NATIONAL COMPETITIVENESS COMMISSION

2022
ZIMBABWE COMPETITIVENESS REPORT

2022 ZIMBABWE COMPETITIVENESS REPORT

Acknowledgements

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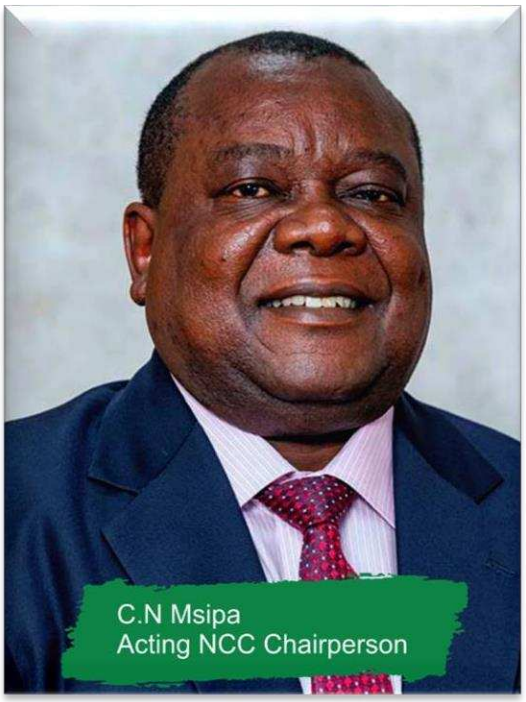
Preface



The 2022 Zimbabwe Competitiveness Report was produced in consultation with all relevant stakeholders with the ultimate objective of improving the country's domestic, regional, and global competitiveness.

The objective, as enshrined in the National Development Strategy 1, envisages improving the country's World Economic Forum-Global Competitiveness Index ranking to below 100 by 2025.

The Report identifies key competitiveness gaps as well as productivity challenges facing the economy and provides appropriate policy recommendations to achieve the objectives of our National Development Plan.

This requires complementary efforts from both the Government and private sector in creating a competitive environment that enhances business viability, productivity, as well as penetration into the global markets.

In line with the Commission's mandate to review both existing and new regulations to assess their social and economic impacts, the National Competitiveness Commission is working with Government and business community towards establishment and institutionalisation of the Regulatory Impact Assessment in the regulatory governance cycle to improve the quality of regulation.

This process is expected to enhance competitiveness as it provides for adequate stakeholder consultations before regulations come on steam.

The implementation of recommendations in this Report requires support from all stakeholders in terms of resources, both financial and human capital. It is my sincere hope and belief that Government continues to support smooth implementation of the Commission's planned programmes to enhance productivity and competitiveness.

I commend all stakeholders for the support rendered to us throughout the development of the Report. However, I call upon all our stakeholders to continue cooperating and collaborating with the Commission in implementing competitiveness programmes. Please bear in mind that the overall objective is to achieve the national objective of improving the country's competitiveness performance at the international level.

Finally, let me applaud all stakeholders, my fellow Commissioners, and the entire staff for your sterling efforts toward the development of the Report. Together, we can make Zimbabwe a highly competitive country and a better investment destination in the region and globally.

C. N. Msipa

ACTING NATIONAL COMPETITIVENESS COMMISSION CHAIRPERSON

Remarks

As provided by the Commission's mandate, 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, the National Competitiveness Commission has produced the Second Zimbabwe Competitiveness Report.

The 2022 Zimbabwe Competitiveness Report, like its predecessor, the 2021 Report, seeks to identify bottlenecks as well as provide policy recommendations on enhancing the country's productivity and competitiveness. The goal of the Commission is to directly contribute to the achievement of Vision 2030.

The Report examines the country's progress towards attaining a competitive business environment relative to comparator countries. In that regard, the Report identified competitiveness gaps, challenges, opportunities, and proffered evidence-based actionable recommendations for implementation. The Report explains the country's current competitiveness status and what needs to be done thereof.

I commend the spirit that was demonstrated in coming up with this important Report. The Commission alone, without your valued support, would have not produced this Report. This spirit of togetherness in executing national projects and programmes needs be inculcated in us for the good of our beloved country. Going forward, this participatory and inclusive way of doing things would be the way of life for the Commission.

Going forward, the National Competitiveness Commission will continue to knock on your doors whenever necessary. Your participation and inputs greatly matter in developing evidence-based analytical reports like the Zimbabwe Competitiveness Report.

I therefore look forward to continued support as we start implementing findings of this important Report. To this end, let us cooperate again in the implementation phase of the recommendations.

P. Phiri

EXECUTIVE DIRECTOR

NATIONAL COMPETITIVENESS COMMISSION

REVIEW OF 2021 ZIMBABWE COMPETITIVENESS REPORT

In line with its mandate to produce annually benchmarked competitiveness reports, theNational Competitiveness Commission (NCC) produced its inaugural Zimbabwe Competitiveness Report (ZCR) in 2021 to achieve the objectives of the National DevelopmentStrategy 1 (NDS1). The Report mainly adopted the annual World Economic Forum – Global Competitiveness Index (WEF – GCI) and the World Bank Doing Business Indicators in assessing competitiveness and the implications of the same on Foreign Direct Investment (FDI), international trade and economic growth, while noting the limitations inherent in the methodologies used.

The Report was compiled to build on the related work on ***Ease of Doing Business Reforms*** and ***Business Cost Drivers***. The 2021 Report outlined the main competitiveness challenges facing the country over the short to medium term and proposed appropriate policy interventions required to address them.

It also assessed the country's competitiveness against selected comparator countries such as Botswana, Croatia, Malawi, Mauritius, Mozambique, Namibia, Philippines, Rwanda, South Africa, South Korea, Zambia, and United Kingdom. The comparator countries were selected based on their strategic importance to Zimbabwe in terms of trade relationships and international best practices, from which the country can tap experiences thereof.

It also proffered evidence-based policy advice on identified gaps and useful indicators in assessing progress on attaining goals and targets to achieve the objectives of NDS1 and Vision 2030.

In addition, the Report analysed sector specific competitiveness challenges identified cost drivers and provided recommendations to contain the cost of doing business and enhance productivity in Zimbabwe, which in turn contribute towards economic growth and development.

Government is taking the competitiveness agenda seriously, as it has already started implementing some of the proposed recommendations in the 2021 ZCR. Government and the related stakeholders are commended for their concerted effort to implement some of the

recommendations. Whereas the year 2021 has lapsed, the outstanding recommendations are still paramount for improved productivity and competitiveness, hence the key stakeholders are encouraged to implement them.

Implemented Recommendations

Recommendation 1: Implementation of fiscal and monetary policy strategies that address macroeconomic imbalances and create an efficient exchange rate system to ensure timeous disbursements of foreign currency.

Action: *Government maintained policies earmarked at improving exchange rate stability as well as reducing inflation. To achieve stabilization of inflation and exchange rate volatility, Reserve Bank of Zimbabwe increased the Bank Policy Rate from a minimum of 80% to 200%*

For corporates the minimum lending rate was increased from 50% to 200% while the rate for individuals was increased from 50% to 100% to discourage cheaper speculative borrowing, which had adverse effects on the exchange rate.

The Bank also introduced gold coins as an alternative stable investment vehicle and store of value, as well as mopping up excess liquidity from the economy. These measures have gone a long way in preserving the value of the local currency, reducing liquidity in the market, and reducing foreign currency demand on the parallel market, thereby narrowing the gap and stabilizing the exchange rate. The month-on-month inflation declined from 30.7% in June 2022 to 2.4% in December 2022. However, authorities are urged to increase awareness on the use of gold coins as a store of value.

The above measures were further buttressed by Government's review of procurement approach to minimize the practice of forward exchange rate pricing that was being pursued by its suppliers of goods and services as well as contractors. This price model destabilizes the exchange rate, thus negatively impacting industrial viability, productivity and competitiveness.

Recommendation 2: Service providers for internet and utilities to charge cost reflective tariffs that ensure viability.

Action: *Low internet use in Zimbabwe is a result of high internet costs where the average price of 1GB is US$2 compared to US$0.75 for Mauritius in 2021, as well as intermittent internet service provision characterized by frequent interruptions. In order to address these challenges for State Owned Enterprises, Government continued expanding and improving the country's Information & Communication Technology services and infrastructure through implementation of the National Mobile Broadband Expansion and Upgrading project by NetOne as well as investment by TelOne in partnership with Huawei with support from China Exim Bank*

Recommendation 3: Continued prioritisation of the repair of trunk road system and upgrading of unpaved feeder roads, and modernisation of border post and rail systems.

Action: *Government is currently engaged in rehabilitation and upgrading of road network, airport and border post[1] infrastructure such as Beitbridge Border Post, widening of Harare – Beitbridge road, Mbudzi Round-about and Robert Gabriel Mugabe International Airport, among others.* *No traction has been made on rail rehabilitation and development. Government is urged to continuer prioritise this recommendation to reduce the cost of doing business.*

Recommendation 4: Continued implementation of competitiveness driving policies such as industrial and trade policies, as well as sector strategies focusing on those with high potential.

Action: *Government continued to implement policy provisions in the Zimbabwe National Industrial Development Policy (ZNIDP) (2019 – 2023), National Trade Policy (2019 – 2023), National Export Strategy (2019 – 2023) and the Local Content Strategy to grow and develop the local industry. The successful implementation of these policies and strategies will go a long way in enhancing the country's productivity and competitiveness.*

Implementation of (ZNIDP) and other various manufacturing sub-sector strategies has resulted in an increase in the percentage contribution of the manufacturing sector to GDP from 11.93% in 2021 to 18.5% (ZIMSTAT) as of December 2022.

By end of 2022, capacity utilisation stood at 66%, which is a huge jump from the 2021 baseline of 56%. As part of fiscal incentives, companies have been receiving support through duty rebates and vat deferments to the tune of US$256.9 million against a target of US$130 million as of end of December 2022.

Manufactured exports have performed well recording a cumulative US$633.3 million in December 2022.

The implementation of the Local Content Strategy resulted in an increase of commercial sector contribution to GDP product shelf space occupancy of 80% of local products in the supermarkets against a target of 75% as of December 2022. This is a good development as it assists in boosting aggregate demand for the country's manufacturers.

Recommendation 5: Continued investment in social services, including education and health; and prioritizing investment in skills development, technology and machinery to enhance labour productivity and competitiveness.

Action: *Government allocated 0,1% of the National budget towards capacitation of innovation hubs across the country.* *Efforts are underway to put in place a Technical and Vocational Education and Training (TIVET) policy to address skills gap.*

Outstanding Recommendations

Whereas Government took a leading role in addressing some of the identified competitiveness gaps, the following recommendations for improved productivity and competitiveness are still under consideration : -

- Implementation of a Debt and Arrears Clearance Strategy, which is acceptable to bilateral and multilateral institutions, complemented by continued re-engagement and settlement of loan commitments with the international community;
- Speeding up the interface of Government Departments and Agencies (Digitization) as espoused in the Zimbabwe Investment Development Agency (ZIDA) Act, to reduce cumbersome business procedures, regulatory requirements and compliance costs;
- Capacitation of the NCC, Parliament of Zimbabwe, Zimbabwe Anti-Corruption Commission (ZACC) and ZIDA to effectively deliver on their respective mandates to enhance national competitiveness and improve on ease of doing business; and
- Promotion of online access and submissions of application forms, payment methods, name search for companies, special resolutions, articles of association and annual returns.

Based on the various parameters analysed in the Report, Zimbabwe's competitiveness is generally poor in comparison to peer countries. This constrains the country's capacity to realize industrialization and competitiveness agenda under regional commitments, NDS1 targets as well as Vision 2030.

To this end, complementary efforts from both Government and industry are required for the continued implementation of the recommendations with a view to create a competitive environment that enhances productivity, ease of doing business as well as penetration into the global markets.

Furthermore, capacitation of the NCC needs to be treated as a matter of urgency to enable the country to improve the quality of business regulations, thereby enhancing productivity and competitiveness of goods and services both in the domestic and international markets.

EXECUTIVE SUMMARY

The NCC is mandated to produce annually benchmarked competitiveness reports. The 2022 ZCR was compiled in consultation with relevant stakeholders, namely Government as well as private sector. The Report acknowledges the positive competitive pillars that have been implemented by Government. It also identifies key competitiveness gaps and productivity challenges facing the economy in areas that include macroeconomic stability, innovation and Information Communication Technology, financing, infrastructure development, and institutional and regulatory framework. Resultantly, appropriate policy recommendations to achieve the objectives of the NDS1 are proposed. This, however, requires complementary efforts from both Government and industry in creating a competitive environment that enhances business viability, productivity, as well as penetration into the global markets.

The Report also benchmarks the country's performance on identified indicators globally and against selected regional comparator countries such as Angola, Botswana, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Rwanda, South Africa, Tanzania and Zambia. The comparator countries were selected based on their strategic importance to Zimbabwe in terms of trade relationships and international best practices, from which the country can tap experiences thereof. The assessment was informed by current trends and multiple data sources such as Zimbabwe National Statistics Agency (ZimStat), Ministry of Finance and Economic Development (MoFED) Reserve Bank of Zimbabwe (RBZ), International Monetary Fund (IMF), World Bank (WB), among others.

The overall objective of the 2022 ZCR is to assess the country's progress on attaining competitiveness goals and targets as espoused in the NDS1 relative to comparator countries. Furthermore, the Report seeks to identify gaps, opportunities and provides evidence-based recommendations on policies and programmes.

Notwithstanding the various interventions by Government, there are still competitiveness gaps that need to be addressed. Based on the various parameters analyzed in the Report, Zimbabwe's competitiveness is generally low in comparison to peer countries. This constrains the country's capacity to realize Vision 2030, as well as industrialization and competitiveness agenda under regional commitments. Amongst the competitiveness gaps/ challenges identified, the Commission regards the following as key:

Macroeconomic Stability

The macroeconomic environment, characterized by high inflation, exchange rate volatility, as well as foreign currency shortages, has been a major downside risk to competitiveness of the Zimbabwe economy in 2022. A stable macroeconomic environment is ideal for business performance, investment and national growth and development.

Recommendation 1: *Whilst the current high interest rates contributed to macroeconomic stability, there is need to consider reducing them as soon as practically possible to ensure industry competitiveness.*

Government Expenditure

Government expenditure is heavily skewed towards recurrent compared to capital expenditure despite the latter being critical for enhancing productivity and competitiveness. For instance, the recurrent expenditure as a percentage of GDP increased from 11.1% to 12.9% whilst the capital expenditure declined from 5.5% to 3.6% in 2021 and 2022, respectively.

Notwithstanding the increase of Government expenditure since 2019, the gap between recurrent and capital expenditure is growing in favour of consumption, namely salaries and operations.

Recommendation*: Government to increase the share of budget towards capital expenditure in line with African Union threshold of 4%.*

Debt

The debt position is adversely impacting on the country's access to new credit lines from the International Financial Institutions (IFIs), such as the WB, IMF, and AfDB, as well as negatively impacting internal flows of FDI in the economy, among others. In addition, the cost of foreign lines of credit is high due to risk premiums levied by lenders. As a result, this is weighing down on the economy's competitiveness.

***Recommendation**: Government to step up efforts to re-engage the international community to unlock concessional lines of credit as well as accelerate the implementation of the arrears and debt clearance strategy.*

Deficit

The country registered a deficit of -1.74% and -1.5% of GDP in 2021 and 2022, respectively. This is in line with the targets of the NDS1 and the dictates of the SADC Macroeconomic Convergence criterion of maintaining fiscal deficits within the 3% of GDP threshold. Notwithstanding the low deficit, late disbursement and underfunding of votes continue to undermine Government efforts towards improving competitiveness.

***Recommendation:** Timeous disbursement of votes for the implementation of Government operations and programs.*

Exports

Zimbabwe's main exports in 2021 were nickel ores and concentrates 21.9%, semi-manufactured gold (23.2%), nickel mattes including platinum group of minerals (PGMs) 22.8% and tobacco 9.1%, which are semi-processed or are exported in a raw form (ZimStat, 2021). The country's exports lack diversification and are vulnerable to fluctuations in international commodity prices, of which Zimbabwe is a price taker. The number of products exported by Zimbabwe decreased by 58.8% from 2117 in 2002 to only 873 in 2020 (Ministry of Finance and Economic Development 2022)[2]. Since 2019, Zimbabwe has maintained a current account surplus largely on account of remittances. The major challenge is remittancesare consumptive and have got a minimum impact on productivity and competitiveness.

Of major concern also, is the negative trade balance that the country recorded from 2020 to 2022. This is an indication that Zimbabwe is spending more on imports than it receives through export earnings.

[2] Economic Complexity Study

Recommendation 1: *Government to increase revenue generation through macroeconomic stabilization, promotion of value-added exports and increased productivity.*

Recommendation 2: *Strengthen beneficiation, value addition and diversification to improve the export value and competitiveness of the country's exports.*

Information and Communication Technology

Lack of Information and Communication Technology (ICT) Producing Industry: Competitiveness is enhanced due to the interrelatedness of the various sectors of the economy. The lack of an ICT producing industry in the country is inhibiting national competitiveness. The low levels of internet users in the country entails that ICT adoption is weak, thereby transmitting a negative pass-through effect on the country's competitiveness than other components.

Recommendation 1: *Expedite the establishment and operationalisation of a Centre for Education, Innovation, Research and Development (CEIRD).*

Recommendation 2: *Expedite the review of the legal and institutional framework of innovation and ICT mainstreaming issues of competitiveness in line with international best practice.*

Recommendation 3: *Develop and operationalise the National Innovation and Productivity Strategy. The institutional framework is aimed at supporting the innovation value chain - from idea generation to the final product or service.*

Recommendation 4: *Government to offer incentives to private players to unlock funding for digital infrastructure particularly in rural and farming areas to re-shape the economy by interlinking how the various sectors of the economy operate.*

Recommendation 5: *Government to consider opening the sector to increase competition in the ICT market to achieve accessible and affordable communications for all.*

Electricity

Electricity generation is largely dominated by thermal generation, which is high carbon emitter. The challenge is emerging trade requirements call for carbon footprint certificates. Continued reliance on fossil fuels will have a negative impact on competitiveness as the world is moving towards green energy.

Recommendation: *Government to continue giving incentives to encourage investment in renewable energy.*

There is heavy reliance on road transport in the movement of trade goods, yet this is an expensive mode of transport to the economic agents compared to rail. This increases the cost of doing business and road rehabilitation and maintenance. Therefore, rehabilitation and upgrading of rail infrastructure would have a significant impact in enhancing Zimbabwe's competitiveness in the regional market.

Recommendation 1: *Pursue other financing options such as loan financing and Public Private Partnerships to support investments in rail infrastructure to enhance competitiveness.*

Recommendation 2: *Resuscitate rail infrastructure to minimise reliance on transporting goods via road network.*

Consignment Based Conformity Assessment

In order to curb the influx of cheap substandard and hazardous products, Government is implementing the Consignment Based Conformity Assessment (CBCA) program, whichentails verification of conformity to set national and international standards of productsdestined for Zimbabwe prior to shipment. Currently, the program provides for destination inspection for products that are not verified at source.

Conformity Assessment procedure attracts a minimum fee of 0.5% of the Free On Board value up to a maximum of US$2 675 per consignment. The expected turn around period for assessment is 5 days for Pre-shipment Inspection, with destination inspection taking 48 hours.

Recommendation 1: *There is need for more awareness of the CBCA Programme so that importers do not exceed time taken for inspection due to submission of inadequate papers at the port of entry, thereby incurring more costs.*

Recommendation 2*: Strengthen national quality infrastructure to enable in-country inspection including market surveillance.*

Import Licencing

Zimbabwe uses an online import application and processing system, which takes a maximum of 5 days for a licence to be issued. However, the online system is usually down, which in turn impact on competitiveness.

Recommendation*: Fully automate and upgrade the online system to ensure that the license and permit approval process takes less than 3 days and curb human interface, thereby reducing time and cost. This requires continued stakeholder dialogue.* ***Recommendation 2:*** *Expedite the Single Window initiative on import licencing.*

Costs

High costs of obtaining phytosanitary certificates[3] impact on competitiveness and ease of doing business. Zimbabwe phytosanitary certificate cost of US$10, which is five times more than that of Mauritius (US$1.14) and Namibia (US$5.45). On the other hand, Zimbabwe is competitive compared to Tanzania (US$15) and Botswana (US$22.21).

Recommendation 1: *Reduce fees and levies to cost recovery levels commensurate to service delivery in line with comparator countries and make the products competitive.* ***Recommendation 2****: Decentralize the issuance of SPS certificates in line with the devolution agenda.*

[3] Phytosanitary certificate is a document of proof that a commodity, primarily live animals and agricultural products, has undergone all the necessary protocols and treatment to remove all damaging pests.

Acronyms and Abbreviations

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
BAZ	Bankers Association of Zimbabwe
BCSD-BI	Broadband Commission for Sustainable Development Broadband Internet
BUSE	Bindura University of Science Education
CBCA	Consignment-Based Conformity Assessment
CEIRD	Centre for Education, Innovation, Research and Development
CIS	Collective Investments Scheme
COVID-19	Corona Virus Disease of 2019
CSDs	Central Securities Depositories
DDF	District Development Fund
DEVC	Digital Economy Value Chain
DSL	Digital Subscriber Line
EoDB	Ease of Doing Business
EOS	Executive Opinion Survey
ERRP	Emergency Road Rehabilitation Programme
FDI	Foreign Direct Investment
FINSEC	Financial Securities Exchange
GCI	Global Competitiveness Index
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GII	Global Innovation Index

GITR	Global Information Technology Report
GVC	Global Value Chain
HIT	Harare Institute of Technology
HSAP	Hygiene Strategy and Action Plan
ICT	Information and Communications Technology
IFIs	International Financial Institutions
IMF	International Monetary Fund
IMTT	Intermediate Money Transfer Tax
IPCC	Intergovernmental Panel on Climate Change
IPEC	Insurance and Pensions Commission
IPPs	Independent Power Producers
ITU	International Telecommunications Union
JMP	Joint Monitoring Programme
KSPS	Kariba South Power Station
LTE	Long Term Evolution
MCAZ	Medicines Control Authority of Zimbabwe
MCR	Minimum Capital Requirements
MoFED	Ministry of Finance and Economic Development
MoIC	Ministry of Industry and Commerce
NCC	National Competitiveness Commission
NDS1	National Development Strategy 1 (2021 – 2025)
NECF	National Economic Consultative Forum
NPLs	Non-Performing Loans
NRCIS	National Road Condition Inventory Survey

NRZ	National Railways of Zimbabwe
OECD	Organization for Economic Cooperation and Development
PGMs	Platinum Group of Minerals
POTRAZ	Post and Telecommunication Regulatory Authority of Zimbabwe
PPA	Power Purchase Agreement
PPGD	Public and Publicly Guaranteed Debt
PPPs	Public-Private Partnerships
RBZ	Reserve Bank of Zimbabwe
RIA	Regulatory Impact Assessment
RPAZ	Radiation Protection Authority of Zimbabwe
RTRN	Regional Trunk Road Network
SADC	Southern Africa Development Community
SATCC	Southern Africa Transport Communication Commission
SAZ	Standards Association of Zimbabwe
SIRDC	Scientific Industrial Research and Development Corporation
SMEs	Small to Medium Enterprises
SMIs	Securities Market Intermediaries
SSA	Sub-Saharan Africa
STEM	Science, Technology, Engineering and Mathematics
TA-ZEPA	Technical Assistance to Zimbabwe Economic Partnership Agreement
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VC	Venture Capital

VFEX	Victoria Falls Stock Exchange
VOIP	Voice over Internet Protocol
WB	World Bank
WBWS	Willing Buyer Willing Seller
WEF	World Economic Forum
WEO	World Economic Outlook
WHO	World Health Organisation
WIPO	World Intellectual Property Organization
ZACC	Zimbabwe Anti-Corruption Commission
ZAMCO	Zimbabwe Asset Management Corporation
ZCR	Zimbabwe Competitiveness Report
ZETDC	Zimbabwe Electricity and Distribution Company
ZIDERA	Zimbabwe Democracy and Economic Recovery
ZimStat	Zimbabwe National Statistics Agency
ZISPA	Zimbabwe Internet Service Providers Association

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CHAPTER ONE

1. OVERVIEW OF THE 2022 ZIMBABWE COMPETITIVENESS REPORT

1.1. Introduction

1.1.1. The National Competitiveness Commission is mandated to produce annually benchmarked competitiveness report. The 2022 Zimbabwe Competitiveness Report was compiled in consultation with relevant stakeholders, namely Government as well as private sector. The Report identifies key competitiveness gaps and productivity challenges facing the economy in the areas that include macroeconomic stability, innovation and Information Communication Technology, financing, infrastructure development, and institutional and regulatory framework, and provides appropriate policy recommendations to achieve the objectives of the National Development Strategy 1. This requires complementary efforts from both Government and industry in creating a competitive environment that enhances business viability, productivity, as well as penetration into the global markets.

