NATIONAL COMPETITIVENESS COMMISSION

Enhancing Zimbabwe's Global competitiveness

ANALYSIS OF ZIMBABWE'S COMPETITIVENESS: A COMPARISON WITH OTHER COUNTRIES IN THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC) REGION (BOTSWANA, SOUTH AFRICA, MOZAMBIQUE, NAMIBIA AND ZAMBIA)

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Table of Contents

1. 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 proved 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 and makes 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, ZIDA and the National Competitiveness Commission (NCC), 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 7 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 (NCC). 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 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

2. BACKGROUND

1.1 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 follows the 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.

1.2 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.

1.3 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).

1.4 Economic competitiveness is an economy's ability to produce and sell goods and services that meet the test of both domestic and international markets while enabling its citizens to earn an improving and sustainable standard of living.

1.5 Competitiveness measures and compares the effectiveness of countries in providing firms with an environment that sustains the domestic and international competitiveness of those firms. 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.

1.6 There are two key types of cost drivers that organisations should take congnisance of, which are, the resource cost driver and an activity cost driver. The resource cost driver seeks to deal with the quantity of resources consumed by an activity or a product or a service, whereas the activity cost driver deals with the frequency and intensity of demand placed on activities to produce a product or a service.

1.7 It is therefore important for organisations to perform a cost driver analysis to find out the major cause of high costs. Without understanding the activities in the organisation's functional areas, it becomes difficult to identify the suitable cost drivers, making it also difficult to deal with the cost structures that are ballooning daily.

1.8 When it comes to the organisational activities, major types of cost driver analysis that should be noted are structural and executional cost drivers. The structural cost driver relates to business strategic choices about an organisation's underlying economic structure, such as scale and scope of operations, use of technology and complexity of products.

1.9 On the other hand, the executional cost driver relates to the execution of the business activities, such as utilisation of employees, provision of quality service, product design and manufacturing. With limited understanding of cost driver analysis, cost management becomes problematic. Peter Drucker, once said, "If you can't measure it, you can't improve it."

1.10 Zimbabwe industry has been shrinking over the years and producers have resorted to acquiring foreign currency from the parallel market at a premium thereby pushing the cost of the final products making them less competitive both on the domestic and export markets.

1.11 The shrinking industry and poor competitiveness is not aligned to the strategy pillars of the SADC Industrialization Strategy and Roadmap 2015-2063 to which

Zimbabwe subscribes. These include industrialization as champion of economic transformation and competitiveness, among others.

1.12 Further, the aspirations of Vision 2030 and the National Development Strategy 1 (NDS1) (2021 - 2025) are anchored on creation of a competitive and friendly business environment and enhanced domestic and foreign investment, among objectives. 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.

1.13 It is critical to note that Zimbabwe produced its first National Competitiveness report in 2015 to understand the country's competitiveness and benchmark its performance on carefully selected indicators globally and against selected comparator country economies.

1.14 Similar work has been done in 2019 by ZEPARU to update and interrogate the outcome of interventions government put in place after 2015. The paper by ZEPARU analysed 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.

1.15 This paper therefore seeks to inform policy and make the decision makers see the importance of promoting competitiveness in Zimbabwe compared to regional countries. The major focus is to analyse the GCI indicators and the cost drivers in relation to Zimbabwe against the Region (Botswana, South Africa, Mozambique, Namibia and Zambia)

3. CONCEPTUAL FRAMEWORK FOR COMPETITIVENESS

2.1 There is no agreed definition to competitiveness as 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 (GCI) is a widely-used tool.

2.2 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).

2.3 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. 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.

2.4 The Global Competitiveness Index Framework outlines 12 pillars of competitiveness in the fourth industrial revolution (4.0) namely; institutions, infrastructure, Information and Communications Technology (ICT) adoption, macroeconomic stability, health, skills, product market, labour market, financial system, market size, business dynamism and innovation capability.

2.5 The first pillar 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 and production planning, among others.

2.6 In this pillar, it is not only the legal framework that matters but government attitude towards markets and freedoms and the efficiency of its operations. This include 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 that impose significant economic costs to businesses and slow the process of economic development (Schwab, 2015).

2.7 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.

2.8 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).

