NCC

COMPETITIVENESS BULLETIN

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1. INTRODUCTION

1.1 The national Competitiveness Commission (NCC) is mandated to facilitate the creation of a competitive business environment in Zimbabwe. To execute the mandate, the Commission, among its functions, provides evidence-based research, policy, and regulatory analysis to advise the nation on measures that enhance national and global competitiveness.

1.2 One of the Commission's publications is the Quarterly Competitiveness Bulletin, which captures the latest developments in the quarter as well as report progress on the Commission's milestones towards the improvement of the country's competitiveness.

1.3 The main objective of this Bulletin is to keep the nation abreast with the latest developments on the macroeconomic environment factors and other identified critical indicators threatening the country's competitiveness.

1.4 This Bulletin, therefore, analysis and informs the nation on inflation, exchange rate and price developments, and proffer appropriate recommendations to enhance the country's competitiveness. Furthermore, it analyses the competitiveness of Small to Medium Enterprises in Zimbabwe and highlights the importance of adopting Regulatory Impact Assessment as a tool to improve the regulatory environment of a country.

2. INFLATION AND EXCHANGE RATE DEVELOPMENTS

2.1 The economy's competitiveness continues to face further deterioration due to macroeconomic challenges attributed to high inflationary pressures and acute currency depreciation both on the official and parallel markets.

2.2 In addition, global inflationary pressures, geopolitical tensions, and the global supply chain interruptions due to the COVID-19 pandemic have also exacerbated the country's loss of competitive edge. Domestically, inflation expectations and exchange rate depreciation have also been major drivers of inflation.

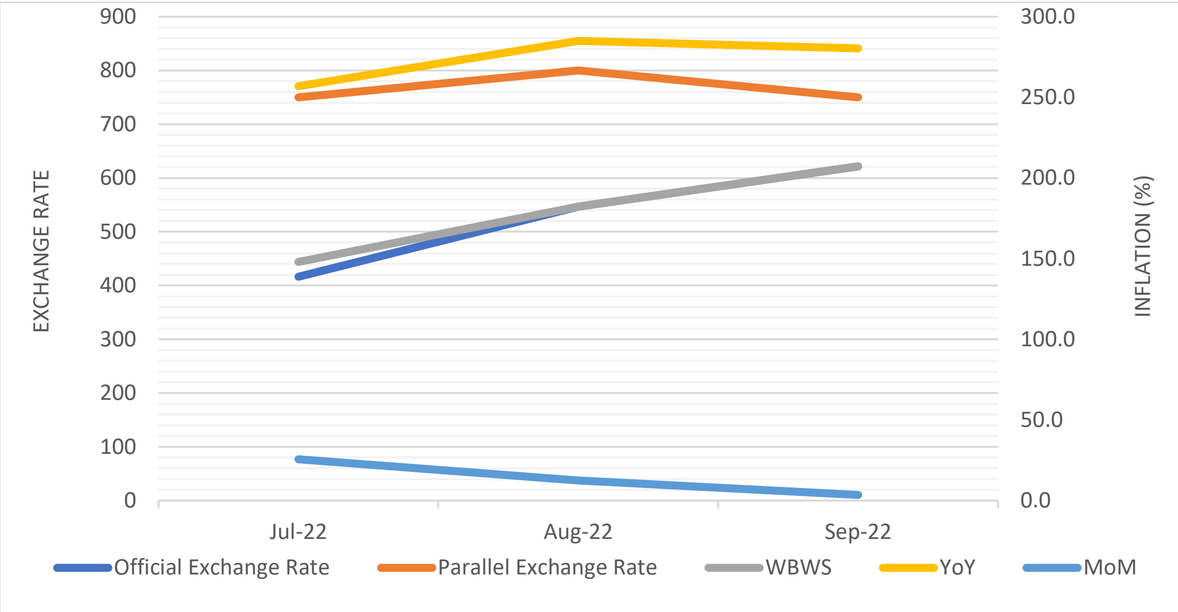
2.3 It is important to note that competitiveness amid pandemics and global crisis is highly dependent on the country's ability to absorb the abovementioned global shocks among others.