1.1.2. The Report also benchmarks the country's performance on identified indicators globally and against selected regional comparator countries such as Angola, Botswana, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Rwanda, South Africa, Tanzania and Zambia. The comparator countries were selected based on their strategic importance to Zimbabwe in terms of trade relationships and international best practices, from which the country can tap experiences thereof. The assessment was informed by current trends and multiple data sources such as Zimbabwe National Statistics Agency, Ministry of Finance and Economic Development, Reserve Bank of Zimbabwe, International Monetary Fund, World Bank, among others.

1.1.3. In assessing the country's competitiveness, the ZCR adopts the annual World Economic Forum Global Competitiveness Index and analysed competitiveness pillars that were topical in 2022. These include macroeconomic stability, innovation, Information & Communication Technology, financing infrastructure development and institutional & regulatory frameworks.

1.1.4. *Macroeconomic stability* is a necessary condition for global & country's productivity and competitiveness, as it influences the cost of doing business, provides predictability, confidence for businesses and investors to plan, which in turn enhances growth and development prospects.

1.1.5. *The financial sector* plays an important role in determining the country's productivity and competitiveness, as it allocates resources saved by economic agents. Without resilient and efficient financial systems, production is crippled, and competitiveness is constrained.

1.1.6. *Infrastructure* is a key enabler and determinant of competitiveness as it affects efficiencies of the supply chain and logistics, thus the lead time in the production process and delivery time to consumers. These assist to reduce costs in industry production processes, and boosts productivity, which in-turn enhances competitiveness, supports economic growth, and improves the quality of life for a country's citizens.

1.1.7. *Institutional and Regulatory Framework:* High transaction costs due to cumbersome and lengthy compliance processes and procedures undermine firms' competitiveness. Fees and levies charged by different Government Regulatory Agencies are weighing down the ease of doing business and add costs to business, thereby impacting on competitiveness.

1.2. Objective and Justification of the Report

1.2.1. The overall objective of the 2022 ZCR is to assess the country's progress on attaining competitiveness goals and targets as espoused in the NDS1 relative to comparator countries. Further, the Report seeks to identify gaps, opportunities and provide evidence-based recommendations on policies and programmes.

1.2.2. Benchmarking competitiveness contributes towards the formulation, implementation, and review of Government policies for sustainable inclusive growth and development that is in line with Vision 2030 and the United Nations Sustainable Development Goals (UN - SDGs) Agenda 2030. The recommendations include robust implementation of ease doing business reforms.

1.2.3. It is important to note that without a critical analysis and documentation of the national competitiveness indicators, Government can hardly come up with informed policies and

proactive strategies that address the resuscitation of industries and grow the economy as well as detect red flags that require intervention during implementation of the NDS1. In turn, industry is encouraged to invest in new technology and adopt business models to compete regionally and globally.

CHAPTER TWO

2. MACROECONOMIC STABILITY, PERFORMANCE AND ZIMBABWE'S COMPETITIVENESS

2.1. Introduction

2.1.1 Macroeconomic stability is a necessary condition for global productivity and competitiveness, as it provides predictability and confidence for businesses and investors to plan, which in turn enhances growth and development prospects. Government is implementing NDS1 whose main objective is to stabilize the economy. This is envisaged to be achieved through single-digit inflation and the establishment of a market-determined competitive foreign exchange rate regime. Attainment and maintenance of these macroeconomic fundamentals enhance productivity and eventually the country's competitiveness.

2.1.2 The global economic outlook has become significantly gloomy since the 2021 ZCR was published. As reported in the World Economic Outlook (WEO) for January 2023 global growth was revised downwards to 3.4% from an initial forecast of 4.9%. This was attributed to the geopolitical conflict between Russia and Ukraine, slowdown in China due to COVID-19 and tightening of global financial conditions. This has resulted in global supply chain disruptions, rising inflation worldwide, which have stifled economic and social recovery.

2.1.3 Consequently, the Zimbabwe economy has been directly impacted by these exogenous international developments through imported inflation and supply chain disruptions. In addition, domestic pressures such as droughts and developments in the power supply and foreign exchange market, negatively impacted the domestic operating environment. These developments adversely impacted on productivity and competitiveness, necessitating a downward revision of economic growth from 5.5% to 4% in 2022.

2.2. Overview of Zimbabwe's Economic Performance

2.2.1 The macroeconomic environment, characterized by high inflation, exchange rate volatility, as well as foreign currency shortages, has been a major downside risk to competitiveness of the Zimbabwe economy in 2022. A stable macroeconomic environment is ideal for business

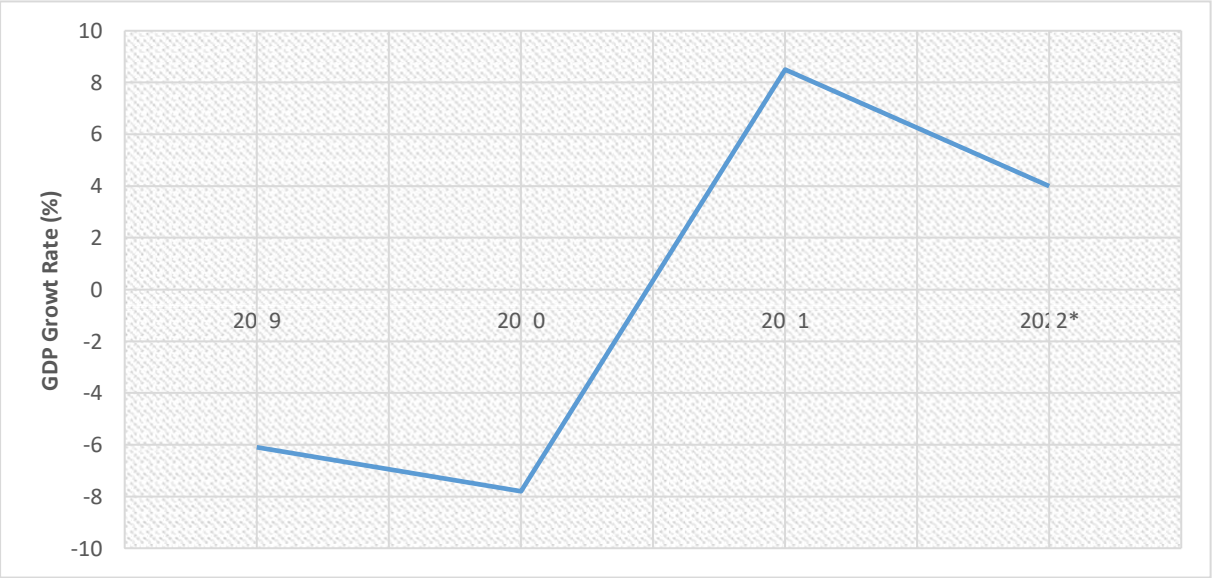
performance, investment, national growth and development. Whereas Zimbabwe performed better on the macroeconomic pillar in 2019, the above developments have eroded the gains attributed to that stability. According to the 2019 WEF GCI Report, Zimbabwe scored 72.6 out of 100 on the macroeconomic stability pillar. This was the country's best performer in 2019, among the competitiveness pillars.

2.2.2 Notwithstanding the above, the country registered significant strides in stabilizing the macroeconomic environment during the period under review. This is evidenced by exchange rate convergence of parallel and official exchange rates eliminating arbitrage tendencies and reduction in inflation, among others.

Gross Domestic Product Growth Rate

2.2.3 The economy has shown resilience from 2020 to 2021 in the face of significant shocks, namely the global economic depression brought about by the COVID-19 pandemic. This is evidenced by a recovery from negative growth rates of -6.1% and -7.8 recorded in 2019 and 2020, respectively, to 8.5% in 2021. Figure 1 shows the country's growth rate from 2019 to 2022.

Figure 1: Zimbabwe's GDP Growth Rate, 2019 - 2022



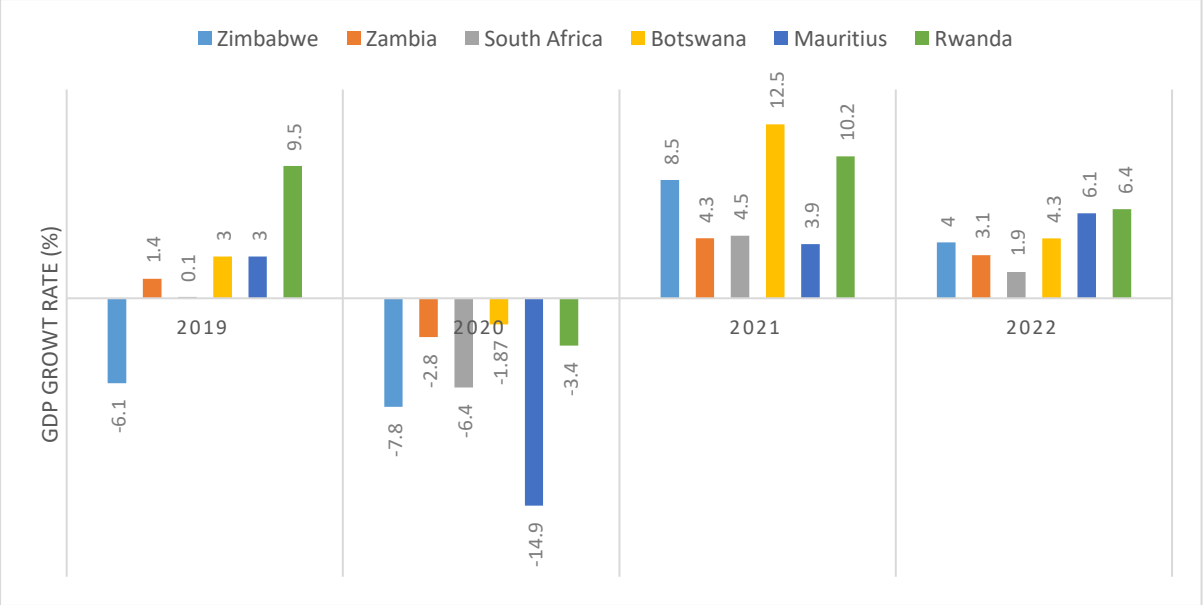
*Source: ZimStat and MoFED * estimates*

2.2.4 However, the Russia/Ukraine war, unfavourable 2021 – 2022 agricultural season, inflationary pressures, and exchange rate depreciation, are expected to slow down economic growth to the projected 4% in 2022, thereby adversely impacting competitiveness.

Zimbabwe's Gross Domestic Product Growth Rates with Comparator Countries

2.2.5 On average Zimbabwe's GDP growth rates have performed to regional standards over the period 2019 – 2022, as shown in Figure 2. This is largely attributed to Government's strategic interventions as outlined in the NDS1. The continued efforts to maintain positive economic performance to improve competitiveness are commendable, which in turn expands the country's capital stock to reach higher levels of national output and low average costs.

Figure 2: Zimbabwe's GDP Growth Rate vs Comparator Countries, 2019 – 2022



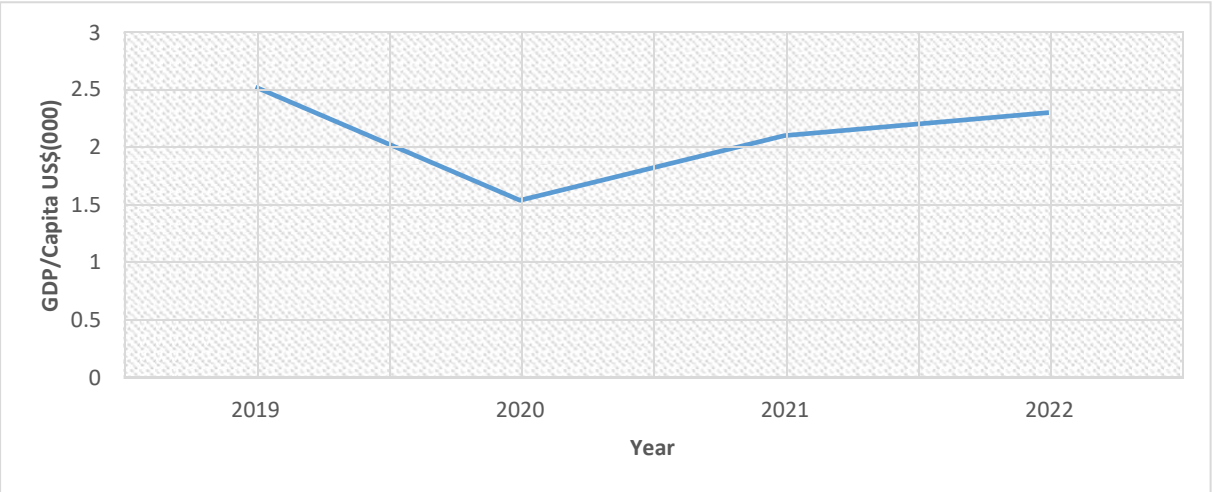
Source: IMF, MoFED and ZimStat; (*) estimates

2.2.6 The country's economic performance in the region has been commendable against comparator countries given that the International Monetary Fund (IMF) projects a weakened growth momentum for Sub-Saharan Africa at 3.8 % in 2022. Zimbabwe is expected to perform better than the regional averages at 4%.

Zimbabwe's Gross Domestic Product/Capita

2.2.7 The country's continued improvement of per capita income is indicative of market growth, which is fundamental for industry investment and improvement of a country's competitiveness. Figure 3 indicates the country's GDP/ Capita from 2019 to 2022.

Figure 3: Zimbabwe's GDP/ Capita, 2019 – 2022



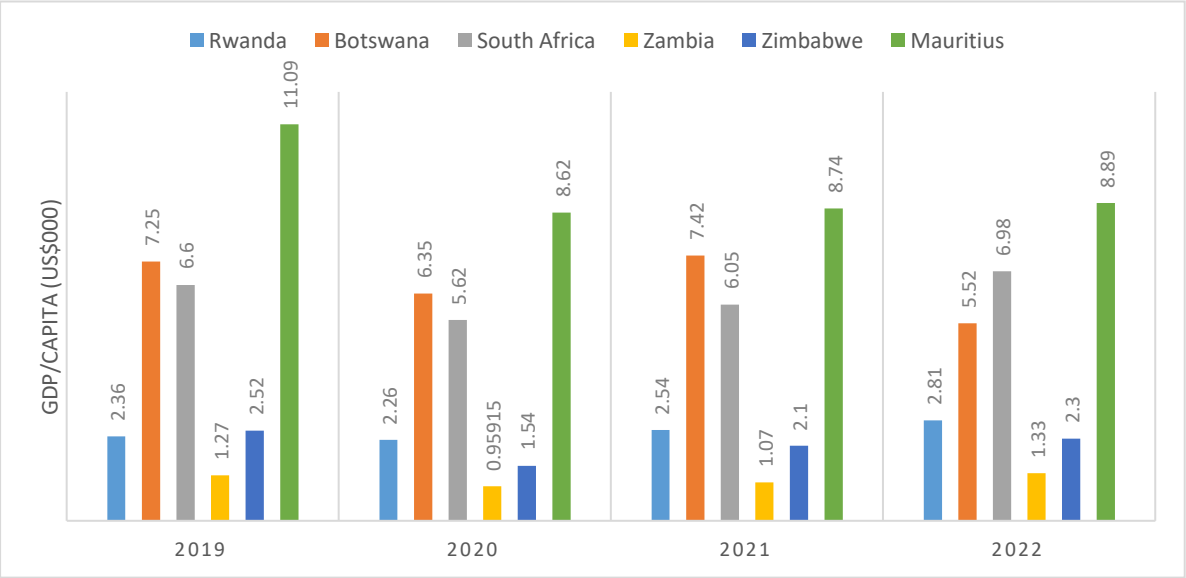
Source: ZimStat

2.2.8 Zimbabwe's per capita income declined in 2020 to US$1 540 from US$2 520 in 2019 as depicted in Figure 3, due to the COVID-19 pandemic with the attendant lockdowns. This implies that the general population was losing income and hence depressed national demand and disinvestment, weighing down on the country's competitiveness. The increase in economic activity in 2021 and 2022 boosted average income, and this is expected to have a positive impact on competitiveness.

Zimbabwe's Gross Domestic Product/ Capita Against Comparator Countries

2.2.9 Compared with the region, Zimbabwe has been performing better than Zambia. However, the level is still too low compared to Mauritius, Botswana and South Africa. In that regard, these countries that are performing better are expected to attract more investment than Zimbabwe, as they possess higher aggregate demand. Figure 4 compares Zimbabwe's GDP/ Capita with comparator countries over the period 2019 – 2022.

Figure 4: Zimbabwe's Gross Domestic Product per Capita vs Comparator Countries, 2019 – 2022



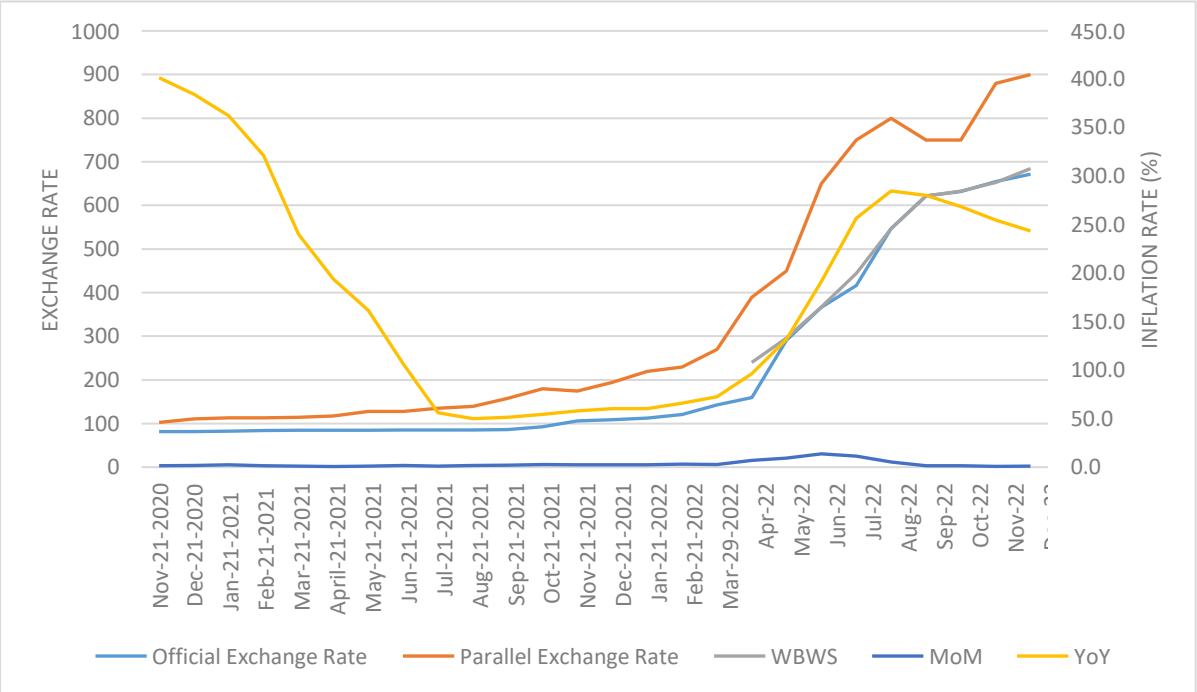
Source: ZimStat. IMF

Inflation and Exchange Rate Developments

2.2.10 Exchange rate and inflation developments have been the perennial macroeconomic challenges of Zimbabwe for the past two decades. These macroeconomic variables are among the key contributing factors to stunted growth and development in Zimbabwe. Since the end of 2021, the country was characterized by exchange rate-induced inflation from the indexation of prices of goods and services to foreign currency to hedge against value loss.

2.2.11 Figure 5 shows a significant decline of inflation from 401.7% in November 2020 to 72.7% in March 2022 before it reached 285% in August 2022. Thereafter, inflation has been declining ending at 243.8% in December 2022. This resurgence in inflation is attributed to the increased parallel market activities resulting in widening of the exchange rate premium.

Figure 5: Zimbabwe's Inflation and Exchange Rate Developments, November 2020 - December 2022



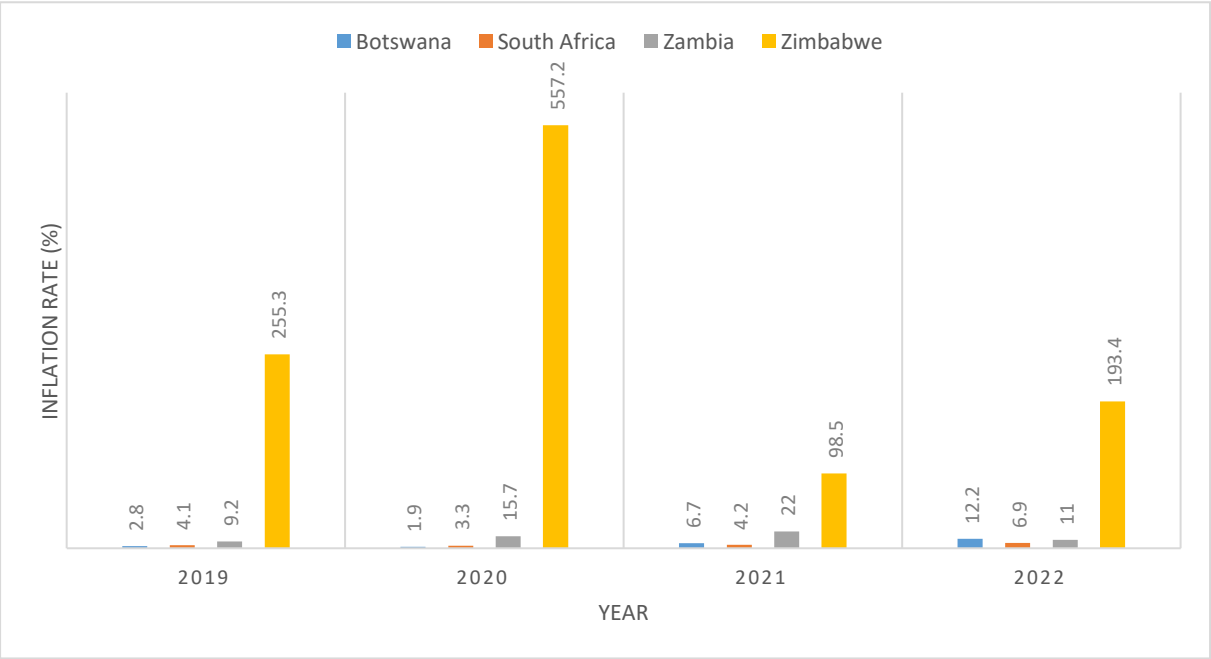
Source: Reserve Bank of Zimbabwe, ZimStat

2.2.12 In order to contain exchange rate induced inflationary pressures, a cocktail of fiscal and monetary measures was introduced and implemented towards the end of the second quarter of 2022. These include the review of Government procurement process to minimize the practice of forward exchange rate pricing that was being pursued by suppliers of goods and services, and upward review of the bank policy rate from 80% to 200%, among others. The practice of forward exchange rate pricing destabilizes the exchange rate, thus negatively impacting industrial viability and productivity as well as competitiveness. Consequently, month on month inflation started declining from 30.7% in July to 2.4% in December 2022.