2.9 Macroeconomic stability is the fourth pillar that 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.

2.10 Pillars 5 and 6 are on health and skills and these two constitute the human capital of a country. The focus is on the state of public health; the quality of basic (primary) education; the quality of higher and tertiary education; as well as on- the – job training. 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.

2.11 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.

2.12 Pillars 7 to 10 namely the product market; labour market; financial system and market size are grouped into markets under the Global Competitiveness Index Framework. Countries that have efficient product 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.

2.13 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.

2.14 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.

2.15 In this regard, 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 exchange, 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.

2.16 The 11th and 12th pillars notably, business dynamism and innovation capability form the innovation ecosystem. 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.

4. OVERVIEW OF ZIMBABWE'S COMPETITIVENESS

3.1 Zimbabwe uses the Global Competitiveness Indices (GCI) and other indicators such as the World Bank Ease of Doing Business report, IMD World Competitiveness Yearbook, Heritage Foundation Index of Economic Freedom, and the Corruption Perception Index of Transparency International in assessing its competitiveness in areas that include trade, foreign investment, tourism and ICT.

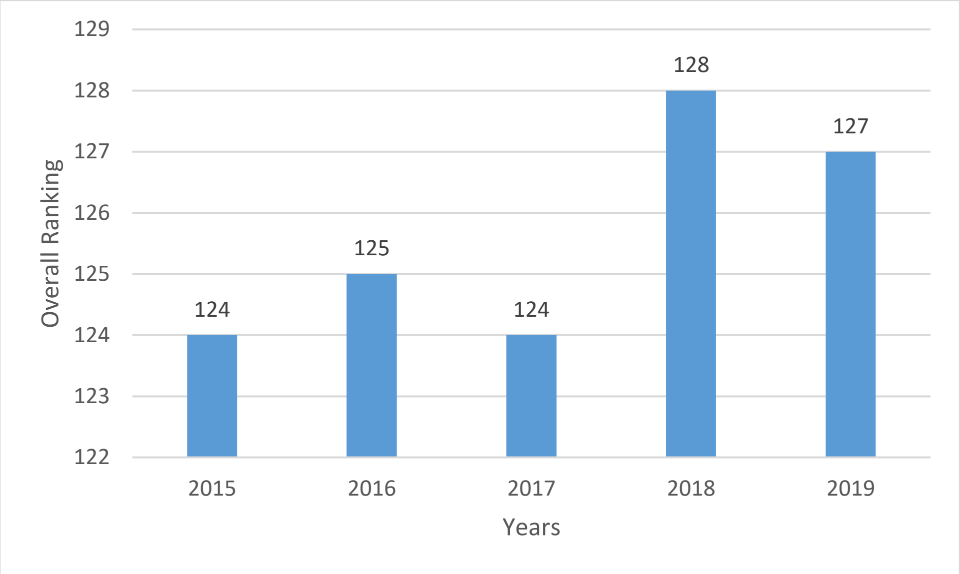
3.2 For benchmarking purposes, this paper uses the GCI as the major measure of competitiveness given its wider coverage in terms of countries and indices employed. GCI is the longest standing report of its kind having been produced annually for the last forty (40) years, which makes it the most preferred source of competitiveness data.

3.3 Zimbabwe has been viewed as a high-cost country, especially for doing business, and several cost drivers have been pointed out. Costs are the major determining factor of the price for products and services, making the prices in Zimbabwe more expensive compared to the region. In accounting terms, a cost driver is described as a factor that can cause a change in the cost of an activity or product or service

3.4 However, the overall doing business has been gradually improving after Government under the Transitional Stabilisation Programme (TSP) pursued the ease of doing business reforms as part of broad measures of enhancing the country's competitiveness and investment environment. Resultantly, Zimbabwe's ranking improved by 31 points from 171 to 140 in 2015 and 2020, respectively, as shown in Figure 3.

