – March 2022



Source: ZIMSTAT and RBZ

3.10 In tandem with exchange rate developments alluded above, inflation rose from 676.4% to a maximum of 837.5% in March and July 2020, respectively. Beyond July 2020, after the introduction of the auction system, inflation took a downward trend, responding to the managed exchange rate reaching a low of 50.2% in August 2021, and rebounded on the upward trajectory in September 2021 to 72.7% in March 2022. This is mainly attributed to the widening gap between the official auction rate and the parallel market rate.

3.11 Furthermore, inflationary pressures are attributed to increase in cost drivers, namely electricity which was reviewed upwards by 12.3% in January 2022 across all bands, and monthly reviews of fuel culminating in an increase of 85.8% and 80.3% for diesel and petrol, respectively, from September 2021 to March 2022.

3.12 In as much as the RBZ has been tightening the money supply, national effective aggregate demand improved due to payments by Government to contractors under the emergency infrastructure rehabilitation program as well as farmers, and civil servants estimated at ZW$300 million paid out in January 2022.

3.13 In addition, inflation pressures are also attributed to imports such as sea freight costs reached an all-time increase of up to 300%, for example, a tonne of urea from Russia to Beira increased from US$80 to $240 during the period 2020 to 2022 resulting in imported inflation in the economy.

Impact on Competitiveness

3.14 Zimbabwe's competitiveness is largely being adversely affected by exchange rate and inflation developments in the economy. Given that most industries are importing raw materials and intermediate products for production, are vulnerable to exchange rate-inflation consequences, namely baking, cooking oil and pharmaceutical manufacturing industries as well as the construction industry, among others.

3.15 Recent studies show that the effect of real exchange rates on export participation depends on how much a firm participates in Global Value Chains (GVCs). More specifically, the effect is conditional on how much a firm relies on imported intermediates. The more foreign value-added is embedded in their exports, the less 'vulnerable' (better hedged) firms are to real exchange rate fluctuations.

3.16 As a result, depreciation of the local currency improves the competitiveness of Zimbabwe exports, while on the other hand the cost of importing raw materials is increasing. Zimbabwean industries relying on imports are suffering from high import costs which makes them uncompetitive in terms of pricing and its goods are in less demand globally.

3.17 Furthermore, the high inflation levels are negatively impacting on aggregate demand and confidence, which is critical for industry to invest in the economy. Inflation is also affecting growth as it is impairing decision by industry and discourage investment. This is also adversely impacting on competitiveness of our exports, resulting in reduced orders, lower profits, fewer jobs and worsening of trade balance.

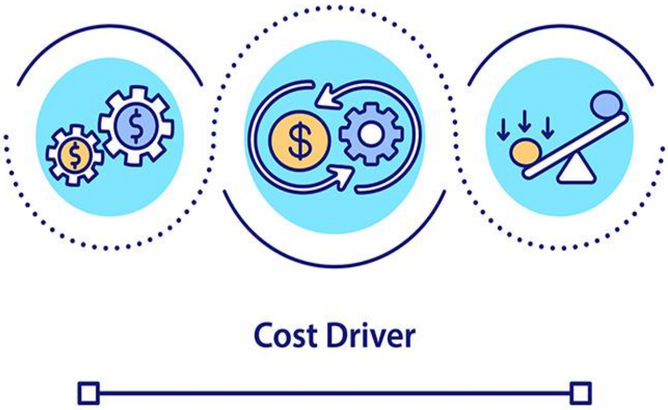
3.18 Furthermore, the supply-side of the economy is subdued, hence the country substitutes unavailable products with imports, and if available they are expensive, which makes them less competitive. Without increase in the price of imported goods themselves, exchange rate fluctuations culminate into increases in domestic prices across all sectors of the economy, and adversely impacting on competitiveness.

3.19 Exchange rate volatility negatively affects export decisions, especially for small firms. Large firms are both naturally hedged - through higher shares of imported intermediates and credit in foreign currency. Given the nature of Zimbabwean exporters, most are small-scale firms that are vulnerable to exchange rate volatility. Stabilization of the exchange rate would give them a competitive advantage.