Zimbabwe's Inflation against Comparator Countries

2.2.13 As shown in Figure 6, Zimbabwe has recorded inflation above the Southern Africa Development Community (SADC) macroeconomic convergence inflation target of 5% set in 2012**.** High inflation rates discourage investment in the country, which ultimately reduces productivity and price competitiveness.

Figure 6: Zimbabwe's Inflation vs Comparator Countries, 2019 – 2022



Source: FocusEconomics

2.2.14 As noted above, inflation and exchange rate developments have had a negative impact on competitiveness both on the demand and supply sides. For example, high inflation levels are negatively impacting on gross fixed capital formation, net exports, consumption and general confidence in the economy. Similarly, with high inflation and exchange rate, the domestic cost of production increases making our products less competitive.

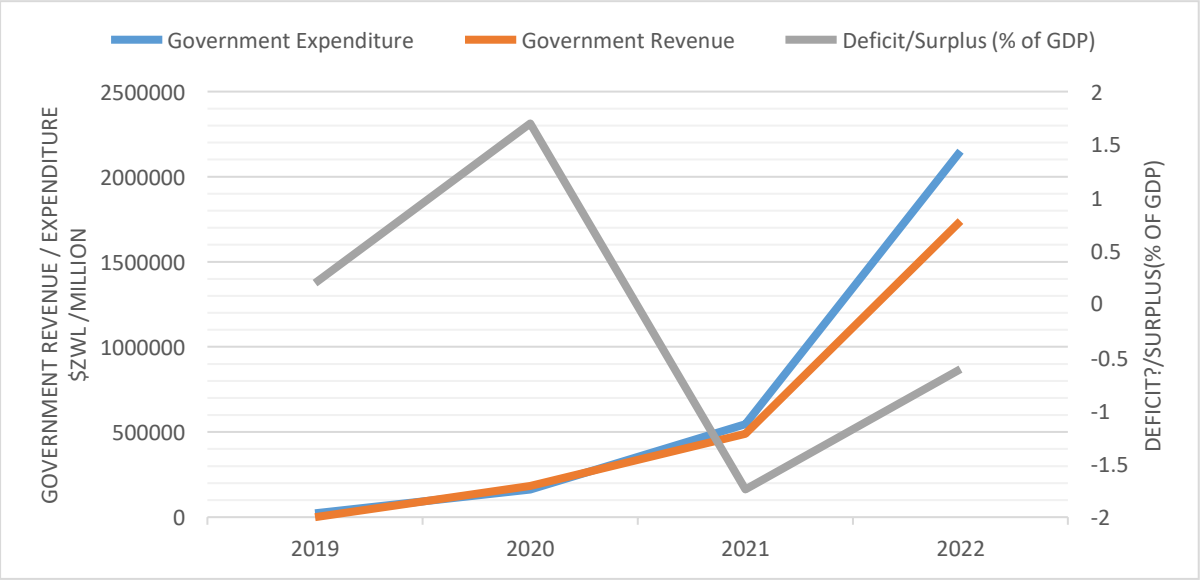
2.2.15 For instance, companies in the baking, cooking oil, pharmaceutical and fertilizer manufacturing as well as the construction industry are importing raw materials and intermediate products for production, they become vulnerable to exchange rate-inflation consequences. Therefore, an unstable currency and high inflation rate adversely affect planning, certainty, pricing and competitiveness.

Fiscal Developments

2.2.16 As shown in Figure 7, the country registered a deficit of -1.74% and -1.5% of GDP in 2021 and 2022, respectively. This is in line with the targets of the NDS1 and the dictates of the SADC Macroeconomic Convergence criterion of maintaining fiscal deficits within the 3% of GDP threshold. Fiscal discipline through maintaining a deficit below the stipulated threshold

of 3% ensures sustainable competitiveness, as huge deficits have a crowding out effect on investment.

Figure 7: Government Revenue, Expenditure and Overall Budget Balance, 2019 – 2022

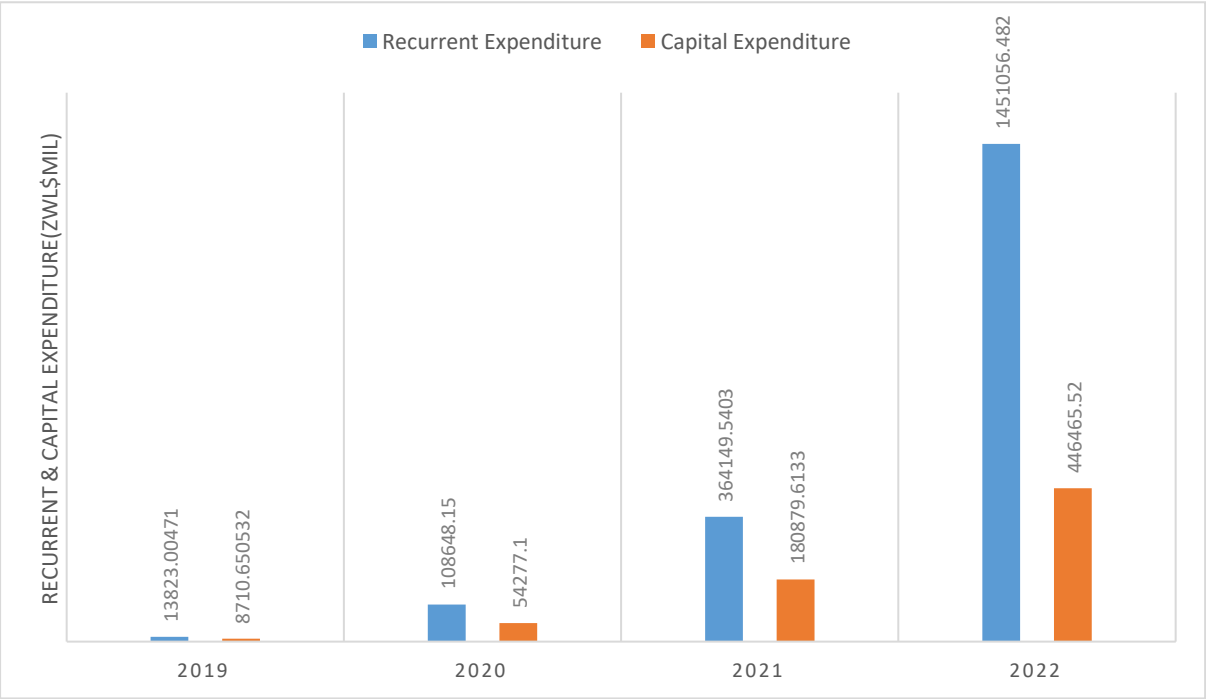


Source: MoFED

2.2.17 Notwithstanding the low deficit, late disbursement and underfunding of votes continue to undermine Government efforts towards improving competitiveness.

2.2.18 Similarly, Government expenditure is heavily skewed towards recurrent compared to capital expenditure despite the latter being critical for enhancing competitiveness. For instance, the recurrent expenditure as a percentage of GDP increased from 11.1% to 12.9%, whilst the capital expenditure declined from 5,5% to 3.6% in 2021 and 2022, respectively. Figure 8 shows the comparison of Government expenditure between recurrent and capital expenditures. Notwithstanding increase of Government expenditure since 2019, the gap between recurrent and capital expenditure is growing in favour of consumption, namely salaries and operations.

Figure 8: Comparison of Capital and Recurrent Expenditures, 2019 – 2022



Source: MoFED

National Debt

2.2.19 Zimbabwe has been in debt distress since 2000, as it cannot fully service its foreign obligations. According to the 2022 Public Debt Bulletin, the country's stock of total Public and Publicly Guaranteed (PPG) debt (domestic and external) amounted to ZWL$10.97 trillion (USD17.6 billion) as at end of September 2022, including RBZ external debt and compensation of Former Farm Owners (ZWL$2.18 trillion. Of this total PPG debt, external debt including blocked funds (ZWL$1.5 trillion) accounted for 79.6% (ZWL$8.7 trillion), while ZWL$2.23 trillion is domestic debt. This represents 477% increase from ZWL$1.9 trillion in December 2021, mainly on account of the depreciation of the ZWL$, which depreciated from USD1: ZWL$108 to USD1: ZWL$671.5 in December 2021 and 2022, respectively.

2.2.20 The debt position is adversely impacting on the country's access to new credit lines from the International Financial Institutions (IFIs), such as the WB, IMF, and AfDB, as well as negatively impacting internal flows of FDI in the economy, among others. In addition, the cost of foreign lines of credit is high due to risk premiums levied by lenders. As a result, this is weighing down on the economy's competitiveness.

2.2.21 The total PPG debt represents 67% of GDP, which is within the limit of 70% as provided for in the Public Debt Management Act, and higher than the SADC recommended threshold of 60% of GDP. It is highly commendable that the Government managed to reduce external debt from 88% of GDP in 2019 to 67% as at September 2022.

2.2.22 Domestic debt increased to 20% share of GDP as at end of September 2022, compared with 14% in 2021 due to the inclusion of compensation to Former Farm Owners. The increase in domestic debt is crowding out private sector borrowing, thereby negatively impacting investments and productivity as well as firm's competitiveness.

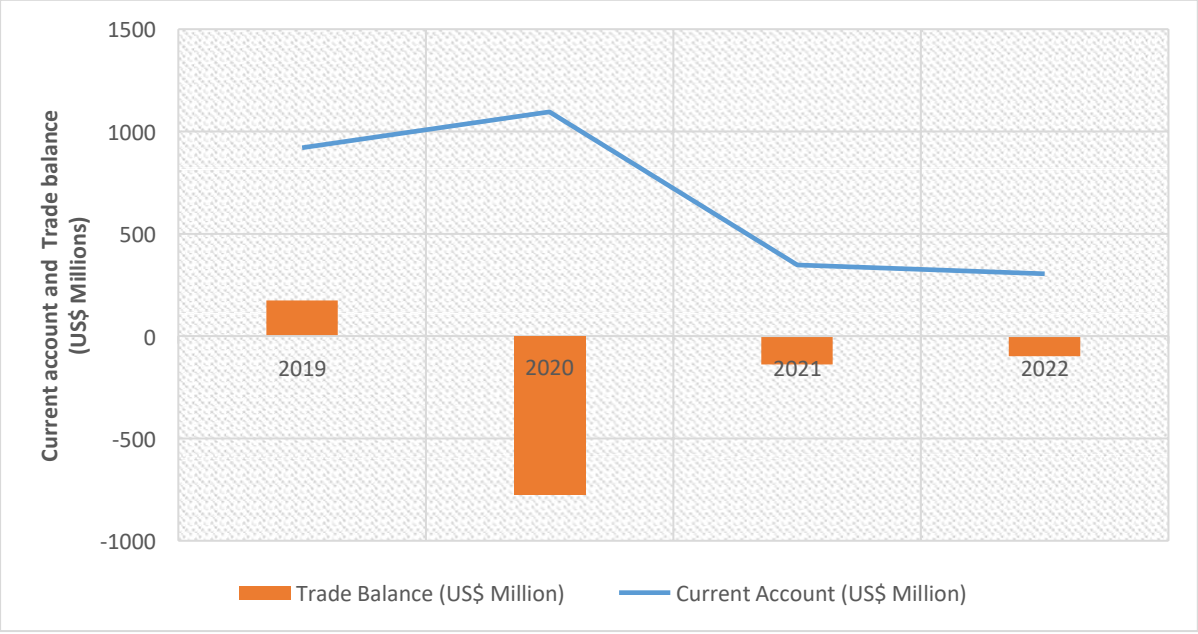
External Sector Developments

2.2.23 As enshrined in the NDS1, one of the country's key objectives is to maintain a sustainable current account deficit of not more than 3% of GDP.

Current Account

2.2.24 Since 2019, Zimbabwe has maintained a current account surplus as shown in Figure 9 largely on account of remittances. The major challenge is that remittances are consumptive and have got a minimum impact on productivity and competitiveness.

Figure 9: Zimbabwe's Current Account Balance, 2019 - 2022



Source: RBZ

2.2.25 Of major concern, is the negative trade balance that the country recorded from 2020 to 2022. This is an indication that Zimbabwe is spending more on imports than it receives through export earnings.

2.2.26 According to ZimStat Monthly Statistics Highlights for December 2022, Zimbabwe's main exports in 2022 were semi-manufactured gold (27.4 %) followed by tobacco (24.9 %) which are semi-processed or are exported in a raw form. The country's exports lack diversification and are vulnerable to fluctuations in international commodity prices, of which Zimbabwe is a price taker. The number of products exported by Zimbabwe decreased by 58.8% from 2117 in 2002 to only 873 in 2020 (Ministry of Finance and Economic Development 2022)[4].

2.3. Conclusion

2.4.1 The recent macroeconomic stabilization efforts have seen Zimbabwe registering significant gains in curbing inflation, containing exchange rate distortions, among others. However, key macroeconomic fundamentals need to be addressed to attain the envisaged targets. Implementation of the following recommendations will result in the improvement of the country's competitiveness.

[4] Economic Complexity Study

***Recommendation 1**: Consider adoption of a market-determined pricing regime (exchange rate and prices of goods and services).*

***Recommendation 2:** Whilst the current high interest rates contributed to macroeconomic stability, there is need to consider reducing them as soon as practically possible to ensure industry competitiveness.*

***Recommendation 3**: Strengthen the implementation of import substitution and value addition across sectoral value chains.*

***Recommendation 4**: Government to increase the share of budget towards capital expenditure in line with African Union threshold of 4%.*

***Recommendation 5:** Government to increase revenue generation through macroeconomic stabilization, promotion of value-added exports and increased productivity.*

***Recommendation 6:** Strengthen beneficiation, value addition and diversification to improve the export value and competitiveness of the country's exports.*

***Recommendation 7**: Government to step up efforts to re-engage the international community to unlock concessional lines of credit.*

***Recommendation 8**: Accelerate implementation of the arrears and debt clearance strategy.*

CHAPTER THREE

3. THE NEXUS BETWEEN INNOVATION AND INFORMATION & COMMUNICATION TECHNOLOGY AND COMPETITIVENESS

3.1 Introduction

3.1.1 The Digital Economy Value Chain (DEVC) encompassing innovation of the value chain driven by digital elements, such as technology and ICT[5] are critical pillars of global competitiveness through business process reengineering and marketing. It reduces the time and cost of doing business, improves customer and supplier satisfaction, and enhances the quality of products and productivity.

3.1.2 According to the 2021 World Bank Report, in 2016, the global digital economy was worth some US$11.5 trillion, equivalent to 15.5% of the world's overall GDP. The impact of the recent outbreak of COVID-19 has also contributed to structural changes in economic activities and the use of ICT has generally increased.

3.1.3 The ICT and Innovation sector is guided by the Research Act [Chapter 10:22] of 1986 and its subsequent amendments; Second Science, Technology and Innovation Policy of Zimbabwe (2012); Zimbabwe National Policy for Information & Communication Technology (2016); Science Technology Engineering and Mathematics (STEM)[6] Scientific and Industrial Research and Development Centre; reform of the education curricular from Education 3.0 to

[5] ICT refers to different types of communication networks and technologies. It combines manufacturing and services industries, whose products primarily fulfil or enable the function of information processing and communication by electronic means, including transmission and display.

[6] In recognition of the importance of equipping human capital with requisite stimulus for innovation, Government supports secondary school students pursuing STEM subjects to inculcate nature scientists from a tender age.

Education 5.0[7]; and Centre for Education; Innovation, Research and Development (CEIRD) (2021). These underscore the critical role of ICT in achieving transformation, growth, inclusiveness, sustainability, innovation and partnerships. The NDS1 also recognises the importance of ICT in enhancing competitiveness and national development in Zimbabwe.

3.2 Assessment of Innovation and Information & Communication Technology Competitiveness: A Global Perspective

3.2.1 There are various indices for assessing innovation and ICT competitiveness performance of countries. The WEF - GCR and Global Information Technology Report, as well World Intellectual Property Organization's (WIPO) Global Innovation Index (GII), among others, are some of the key measures of competitiveness in innovation and ICT.

Innovation

3.2.2 Innovation is multidimensional and critical in enhancing national competitiveness. Whereas innovation can be in the form of technical & technological changes and improvements, it also involves the development of new or improved products, processes, procedures, policies and organizational changes, that do not necessarily originate from new scientific discoveries. Innovation competitiveness of countries is measured under the WEF – GCI and the GII. Zimbabwe's competitiveness performance in innovation has not been pleasing as highlighted below:

Innovation Pillar Under Global Competitiveness Index

3.2.3 The Innovation Capability pillar under the GCI is made up of 3 components. Namely, interaction and diversity, Research and Development (R&D), and commercialisation. Of the 3 components, Zimbabwe poorly performed in R&D than other components, scoring 20.8 out of 100, whilst interaction and diversity, and commercialisation scored 31.7 and 30.9, respectively in 2019.

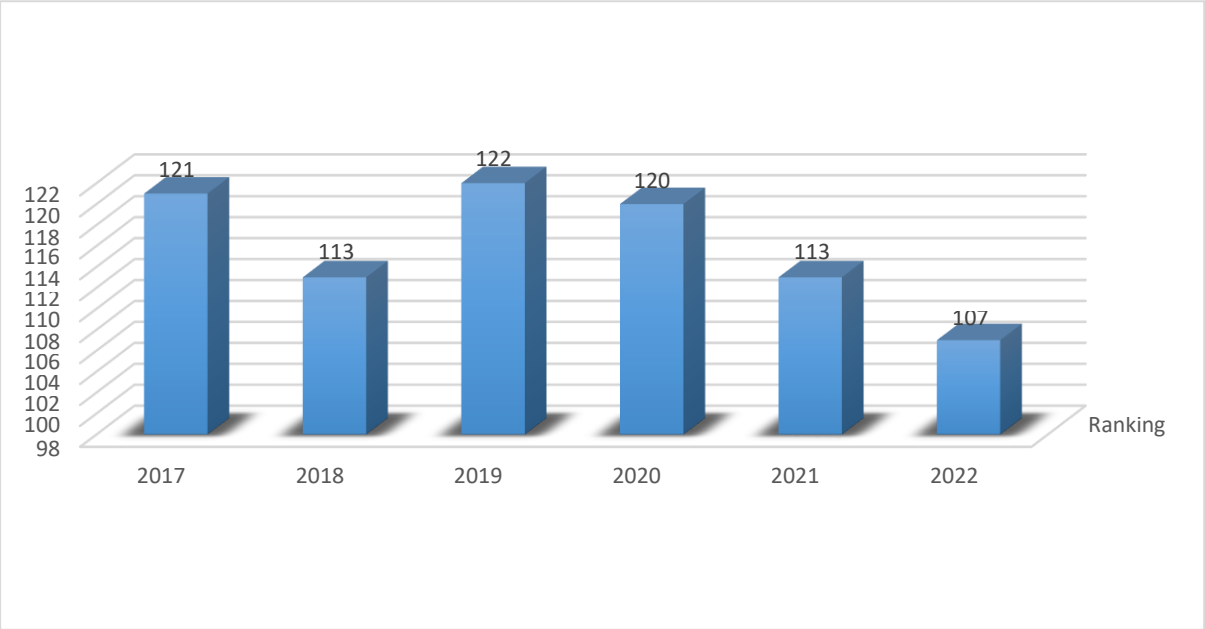
7 The re-configuration of the Higher and Tertiary Education System from the tripartite education system of Teaching, Research and Community-service (Education 3.0) to Education 5.0, which includes, Innovation and Industrialisation, to enhance entrepreneurship, quality goods and services, as well as foster national competitiveness. Government introduced the concept of innovation hubs under Education 5.0 to serve as springboards for new ideas and helps innovators pursue creative solutions.

Global Innovation Index

3.2.4 The WIPO's GII, provides annual ranking of countries by their capacity for, and success in, innovation. The GII is assessed under seven pillars namely, institutions; human capital & research; infrastructure; knowledge & technological outputs; business sophistication; creative outputs; and market sophistication. Zimbabwe is ranked number 113 out of 132 countries under the 2021 GII. This was a marginal improvement from number 120 in 2020 and 122 in 2019. The low rankings entail a weak innovation competitiveness edge in comparison to regional and international markets.

3.2.5 Zimbabwe is ranked number 107 out of 132 countries under the 2022 GII, which is an improvement from a ranking of 113 in 2021 as shown in Figure 10.

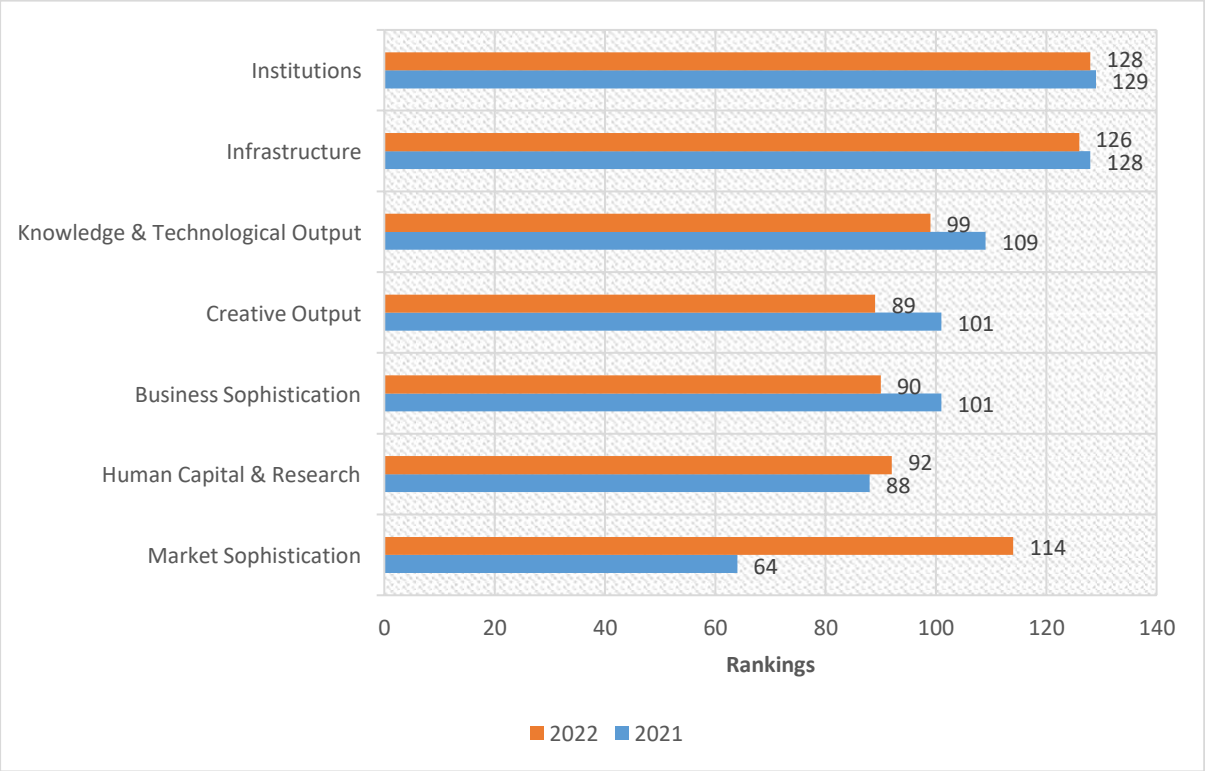
Figure 10: Zimbabwe's Global Innovation Index Rankings, 2017 – 2022



Source: WIPO Report

3.2.6 The improvement in innovation ranking was largely on account of business sophistication, creative outputs, knowledge and technological outputs. Weighing down the ranking were declines in market sophistication, and human capital and research, as indicated in Figure 11 below:

Figure 11: Global Innovation Index Sub-Pillar Rankings, 2021 – 2022



Source: WIPO Report

3.2.7 Decline in human capital and research is attributable to a skills mismatch and gap, brain drain as well as inadequate funding for research and development. According to National Critical Skills Audit Report, there is a 16.9% skills deficit in ICT in Zimbabwe.