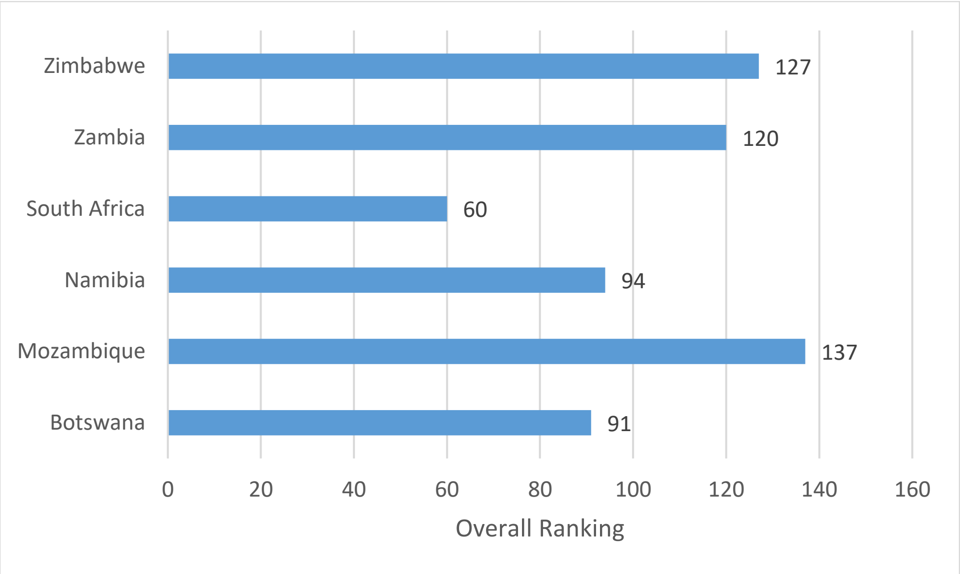
3.5 According to the 2019 Global Competitiveness Report, the country was ranked 127th out of 141 countries of the world, one place up the ladder from the 2018 score. Similarly, the country was ranked 140th out of 190 economies under the World Bank's Doing Business Index in 2020.

Figure 1: Zimbabwe World Economic Forum Global Competitiveness Ranking



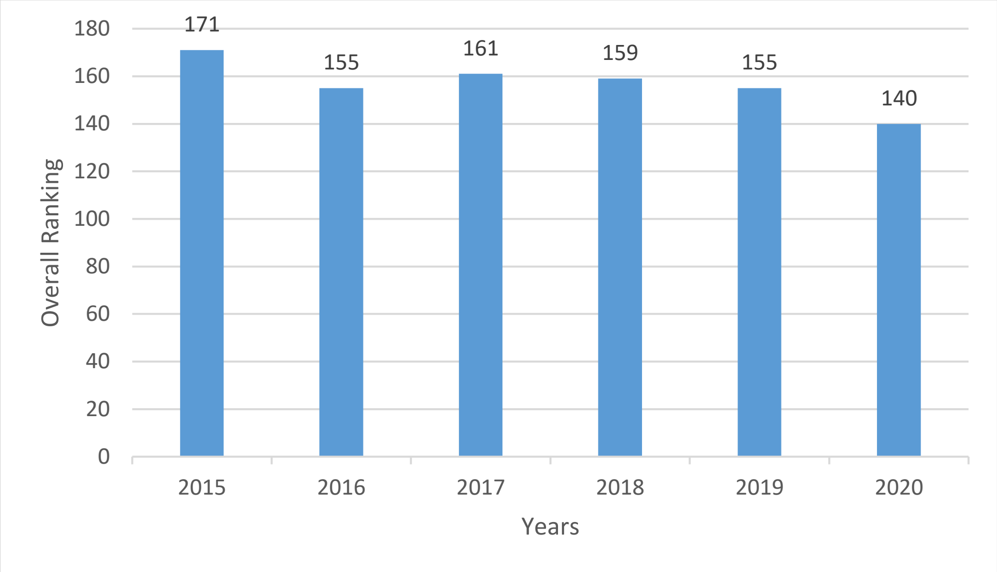
Source: World Economic Forum

Figure 2: 2019 Zimbabwe World Economic Forum Global Competitiveness Ranking compared with other countries in SADC region 2019)