2.4 The liberalization of the foreign exchange market through the Monetary Policy Committee (MPC) resolutions of 1 April 2022, allowing banks to set their own exchange rates using the *Willing-Buyer Willing-Seller* (WBWS) principle was a positive development towards unlocking free funds from individuals and companies. Subsequently, this also alleviated some pressure off the main auction, evidenced by a reduction in the average number of bids from an average of 2000 bids per week at inception to 233 per week by September 2022.

2.5 Furthermore, the economy still faces significant foreign currency shortages with many market players failing to access adequate currency for their operations, adversely impacting productivity and competitiveness.

2.6 The third quarter witnessed a relatively stable exchange rate and falling month on month inflation from a high of 30.7% in June to a low of 3.5% in September 2022, as shown in Figure 1.

Figure 1: Inflation and Exchange Rate Movements, July - September 2022



Source: ZimStats, Reserve Bank of Zimbabwe, and NCC Compilation

2.7 However, the year-on-year inflation rate has been on a upward trajectory, since the beginning of the year and has gained 224.4% between January and August 2022 to reach the 285.0%. For the first time in 2022, year-on-year inflation shaded off 4.6% in September to reach 280.4%.

2.8 This is attributed to the Government's continued tightening of fiscal and monetary policies, wherein the Government reviewed the procurement approach to minimize the practice of forwarding exchange rate pricing that was being pursued by the suppliers of goods and services.

2.9 Similarly, the monetary authorities increased interest rates to discourage speculative borrowing and encourage investment. Despite the review of deposit interest rate to 40% from 12.5% and time deposits to 80% up from 25%, the real interest rate remains negative due to high inflation, and as a result, challenges to attract deposits in the banking sector remains. This in turn has adverse impact on investment, productivity and competitiveness of the economy.

2.10 The introduction of gold coins on 25 July 2022, as a store of value also buttressed exchange rate stability. Gold coins mopped excess liquidity in the market and reduced demand for the US dollar on the parallel market. Sustained exchange rate stability improves confidence, enhances investment and productivity, thereby improving the country's competitiveness.

2.11 Another remarkable development is the convergence of the auction, and WBWS exchange rates in September 2022 at 1USD to ZWL621, and the narrowing of the gap between the parallel market and the official exchange rates. This is critical for enhanced competitiveness of the economy, going forward.

3. BASIC COMMODITIES PRICE MOVEMENTS AND REGIONAL BENCHMARKING

3.1 The 2022 third quarter was characterised by a decline in prices of some basic commodities, with month-on-month food inflation declining to 1.75% in September 2022, from 30.7% at the end of the previous quarter (June 2022).

3.2 Despite the decline in month-on-month food inflation rate, a comparison of basic commodities prices with other countries in the region shows that Zimbabwean products remain expensive, using the interbank exchange rate. Table 1 shows a comparison of basic commodities prices ranks for Zimbabwe with Tanzania, Zambia, and South Africa for June to September 2022, using the respective prevailing official rates.

Table 2: Regional Quarterly Movements in Prices and Competitive Ranks for Zimbabwe and the Region for June and September 2022

Product	Country	Quarterly price and rank				Rank Status for Zimbabwe
		June		September		
		Price	Rank	price	Rank	
Rice/2Kg	Zimbabwe	3.34	3	2.84	3	Did not change at 3 (Less competitive)
	South Africa	2.06	1	2.18	2	
	Zambia	3.74	4	4.06	4	
	Tanzania	2,22	2	2.22	1	
Flour/ 2Kg	Zimbabwe	3.95	4	2.87	3	
	South Africa	2.24	2	2.14	2	