3.2.8 Assessment of the market sophistication category is based on performance on credit, investment and trade. The ranking was low largely due to poor ranking on domestic credit to the private sector, among others.

3.2.9 Whereas there are marginal improvements in the ranking on institutions, a lot more needs to be done given the central role institutions play in ICT innovation. Assessment factors under institutions include political, regulatory and business environment. The poor fairing of Zimbabwe`s ranking reflects low rankings on the political and regulatory environment, which are 129 and 124 in 2022, respectively.

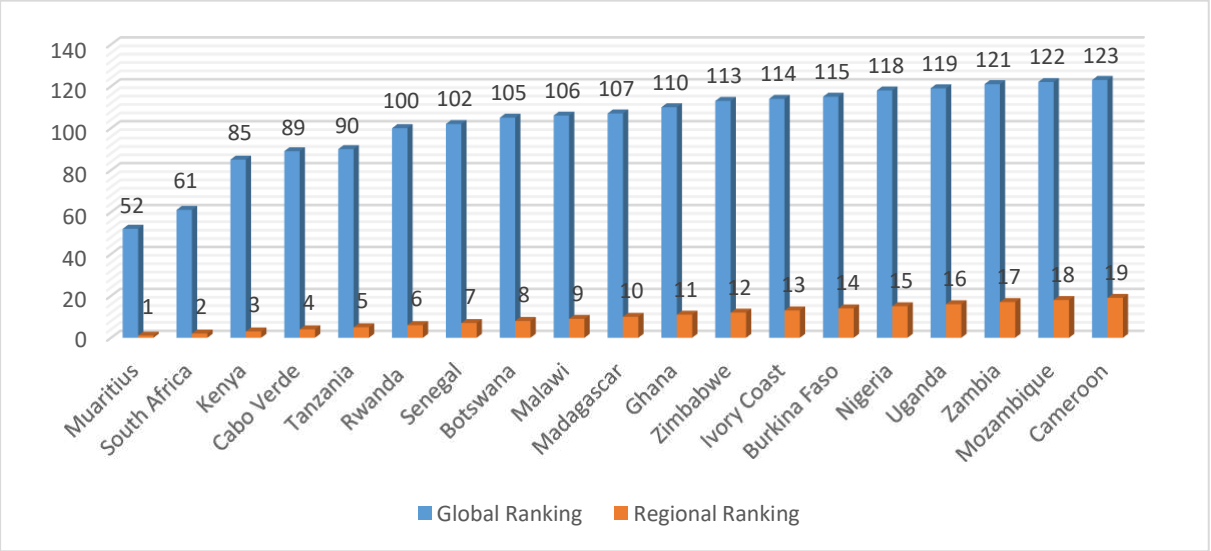
3.2.10 Infrastructure parameters include ICT general infrastructure and ecological sustainability. Infrastructure registered marginal improvement, the ranking remained low largely due to low rankings in general infrastructure (132) and ICT (107).

3.2.11 The fact that there is no record of property rights registration for Zimbabwe, indicates poor corporate governance (poor record keeping, amongst others), insufficient capacity building, and funding challenges. With innovation taking centre-stage in enhancing competitiveness, it is not surprising that the country's competitiveness performance is below those that registered property rights such as Mauritius and South Africa.

3.3 Innovation Competitiveness against Comparator Countries

3.3.1 Figure 12 compares Zimbabwe's ranking in innovation competitiveness with other countries in Sub-Saharan Africa (SSA).

Figure 12: Zimbabwe's Innovation Ranking vs Comparator Countries, 2021



Source: WIPO

3.3.2 Figure 12 suggests that innovation levels are generally low in most of the SSA. The most innovative countries in Africa are Mauritius and South Africa, which are ranked at 52 and 61 at the global level, respectively. Compared with other SADC countries, Zimbabwe ranks lower on position eight out of eleven countries that were included in the GII 2021 Report. Mauritius, South Africa and Tanzania are performing better in the SADC region compared to their peer countries. It is not surprising that those countries that are more innovative also ranks better in terms of competitiveness.

3.3.3 A further assessment of the 7 pillars for these countries, as shown in Table 1, shows that they outperform Zimbabwe on most of the indicators. Zimbabwe performs better than most of its

SADC peers in human capital & research and market and business sophistication. Countries such as South Africa, Tanzania, Malawi, and Madagascar, were recognised by WIPO as having innovation performance above expectations for their level of development. On the contrary, Zimbabwe, Zambia and Namibia were recorded as having performance in line with the level of development. Table 1 shows Zimbabwe's performance in the GII sub-pillars against comparator countries.

Table 1: Zimbabwe's Performance on Innovation Sub-Pillars vs Comparator Countries, 2021

Country	Overall GII Rank	Institutions	Human Capital & Research	Infrastructure	Market Sophistication	Business Sophistication	Knowledge and Technological Outputs	Creative Outputs
South Africa	61	55	67	83	23	51	61	79
Tanzania	90	103	125	105	109	119	100	144
Namibia	100	73	57	112	92	112	119	105
Botswana	106	59	130	93	113	73	101	112
Malawi	107	105	122	127	81	95	84	97
Madagascar	110	108	116	132	122	125	99	61
Zimbabwe	113	129	88	128	64	101	109	101
Zambia	121	125	107	119	87	83	120	125
Mozambique	122	127	112	76	126	127	116	115
Angola	132	128	119	125	127	130	129	130

Source: WIPO

Information Communication Technology

3.3.4 ICT adoption is one of the 12 pillars under the WEF GCI and has sub-pillars, which include internet users as a percentage of adult population, mobile cellular telephone& broadband, fixed broadband & fibre internet subscriptions.

3.3.5 In 2019, the overall ICT adoption ranking for Zimbabwe was 115 out of 141 countries Table 2 indicates the scores and rankings for the ICT adoption Sub-pillars:

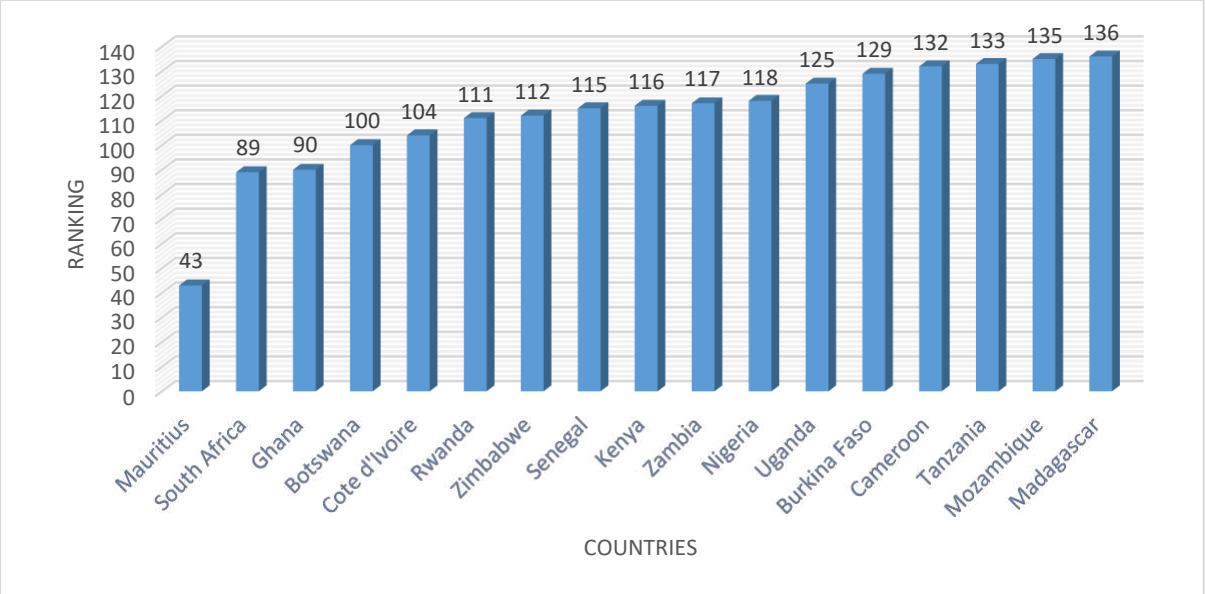
Table 2: Zimbabwe's ICT Sub-Pillars Ranking, 2019

ICT Sub-pillar	Score	Rank
Mobile cellular telephone subscriptions per 100 population	74.5	114
Mobile broadband subscriptions per 100 population	N/a	102
Fixed broadband internet subscriptions per 100 population	2.8	108
Fibre internet subscriptions per 100 population	N/a	85
Internet users' percentage of adult population	37.1	115
Overall	**37.4**	**112**

Source: WEF GCI

3.3.6 Zimbabwe's performance on ICT adoption is still below most SSA countries with a ranking of 112 out of 141 countries (see Figure 13).

Figure 13: Zimbabwe's ICT Sud-Pillars Ranking vs Comparator Countries, 2019



Source: WEF-GCI

3.3.7 In comparison with other countries, Zimbabwe performed fairly well on fibre internet usage with a ranking of 85 out of 141 (see Table 3). It however, performed poorly on mobile cellular telephone subscriptions, internet users as a percentage of adult population, fixed-broadband internet subscriptions and mobile-broadband subscriptions with rankings of 114, 115, 108 and 102 out of 141 countries, respectively.

Table 3: Zimbabwe's ICT Adoption Sub-Pillars Performance vs Comparator Countries, 2019

Country	Overall ICT Adoption Rank	Mobile-cellular telephone subscription	Mobile-broadband subscription	Fixed-broadband internet subscriptions	Fibre-internet Subscriptions	Internet users % adult population
Mauritius	43	11	85	48	15	86
South Africa	89	10	69	104	81	91
Ghana	90	26	41	126	n/a	105
Botswana	100	12	65	105	96	96
Cote d'Ivoire	104	29	87	116	112	99
Rwanda	111	124	114	134	106	123
Zimbabwe	112	114	102	108	85	115
Senegal	115	91	113	113	125	100
Kenya	116	107	112	114	87	129
Zambia	117	116	95	123	105	134
Nigeria	118	117	120	136	116	102
Uganda	125	131	118	138	n/a	120
Burkina Faso	129	103	124	131	121	130
Cameroon	132	128	128	130	117	121
Tanzania	133	125	139	107	89	118
Mozambique	135	135	136	124	98	137
Madagascar	136	139	135	129	108	138

Source: WEF-GCI

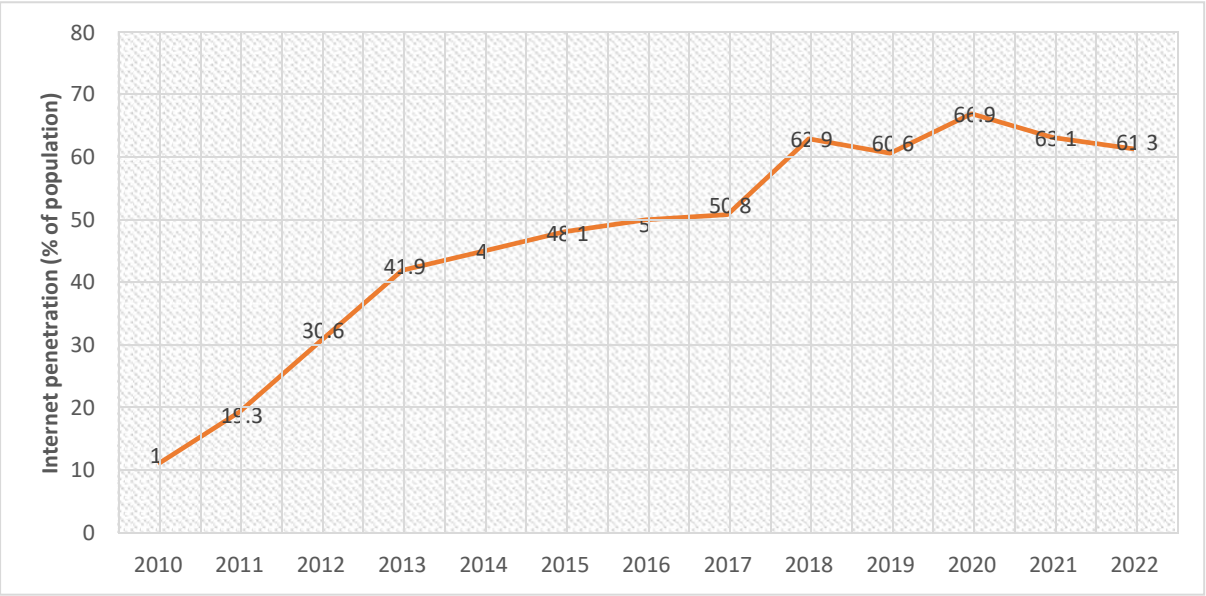
3.3.8 The low rankings are explained by the following factors:

Low Internet Use

3.3.9 According to POTRAZ (2021), 74.7% of the rural population is covered by 2G and 67% by 3G, only 1.83% is covered by 4G yet 70% of the population resides in rural areas. This does not compare well with the coverage in urban areas where 99.9% is covered by both 2G and 3G technology and 91.99% is under 4G technology. The low coverage in 4G in rural areas, which gives access to internet, reflects low return on investment on that service.

3.3.10 This lack of internet access creates further barriers to economic opportunities and national competitiveness. Figure 14 shows the trend in internet penetration over the period 2010 to 2022.

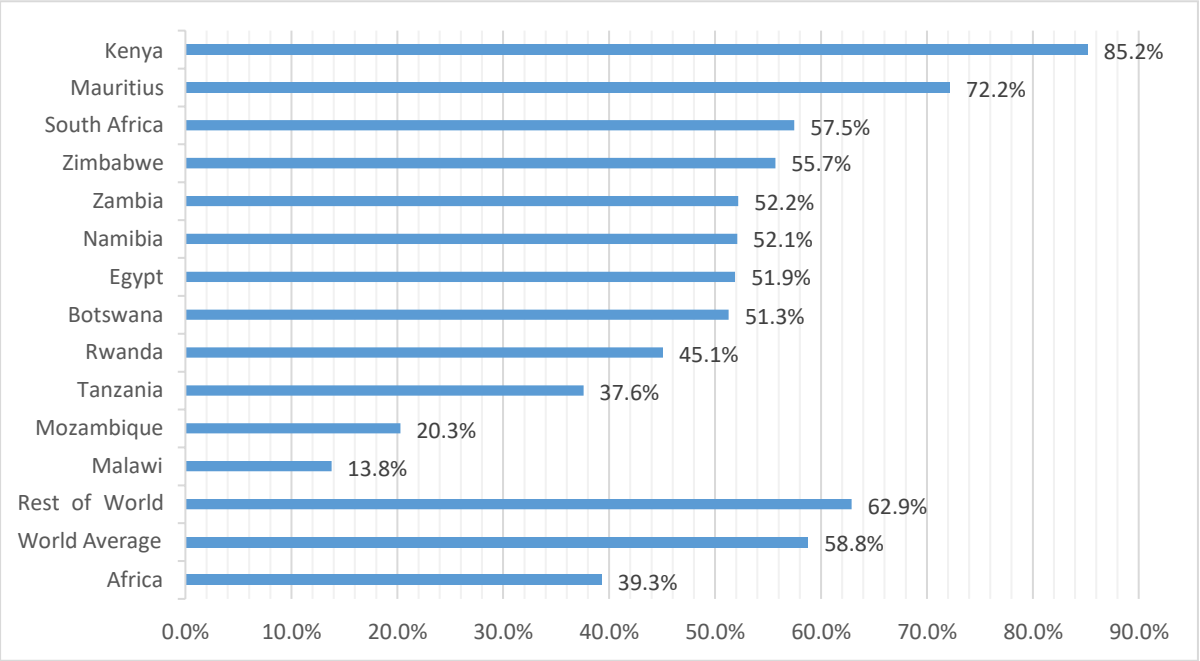
Figure 14: Trend in Internet Penetration for Zimbabwe, 2010 – 2022



Source: POTRAZ

3.3.11 The Government efforts towards enabling citizens in remote areas to participate in the digital economy and to increase their overall economic well-being, competitiveness, digital inclusion, poverty reduction, improved health and education through erection of Community Information Centres are commendable. Figure 15 shows comparison of internet penetration rate for 2021.

Figure 15: Comparison of Internet Penetration Rate, 2021



Source: Internet World Stats

3.3.12 Although the penetration rate of 55.7% for Zimbabwe is higher than the Africa average of 39.3%, it is below the world average of 58.8%, as well as the over 90% obtaining in most developed economies. This may explain the reason for better competitiveness for those countries with higher internet penetration rate, namely, Kenya, South Africa and Mauritius.

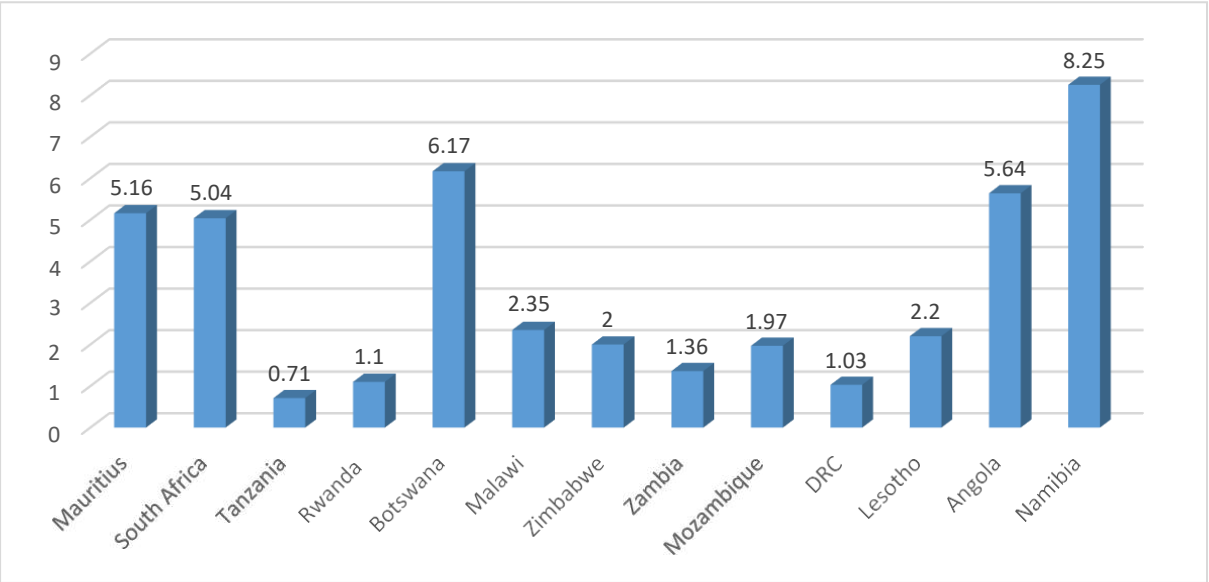
3.3.13 Furthermore, the penetration rate is also below the Broadband Commission for Sustainable Development Broadband-Internet user penetration set target of 65% in developing countries by 2025.

High Internet Cost

3.3.14 High internet cost is another reason for low internet usage in Zimbabwe, where the average price of 1GB is US$2, which compares unfavourably to US$0.71 for Tanzania, DRC (US$1.03), Rwanda (US$1.1) and Zambia US$1.36 in 2021. In addition, players in the ICT sector face high licensing fees and over-regulation, which inhibit investment, increases cost of doing business and promote monopolistic tendencies.

3.3.15 Whilst the average price of 1GB is higher in countries like Angola, Botswana, Mauritius, Namibia and South Africa, it is important to note that incomes for people in these countries are high, which makes data relatively cheaper. This contrasts with Zimbabwe, where according to the World Bank, the average daily cost of living is around US$2, hence most people cannot afford such internet cost. Figure 16 shows a cost comparison of data tariffs in the SADC Region.

Figure 16: Country Comparison for 1 GB Data Bundles Price (US$), 2022



Source: https://www.statista.com/statistics

Limited ICT Infrastructure

3.3.16 Even though progress has been made for the past decade to improve the country's ICT infrastructure, the digital economy is still lagging mainly due to poor connectivity. Limited ICT infrastructure, especially in remote areas, makes it difficult for agriculture-based businesses to access e-services over the internet or even basic email. ICT infrastructure improvement needs to be a top priority mainly targeting rollout of optic fibre network, broadband and investments in last mile connectivity by industry players that will ensure affordable, accessible, ubiquitous and reliable ICT services that support an inclusive digital economy. This will also create an enabling environment for private sector investment, thereby enhancing the country's competitiveness.

Low Internet Speed

3.3.17 High speed broadband is the lifeblood of today's knowledge-based economy, and ultimately determines the level of national competitiveness. The World Bank estimates that a 10% increase in broadband penetration could raise GDP by 1 to 2%. Whilst 56% of the world is now using 4G/LTE and is expected to have 21% on 5G by 2025, Zimbabwe is largely a 2G economy (93.45%), with 3G covering 83.95% and 4G/LTE only covering 34.98% of the population. More than 90% of the 4G/LTE technology available in Zimbabwe is available to urban areas, in a country whose urbanisation rate is about 35%.

3.3.18 Some African nations like South Africa and Lesotho have already rolled out 4.5G and 5G technology, also known as the fifth generation of mobile internet connection, that offers much faster data download and upload speeds.

3.3.19 Consequently, in terms of internet speed, Zimbabwe is ranked 162 out of 220 countries globally and 18th in SSA, as indicated in the Table 4.