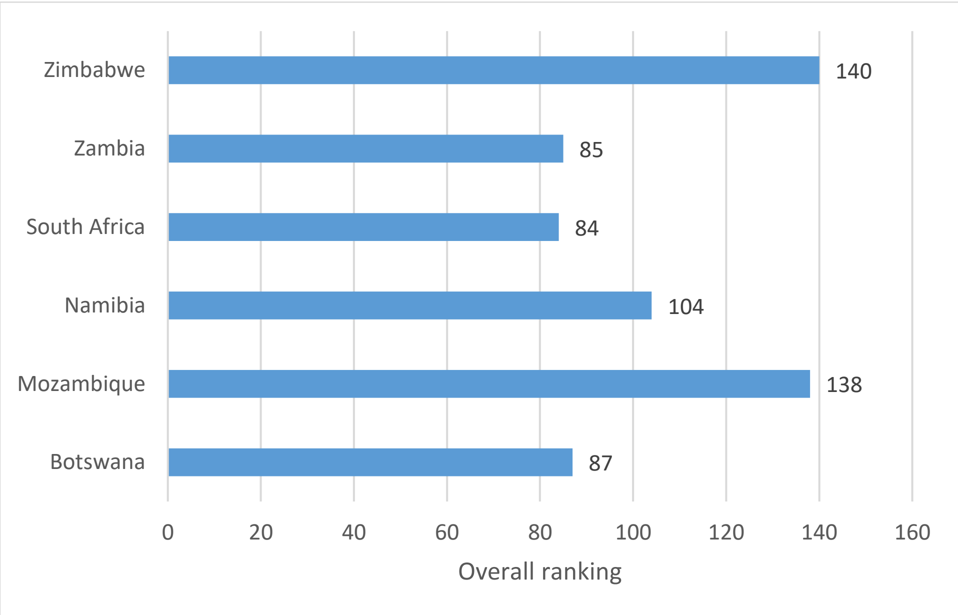
Source: World Economic Forum

Figure 3: Zimbabwe World Bank Ease of Doing Business Ranking



Source: World Bank

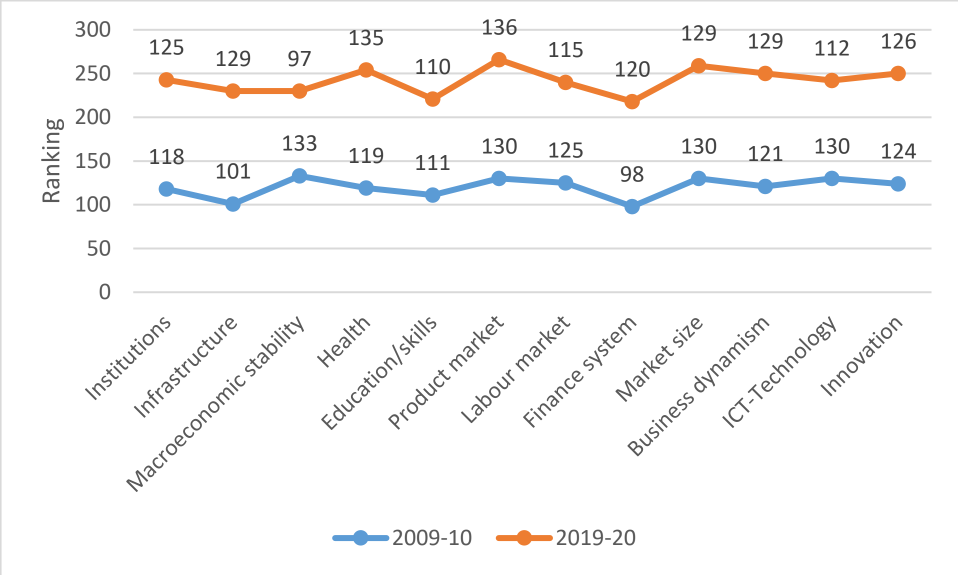
Figure 4: 2020 Zimbabwe WB Ease of Doing Business Ranking compared with other countries in the SADC region



Source: World Bank

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

Figure 5: Zimbabwe Ten-Year Comparison of Rankings by Pillar



Source: World Economic Forum

3.7 The ten-year comparisons illustrated in Figure 5 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; and
- Substantial deteriorations in infrastructure, the financial system, and health.

3.8 The key lessons learnt include the following:

- 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;
- 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 15 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;

- Zimbabwe's overall score, admittedly on amended criteria, was 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 policy measures which may not be sustained in medium term if key macroeconomic fundamentals keep changing in the negative direction; and
- 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 Zimbabwe 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.

5. REASONS FOR ZIMBABWE'S LOW COMPETITIVENESS RANKINGS

4.1 According to the 2019 ZEPARU study on Pathways to improve competitiveness, corruption, cost of doing business and lack of policy consistency were identified as major factors determining low competitiveness in Zimbabwe.