3.20 Against this background, it is recommended that productive sectors be allowed to access foreign currency at interbank rate across the financial sector to import the much needed raw materials and capital equipment, which in turn will drive down unit costs of production, increase export volumes and ultimately improves competitiveness.

3.21 Furthermore, RBZ should implement the standard rules of a Dutch auction system, where higher bidders are allocated first and in full. This allows market forces to play their full role at the auction and make it a true price discovery mechanism.

3.22 Lastly, RBZ should declare the amount of foreign currency available for auction to avoid the creation of backlogs through auctioning unavailable foreign currency.



4. COST DRIVERS' ANALYSIS

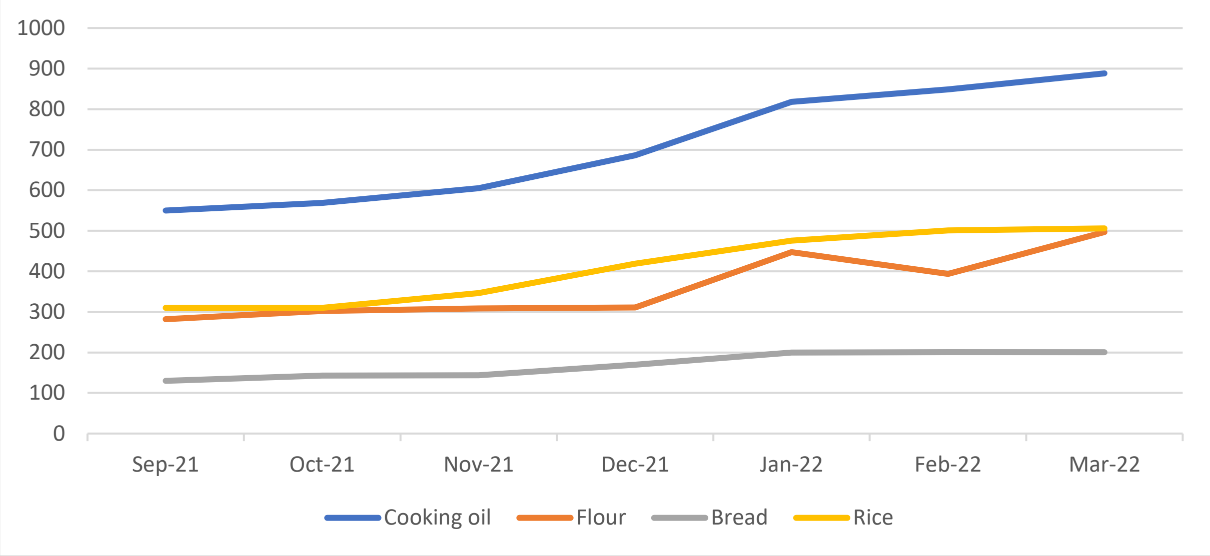
4.1 The ability of a firm to offer products and services that meet quality standards and affordable prices for local, regional and international markets depends on a wide range of factors that include cost of production, among others. This in turn largely influence the price of goods and services. A high-cost base results in the general increase of prices of goods and services that weighs on industrial competitiveness.

4.2 As a result, an increase in a firm's cost drivers' is passed on to the consumer in the form of price increases. Accordingly, prices of basic commodities have been moving along with increases in the cost of production in the economy.

4.3 In this regard, the Zimbabwean economy experienced an increase of the blended consumer price index for food and non-alcoholic beverages from 129.29 in September 2021 to 166.96 in March 2022 due to the rise of prices of fuel, water, electricity, gas and other cost drivers, which rose from 128.9 to 142.6 over the same period. These developments were compounded by price increases of other cost drivers such as finance cost, Government levies and taxes, foreign currency shortages and transport/logistics.