Table 4: Average Download Speed in Sub-Saharan Africa, 2022

Global Rank	SSA Rank	Country	Mean download speed (Mbps)	How long it takes to download a 5GB movie (HH:MM:SS)
48	1	Rwanda	52.17	0:13:05
88	3	South Africa	28.62	0:23:51
122	5	Nigeria	15.37	0:44:25
124	6	Seychelles	14.89	0:45:51
130	7	Mauritius	13.44	0:50:48
137	9	Kenya	12.42	0:54:58
146	12	Lesotho	10.68	1:03:55
148	13	United Republic of Tanzania	10.52	1:04:54
159	15	Botswana	9.36	1:12:56
160	16	Namibia	9.28	1:13:34
162	18	Zimbabwe	8.94	1:16:22
164	19	Malawi	8.48	1:20:30
165	20	Mozambique	8.38	1:21:28
166	21	Zambia	8.36	1:21:40
174	24	Angola	6.66	1:42:30
184	27	DR Congo	4.90	2:19:19
185	28	Eswatini	4.76	2:23:25

Source: Cable.co.uk

3.3.20 High speed internet access is a productivity-enhancing factor and ultimately competitiveness. It scales up cost-saving efficiencies through use of Voice Over Internet Protocol (VoIP) telephone voice services, streamlining business processes, and facilitate capital-labour substitution. Modern trends in business are highly automated, procurement of inputs and sales are done online, and these require constant uploading and downloading data. Lags in processing data cost production as well as lead to customers loss, which have a heavy toll on competitiveness.

3.3.21 Consequently, countries ranked higher than Zimbabwe in terms of internet speed also have competitive edge over the country using the various measures of competitiveness, indicating the need to further invest in the upgrade of internet infrastructure to match regional peers and remain competitive. This is critical for the country to gravitate towards the digital economy.

Lack of ICT Producing Industry

3.3.22 Competitiveness is enhanced due to the interrelatedness of the various sectors of the economy. The lack of an ICT producing industry in the country is inhibiting on national competitiveness. The low levels of internet users in the country entails that ICT adoption is weak, thereby transmitting a negative pass-through effect on the country's competitiveness than other components.

3.3.23 NDS1 thus recognises the importance of ICT adoption where internet penetration rate is targeted to increase from 59.1% in 2020 to 75.4% by 2025. Further, the mobile penetration rate is also expected to increase from 94.2% to 100% by 2025.

3.4 Conclusion

3.4.1 Realisation of ICT benefits in enhancing competitiveness requires sound institutional framework, adequate funding, appropriate infrastructure, and requisite skills. Policymakers, regulators, business leaders, scholars, and entrepreneurs are urged to work together, to create both public and private sector innovation environment, thereby improving innovation capacity of Zimbabwe economy and grow and increase national competitiveness.

3.4.2 Investment in research, development and innovation is essential for local firms to develop innovative new products and services that will allow them to survive and thrive in competitive

domestic and global markets. Continued innovation, which will contribute to productivity and quality improvements is critical to enhance competitiveness.

Recommendation 1: *Expedite the establishment and operationalisation of a Centre for Education, Innovation, Research and Development (CEIRD).*

Recommendation 2: *Expedite the review of the legal and institutional framework of innovation and ICT mainstreaming issues of competitiveness in line with international best practice.*

Recommendation 3: *Develop and operationalise the National Innovation and Productivity Strategy. The institutional framework is aimed at supporting the innovation value chain- from idea generation to the final product or service.*

Recommendation 4: *Government to offer incentives to private players to unlock funding for digital infrastructure particularly in rural and farming areas to re-shape the economy by interlinking how the various sectors of the economy operate.*

Recommendation 5: *Expedite privatisation of State-Owned Enterprises in the ICT sector.*

Recommendation 6: *Open the sector to increase competition in the ICT market to achieve accessible and affordable communications for all.*

Recommendation 7: *Service providers to consider rolling over of unused internet data bundles to the next month.*

CHAPTER FOUR

4. FINANCING IMPACT ON COMPETITIVENESS

4.1 Introduction

4.1.1 The financial sector[8] plays an important role in determining the country's productivity, trade[9] and competitiveness, as it allocates resources saved by economic agents and those entering the economy from abroad to areas where they are mostly needed for production purposes. Without resilient and efficient financial systems, which allocate resources based on market returns, production is crippled, and undermine competitiveness. To this end, the NDS1 recognised trade and competitiveness as key elements for the growth and development for Zimbabwe. This requires a sound financial system with well-coordinated financial resources to promote investment and increase productivity, which are critical elements of competitiveness.

4.1.2 In practice the soundness of a nation's financial system is an important determinant of its economic activity. Its fragility can have severe macroeconomic consequences, which negatively impact on productivity and competitiveness, thereby affecting its ability to produce, import, and export goods and services. Consequently, economies require resilient and sophisticated financial markets that are efficient to distribute available capital to the private sector for investment through loans from a sound banking sector, well-regulated securities exchange, and venture capital, among other financial products.

4.1.3 The resilience and efficiency of a financial system of a country depends on its depth and soundness. The depth of a financial system is a function of several indicators including the country's level of domestic credit to the private sector, level of financing of SMEs, availability of venture capital and level of market capitalisation. Financial sector soundness, on the other hand, is a factor of the condition and performance of financial institutions based on, among other factors capital adequacy, asset quality, risk management and liquidity.

8 The financial sector incorporates financial institutions, financial markets and financial architecture/payment systems. Financial institutions include banks, investment houses, lenders, finance companies, real estate and insurance companies.

4.2 Overview of the Zimbabwean Financial Sector Competitiveness

4.2.1 The financial sector in Zimbabwe has evolved from a relatively repressive and uncompetitive sector post-independence, consisting of a few players operating under a highly regulated environment into a competitive and well-diversified sector comprising commercial banks, asset management companies, insurance companies, microfinance and building societies.

4.2.2 Financial liberalization introduced in the early 1990's resulted in the relaxation of regulatory controls and opening of the banking sector, thereby allowing new players, mostly indigenous owned banking institutions in the sector in line with the Banking Act [Chapter 24:20].

4.2.3 Sources of competitiveness in the banking sector include adequate capitalization and liquidity, innovation and product diversity, service delivery and pricing of products and services. The RBZ encourages market forces to determine the prices of banking services and products, to the extent possible.

4.2.4 The competitiveness of the Zimbabwean financial sector has been undermined by:

- Short term liability structure of banks which inhibits the ability to fund long term projects such as mining, construction, among others;
- High bank charges, which affect ability to mobilise deposits;
- Lack of confidence in the banking and insurance sectors;
- Lack of product diversity;
- Low interest rates on deposits;
- Falling asset prices, increasing financing costs and revenue uncertainty, suggesting deterioration of the firms' financial health. The sector's liquidity remains dropped as investors are cautious in terms of trading costs and the impact of vesting periods; and
- The policy interventions and measures, which include the increment of vesting period and impact of the Capital Gains Tax have slowed down activity, which has directly impacted the financial stability of the ecosystem within the capital markets.

4.2.5 Furthermore, the imposition of sanctions by the United States of America (USA) and its western allies, through the Zimbabwe Democracy and Economic Recovery Act of 2001 (ZIDERA) is also affecting the competitiveness of the financial sector. The Act prohibits the extension of any loans, credit, or guarantee to the Government or any cancellation or reduction

of indebtedness owed by the country to the USA or any IFI, thereby negatively affecting the viability of the financial sector. It also prohibits banks from participating in International Bank for Reconstruction and Development and IMF programmes, which adversely affect banks' funding capabilities and modernisation of the economy. This constraints productivity and competitiveness, as the sector is constrained in mobilising cheap lines of credit on the international market.

4.2.6 The sanctions have heightened the perceived country risk, which has resulted in the following:

- The cost of foreign lines of credit is high due to risk premiums levied by lenders; and
- Termination of Correspondent Bank arrangements between local banks and international financial institutions. As a result, banks in Zimbabwe and money transfer agencies are facing problems in meeting industry, customers' obligations, including Diaspora remittances into the country. It also affects trade and foreign payments.

Zimbabwean Financial Sector Architecture

4.2.7 As of December2022, the banking sector comprised of 14 operating commercial banks, four (4) building societies, and one (1) savings bank. In addition, there were 188 credit-only microfinance institutions, seven (7) licensed deposit-taking microfinance institutions and four (4) development financial institutions under the purview of the Bank.

4.2.8 The number of banking institutions suggests a competitive market, which is beneficial for consumers. However, the number of microfinance institutions has significantly gone down from 223 in 2019 to 195 in December 2022, as some institutions failed to renew their licenses citing viability challenges, attributed to the high inflationary environment.

4.2.9 The Zimbabwean insurance industry is comprised of 7 types of institutions namely, life assurance companies, short-term insurance companies, funeral assurance companies, microinsurance companies, reinsurance companies, insurance brokers and reinsurance brokers. Table 5 shows an architecture of the Zimbabwean insurance industry.

Table 5: Architecture of the Insurance Industry in Zimbabwe, 2022

Type of Institution	Number of Registered Institutions
Short Term Insurance Companies	19
Life Assurance Companies	12
Funeral Assurance Companies	8
Microinsurance Companies	2
Reinsurance Companies	9
Insurance Brokers	28
Reinsurance Brokers	8
Total	**86**

Source: IPEC

4.2.10 It is important to note that majority of the institutions in the insurance industry do comply with the Minimum Capital Requirements (MCR). Table 6 indicates MCR compliance dynamics within the insurance industry in Zimbabwe.

Table 6: Minimum Capital Requirements Compliance by the Insurance Industry in Zimbabwe, 2022

Class of Business	No. of Entities	Compliant Entities with MCR	Non-Compliant with MCR	Compliance Level (%)
Funeral Assurers	8	7	1	88%
Life Assurers	12	11	1	92%
Short Term insurers	19	18	1	95%
Micro-insurers	2	2	0	100%
Reinsurers	9	9	0	100%
Reinsurance Brokers	8	8	0	100%
Insurance Brokers	28	27	1	96%
Total / Industry Average	**86**	**82**	**4**	**95%**

Source: IPEC

4.2.11 There were 981 registered pension funds as of 31 December 2022 out of which 48% were inactive funds on account of continued dissolutions and applications for paid up status. Fund administration registered a loss of ZW$2.36 billion and this was attributed to 3 of the 13 fund administrators. There was a nominal increase of 248% in asset from ZW$319 billion to ZW$ $1.11 trillion during the review period. However, there was a 43.9% decrease in real terms in assets due to the bearish performance of the stock market, which failed to outperform inflation.

4.2.12 The capital market remained resilient in 2022. However, from July 2022, the market has been considered high risk due to depressed activity and low revenues. The outlook is however, expected to increase. The Zimbabwe Stock Exchange (ZSE) closed the period at 12.5% in December 2022 with a market capitalisation of ZWL$2.044 trillion. All Share Index stood at 19 493.85 points reported in December 2022.

4.2.13 The value of trades in December 2022 stood at ZWL$ 89.99 billion from ZWL$ 32.12 billion in 2021. However, the volume of trades has significantly decreased from 3.2 billion shares traded in 2021 to a paltry 182.46 million shares in 2022.

4.2.14 Currently four companies are listed on Victoria Falls Stock Exchange (VFEX) where US$0.61 million worth of trade was recorded with market capitalization of US$0.42 billion by December 2022.

4.2.15 As of 31 December 2022, the capital market comprised of 128 total licensed and registered institutions (Securities Market Intermediaries) as shown on Table 7.

Table 7: Capital Markets (Securities Market Intermediaries) in Zimbabwe

License Category	Q 1 2022	Q 2 2022	Q 3 2022	Q4
Dealing firms	20	21	21	21
Investment advisers	55	56	58	58
Investment managers	25	28	30	30
Securities exchanges	3	3	4	4
Central Securities Depositories (CSDs)	2	2	2	2
Trustees	4	4	4	4
Custodians	5	6	6	6
Transfer Secretaries	3	3	3	3
Total SMIs	117	123	128	128
Total Collective Investments Scheme (CIS)	61	63	65	72
GRAND TOTAL (SMIs & CIS)	**178**	**186**	**193**	**200**

Source: Zimbabwe Stock Exchange

4.2.16 Table 7 shows an increment in license applications across categories due to the low licensing fees, which are pegged in ZWL$ and capital adequacy requirements.

4.3 Competitiveness Indicators of Zimbabwe Financial System against Comparator Countries

4.3.1 The financial competitiveness indicators include domestic credit to private sector, financing to SMEs, venture capital availability, market capitalisation and financial system stability.

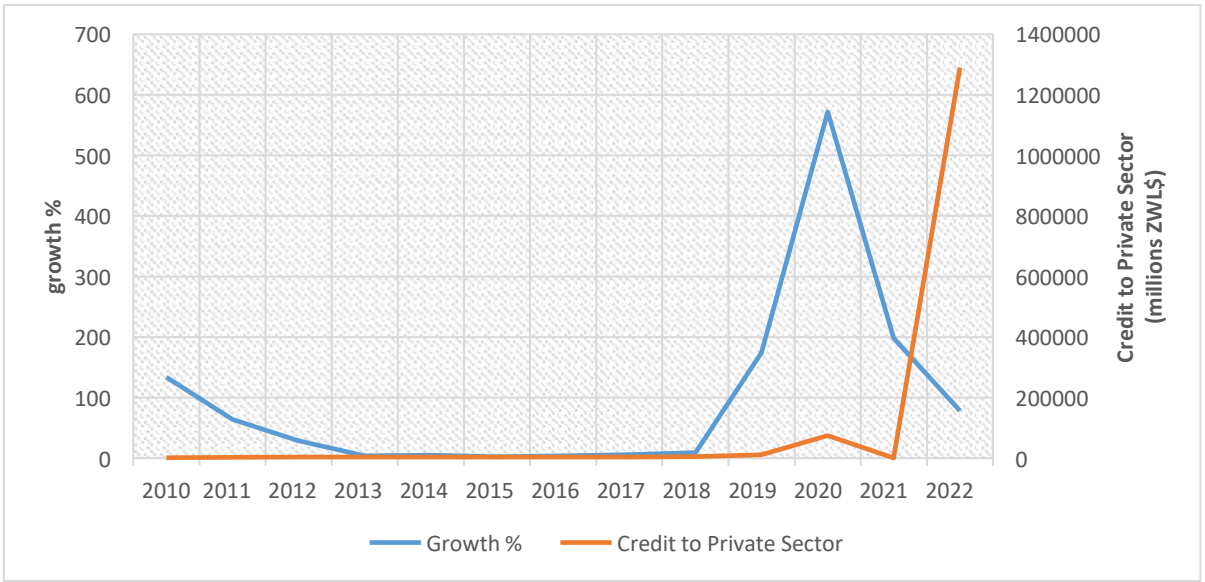
Domestic Credit to Private Sector

4.3.2 Firms' source of competitiveness lies on the reliability, availability, and affordability of the lines of credit. Therefore, businesses that are poorly funded are often uncompetitive, due to use of antiquated production technologies, which in most cases, are inefficient and uncompetitive. On the other hand, firms that can easily and cheaply access credit to finance their operations are often competitive relative to those with costly sources of funding.

4.3.3 The performance of a country's domestic credit to the private sector is also used to reflect the soundness of an economy's financial system. According to the World Bank, domestic credit to private sector refers to financial resources provided to industry in the form of loans, purchases of nonequity securities, and trade credits and other accounts receivable that establish a claim for repayment.

4.3.4 The nominal value of total domestic credit in Zimbabwe has been increasing over the years. Aggregate banking sector loans and advances increased by 114.5% from ZW$603.14 billion to ZW$1.29 trillion in June and December 2022, respectively. The increase was largely attributed to an increase in foreign currency denominated loans, leading to the increase in theirproportion from 65.9% to 78.2% of total banking sector loans during the same period. Figure17 depicts trends in domestic credit to the private sector from 2010 to December 2022.

Figure 17: Domestic Credit to the Private Sector in ZWL$ Millions and (%) Growth, 2010 – December 2022



Source: RBZ

4.3.5 Figure 17 shows that domestic credit to private sector increased sharply in nominal terms by more than 572% over the decade due to inflation, revaluation gains on foreign exchange-based loans, among others. It is important to note that these changes are just a reflection of nominal money values advanced to the private sector through domestic sources.

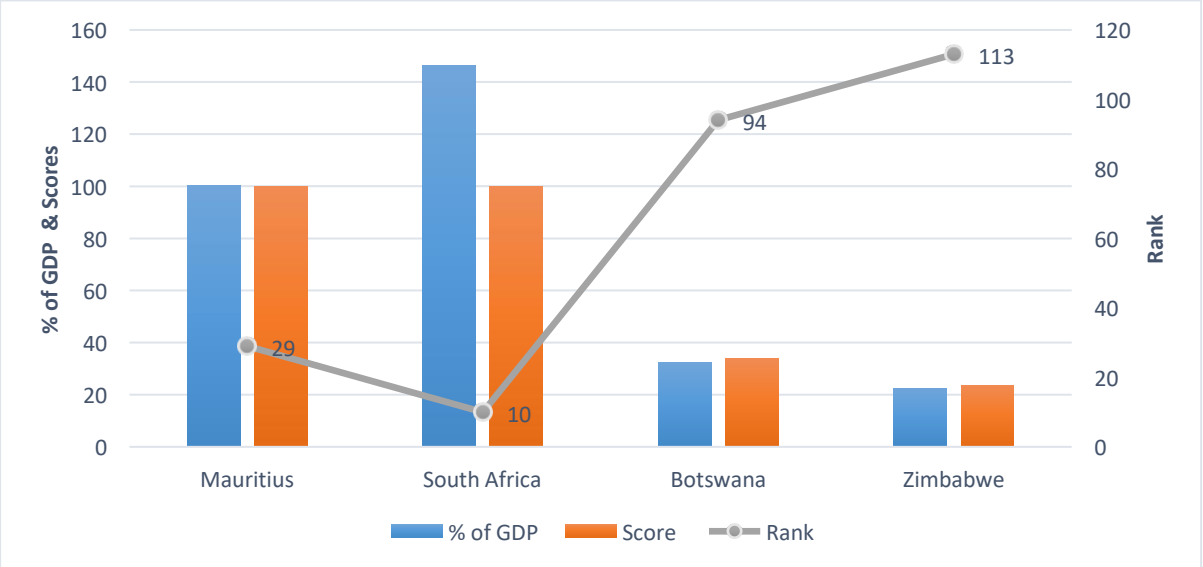
4.3.6 Perpetual increase of domestic credit to private sector in real values is an ideal position that Zimbabwe urged to endeavour to achieve. More domestic credit implies that firms would be able to timely purchase bulk raw materials, negotiate discounts and avoid production glitches, which are all tenets of productivity and competitiveness.

Regional Comparison of Domestic Credit to Private Sector

4.3.7 According to the latest WEF GCI report of 2019, domestic credit to the private sector in Zimbabwe has remained low at 22.4% due to the cautious approach to lending adopted by banks in light of the operating environment. The country also scored 23.5 out of 100 scores the same year and was ranked number 113 out of 141 world countries on this indicator.

4.3.8 Compared with peers from the Sub-Saharan and SADC regions, the country's performance on this indicator is unfavourable, with South Africa, scoring 100 out of 100 and ranked number 10 out of 141 countries. Figure 18 shows Zimbabwe's performance on domestic credit to private sector against regional comparator countries.

Figure 18: Regional Comparison of Domestic Credit to Private Sector as a % of GDP, 2019



Source: WEF GCR

4.3.9 Figure 18 shows that Zimbabwe is the least country in the provision of domestic credit to the private sector when compared with the top competitiveness performers in the region. The country is ranked number 113 out of 141 countries compared to number 10, 29 and 94 for South Africa, Mauritius and Botswana, respectively, under the GCI, showing the impact of credit provision to national competitiveness.

4.3.10 There has not been significant improvement on domestic lending in Zimbabwe since 2019. According to the RBZ 2021 Annual Report, lending to the productive sectors decreased by more than 6% to 76.3% between 2020 and 2021. The decline in domestic lending was due to:

- High levels of inherent credit risk;
- High inflation;
- High cost of capital;
- High country risk;
- Transient nature of bank deposits;
- High cost of doing business including Intermediated Money Transfer Tax (IMTT); and
- High bank policy rate.

Financing of Small to Medium Enterprises

4.3.11 The Small to Medium Enterprises (SMEs) is one of the critical sectors of the Zimbabwean economy. The Sector has, however, not been adequately funded due to perceived high risk, lack of collateral, poor record keeping, low financial literacy, among others. As a result, SMEs largely rely on financial support from Government, private sector, Development Partners (DP) and Non-Governmental Organizations (NGOs). For instance, the RBZ intervened to assist the MSME sector following challenges that emanated from the Covid-19 pandemic to keep some small businesses afloat. Cumulative disbursements under the facility amounted to ZW$1.7 billion by the end of 2022.

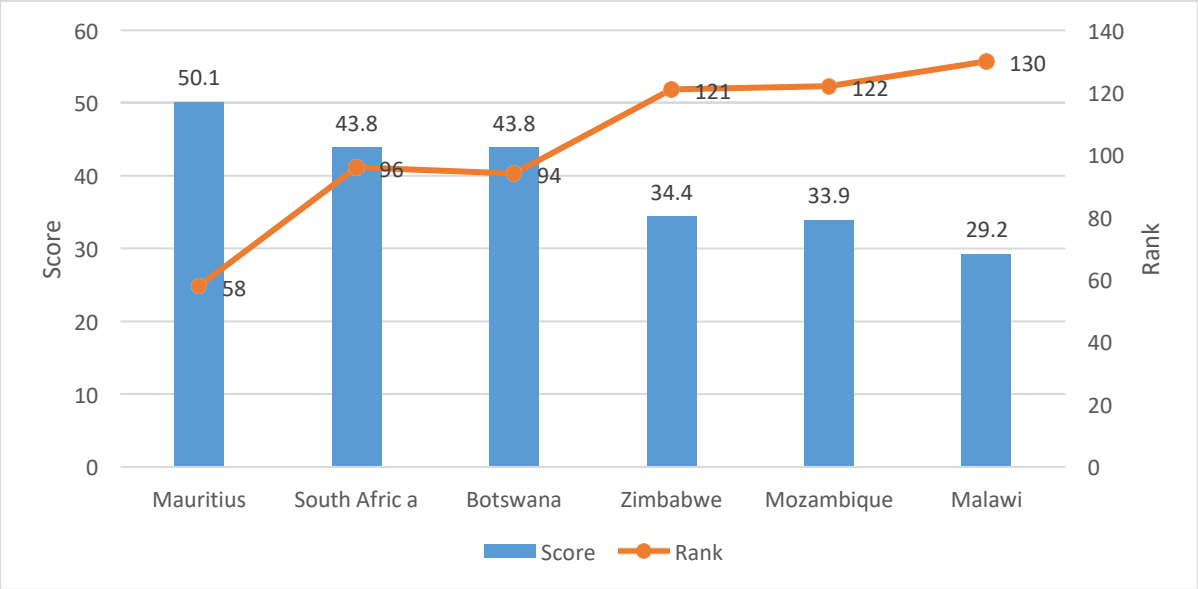
4.3.12 SMEs sector had been crowded out of the foreign exchange space by the big players, a situation that has been threatening their competitiveness relative to regional partners. However, the introduction of the SMEs Foreign Exchange Auction System in August 2020 to enable SMEs to access foreign currency for the importation of essential services and raw materials is crucial to enhance productivity and competitiveness of the sector. Since the introduction of the auction system, cumulative allotments amounted to US$3.7 billion by December 2022. The share of the MSMEs sector continued to increase from 17% to 22% in June and December 2022,

respectively. Although the SMEs Foreign Exchange Auction System is facing similar challenges such as huge foreign currency allocation backlogs as the main Foreign Exchange Auction System, continuous finetuning of the system to ensure that it best serves the interests of the economy is highly encouraged.

4.3.13 Without adequate financial resources, the SME sector is likely to remain constrained, hence cannot retool and modernise their production processes, thus negatively affecting their efficiency, productivity and competitiveness of their products on the international market.