4.2 Weak institutional capacity for service delivery was also identified as the major contributing factor, where Zimbabwe was ranked number 125 out of 141 countries on the quality of institutions under the 2019 Global Competitiveness Report.

4.3 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.

4.4 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.

4.5 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.

4.6 Further, despite exposure of poor corporate governance and rampant corruption 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, 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.

4.7 The study findings 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 associated benefits.

4.8 Further, limited institutionalised support for emerging or small businesses or emerging industries was another weakness identified.

4.9 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 and 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.

4.10 Slow pace of competitiveness enhancing reforms was also identified as one of the contributing factors. 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.

4.11 More so, a number of institutions have been created to foster competitiveness. These include the National Competitiveness Commission (NCC) and the Zimbabwe Investment Development Agency (ZIDA).

4.12 Furthermore, Government identified the necessary reforms to address constraints to ease export doing business and commercial courts have also been established to expedite resolution of commercial disputes.

4.13 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 (BIPPAs) however, have been highlighted as some of the factors impeding attraction of competiveness enhancing investments. For instance, Zimbabwe was ranked: 113 out 141 countries on judiciary independence and 137 out of 141 on property rights in the 2019 Global Competitiveness Report.

4.14 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.

4.15 The gestation period for the crafting and implementation of the National Quality Policy and value chain sector strategies is long resulting in delays in the implementation of competitiveness enhancing measures within these frameworks. 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.

4.16 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.

4.17 Rampant corruption both in public and private sectors was also found to be one of the greatest setbacks to the country's competitiveness. Zimbabwe was ranked (157/180) as one of the highly corrupt countries in the 2020 Transparency International Corruption Perception Index. 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 ultimately enhance competitiveness.

4.18 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 (IEPA) signed in 2009.

4.19 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 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.

4.20 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.

4.21 Limited participation in regional and global value chains is one of the major contributing factors. Zimbabwe's exports lack diversification and the volumes are still suboptimal. Primary and semi-processed commodity prices are vulnerable to fluctuations in international markets.

4.22 Further, the country is reliant on a few export products that are mostly primary in nature. 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.

4.23 Sound infrastructure is a key driver of the country's 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).

4.24 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 to resort to using road transport to move bulky goods. Using road transport to move bulk goods is not only more expensive than alternatives as such rail but damages the road system due to wear and tear.

4.25 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

6. DETEMINANTS OF COMPETITIVENESS

5.1 The competitiveness of a country is mainly affected by cost drivers into the production and provision of goods and services. This section analyses each cost-driver as the key determinants of competitiveness in Zimbabwe. Where ever possible, the costs are benchmarked with levels in Botswana, South Africa, Mozambique, Namibia and Zambia. The identified cost drivers include labour, power, water, finance, transportation and trade logistics, and communication cost.

Labour

5.2 Labour remains critical in assessing competitiveness in Zimbabwe both on the basis of cost and productivity. Regarding the cost, high minimum wages influence production cost and deter investors. Productivity is of concern as it influences expected output and revenues.

5.3 Along with capital, labour is a basic factor of production, and its costs influences the costs of all goods and services produced in the economy in the proportion of the particular intensity with which the production process utilizes labour.

5.4 As such, it has a cross-cutting influence in all the other identified cost-drivers, including finance. It is therefore critical to ensure that wage levels are aligned with overall growth and productivity in the economy.

Minimum Wage

5.5 Minimum wages continue to be a cause of concern for employers as they continue to be negotiation based instead of being productivity based. Minimum wages are determined through collective bargaining between employers' associations and workers unions (Employment Councils).

5.6 However, the stakeholders in the negotiation tables always fail to reach consensus due to diversion of views on the level of wages in Zimbabwe especially during the Tripartite Negotiation Forums (TNF). Employers argue that labour is too expensive while trade unions are on the contrary.

5.7 Zimbabwe's minimum wage as gazetted in the Statutory Instrument 81 of 2020 is ZW$2550, which translates to US$30 using the prevailing exchange rate. A proposal of US$260 is under the Tripartite Negotiation Forums (TNF).