Product	Country	Quarterly price and rank				Rank Status for Zimbabwe
		June		September		
		Price	Rank	price	Rank	
	Zambia	3.60	3	3.92	4	Improved from 4 to 3 (Less competitive)
	Tanzania	1.28	1	1.28	1	
Cooking Oil/2L	Zimbabwe	10.03	4	5.70	2	Improved from 4 to 2 (competitive)
	South Africa	9.94	3	6.64	3	
	Zambia	9.00	2	12.58	4	
	Tanzania	5.14	1	5.14	1	
Salt/1Kg	Zimbabwe	0.74	1	0.64	2	Changed from 1 to 2 competitive)
	South Africa	1.62	3	0.84	3	
	Zambia	3.64	4	1.82	4	
	Tanzania	0.96	2	0.43	1	
Sugar 2kg	Zimbabwe	4.36	3	3.50	3	Did not change at 3 (less competitive)
	South Africa	2.98	2	3.16	2	
	Zambia	6.60	4	3.92	4	
	Tanzania	2.58	1	2.58	1	
Milk/1L	Zimbabwe	2.43	4	2.08	3	Improved from 4 to 3 (less competitive)
	South Africa	1.24	1	1.07	1	
	Zambia	1.99	3	2.18	4	
	Tanzania	1.93	2	1.93	2	
Eggs	Zimbabwe	6.69	3	5.26	2	Improved from 3 to 2 (competitive)
	South Africa	4.65	1	5.08	1	
	Zambia	5.40	2	5.90	3	
	Tanzania	6.85	4	6.85	4	
Beef/Kg	Zimbabwe	10.26	4	6.02	2	Improved from 4 to 2 (competitive)
	South Africa	8.89	3	9.58	4	
	Zambia	5.33	1	5.81	1	
	Tanzania	6.43	2	6.43	3	

Source: NCC compilations

3.3 Zimbabwe's basic commodities prices rank improved over the period due to reduced rate of inflation emanating from exchange rate stability. However, Zimbabwe`s commodities have generally remained uncompetitive regardless of reduction in the rate of price increases.

Recommendations

3.4 The Commission noted that there has been stability in prices of some products during the period under review.

3.5 However, there is need for the RBZ to improve forex allocations to the industry to resolve supply bottlenecks.

4. COMPETITIVENESS OF SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE

4.1 According to the Small Enterprises Development Corporation Act [Chapter 24:12], a Small and Medium Enterprise (SME) in Zimbabwe is defined as a business entity, whether corporate or unincorporated, which, together with any of its branches or subsidiaries is managed by one person or jointly by two or more persons with a maximum number of seventy-five employees, maximum total annual turnover of one million dollars and maximum gross value of assets of five hundred thousand excluding immovable assets. The SMEs sector dominates economic activity in Zimbabwe. The thrust under the Zimbabwe National Trade Policy and Zimbabwe National Export Strategy to reach an export target of USD7 billion by 2023 and USD14 billion by 2030, therefore, requires that SMEs operate efficiently to produce quality products that meet international standards.

4.2 The transition of SMEs into large corporates contribute significantly to national output, exports and fiscal revenues. However, such transition requires an optimal mix of regulations that nurture SMEs with a view to afford them economic space to grow and penetrate new markets.

4.3 It is worth noting that the business environment is often influenced by few large corporates whose dominance often deter new entrants. The case of SMEs can be thought of as akin to new germinating trees competing for sunlight in the Amazon Basin. In Zimbabwe, penetrating domestic and international markets with a new product seem to be a challenge for most SMEs, not because the market is non-existent, but due to factors relating to low innovation, constrained registration of patents, poor production and marketing technology, low economies of scale, regulatory burden, centralized multiple licensing requirements, product quality deficiencies complex tariffs.

Factors Impeding Competitiveness of Small and Medium Enterprises

I*nnovation*

4.4 Innovation is key in enhancing industry productivity and export competitiveness. In modern times, competitiveness can be thought of as a technology issue. Whereas large corporates rely on established Research and Development Departments to facilitate innovation, product designs and marketing strategies that suit client’s specific circumstances, SME rarely affords such innovative strategies for instance the increased use of Higher and Tertiary Institutions by SMEs on Product development and research, among others.