4.3.14 Figure 19 shows regional comparison of financing to SMEs.

Figure 19: Regional Comparison of Financing of SMEs, 2019



Source: WEF GCR

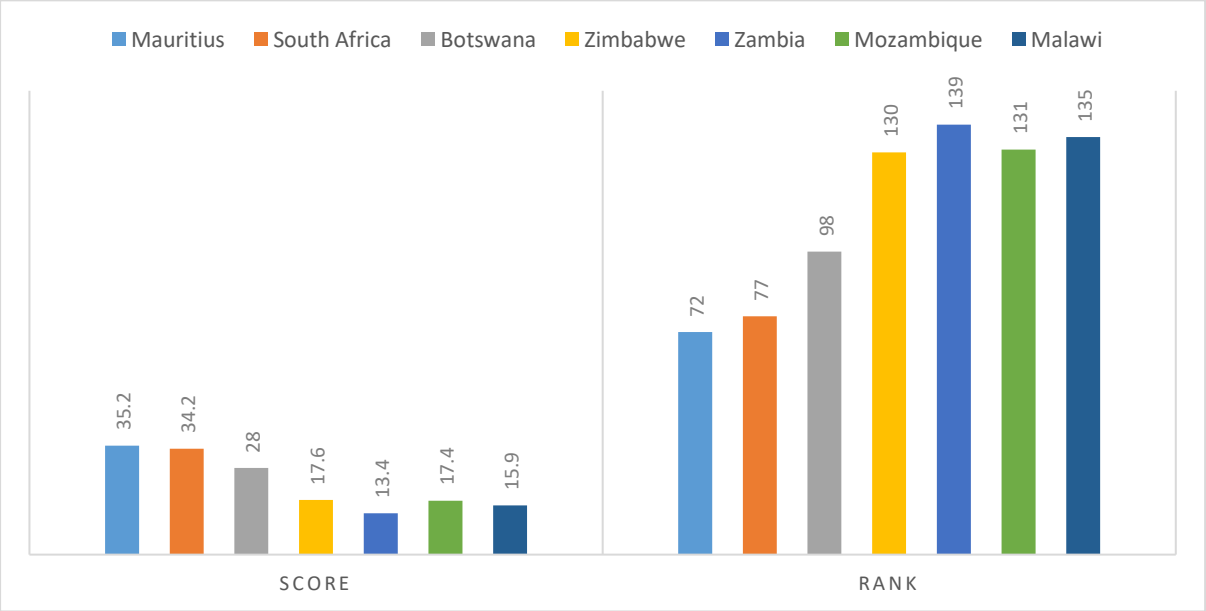
4.3.15 Zimbabwe performed better than Mozambique and Malawi among regional partners. The country was ranked 121 whereas the neighbouring countries, South Africa and Botswana, were ranked 96 and 94 out of 141 world countries, respectively.

Venture Capital Availability

4.3.16 Venture capital is one of the important determinants of competitiveness. Countries with easy access to this kind of capital are often competitive than those with limited access to this important source of financing. Accessing venture capital in Zimbabwe was not easy as established by the 2019 WEF GCR.

4.3.17 Figure 20 compares Zimbabwe with other regional comparators on this indicator and reveals that, relative to the comparator countries, it is very difficult to access venture capital in Zimbabwe.

Figure 20: Regional Comparison on Venture Capital Availability, 2019



Source: WEF GCR

4.3.18 Figure 20 depicts that it is very difficult to access venture capital in Zimbabwe than in neighbouring countries, South Africa and Botswana, respectively. Inaccessibility of venture capital discourages new business investments and growth of existing ones. Zimbabwe, as a result is ranked number 130 out of 141 whereas Mauritius, South Africa and Botswana are ranked number 72, 77 and 98, respectively.

Market Capitalisation

4.3.19 Market capitalisation is an important factor of competitiveness. Companies with larger market capitalisation are often competitive, as they are likely to attract more investments for their business operations and boost productivity. Those with small capitalisation, on the other hand, have greater potential for price growth since they still have room to grow. However, such companies are often riskier investment destinations since their future performance is unknown.

4.3.20 The ZSE lost ZW$394.30 billion translating to 16.17% worth of capitalization to ZW$2 044.87 billion in December 2022, from ZW$2 439.17 billion in June 2022 due to the negative trading exhibited on the local bourse, coupled with the de-listing of some counters. On a year-on-year

basis, the ZSE capitalization added 55.2%, from ZW$1 317.21 billion recorded in December 2021. Local investors continue to increase their participation on the stock market as foreigners continue the sell off as shown in Table 8.

Table 8: Zimbabwe's Assets Under Custody, 2022

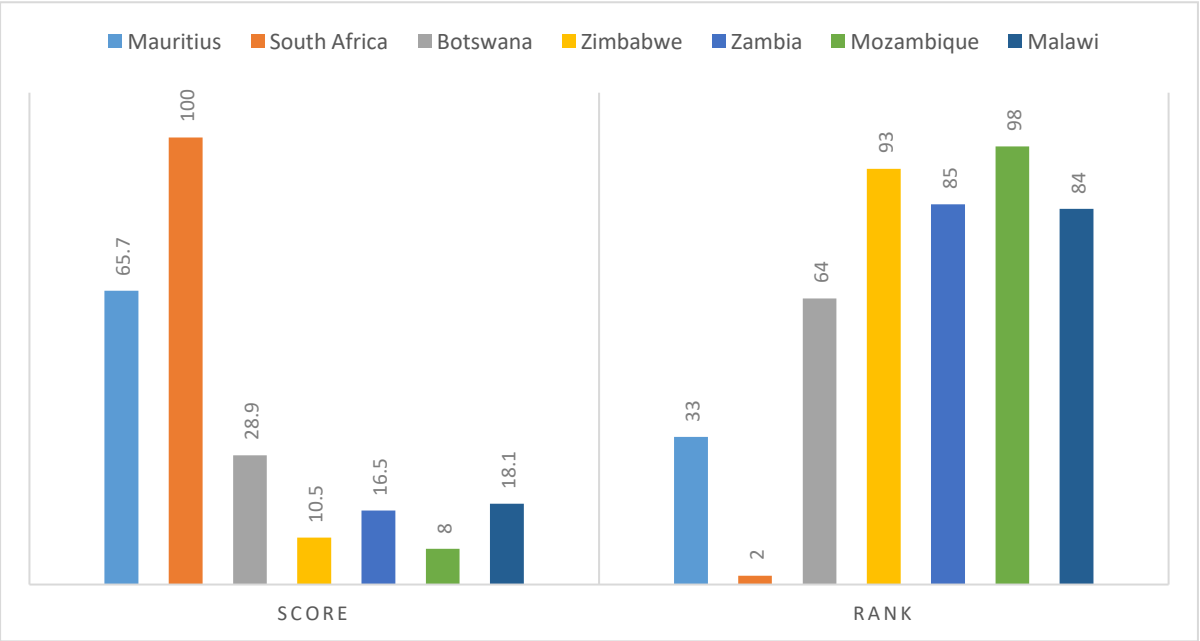
	Q3 2022	Q2-2022	2021	Change
Assets under Custody	1,000,839,276,900	1,112,081,849,054	533,260,814,869	87.7%
Foreign Clients Owned Assets	160,514,776,645	254,507,136,251	108,795,492,406	47.5%
Local Clients Owned Assets	840,324,500,255	857,574,712,803	424,465,322,463	98.0%
% Foreign Clients Composition	16.0%	22.9%	20.4%	-21.4%
% Local Clients Composition	84.0%	77.1%	79.6%	5.5%

Source: Zimbabwe Stock Exchange

4.3.21 The decline in foreign clients owned shares is not pleasing as this shows a reduction in FDI and may lead to undercapitalization.

4.3.22 The WEF GCR measures this indicator and expresses it as a percentage of GDP, however, it excludes investment funds, unit trusts and companies whose business goal is to hold shares of other listed companies. The challenge with this measurement methodology is that it excludes the predominant investments on Zimbabwe's capital markets. Figure 21 compares Zimbabwe with other regional partners on this aspect.

Figure 21: Regional Comparison on Market Capitalization, 2019



Source: WEF GCR

4.1.31 Compared with other regional peers, Zimbabwe has been performing low serve for Mozambique. The country is ranked number 93 whereas South Africa, the neighbouring and major trading partner, is ranked number 2 out of 141 world countries.

4.1.32 The country's market capitalisation measured as a percentage of GDP is about 11% compared to 30% of Botswana. Raising the country's market capitalisation score would increase the country's chances to attract investment and become competitive.

Financial System Stability

4.1.33 The competitiveness of the financial system is determined by the soundness of banks.

Soundness of Banks

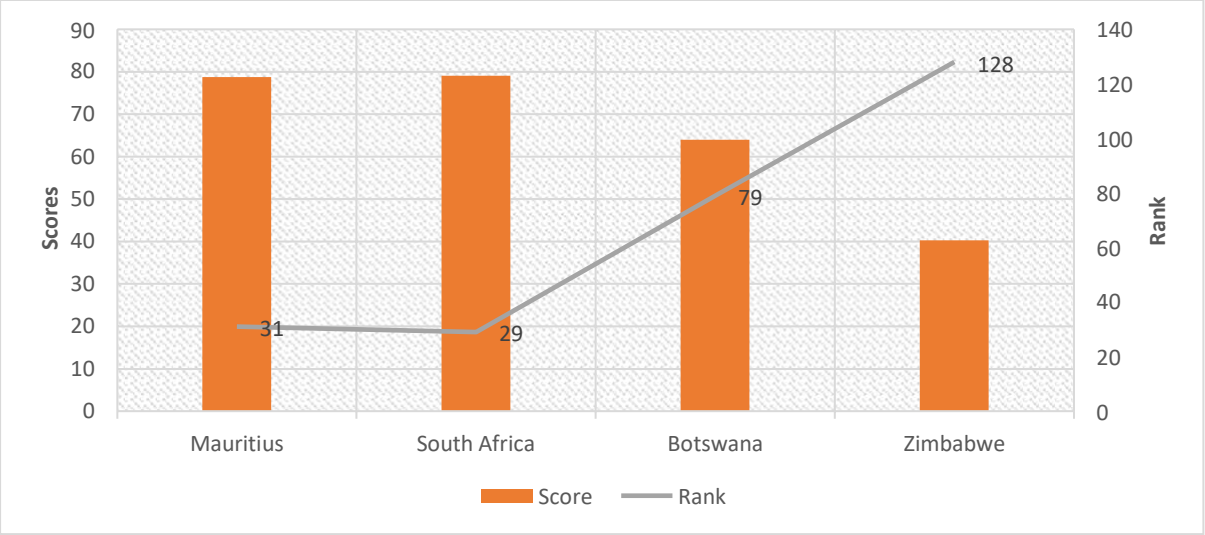
4.1.34 The soundness of banks determines financial sector stability, which is a bedrock of sound fiscal and monetary policies, which are key drivers of industry competitiveness. Further, it is an indicator of how likely financial problems would be transmitted to the real economy.

4.1.35 Central banks around the world, as a result, are increasingly paying attention to monitoring the health and efficiency of banks to detect and deter any developments that pose potential threat

to the banking system. RBZ Act empowers the Central Bank to reinforce financial stability, hence it is undertaking various financial stability enhancements, which include development of new supervisory techniques and methodologies in line with international best practices.

4.1.36 Zimbabwe has not been doing well on the soundness of banks ranking relative to regional partners as indicated in Figure 22.

Figure 22: Regional Comparison on Soundness of Banks, 2019

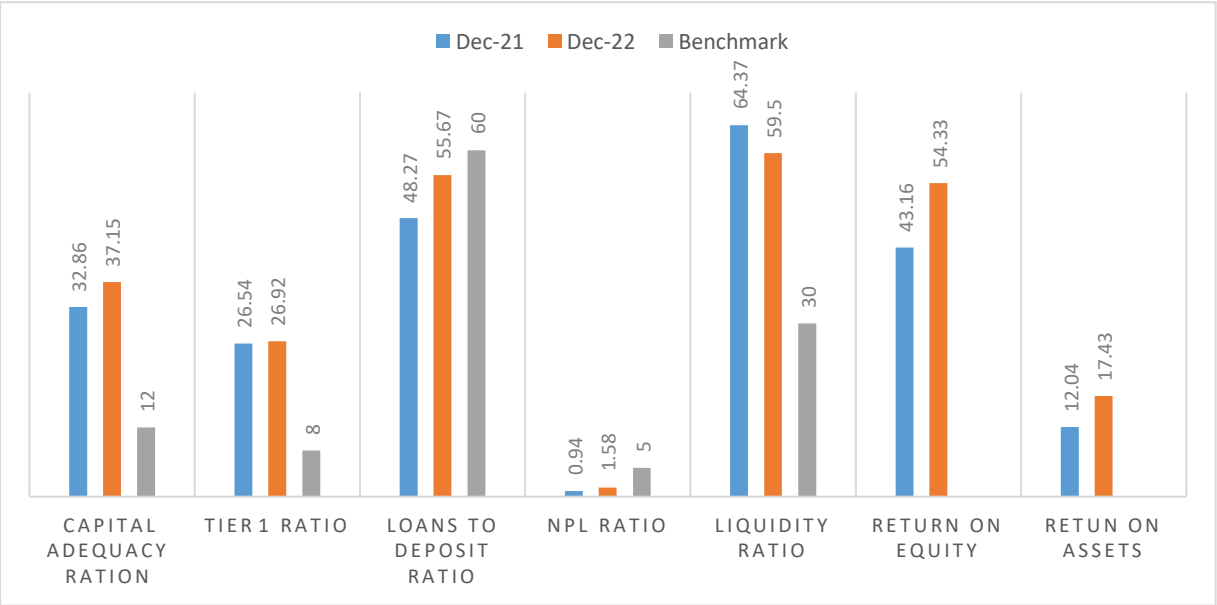


Source: WEF GCR

4.1.37 Figure 22 indicates the soundness of banks in Zimbabwe as being low, compared to other regional partners. Due to poor performance, Zimbabwe is ranked number 128 out of 141 compared to 29 and 31 out of 141 countries for South Africa and Mauritius, respectively.

4.1.38 Notwithstanding the poor performance as indicated by the 2019 WEF GCI report, Zimbabwe is showing signs of improvement in key financial soundness indicators, namely, return on assets & equity, and loans to deposit ratio. Figure 23 shows performance of key financial soundness indicators in June 2021 and 2022, commended by BAZ as reflecting satisfactory industry performance.

Figure 23: Key Financial Soundness Indicators, 2021-2022



Source: Reserve Bank of Zimbabwe

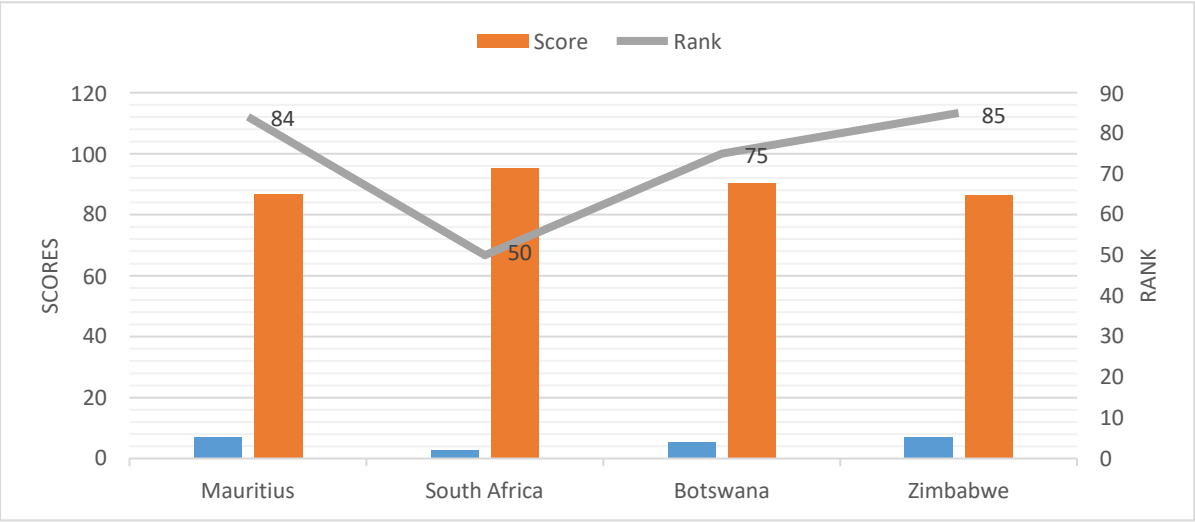
4.1.39 Figure 23 depicts that all the percentage form indicators recorded a positive change except liquidity ratios. However, all the indicators are within the generally acceptable international and national thresholds. Zimbabwe is urged to strive to further improve the performance of these indicators to propel its competitiveness.

Non-Performing Loans

4.1.40 One of the core functions of banks is to provide loans that allow companies to invest, increase efficiency and improve competitiveness. However, defaulting withdraws loanable funds from the banking system and consequently reduce available funds for lending. This has an upward pressure on interest rates as financial institutions implement quick recovery and rationing mechanisms leading to high cost of capital that impedes competitiveness. Without reliable, adequate, and accessible financing, companies would be pushed to use inefficient production methods, which renders their products uncompetitive domestically and in the international market.

4.1.41 The WEF GCR measures non-performing loans as a percentage of gross total loans. These loans include the gross value as recorded on the balance sheet, not just the amount that is overdue. Zimbabwe is not doing well in this indicator as shown in Figure 24.

Figure 24: Regional Comparison on Non-Performing Loans, 2019



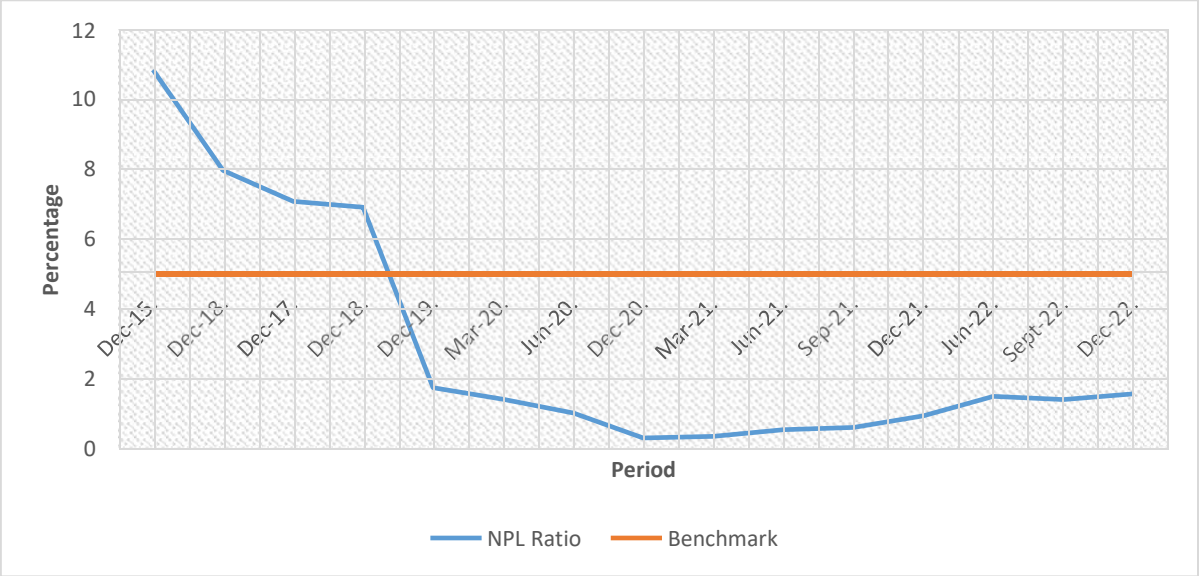
Source: WEF GCR

4.1.42 Zimbabwe is ranked worst on the regional comparison attaining position 85 out of 141 countries compared to number 50 for South Africa. Although Zimbabwe recorded a 2-digit rank, the performance was not desirable when compared with regional peers. Above 7% of the gross total loans were non-performing in Zimbabwe compared to less than 3% in South Africa in 2019. This implies that issuing of loans in Zimbabwe is riskier and likely to be costly to businesses than in other regional comparator countries.

4.1.43 Although Zimbabwe was outperformed by regional comparator countries in 2019, its current average non-performing loans to total loans ratio of 1.58%as in December 2022 is favourable when compared with the generally acceptable international threshold of 5% and 4.7%. of South Africa

4.1.44 The decline in the NPL ratio from 10% in 2015 to 1.6% in December 2022 was attributed to the establishment of the Zimbabwe Asset Management Corporation (ZAMCO) in 2014, as well as enhancement of risk management systems at banks. The low NPL ratio has potential to enhance competitiveness as banks are able to fund industry requirements. The increase in lending rates has the potential to affect the repayment ability of clients which may increase the NPL ratio going forward.

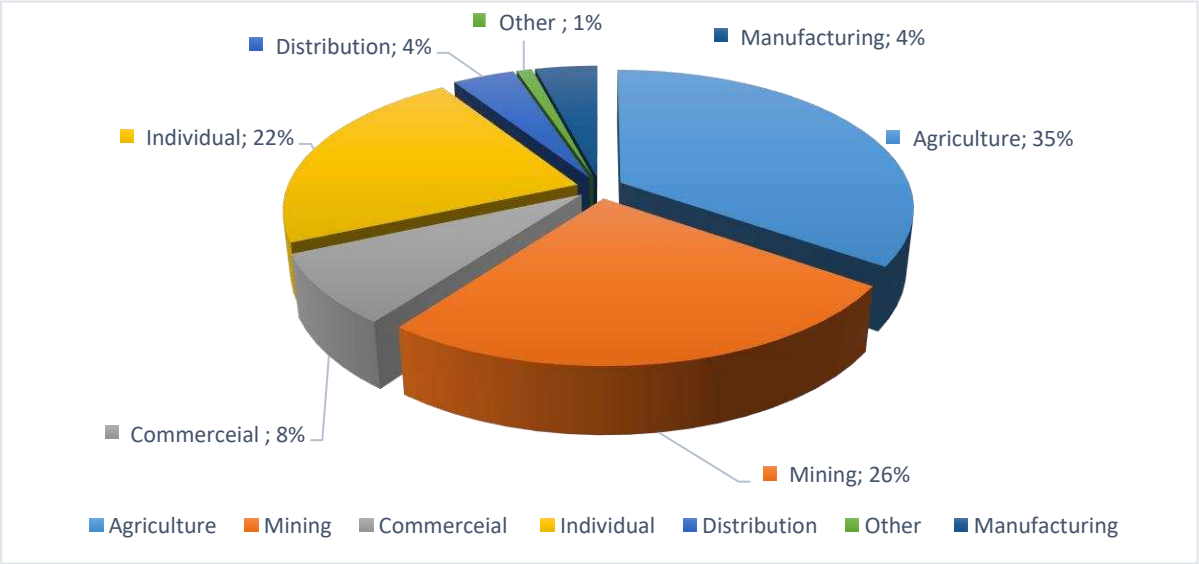
Figure 25: Trend in Non-Performing Loans, December 2015 – December 2022



Source: RBZ and BAZ

4.1.45 Analysis of sectoral distribution of NPLs by December 2022 identified Agriculture, mining, and household as sectors with the highest NPLs. Figure 26 shows sectoral distribution of NPLs as of 31 December 2022.

Figure 26: Sectoral Distribution of Non-Performing Loans, December 2022



Source: RBZ Annual Report

4.1.46 The high level of NPLs in key productive sectors as shown in Figure 26 scares banks from lending to those sectors, thereby constraining productivity and competitiveness.