4.4 Figure 5 below, shows the upward trend of basic commodities price movements from September 2021 to March 2022.

Figure 5: Basic Commodities Price Movements September 2021 – March 2022



Source: Ministry of Industry and Commerce Price survey data

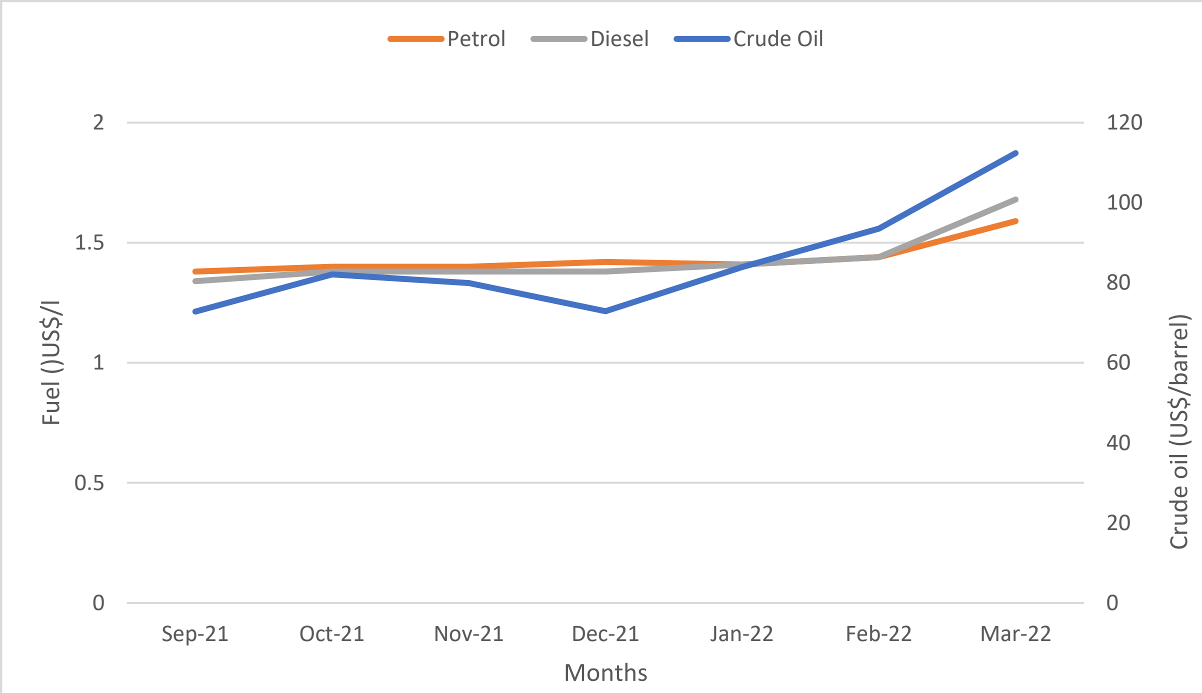
4.5 Of major concern on cost drivers is the volatility of prices of fuel during the period under review.

Fuel

4.6 Fuel is one of the major cost drivers in Zimbabwe, as all petroleum products are 100% imported. The rise of international price of crude oil, which Zimbabwe has no control translates into the increase petrol and diesel prices in the economy. There is a strong positive correlation between fuel price increase and the cost of production and manufacturing energy input industries, transportation costs, triggering simultaneous price increase in almost all other commodities.

4.7 Importantly also, diesel has a secondary effect, since all trucks run on this liquid, it will increase freight and transportation costs, including public transport (buses/ Combis ride will go up), which in turn finds its way in the increase of prices of goods and services.

Figure 6: Trend of Petroleum Prices, September 2021 - March 2022



Source: ZERA and World Bank

4.8 As shown by Figure 6, petrol and diesel prices increased continuously from ZW$118.42 and Z$115.15 in September 2021 to ZW$213.90 (US$1.59) and ZW$213.90 (US$1.60) per litre, respectively, in March 2022, culminating in an increase of 80.7% and 85.8% for diesel and petrol, respectively. Fuel price increases were in line with the rising oil prices on the international market, and this was further exacerbated by Russia – Ukraine war.

4.9 The war has resulted in an increase of global fuel prices as Russia is the world's second top producer of crude oil after Saudi Arabia. Crude oil rose from US$72.80 per barrel in September 2021 to US$112.40 per barrel in March 2022. These shocks are being exhibited in the general increase in basic commodities' prices.

Regional Comparison

4.10 Zimbabwe has the most expensive fuel in the region costing US$1.60 per litre against the cheapest price of US$0.28 per litre of diesel obtaining in Angola as at 31 March 2022 as shown by Table 1.