Table 1: Minimum Wages USD per month

Country	**Minimum Wage (US$/PPP**
Zimbabwe	260 (under TNF negotiations)
Zambia	252
Botswana	1287
South Africa	1251

Source: ILO Global Wage Database

Relationship between Pay and Productivity

5.8 Table 2 indicates that Labour Efficiency Index for Zimbabwe is lower than all other comparator countries. This reveals that the productivity of labour in Zimbabwe is still below expectations. The birth of the Zimbabwe National Productivity Institute (ZNPI) is long overdue. The institute is expected to provide better wage estimates on the basis of labour productivity.

Table 2: The extent to which Pay is related to Productivity

Country	Labour Efficiency Index (2017)
Zimbabwe	3.72
South Africa	3.96
Zambia	3.86
Botswana	4.52
Mozambique	3.90
Namibia	4.59

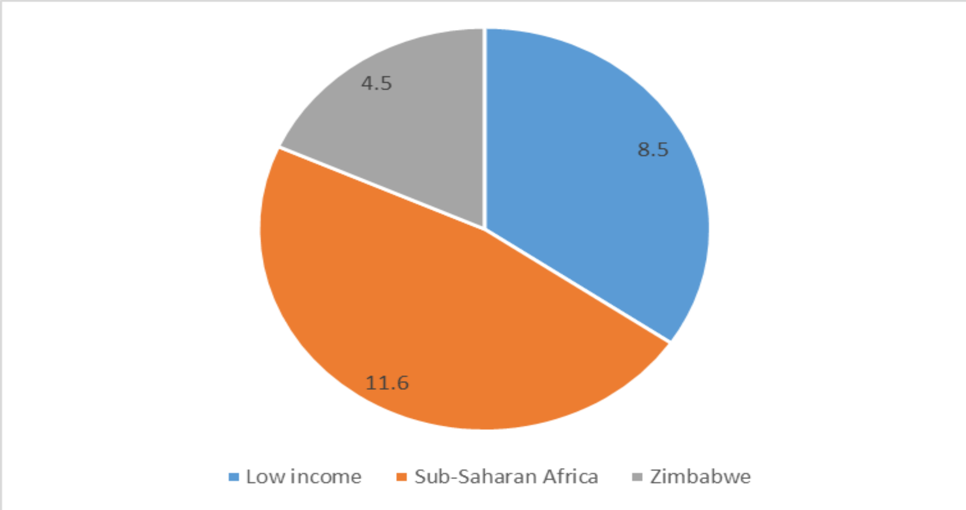
Source: World Economic Forum Global Competitiveness Report (2016/17)

Power

5.9 Zimbabwe is currently facing power shortages with estimated reliable generation capacity of 1300MW against a supressed peak demand of 2200MW. These power shortages will be resolved once several power projects are completed, which include Kariba Hydro Power Station and Hwange Thermal extension and upgrading, among others.

5.10 The quality and reliability of electricity is depicted by the number of power outages per month compared to the region as shown in Figure 6 below:

Figure 6: Quality and Reliability of Electricity Supply by number of Outages/ month



Source: ZERA 2016

5.11 Zimbabwe compares very well in terms of reliability of electricity supply but there is need to eliminate such outages to improve competitiveness. In terms of cost, the average cost of producing electricity per unit (kWh) from the hydro and thermal stations is high compared to comparator countries due to aging equipment and inefficiencies in power distribution.

5.12 In terms of tariffs, Zimbabwe has the highest tariffs for both commercial and industrial users compared to other countries in the region. This implies high production costs for industrial users, a situation that results in Zimbabwe's products being unattractive in terms of price on the international markets, thus causing a loss of competitiveness compared to the neighbouring countries.

Water

5.13 Water charges have remained high in Zimbabwe compared to its comparators within the region. The charges in Zimbabwe are above US$0.86 per cubic metre while in South Africa, our major trading partner, charges US$0.67 per cubic metre.