Registration of Patents

4.5 Whereas some SMEs are inventive, there are challenges arising from inability to register and protect business ideas, which would otherwise afford SMEs a competitive edge. Most SMEs have indicated that most of the ideas are either stolen or grabbed by other actors in the process of registering patents.

Licensing & Standards Certification

4.6 Sanitary and Phytosanitary Certificates (SPS) are often required by importing countries on organic products to ensure that they are free from pests and diseases. The ability of SMEs to penetrate international markets is constrained by centralization of licensing offices in Mazowe, which imposes an extra compliance cost on businesses that are resident in other provinces.

4.7 The costs of standards certification charged by Agencies such as Standards Association of Zimbabwe (SAZ) which ranges from a minimum of US$1500 to US$5000 depending on product specification is relatively too high for SMEs. This means that SME products are mostly traded through informal channels and rarely meet the export quality standards. The SME sector thus fail to penetrate local markets as well as international markets.

4.8 Furthermore, the requirement for Consignment Based Conformity Assessment on the local front (CBCA) on some goods imported as inputs in the production process is also exacerbating the situation. The Government implements the CBCA to reduce hazardous and substandard imported products and improve Customs duty collection. Bureau Veritas has been for the verification and the assessment of conformity of goods in exporting countries.

4.9 The categories of goods regulated under the programme include the following:

- Food and Agriculture
- Building and Civil engineering
- Petroleum & fuels
- Packaging material
- Electrical/electronic products
- Body care

- Automotive and transportation
- Clothing and textile
- Toys
- Medical alcohol/Ethanol
- Chemical products
- Plastics and articles
- PPE products

4.10 This implies that whenever these products are imported into Zimbabwe, they must be accompanied by a CBCA certificate. Whilst a CBCA requirement may not be a challenge for large corporates, it is significantly constraining importation of goods by SMEs. The high cost of CBCA of 0.5% of invoice value to a maximum of US$2 675 per consignment is an additional operating cost, which undermines industry competitiveness. In addition, the long waiting period of 2 – 3 weeks for the completion of CBCA processes impact on industry competitiveness given that production time is lost.

Burden of Regulation

4.11 An overly regulated market presents a huge compliance burden on business. Over and above the above licensing requirements, SMEs are burdened by additional regulatory agencies such as restrictive Municipal by laws, Environmental Management Agency (EMA) and Radiation Protection Authority of Zimbabwe (RPAZ), Zimbabwe Music Rights Association (ZIMURA) and Zimbabwe Broadcasting Corporation (ZBC) among others.

Lack of Awareness on Existing Trade Agreements

4.12 Regional integration comes with tariff liberalization to enhance trade among member countries. However, tariff liberation may not have national benefit if traders are not able to take advantage of preferential market access conditions or if they fail to comply with stringent and restrictive Rules of Origin (ROO). Whilst Rules of Origin are the very essence of a Free Trade Area and are necessary to avoid trade deflection, they may also act as a hinderance if traders are not aware of the required thresholds. Strict ROO such as wholly originating act as a disincentive to promote a supply-side response, especially in countries like Zimbabwe where local value chains are not fully developed. Unlike large corporates, SMEs may hardly support backward integration with producers of key inputs to promote efficiency in the local value chain.

4.13 Furthermore, market access is often affected by preference erosion that arises from international trade agreements. Preference erosion refers to declines in the competitive advantage that some exporters enjoy in foreign markets because of preferential trade treatment. Preference erosion can occur when export partners eliminate preferences, expand the number of preference beneficiaries, or lower their most favoured nation (MFN) tariff without lowering preferential tariffs proportionately. Due to their size, SMEs may fail to adjust or cope with the new norm.

Complex Tariffs and Taxes

4.14 Global value chains (GVCs) offer new opportunities for SMEs to integrate the global economy, as exporters, suppliers to large firms that export, and importers of competitively priced foreign inputs and technologies. However, benefits from GVC participation depend on the nature of inter-firm linkages and position in global production networks.