4.2 Conclusion

4.2.1 Zimbabwe's financial system is not fully performing its intermediary role in terms of lending as evidenced by low loans to deposit ratio of 53.7% against a best practice threshold of 70%, funded against non-funded (50:50), which negatively affects competitiveness.

Recommendation 1: *Maintain ongoing macroeconomic stabilisation policies to build public confidence with the financial system*

Recommendaion2: *Expedite the operationalisation of the collateral registry introduced by the RBZ in November 2022, to enhance SMEs access to finance*

Recommendation 3: *Expedite operationalization of venture capital as it is a building block for innovation and ultimately, national competitiveness*

Recommendation 4: *Government to step up efforts to re-engage the international community to unlock concessional lines of credit, as well as accelerating clearance of arrears and debt with multilateral institutions*

Recommendation 5: *Maintain ongoing financial stability enhancement efforts*

CHAPTER FIVE

5 INFRASTRUCTURE DEVELOPMENT AND COMPETITIVENESS

5.1 Introduction

5.1.1 Infrastructure is the collection of systems and facilities that serve as the basis for economic growth of a country and is a key enabler in promoting competitiveness. Consistent with the NDS1 priorities, improving the quality of infrastructure is essential to ensure that the country has the capacity to achieve sustainable long term economic growth and development, as well as playing a key role in enhancing productivity and competitiveness. The WEF's GCI also recognizes infrastructure as a competitiveness pillar under the enabling environment category. Infrastructure significantly influences the cost of doing business and productivity, which in turn affects competitiveness, economic growth, and the quality of life for a country's citizens.

5.1.2 Continued investment in robust infrastructure to enhance competitiveness is a key requirement. This Chapter analyses infrastructure indicators using the WEF`s GCI benchmark indicators that include transport, electricity, and water, amongst others. There are also other forms of infrastructure, which are critical in enhancing a country`s competitiveness in an economy, which include social infrastructure.

Role of the Construction Sector in Infrastructure Development

5.1.3 The construction sector plays a central role in providing essential public and private infrastructure. An economy with a poorly functioning construction sector tends to have low levels of infrastructure development, with a negative impact on competitiveness across all the sectors. Zimbabwe`s value added in construction declined in recent years from 3% in 2017 to 0.3% in 2020. The performance of the country's construction sector remains constrained by the following challenges:

- High cost of inputs, which include steel, cement, timber, oil, sand, among others;
- Brain drain, resulting in lack of skilled labour such as Quantity Surveyors, Architectures and Engineers, amongst others;

- Obsolete equipment;
- Foreign currency shortages;
- High cost of finance; and
- Weakening of the local currency against the US dollar.

5.1.4 Developments in the construction sector have a direct bearing on the critical infrastructure pillars under WEF-GCI.

Utility Infrastructure

5.1.5 Under this pillar the GCI considers electricity (access and quality) and water (reliability of supply and safety).

Electricity

5.1.6 Electricity is a key enabler in the production of goods and services, which enhances competitiveness. Sustainable economic growth and development, is therefore, anchored on affordable, reliable and stable supply of electricity to industry and households.

5.1.7 Zimbabwe is currently facing power shortages, generating an average of 725MW, against an estimated peak demand of 2200MW. The country is currently importing 300 MW of electricity from Mozambique, South Africa and Zambia. Table 9 shows sources of internal generation of power for Zimbabwe.

Table 9: Zimbabwe's Electricity Generation Capacity, December 2022

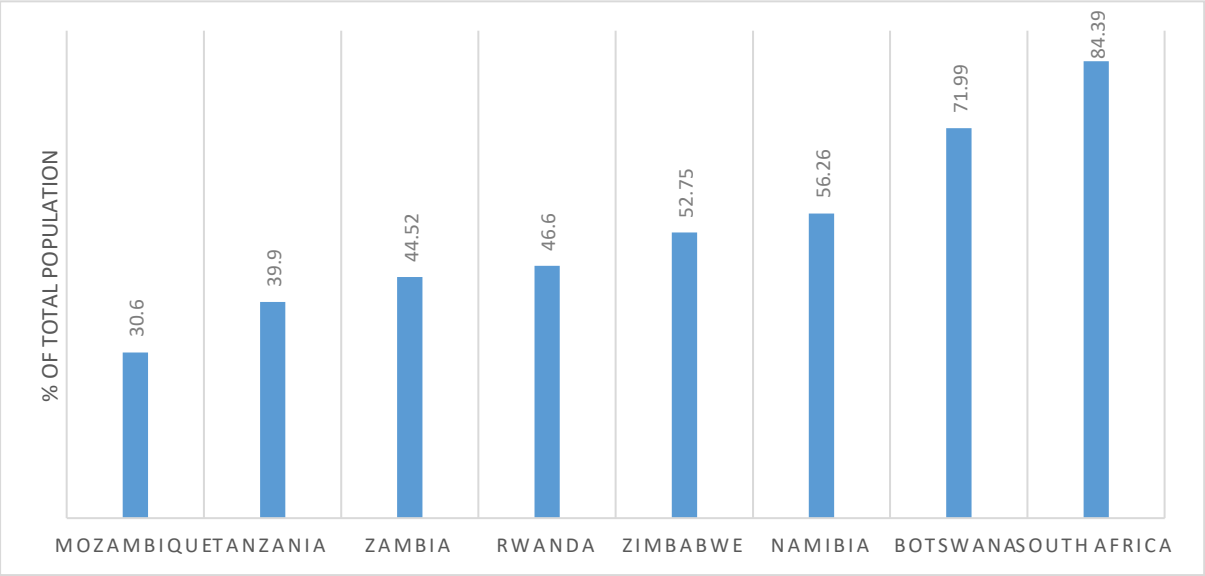
Plant	Installed Capacity	Generating Capacity (MW)
Munyati	100	0 MW
Harare	50	0 MW
Bulawayo	120	0 MW
Kariba	1050	231MW
Hwange	920	438MW
Independent Power Producers	200	56 MW
TOTAL	**2 315**	**725 MW**

Source: *ZPC*

5.1.8 Electricity generation is largely dominated by thermal, which is high carbon emitter. However, emerging trade requirements call for carbon footprint certificates, hence continued reliance on fossil fuels will have a negative impact on competitiveness as the world is moving towards green energy. However, recent developments have shown that European countries are resorting thermal power generation due to the impact of geo-political tensions between Russia and Ukraine.

5.1.9 In terms of access to electricity for 2020, Zimbabwe is competitive, when compared to Zambia, Tanzania, Rwanda and Mozambique as depicted in Figure 27.

Figure 27: Comparison of Access of Electricity (% of Total Population), 2020



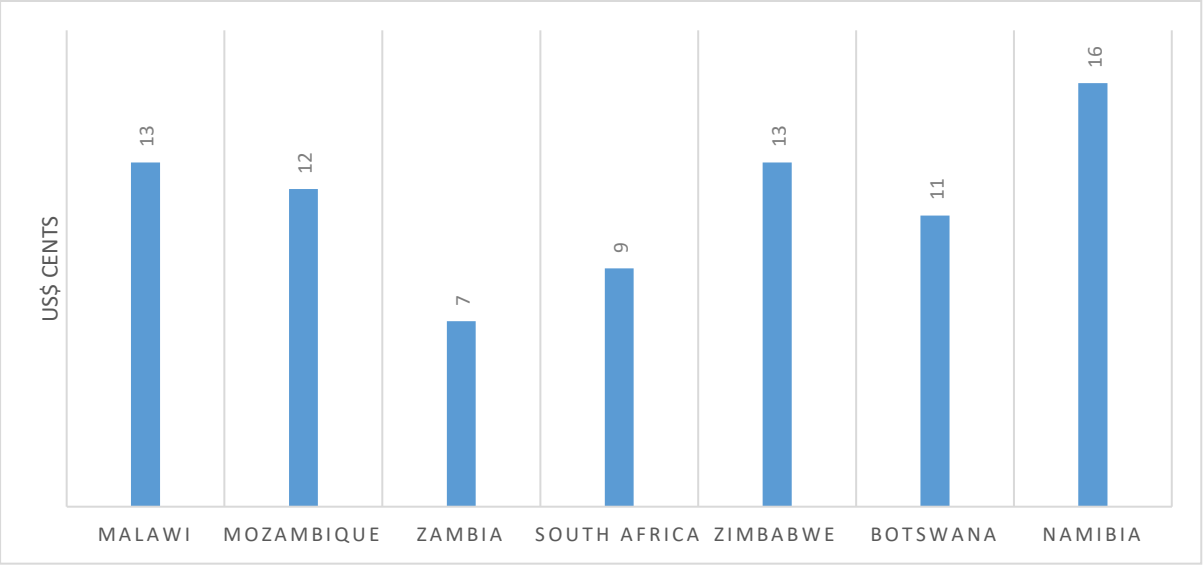
Source: Macrotrends, World Bank

5.1.10 Figure 27 shows that only 52.75% of the population has access to electricity in Zimbabwe, which compares unfavorably with South Africa, Namibia and Botswana. This is explained by:

- Lack of maintenance of aging generating plants;
- Inadequate transmission and distribution networks;
- Transmission losses; and
- High electricity access costs.

5.1.11 In terms of electricity tariffs, for year 2022, Zimbabwe has a relatively high electricity tariff of USc13/kWh compared to the average regional tariff of USc11.72/kWh. Figure 28 shows a comparison of Zimbabwe`s electricity tariffs and those of comparator countries.

Figure 28: Zimbabwe's Electricity Tariffs vs Comparator Countries, 2022



Source: ZERA

5.1.12 Zimbabwe`s electricity is expensive relative to its major trading partners such as South Africa, Botswana, and Zambia. The high cost of electricity increases cost of production, which in turn weighs on competitiveness of the local industry.

Measures to Enhance Energy Supply

5.1.13 Government efforts to enhance reliable energy supply, which in turn is expected to enhance productivity and competitiveness are plausible. It has prioritized investments in energy projects, which include new and the optimization of existing plants to add additional power to the grid as follows:

- Expansion of Hwange Thermal Power Station Unit - Hwange Unit 7 & 8 is 97% complete and will add 600 MW to the national grid. Unit 7 is scheduled to be completed in the first quarter of 2023, with Unit 8 coming on stream later in 2023. On the other hand, Units 1 – 6 are being rehabilitated to improve efficiency and increase supply;
- The Batoka Hydro Electric Project between Zambia and Zimbabwe - The feasibility study has been completed and Environmental Impact Assessment (EIA) endorsed with

land acquisition for the project still in progress and it will add 2 400 MW. It is expected to be finalized in 2026;

- Repowering of small thermal power stations – upgrading of the existing plant by adopting a more efficient technology with support from India Exim Bank;
- Licensing of Independent Power Producers (IPPs) largely in green energy; and
- Promulgation of net metering programme.

Renewable Energy

5.1.14 Renewable energy is important in enhancing competitiveness since it contributes to the Sustainable Development Goals (SDG) of attaining environmentally sustainable climate resilient economies and communities. In addition, the country is promoting the adoption of renewable energy projects including solar, small hydro and biogas technologies. Some of the projects are for own consumption and others are purely for commercial purposes where Power Purchase Agreements (PPAs) have been signed with Zimbabwe Electricity Transmission and Distribution Company (ZETDC). Over 75 IPPs have been licensed by Zimbabwe Energy Regulatory Authority (ZERA) with capacity to generate at least 2000MW. However, offtake of the projects is being affected by viability issues, and there are at various stages of development in line with the licensing conditions.

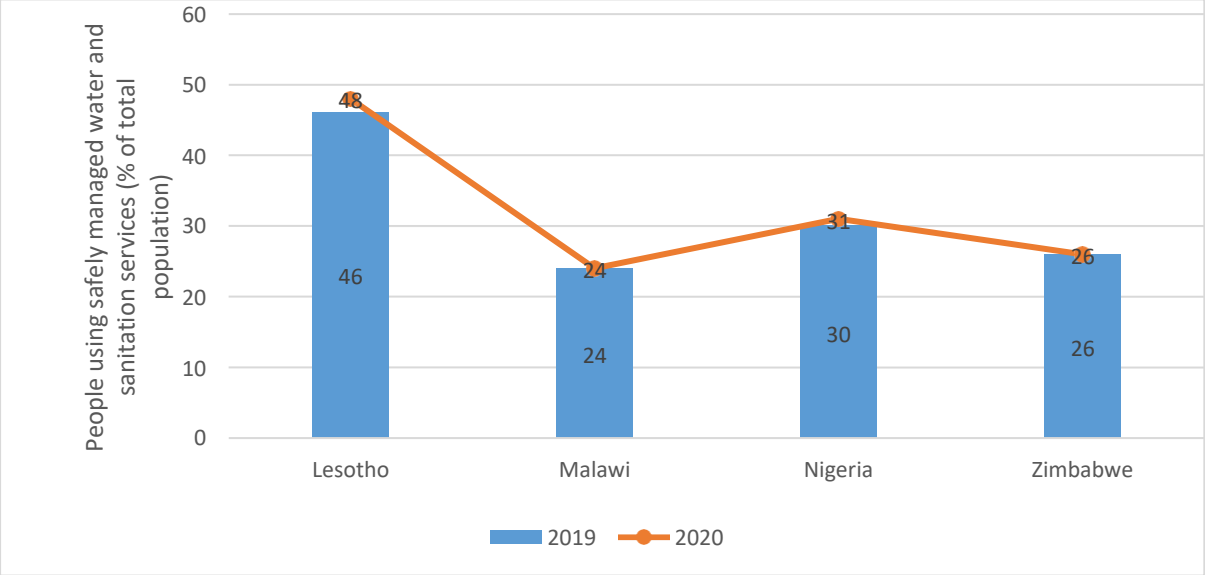
5.1.15 Due to power shortages resulting in long hours of load shedding, industry has been calling for a cost reflective tariff, which will result in an increase in energy charges, in order to guarantee power supply. The policy on cost reflective tariffs has not been practically implemented, hence the utility has lagged on getting adequate revenue to competitively support operations and maintenance of equipment. The country intends to increase power imports by 500 MW from Mozambique and South Africa as a temporal measure to resolve the electricity shortage.

Water

5.1.16 Reliable access to portable clean water is one of the key enablers in production, which is critical for industry competitiveness across all sectors of the economy. Clean water reduces purification and production costs. The availability of uninterrupted, clean water-supply depends on the state of water infrastructure in an economy. Investment in new raw water supply sources, complemented by rehabilitation and upgrading of existing infrastructure is critical.

5.1.17 The proportion of people using safely managed water and sanitation services (% of the total population) in Zimbabwe is low at 26% in 2020, due to poor water infrastructure, as depicted in Figure 29.

Figure 29: Zimbabwe's Proportion of People Using Safely Managed Water and Sanitation Services (%of the Total Population) vs Comparator Countries, 2022



Source: World Bank

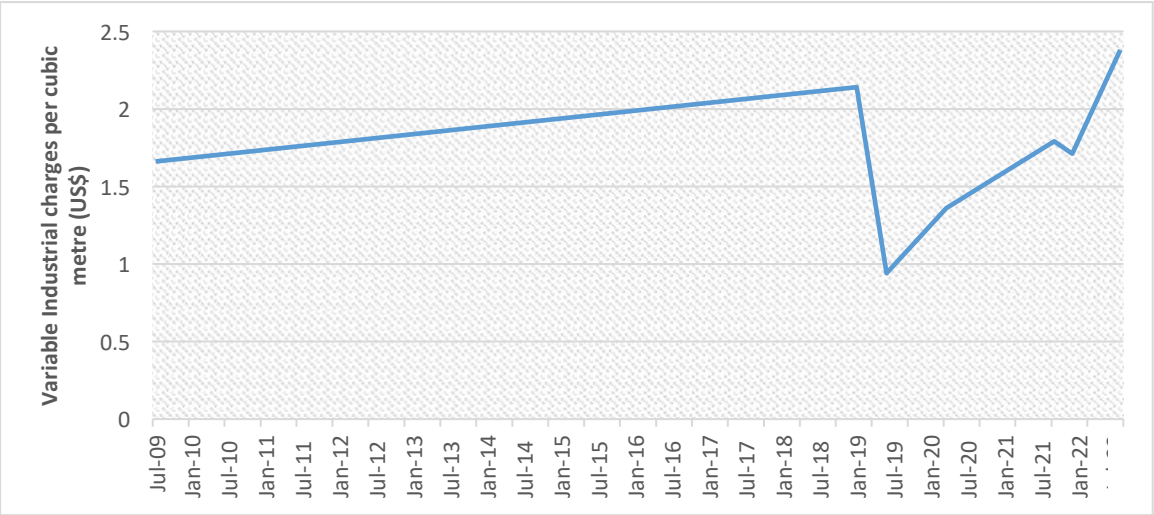
5.1.18 Lack of investment in water infrastructure has hampered improvement in the proportion of people using safely managed water and sanitation services, hence provision of the service was unchanged at 26% in 2020 compared to 2019. Other economies, such as Lesotho and Nigeria, are competitive when compared to Zimbabwe and they improved service provision over the 2year period.

5.1.19 Currently, many Zimbabwean cities have aging water infrastructure, and direct costs continue to escalate for building, replacing, or improving treatment plants. In addition, Urban Councils face capacity limitations in finances, social, and technical/human resources to ensure the availability of clean and reliable water. These irregularities have induced inefficiencies in water supply, which is negatively weighing on the productivity and competitiveness of the economy.

Water Charges

5.1.20 Water is a basic input in all industrial processes and its cost needs to be maintained at a low level to maintain competitiveness in cost of production. Water charges vary depending on use and whether it is treated or not. Figure 40 shows that there was a sharp decline in water charges from US$ 1.66 per cubic meter in 2009 to US$0.94 in 2019. The cost, however, rose to surpass the 2009 levels to US$2.38 in December 2022. The increase in water costs worsens the competitiveness of local industry.

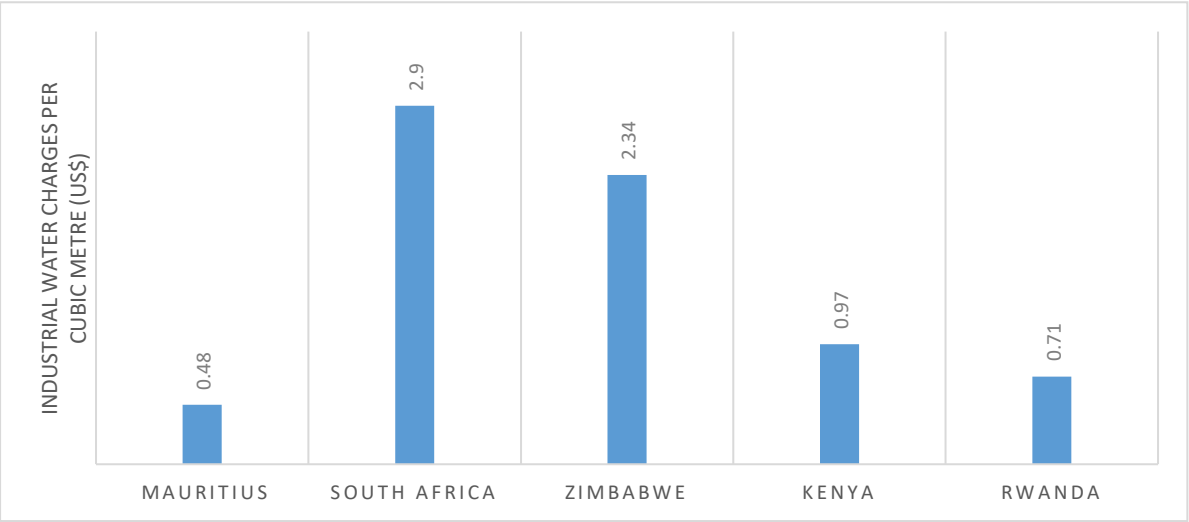
Figure 30: Zimbabwe's Industrial Water Charges, July 2009-December 2022



Source: ZINWA

Regional benchmarking using comparator countries in the SADC and COMESA region shows that Zimbabwean water charges are competitive to that of South Africa as shown in Figure 31.

Figure 31: Comparison of Industrial Water Charges for African Countries, 2022



Source: NCC Compilation Based on Respective Country Water Authorities

5.1.21 Zimbabwe is the second most competitive country in terms of industrial water charges, when compared to South Africa, Botswana and Mauritius. The water cost advantage is crucial in maintaining competitiveness of the local industry, which in turn promotes economic growth and development.

Measures to Improve Water Supply Infrastructure

5.1.22 In an effort to enhance competitiveness, Government with support from Development Partners, has been carrying out water infrastructure development projects under NDS1 including the availing of ZWL$$17.8 billion for development of such projects. Table 10 gives the status and summary of the water infrastructure projects being implemented by the Government of Zimbabwe.

Table 10: Major Water Infrastructure Projects being Implemented, 2022

Project name	Scope of works	Benefits	Progress to date
Bindura Dam	i) Construction of a 1 258m x 44m dam ii) Construction of three saddle dams with a total volume of 2 282 300 m3 and 150m long. iii) Bulk water treatment works and pipeline	i) Bindura water supply ii) Agriculture (2 000 ha) iii)Fisheries iv) Tourism v) Power Generation	38%
Chivhu Dam	i.)Construction of a 28.2m high dam with a length of 346 m3 and total volume of 370 000 m3 and a bulk Water Treatment Works .	i) Chivhu water supply ii) Agriculture (400 ha) iii)Fisheries iv) Tourism v) Power Generation	98,2%
Gwayi Shangani Dam and Pipeline	i) Construction of a Roller Compacted Concrete dam, 71m high with a capacity of 635x106m3. ii) Environmental Impact Assessment of the whole National Matebeleland Zambezi Water Project.	i) Bulawayo water supply ii) Agriculture (10 000ha) iii)Fisheries iv) Tourism v) Power Generation	17% and 5%
Semwa Dam	i) Construction of a 70m high dam with capacity of 140 million cubic metres ii) Care and diversion of the river iv) Outlet works and access road iv) Construction of bulk treatment works and Pipeline	i) Rushinga water supply ii)Agriculture iii)Fisheries v) Power Generation	13%

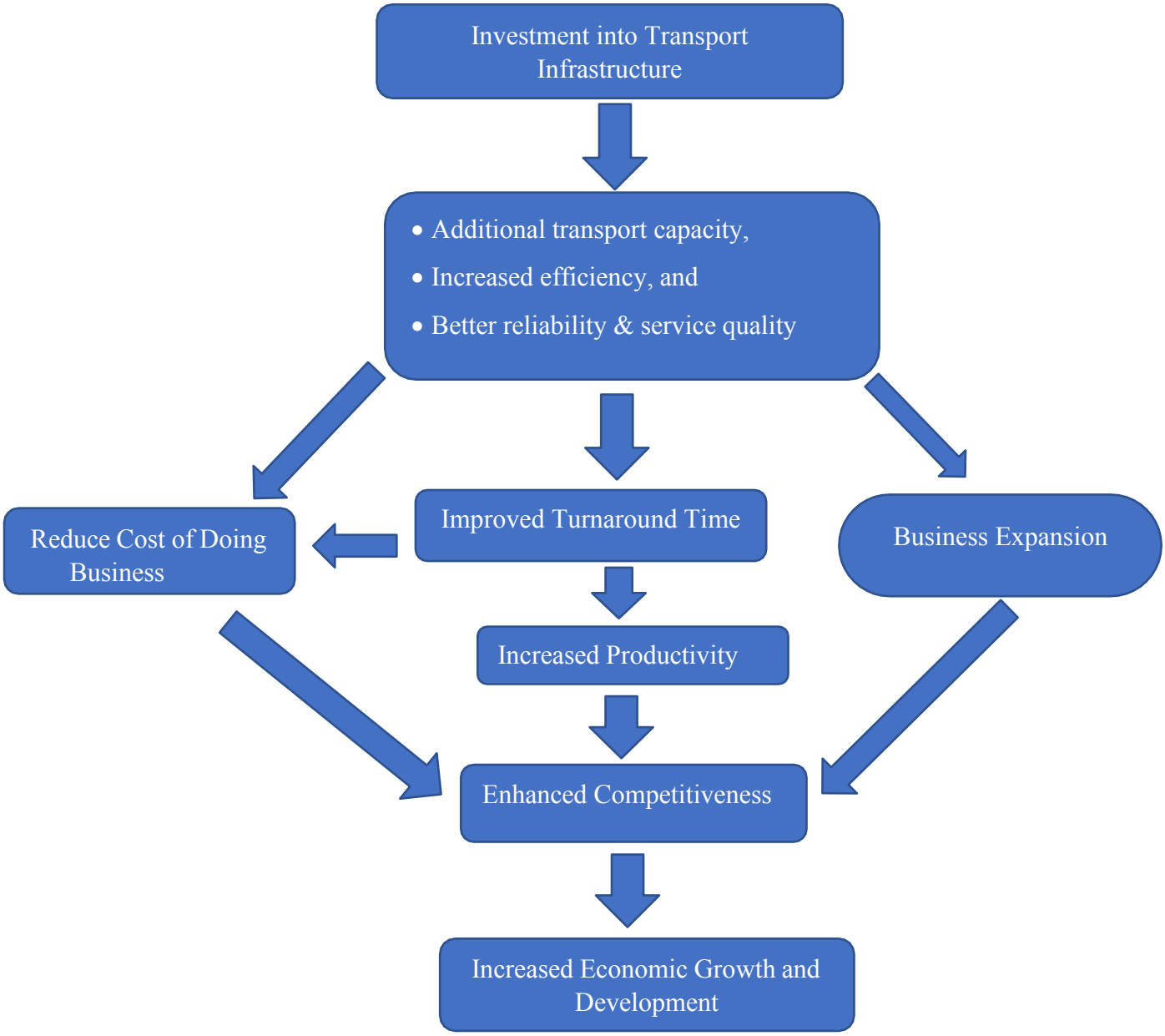
Source: ZINWA

Transport

5.1.23 A good transport network is a critical enabler for economic growth and development, as it allows movement of people and commodities. This will assist in creating an enabling environment for industry, through reducing costs of production and increasing efficiency in trade and commerce, which in turn enhances competitiveness.