Table 1: Comparison of Fuel Prices: Zimbabwe and Comparator Countries, March 2022

Country	Petrol (US$/ltr)	Diesel (US$/ltr)
Zimbabwe	1.59	1.60
Angola	0.33	0.28
Mozambique	1.08	0.96
Botswana	1.08	1.06
Zambia	1.21	1.19
South Africa	1.38	1.39

Source: ZERA & NCC Compilation

4.11 High cost of fuel in Zimbabwe is mainly ascribed to high taxes and levies, which translate to about 50% of total fuel price, and this makes it expensive compared to the region. Table 2 depicts the taxes and levies on fuel for Zimbabwe and other countries in the region.

Table 2: Comparison of Taxes and Levies on Fuel Prices: Zimbabwe and Comparator Countries, March 2022

Country	Percentage Taxes on Fuel
Zimbabwe	50
Malawi	22
Namibia	25
South Africa	33

Source: NCC Compilation

4.18 As a result, the cost of fuel adds to the final price of the country's goods and services, thereby impacting on competitiveness especially for manufacturing, construction, transport and logistics industries, among others.

4.19 Considering the above, there is need for Government to balance between the objective of collecting revenue from fuel taxes and to fight pollution on one hand a as well as to ensure transportation costs do not adversely impact on business and consumers on the other hand.

4.20 It is recommended for Government to consider reviewing downwards taxes and levies on fuel to match those in the region.

5. NATIONAL COMPETITIVENESS COMMISSION MILESTONES

Value Chain Competitiveness Analysis

Launch and Dissemination of Sugar Value Chain Competitiveness Report

5.1 The Commission launched a Sugar Value Chain Competitiveness Report in Harare on 3 February 2022 and disseminated the Report to Chiredzi from 14 – 15 February 2022. The Report identified challenges weighing on competitiveness, and proffered evidence-based recommendations to both the Government and sugar players in order to enhance the competitiveness of the value chain. The Report was produced following engagements with Out-Growers, Farmer cum Millers, Refiners, Distributors and End-Users in the value chain, as well as benchmarking with other sugar producing countries.

(Sugar Value Chain Competitiveness Report Launch)

5.2 In order to enhance competitiveness of the value chain, the Report recommended the following critical action points:

- Expedite the amendment of the Sugar Production Control Act of 1964, to reflect current developments in the industry with a view to enhance competitiveness of the sector as well as breaking monopolistic tendencies;
- Recapitalize to improve service delivery of the following key enabling service providers:
  - Zimbabwe Electricity Transmission & Distribution Company (ZETDC)- to enable the provision of reliable power supply;
  - Zimbabwe National Water Authority (ZINWA) – to enable refurbishment of water reservoirs and water carrying tunnels; and
  - National Railways of Zimbabwe (NRZ) -to enable refurbishment of new locomotives and wagons to enhance efficiency and competitiveness of the sector;
- Extend the Command Agriculture facility to sugarcane out-growers to enhance competitiveness of the sector. This should be complemented by reviewing land holding fees and excise duty rates on fuel;
- Gazetting Sugar Cane Seed in the Mandate Crops List as well as availing support, which is being accorded to other strategic crops such as maize, tobacco and cotton;
- Engage a reputable independent consultant with experience in developing/ evaluating Division of Proceeds (DoP) formula to carry out comprehensive research to come up with a DoP ratio, acceptable to both out-growers and millers;
- Provide title to land as most farmers were allocated A2 farms in the low-veld, which do not have 99-year leases or title deeds. This will help in attracting investments in the value chain, thereby improving productivity and competitiveness;
- Review of the foreign currency retention threshold from the current 40% to 20% to enable producers, particularly millers and refineries, to generate sufficient foreign currency to adequately finance retooling, importation of inputs, equipment and spares that are not locally produced;
- Extend Value Added Tax (VAT) zero rating to milling services to exempt millers from paying VAT. The tax has got an effect on the pricing of sugar that has an impact on consumers in terms of the product availability and affordability;
- Joint venture between the Government and farmers to establish Mkwasine Sugarcane Milling Plant; and

- Adopt new technology for mechanical harvesting of sugarcane and eliminate manual harvesting of sugarcane to improve production efficiency and competitiveness.