Table 3: Clear Water Tariffs

Country	**Water Tariffs ($/1000 litres**
Botswana	0.85
South Africa	0.67
Mozambique	0.74
Zambia	0.62
Zimbabwe	0.86

Source: World Fact Book (2019/20)

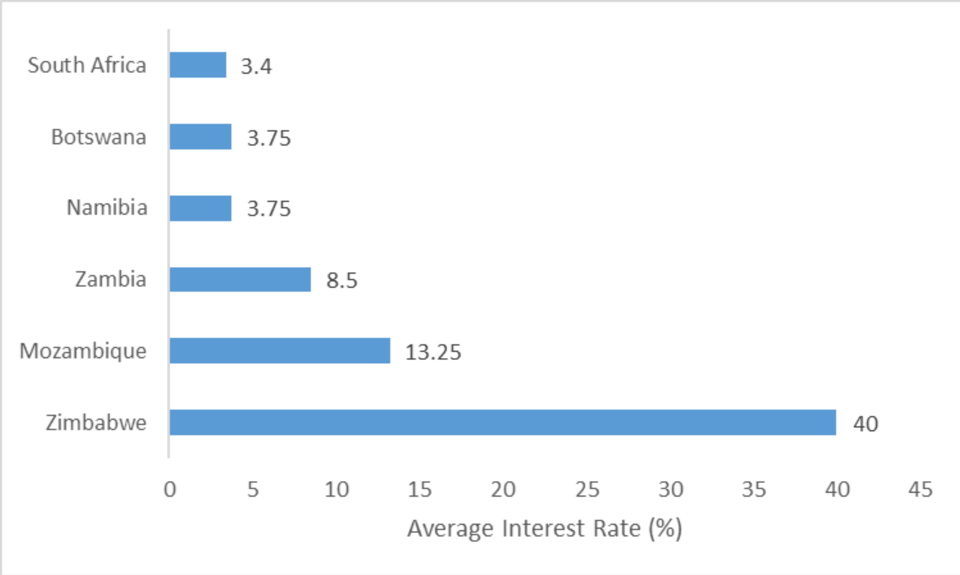
5.14 Zimbabwe's water charges are high due to the high cost of purifying water arising mainly from highly polluted raw water from the main source. In most cases, raw sewage is being discharged into the dams and rivers in the main cities resulting in the requirement of more water treatment chemicals in the purification processes on such water. The water treatment chemicals are imported at a higher cost.

Finance Cost

5.15 The finance cost remains high in Zimbabwe, with and average interest rate of 40% which deter firms from borrowing to finance their working capital requirements.

5.16 The average interest rates for the comparator countries namely, South Africa, Botswana, Namibia, Zambia and Mozambique are below 15%, which makes them more competitive than Zimbabwe.

Figure 7: Zimbabwe's Average Interest Rate compared with other SADC countries



Source: Trading Economics

Transportation and trade logistics

5.17 Transport is an important cost factor for any business and for determining the competitiveness of the business. Transport involves issues to do with cost of exporting and importing, days to process transactions and fuel cost. Transport cost has a major bearing on the overall cost of exporting and importing.

5.18 Transport cost is exacerbated by excessive roadblocks and toll fees. The number of roadblocks along highways is a major concern for transport companies, and besides bribes paid along the way, the idle time spent on these roadblocks is a major cause of concern.

5.19 Overall, transport and other logistics involving cross border transactions is subjected to red tape, excessive and opaque processes, frequent solicitation of informal payments and multiple physical inspections, which has a bearing on the cost of trading (USAID, 2014)

Table 4: Pump price of basic fuel (Petrol and Diesel)

Country	Petrol (USD)	Diesel (USD)
Zimbabwe	1.33	1.34
Botswana	0.84	0.91
South Africa	1.22	1.21
Zambia	0.97	0.86
Mozambique	1.07	0.94
Namibia	0.93	0.89

Source: Compiled by the researcher as at 31 May 2021 using the prevailing exchange rates

5.20 As shown in Table 4, Zimbabwe is the only country in the region that charges more than dollar twenty for a litre of either diesel or petrol. This affects the overall cost of transport in Zimbabwe.

5.21 This fuel cost is also reflected in the prices of the country's goods and services, a factor that also contributes to the uncompetitiveness of the country. The high fuel cost in Zimbabwe is attributed to high levies and taxes of fuel which are in the range of 100% of the landed cost of fuel.

Communication cost

5.22 Telecommunication charges have remained high in Zimbabwe compared to its comparators due to dual pricing, which allows authorised operators to peg tariffs at the official exchange rate and in United State dollars.

5.23 The average cost of calling per minute using mobile phone is around US$0.20 in Zimbabwe and data costs almost US$0.50 per MB. Copmared to other countries within the region, the ICT costs are relatively high in Zimbabwe.