4.15 Furthermore, the increasingly complex trading environment (lack of skills and technology, together with poor access to finance, logistics, and infrastructure costs & regulatory uncertainty) and complex tariffs often impedes SMEs from effectively participating. The 2019 Global Competitiveness Report ranks Zimbabwe at 99 out of 141 countries in terms of the complexity of tariffs suggesting that there is a need to review the tariff structure with a view to reducing complexity.

Recommendations

4.16 In view of the above highlighted challenges, the Commission recommends the following with a view to enhance the country's productivity and competitiveness:

- Accelerate the implementation of the Devolution and Decentralization Policy to ensure localization of enhanced economic activities. Therefore, there is need to create a decentralized One Stop Shop for all licensing requirements by SMEs in all the provinces;
- In order to foster creativity and innovation for economic growth and development, it is important to capacitate the Zimbabwe Intellectual Property Office (ZIPO). This could be complemented by the operationalization of the recently established Centre for Education, Innovation, Research and Development (CEIRD);

- Enhance product certification by SMES, it is recommended that SAZ certification fees for SMEs be reviewed down by a margin of 50% of the amount charged on large corporates;

- Deregulation creates market inefficiencies, however, there is a need to assess the cost of regulations and the burden of compliance that tend to frustrate businesses, particularly SMEs. In this regard, it is important that all existing and new regulations be assessed in terms of the burden they create for business. A Regulatory Impact Assessment Framework Tool is thus an essential instrument; and

- It is also important to implement a whole-of-Government approach to address SME constraints in internationalising, including access to information, skills, technology, and finance, as well as trade facilitation and connectivity

5. TOWARDS REGULATORY IMPACT ASSESSMENT IMPLEMENTATION IN ZIMBABWE

5.1 The National Development Strategy 1 (NDS1) underscores the need to enhance national competitiveness and improve both the Global Competitiveness and Ease of Doing Business rankings to below 100 by 2025. To achieve this goal, greater attention should be on improving the quality of business regulations, administrative processes, doing business procedures and the overall national competitiveness, among other issues.

5.2 The Government of Zimbabwe has mandated the NCC to spearhead this objective by 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 in Zimbabwe.

5.3 To achieve this specific function, the Commission is in the process of developing a Regulatory Impact Assessment (RIA) Framework and Handbook for implementation in Zimbabwe. To this end, the Commission with support from the Technical Assistance to the Zimbabwe Economic Partnership Agreement (TAZEPA) funded by the European Union (EU) has engaged a technical expert to assess Zimbabwe's state of preparedness for the development and implementation of RIA, capacitate NCC and key stakeholders on the RIA concept; and develop RIA Framework and Roadmap for implementation.

5.4 This first phase was successfully done during the period under review. The next phase is on implementing the RIA Framework Roadmap and the RIA/ Ex-Post handbook, which will guide the NCC to review new and existing business regulations

What is RIA?

5.5 RIA is an international promoted methodology helping policymakers to make better regulations and avoid negative consequences, which could impede competitiveness or distract investment. It is a management tool that assists Governments to assess the consequences of existing and new regulations on competitiveness and other economic, social, or environmental impacts by weighing the trade-offs between the costs for affected stakeholders, such as business, and the benefits for society. The results inform policymakers on the best regulatory option to achieve public policy goals and minimize the risks of unintended effects. It is both a problem-solving and strategic decision-making tool.

Why RIA?

5.6 RIA is recognized by most developed countries as a key instrument to improve the quality of regulatory decision-making. It is widely used within the member countries of the Organization for Economic Co-operation and Development (OECD), and today an increasing number of developing countries are implementing RIA procedures in their regulatory governance systems. These countries include European Union, United Kingdom, Germany, Indonesia, Kazakhstan, South Africa, Zambia and Kenya, among others.

5.7 It is critical to note that proper regulatory systems enable the country to achieve national objectives and deliver better economic and social outcomes for the enhancement of citizens' livelihood and businesses.

5.8 Ideally, regulations are designed to protect individuals, societies, economies, and the environment. However, circumstances exist where poorly designed regulations, instead of protecting economic agents, often did the opposite.