5.3 As way forward, the Commission developed an implementation matrix of recommendations and established a Sugar Value Chain Competitiveness Lab, which will continuously engage to deliberate on key issues affecting the various nodes in the value chain, as well as monitor and evaluate implementation of the afore-mentioned recommendations. The Commission engaged the following institutions to deliberate on implementation the recommendations.

- Ministry of Industry and Commerce;
- Ministry of Finance and Economic Development;
- Ministry of Energy and Power Development;
- Ministry of Transport and Infrastructural Development;
- Ministry of Lands, Agriculture, Fisheries, Water and Rural Development;
- Ministry of Higher and Tertiary Education, Innovation, Science and Technology Development; and
- Reserve Bank of Zimbabwe.

5.4 Implementation of the recommendations is expected to benefit from benchmarking from Brazil, a major sugarcane producer in the world.

Brazil Experience

(NCC team in Brazil)

5.5 The Commission conducted a sugar value chain benchmarking visit to Sao Paulo, Brazil, from 14 – 17 March 2022. Brazil is a leading producer of sugarcane and related products in the world and has a significant share of the world's sugar output. Meetings were held with Brazilian Sugarcane Industry Association (UNICA), famer association (COPLACANA), sugar mills manufacturing company (DEDINI) and sugar research station (the Sugar Technology Center - CTC).

5.6 The exercise also served as a conduit for the development of possible synergies and partnerships, as well as strengthen cooperation between Zimbabwe and Brazil in alternative/renewable energy resources. Some areas of future potential cooperation include, technology transfer & exchange of technical know-how, especially development of the greenfield and green harvesting techniques in sugar cane projects, operation & maintenance training programs as well as Strategy and research development for the sugar sector and the usage of the sugar industry by-products.

5.7 The objective of the co-operation will be to enhance sugar projects implementation, supply, production, engineering process, technical development, and sugar/sugar by-products manufacturing in Zimbabwe to enhance competitiveness.

5.8 Besides the potential future cooperation in the sugar sector, from the benchmarking visit, it was ascertained that Brazilian competitiveness in the sugar industry emanates from a number of variables. Some of the key lessons learnt from the Brazilian benchmarking visit, that if implemented can also enhance the competitiveness of the local sugar industry include:

- Break the monopolistic structure in the local sugar value chain and allow more players to come onboard;
- Diversification by millers through the adoption of advanced technology that produces both sugar, ethanol and bioelectricity by the local players. This can also increase the country's self-reliance and resilience in the wake of external shocks such as the recent spike in global oil prices;
- Merge all fragmentated local farmer associations and establish a single, strong and coordinated apex farmers' association that can provide the requisite support to sugar farmers;
- Adoption of environmentally friendly farming practices that reduce carbon footprints and use of waste from milling processes in farming;
- Need for development of a technological park with Great Zimbabwe University that specialises in sugar, as well as continuous development of sugarcane varieties by

sugarcane seed variety Research stations owned by both the millers and Government, to meet changing soil & climatic conditions as well as emergence of new diseases.;

- Introduction of a new Government legislation that allows for only importation of flexible motor vehicles that uses ethanol and mandatory blending;
- Significant Government budgetary support; and
- Engage a consultant to re-define the Division of Proceeds Model, thereby addressing the longstanding dispute between farmers and millers, through a Tripartite Committee involving the Ministry of Industry & Commerce, millers and farmers that meet monthly and set the sugarcane producer price per tonne.

Regulatory Impact Assessment

5.9 Among its functions, the Commission is mandated to review 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. To this end, the NCC is in the process of developing a Regulatory Impact Assessment (RIA) tool for implementation in Zimbabwe. RIA is a contemporary, tested and proved approach to enhance global competitiveness.

5.10 It is against this background that the Commission is being supported by the European Union for RIA capacity building on Framework Development under the Technical Assistance for Zimbabwe Economic Partnership Agreement (TAZEPA).