7. RECOMMENDATIONS

6.1 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 AfCFTA, and SADC Industrialisation Agenda and roadmap, particularly the strategic pillar on competitiveness.

6.2 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.

6.3 The Government may therefore consider the following conduits to increasing the country's competitiveness:

Prioritising Macroeconomic Stability

6.4 There is need for the government to prioritise macroeconomic stability aimed at reaching the SADC macroeconomic convergence targets on inflation; fiscal deficit; public debt; economic growth; domestic savings; domestic investment among others.

6.5 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.

6.6 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 NDS 1 requires sustaining and deepening.

6.7 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.

6.8 The government needs to timely implement economic policies to ensure increased exports and growth. These include the industrial development policy, trade policy, the local content strategy and the export development strategy.

6.9 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.

Strengthening public institutional capacity

6.10 Government need to strengthen public institutions to ensure efficiency and effective service delivery through adherence to best practices on corporate governance and adequately capacitating these institutions.

6.11 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.

6.12 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.

6.13 Government to eliminate red tape by rationalising cumbersome procedures to reduce the number of regulatory agencies conducting export business.

6.14 There is also 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.

Fostering Investment Promotion

6.15 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.

6.16 Further, there is need to ensure that the ZIDA effectively delivers on its mandate. In addition, there is need to capacitate the National Competitiveness Commission for it to fully render the much needed research and advisory services on competitiveness in Zimbabwe.

6.17 Speedy and effective implementation of policies such as the Zimbabwe Industrial Development Policy; Trade Policy, Local Content Strategy; Export Development Strategy; and sector strategies, whilst ensuring their coordination will be key in enhancing competitiveness of the country.

6.18 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. 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.

6.19 There is further need to restore relations with the international community through honouring its international loan commitments as they fall due.

6.20 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.

6.21 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.

6.22 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.

6.23 There is need to put 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.

Ensuring access to affordable working capital

6.24 Ensure access to affordable working capital for business retooling and development. Further, there is need for government/ private sector to provide capital expenditure loan facilities for expanding export-oriented production in different sectors of the economy. Access to finance for retooling and adoption of modern technology cannot be over emphasised.

Reorientation of skills development policies

6.25 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 countries are benefiting from global trade and Zimbabwe should not be left out.

6.26 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.

6.27 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.

Fostering trade openness

Promotion of export growth, diversification and value addition

6.28 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 enhances the country's trade openness as it exploits its comparative and competitive advantages based on its factor endowments.

6.29 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.

6.30 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.

6.31 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.

6.32 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.

6.33 There is need to support production capacity of the manufacturing sector by creating the conducive environment for business. 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.

6.34 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.

6.35 Service delivery of the exported products also need 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.

Increasing labour productivity in various sectors of the economy

6.36 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.

6.37 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. The contract farming models that have largely been implemented in tobacco and cotton can be rolled out to other crops.

Enhancing trade facilitation

6.38 This can be achieved by addressing logistical challenges linked to customs, infrastructure and timeliness, among others. 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.

6.39 The government may consider expeditious implementation of the One Stop Border Post concept, particularly at Beitbridge with a view to modernise the border processes and enhance transparency and speed in the movement of goods and persons across the border. 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.

6.40 Investment in critical infrastructure 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. Further, regulatory processes that facilitate trade need to be streamlined and modernised.

Critical infrastructure investment

6.41 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.

6.42 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.

6.43 The government needs to conform to international standards through investing in and upgrading national quality assurance infrastructure.

Fostering transition from informality to formality

6.44 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.

Promoting public confidence

6.45 The Government needs to increase its communication on economic policy processes. For example, the public needs to be informed on what the NDS 1 seeks to achieve as well as the progress made in its implementation.

6.46 Further, there is also need for right communication on policy issues and their implications as well as sticking to policy pronouncements.

6.47 The government needs to follow due processes of the Constitution and embrace inclusivity in policy formulation processes. This requires nurturing a culture of public dialogues and inclusive consultation of all policy actors when designing new policies and development plans.

6.48 There is need for government to create an investor friendly business operating environment that facilitates investors to take risks. There is also need to upscale its support to the already existing businesses, a move that will improve the foreign investor perception about Zimbabwe's investment climate.

6.49 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.