5.9 It is the Government's role to manage socio-economic affairs, i.e., to grow the economy, and improve the standards of living. Regulations are essential policy tools for achieving Governments' social, economic, and environmental policy objective achieve by influencing and preventing harmful human behaviour.

5.10 However, regulations can cause significant collateral damage to those directly or indirectly affected in a complex and interconnected world. When developing interventions, whether policies, laws, statutory instruments, or other types of regulations, Governments rarely consider the negative consequences for citizens, businesses, the economy, or society. Thus, regulations can often cause more harm than good. Therefore, they can be detrimental to promoting competitiveness, economic growth, and sustainable development and erode citizens' trust in the legal system and the integrity of the rule of law.

5.11 The introduction of RIA is usually intended to address an unconducive regulatory business environment that discourages investors and entrepreneurship. Such an environment increases the cost of doing business for existing firms and thus impedes their global, regional, and local price competitiveness. Business in Zimbabwe has been raising concerns about overregulation characterized by an influx of Statutory Instruments (SI) and undocumented law-making process which contributes to a high-cost economy.

RIA Objectives

5.12 The overall goal of RIA is to improve the quality of regulations, primarily in terms of effectiveness and efficiency. Specific objectives depend on the mandate of the Government authority. One goal could be to improve the competitiveness of a country by specifically identifying compliance costs related to business regulations impeding price competitiveness, such as licenses, permits, clearances, certificates, taxes, levies, and user charges and comparing them to the intended public benefit. Other objectives could be linked to protecting the environment, or social goals, such as reducing poverty or gender equality.

RIA Benefits

5.13 The major important benefit of RIA is that it provides crucial information to decision-makers on whether and how to regulate with a view to achieve public policy goals. Significant benefits of RIA derive from adopting a structured, rational thinking, decision-making, and consultation process. A well-functioning RIA system can help policymakers identify the potential outcomes of proposed regulations and determine whether regulations will achieve the intended objectives. Thus, RIA helps to minimize regulatory risks and burden on business and the public. The following are the specific benefits of implementing RIA in Zimbabwe:

- Improvement in the country’s competitiveness;
- Improvement in investor confidence and increase in investments;
- Improvement in the policy-making process (effective, evidence and science-based);
- Promotion of transparency and accountability through the involvement of stakeholders; and
- Increasing growth and welfare.

6. CONCLUSION

6.1 Zimbabwe's competitiveness is largely being adversely affected by exchange rate and inflation developments in the economy. Most companies, for instance in the baking, cooking oil and pharmaceutical, fertilizer manufacturing as well as the construction industry are importing raw materials and intermediate products for production.

6.2 Resultantly, they become vulnerable to exchange rate-inflation consequences. A stable currency and inflation rate are therefore desirable to aid planning, improve certainty, stabilize prices and hence competitiveness.

6.3 Competitiveness and the regulatory environment of a country are key to economic growth and development as well as improvement of the standards of living for Zimbabwe. To this end, continued implementation of policies, strategies and programmes that addresses identified gaps is key if the country is to successfully enhance all competitiveness aspects of the economy.

6.4 However, this requires concerted efforts by all stakeholders, including Government, Private Sector, Civil Society, Academia and Development Partners.

6.5 Given the need to improve the country's regulatory environment should be capacitated and be given the authority to spearhead the implementation of the RIA Framework in Zimbabwe, working in collaboration with Government Line Ministries, Departments, Private Sector and all relevant stakeholders.

6.6 Lastly, the Commission will do follow ups and continued dialogues with relevant stakeholders for the successful implementation of the proposed recommendations.

“Enhancing Zimbabwe’s Global Competitiveness”

Published By:

National Competitiveness Commission
1 Adylinn Road, Agriculture House,
Corner Malborough Drive & Adylinn Road,
Malborough, Harare.

Tel : +263 242 313 230
Email : info@ncc.co.zw
Website : www.ncc-zim.co.zw