5.11 The purpose of RIA is to ensure that regulation is welfare-enhancing from the societal viewpoint, that is, benefits surpass costs, thereby providing competitiveness test before they come onstream. RIA makes transparent the benefits of different regulatory options for various stakeholders, the implications for compliance and the state's cost of enforcement.

Global Federation of Competitiveness Councils

5.12 The National Competitiveness Commission became a member of Global Federation of Competitiveness Commission (GFCC) in October 2021.

5.13 To this end, NCC participated in the 9th Brazilian Industry Innovation Summit held under the auspices of the GFCC in Sao Paulo, Brazil from 9 – 11 March 2022.

5.14 The Brazilian Industry Innovation Summit comprised of representatives from the productive sector, Government, and Academia. It is the largest and most consistent debate on innovation in Latin America and is the frontline of industrial research and development in the country.

5.15 The Summit's major highlights were on innovation as the anchor of building resilience and competitiveness across economies. Innovation is the modern strategy of competitiveness and is measured by The Global Innovation Index (GII). Zimbabwe is placed 11 out of 132 countries on the 2021 GII, with a measly score of 21.9. The summit, therefore, provided a platform for developing technological solutions in creating sustainable and resilient economies, through exchange of information from business, academic, labour, and policy leaders.

5.16 The top innovation countries introduced Science, Technology, Engineering and Mathematics (STEM), and its high time the country resuscitate the programme. Furthermore, the academia-industry partnership should be forged or strengthened where it already exists for commercialisation of products, as well as meaningful budgetary support and incentives for innovations.

5.17 Based on this experience, the Commission is engaging Universities innovation hubs to strengthen Research and Development with a view to provide solutions to industrial needs.

Engagement with Tertiary Institutions on Innovation Hubs

5.18 Innovation is the main driver of productivity and economic growth as well as a modern strategy of competitiveness in the new world order. Furthermore, there is a strong correlation between education and innovation. Education result in diffusion of information and can close technology gaps. Education provides ways of rethinking and providing solutions to challenges faced by the public and private sectors, as well as preparing people to deal with emerging challenges.

5.19 Under the ambit of competitiveness, innovation, research and skills development are some of the key pillars that Universities also look at.

5.20 Against the above background, the Commission embarked on an initiative to engage local Universities for possible partnerships on innovation.

5.21 For the period under review, the NCC reached out to tertiary institutions with innovation hubs and have since undertaken study tours to Harare Institute of Technology (HIT) and National University of Science and Technology (NUST).

5.22 The envisaged collaboration objectives include the following, among others:

- Identify and develop innovative products and services that have potential to boost Zimbabwe's global competitiveness;
- Initiate the creation of new companies on innovative products; and
- Train a new generation of entrepreneurs and upskill Zimbabwe's labour force.

5.23 In view of the importance of innovation, the Commission will be holding innovation summits encompassing the Government, industry and academia, to discuss on how to use innovation as an anchor for competitiveness. Furthermore, the 2022 Zimbabwe Competitiveness Report will also have a Chapter on Innovation.

Small and Medium Enterprise Competitiveness Survey

5.24 The Commission is working with the International Trade Centre (ITC), a trade development agency that is fully dedicated in supporting the competitiveness of SMEs in the international market, to provide technical support to carry out the SMEs Competitiveness Survey through training of enumerators.

5.25 The SMEs sector contributes approximately 60% of GDP in Zimbabwe, hence is an important sector in meeting domestic and international demand. The thrust under the Zimbabwe National Trade Policy and Zimbabwe National Export Strategy is to reach an export target of US$7 billion by 2023 and US$14 billion by 2030.

5.26 Cognizant of the importance of SMES in enhancing economic transformation and GDP growth, the National Development Strategy 1 (NDS1), underscores the need to increase the contribution of value-added exports to total exports from 9% in 2020 to 20% by 2025. These milestones requires that SMEs operate efficiently to produce quality products that meet international standards.

5.27 SMEs face some specific challenges due to their small scale and relatively low trade volumes compared with large companies. These factors can have an adverse impact on their ability to trade internationally.

5.28 The Commission will undertake an analysis of the current challenges, laws and regulations weighing down on competitiveness of SMEs. This will inform policies that nurture SMEs and afford them economic space to grow and penetrate new markets.

5.29 The objectives of the SMEs Competitiveness Survey are to:

- Identify the industry specific challenges affecting Small to Medium Enterprises (SMEs);
- Ascertain the level of export competitiveness of Small to Medium Enterprises;
- Profile key policy and regulatory impediments to growth and competitiveness of SMEs;
- Support SME internationalization and to provide more knowledge about trade-related issues;
- Identify and proffer industry recommendations on strategies and quality standards that enhances the SMEs sector to have global competitive edge; and

- Proffer policy recommendations to Government and relevant bodies to improve competitiveness of the SMEs sector.

5.30 The Commission in conjunction with ITC and Ministry of Women Affairs, Community, Small to Medium Enterprises will be working together in conducting the SMEs competitiveness survey.

Partnership with the World Economic Forum

5.31 The NCC has been registered as a Partner Institute by the World Economic Forum (WEF) for the purpose of undertaking 2022 Executive Opinion Survey (EOS) for Zimbabwe on key competitiveness parameters. The EOS will lead to the computation of the Global Competitiveness Index for Zimbabwe's ranking in the 2022 WEF's Annual Global Competitiveness Report.

5.32 As a Partner Institute, the NCC is mandated to coordinate the engagement of the Private Sector Executives in Manufacturing, Mining, Agriculture, Tourism, Construction, Financial Sector and other Service Sectors to provide important guidelines on the completion of the Survey.

5.33 To this end, the Commission will be working with Business Management Organisations (BMOs) such CZI, ZNCC, Construction Industry Federation of Zimbabwe, Insurance and Pension Commission, Small to Medium Enterprises Association of Zimbabwe, Chamber of Mines, Zimbabwe Tourism Authority to facilitate the coordination and provision of data for the respective competitiveness indicators.

5.34 A minimum of eighty (80) respondents are expected to participate in the EOS, taking into account the geographical dispersion and size of the companies, as well as the economic structure of the country. The respondents will be drawn out as follows:

Sector	% Per Sector
Agriculture	7.61%
Services	49.9%
Manufacturing	18.43%
Industry non-manufacturing	17.39%
Free distribution	6.68%
Total	**100.00%**

5.35 This a critical milestone for the Commission, given that Zimbabwe was not ranked in 2021 under the GCI.

6. CONCLUSION AND RECOMMENDATIONS

6.1 Overall, competitiveness is important for productivity as well as economic growth and development. The current high inflationary pressures attributed to parallel exchange rate movements are adversely impacting on national competitiveness, as prices of basic commodities has been rising during the period under review.

6.2 Cognisant of this and the need to ensure industry viability, availability and affordability of goods and services by consumers as well as enhanced competitiveness, the Commission recommends the following, among others:

- Implementation of fiscal and monetary policy strategies that address macroeconomic imbalances through creation of an efficient exchange rate system that is market-oriented, with a view to timeously avail foreign currency for raw materials, retooling and purchase of spares;
- Mobilisation of savings through rebuilding public confidence in the financial markets to create a pool of resources to fund development of real sectors and infrastructure;
- Allowing productive sectors to access foreign currency at interbank rate across the financial sector with a view to increase volumes, which in turn will drive down unit costs of production;
- Enhanced engagement between Government through Ministry of industry and Commerce with industry players in order to dialogue on issues affecting the industry so that they can take an active role of influencing monetary and fiscal policy regarding operational issues, particularly the auction system;
- Upgrading efforts in promoting import substitution to boost local production and reduce the import bill;
- Investment in ICT infrastructure development and industry to adapt to innovation and application of new technology in production; and

- Value chain analysis aimed at outlining the main competitiveness challenges facing the sector in Zimbabwe and proffer policy responses to deal with the challenges that would have been identified.

NATIONAL COMPETITIVENESS COMMISION
"Enhancing Zimbabwe's Global Competitiveness."

Published by:
National Competitiveness Commission,
1 Adylinn Road, Agriculture House
Corner Marlborough Drive & Adylinn Road
Marlborough, Harare

Tel: +263 242 300764 /+263 242 313230
Email: info@ncc.co.zw
Website: https://ncczw.co.zw