5.1.24 Figure 32 shows the link between transport infrastructure and competitiveness.

Figure 32: Flow Chart on Road Infrastructure Investment



5.1.25 The road, railway and air networks are strategic in enhancing accessibility, as well as promoting domestic, regional and international trade. The priority is to ensure continued investments through rehabilitation and upgrading in this critical infrastructure, to enhance competitiveness.

Road

5.1.26 Zimbabwe's road network consists of tertiary (72%), regional trunk roads (3%), secondary (13%) and primary (4%) roads. This implies that, whilst road network is relatively dense in the remote areas, economic agents in Zimbabwe are not well networked with regional markets. This creates delays and inefficiencies in the movement of goods and persons, thereby compromising the country's competitiveness.

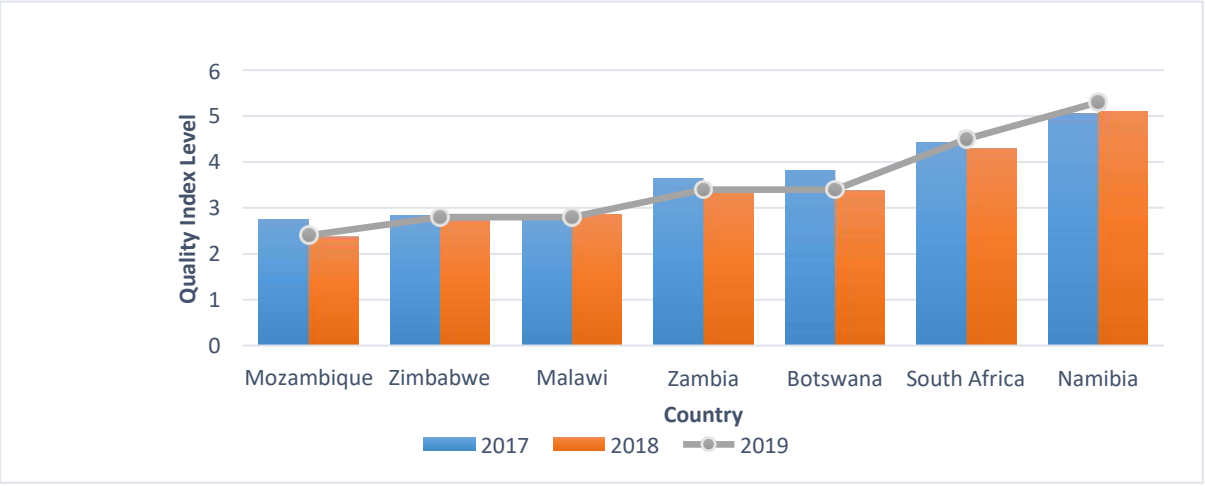
5.1.27 There is heavy reliance on road transport in the movement of trade goods, yet this is an expensive mode of transport to the economic agents. This increases the cost of road rehabilitation and maintenance. Therefore, improving road transport efficiencies would have a significant impact in enhancing Zimbabwe's competitiveness in the regional market.

Zimbabwe's Quality of Roads against Comparator Countries

5.1.28 Road quality is multidimensional and depends on accessibility, surface condition, traffic flow and advanced engineering, which determines traffic speed, safety and ability to move people and goods expeditiously between cities. Access to quality roads reduces transportation time and costs, increases productivity and enhances competitiveness.

5.1.29 Some Zimbabwean roads, however, are characterized by seasonal roads, narrow road width, dilapidated and weight restricted bridges, rough surfaces and potholes, which have negatively impacted on competitiveness compared to regional countries. Figure 33 shows Zimbabwe's Road Quality Index against comparator countries.

Figure 33: Zimbabwe's Road Index Compared to Comparator Countries, 2019



Source: World Economic Forum

5.1.30 Figure 33 depicts that Zimbabwe is less competitive on road quality compared to other countries in the region, namely South Africa and Zambia, among others, over the 3-year period. The country was ranked 116 out of 141 countries in the World and number 28 out of 38 in Africa in 2019, signaling the need to strengthen investments in road infrastructure. However, beginning 2020, there has been significant investment in road infrastructure, through upgrading and rehabilitation under the Emergency Road Rehabilitation and the Road Development Programme.

5.1.31 Under NDS1, the Government is targeting to upsurge the percentage of roads that meet the SATCC standards from 5% to 10%, and to increase the number of kilometers of road network in good condition from 14 702km to 24 500km by 2025. Work towards rehabilitation and upgrading of the road network includes:

- Beitbridge – Harare: focusing on upgrading and widening of Harare-Masvingo-Beitbridge Road. As of December 2022, an estimated 400km had been completed against a target of 580km; and
- Rehabilitation of roads under the Emergency Road Rehabilitation Program II focusing on patching, reconstructing or resealing of roads.

Rail

5.1.32 Rail is a cheaper mode of transport for bulk goods and presents vast competitive advantages to the industry. The major rail network links major cities and has been declining over the years due to lack of rehabilitation, maintenance, and vandalism, as well as lack of new investments in;

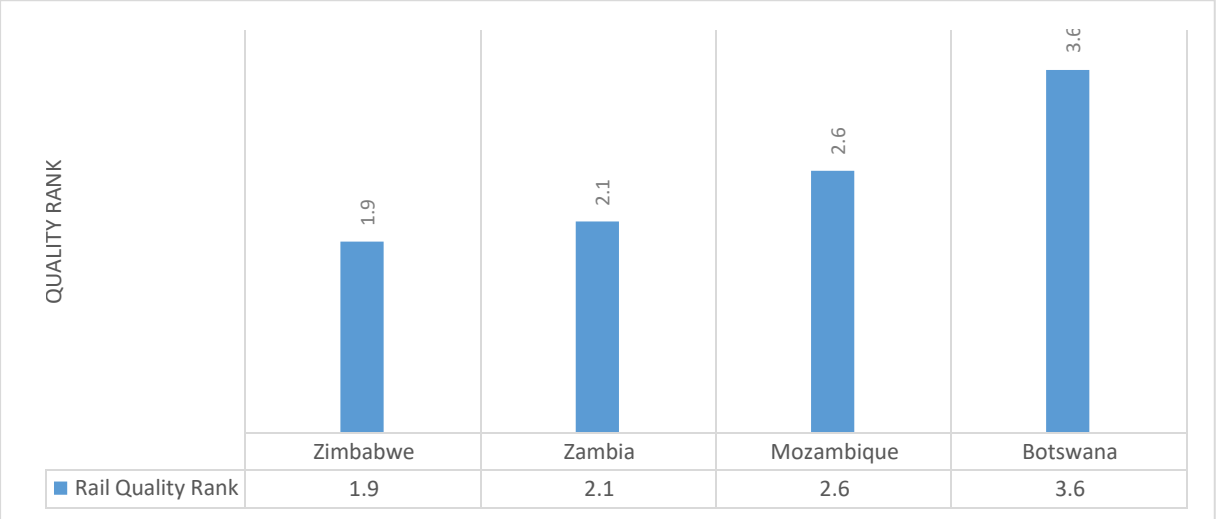
- Signaling and communication systems;
- Concrete sleepers; and
- Rail lines.

5.1.33 This has seen freight carriage falling from a peak of 18 million tons in 2007 to an average of 2.4 million tons per annum in December 2022, thus exerting pressure on the country's road network.

5.1.34 Recognizing the important role played by the rail system as a key enabler of economic development, Government is currently looking for a strategic partner to invest through a Public Private Partnership (PPP) arrangement. The 2019 AfDB Infrastructure Report for Zimbabwe specified that the cost for rehabilitating the infrastructure network was estimated at about US$400 million.

5.1.35 Figure 34 depicts the ranking of Zimbabwe`s railway quality amongst comparator countries for the year 2019.

Figure 34: Zimbabwe's Quality of Railway Infrastructure, 2019



Source: WEF

5.1.36 Zimbabwe has the lowest rail quality points of 1.9 when compared to regional counterparts, for the year 2019. According to the WEF rating, 1 is considered low and 7 high in determining the quality of rail infrastructure. Scarcity of long-term capital and FDI in the rail sector has been one of the major challenges affecting rail infrastructure development and management.

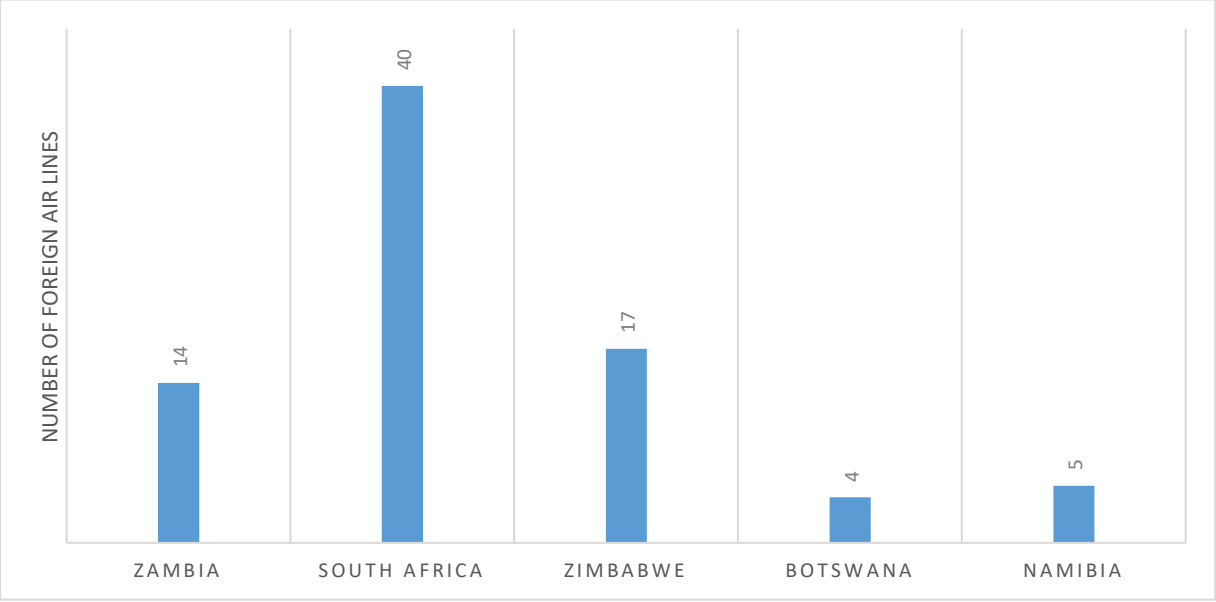
Air

5.1.37 Air transport is one of the crucial enablers of trade and tourism across countries, as it influences a nation`s trade competitiveness. Air transport infrastructure integrates all the ground facilities needed to support airline services with adequate levels of safety and reliability.

5.1.38 Zimbabwe has 13 recognized airports, of which, the Airports Company of Zimbabwe (Pvt) Ltd owns and manages 11 of them. The current design capacity of the 3 international airports is 7 million. Utilization levels of the 3 International Airports was affected by COVID-19 induced lockdowns and continues to be affected by decrease in international travel and low economic performance.

5.1.39 Air Zimbabwe (Pvt) Ltd has 9 aircrafts, of which 3 are in service as of December 2022 and are flying to 5 destinations namely Harare, Bulawayo, Victoria Falls, Johannesburg and Dar es Salaam. In addition, there are other airlines registered and operating from Zimbabwe, namely Fast Jet and Kuva Airlines. Through Bilateral Air Service Agreements, Zimbabwe has 17 foreign airlines flying into the 3 international airports for both passenger and cargo movement. The more the number of foreign airlines flying into the country, the more competitive is the nation in terms of access and connectivity for trade. Figure 35 gives a comparison of foreign airlines flying into the country for Zimbabwe and comparator countries.

Figure 35: Foreign Airlines Flying into Zimbabwe vs Comparator Countries, 2022

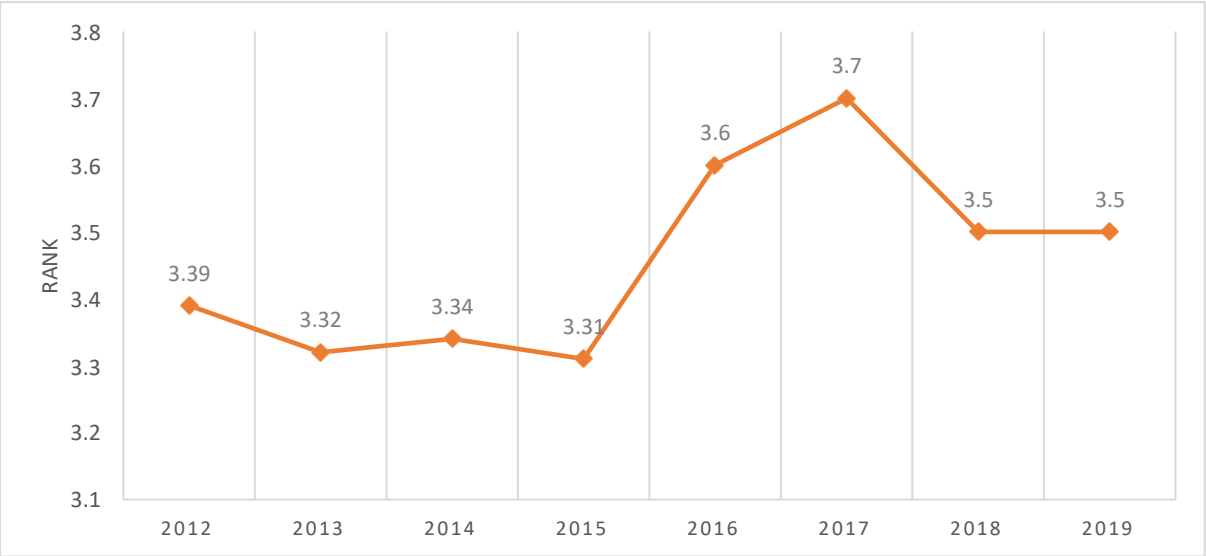


Source: Airports Company of Zimbabwe

5.1.40 Zimbabwe is competitive, in terms of airlines flying into the country, compared to Zambia (14), Botswana (4) and Namibia (5). Work is being done to engage other foreign airlines such as Rwandair Cargo, Kuva Air, Eswatini Air, Safair and Cemair into the country.

5.1.41 Zimbabwe's Air transport sector experienced challenges, which affected the country's ranking on Air Infrastructure Global Quality Ranks by WEF. The average value for infrastructure quality index for Zimbabwe during the 2000 – 2019 period was 3.45 points with a minimum of 2.83 points in 2006 and a maximum of 3.88 points in 2010. Figure 36 depicts the Air Transport Infrastructure Global Quality Rank for Zimbabwe (2006 – 2019) based on the Global Competitiveness Index published annually by the WEF.

Figure 36: Air Transport Infrastructure Global Quality Ranking for Zimbabwe, 2012 – 2019



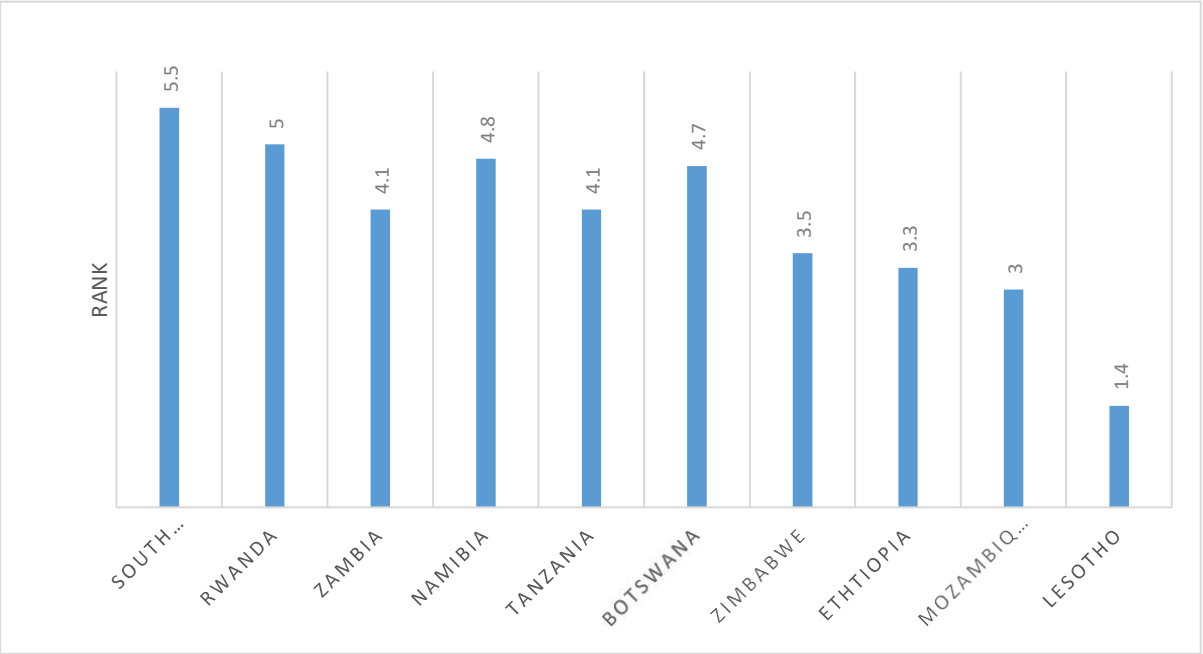
Source: WEF

5.1.42 Zimbabwe's ranking rose from 3.31 in 2015 to a peak of 3.7 in 2017, before sliding to a constant of 3.5 between 2018 and 2019. The improvement in 2017 was attributed to modernization of Victoria Falls Airport, thereby increasing passenger capacity from 500 000 to 1.5 million per year. Furthermore, the current upgrading and renovations of Robert Gabriel Mugabe (RGM) International Airport will increase passenger handling capacity from the current 2.5 million to 6 million passengers per annum and is expected to improve competitiveness. The country is targeting to handle a combined 10.5 million passengers per year in all its international airports.

5.1.43 At continental level, the 2019 average for 33 African countries was 3.87 points. The highest value was for South Africa with 5.5 points and the lowest value was 1.4 points for Lesotho. Zimbabwe is ranked 6th on the selected African countries, indicating the need to improve on

the quality of air infrastructure. Figure 37 depicts quality of air infrastructure indicator ranks for 10 African countries including Zimbabwe.

Figure 37: Air Transport Infrastructure Quality Ranking for African Countries, 2019



Source: WEF

5.1.44 However, the status of air infrastructure in Zimbabwe is hindered by the following:

- Air traffic control and safety, airport antiquated equipment which needs to be replaced;
- Inadequate coverage of the entire airspace;
- Outdated airspace surveillance equipment;
- Inadequate weather prediction equipment; and
- Broadband infrastructure is not available at most airports.

5.1.45 The above challenges coupled with the low economic performance in the past decades and negative country perception, have resulted in a decline in domestic and international aircraft movements, thereby negatively affecting the country's competitiveness. Table 11 shows the movement of passengers and commercial freight, from 2018 to December 2022.

Table 11: Movement of Passengers and Commercial Freight, 2020 - December 2022

Category		2020	2021	2022
Passengers (Number)	Domestic	60 885	125 967	256 241
	International	371 090	621 437	1 303 929
CARGO(Tons)	Import	7 129	9 865	7 846
	Export	7 018	7 259	7 141

Source: Ministry of Transport & Infrastructure Development

5.1.46 As part of the efforts to address these challenges, the Government, under the NDS1 is focusing on revamping air transport infrastructure and services. Current developments under the Robert Gabriel Mugabe International Airport Expansion and Upgrading Project are focusing on:

- Construction of four new aerobridges to accommodate long and wide aircraft;
- Rehabilitation of the existing International and Domestic Terminal Buildings;
- Installation of modernized equipment for passenger and cargo handling; and
- Installation of modern air navigation equipment.

5.2 Conclusion

5.2.1 A well functional and integrated infrastructure network/system is a prerequisite for competitiveness. It is therefore prudent to minimize overreliance on road network as it is inefficient and costly, which have a direct impact on competitiveness.

5.2.2 Resuscitation of the country's infrastructure through appropriate financing mechanisms remains critical.

Recommendation 1: *Pursue other financing options such as loan financing and PPPs to support investments in rail infrastructure to enhance competitiveness.*

Recommendation 2: *Resuscitate rail infrastructure to minimise reliance on transporting goods via road network.*

Recommendation 3: *Utilize existing water bodies that are currently lying idle, which will culminate into low tariffs.*

Recommendation 4: *Continued investment in rehabilitation, upgrading and construction of new roads.*

Recommendation 5: *Avail land to those willing to invest in renewable energy.*

Recommendation 6: *Charge cost reflective tariff to attract investment in the energy sub-sector.*

CHAPTER SIX

6 IMPACT OF INSTITUTIONAL AND REGULATORY FRAMEWORK ON COMPETITIVENESS

6.1 Introduction

6.1.1 The institutional and regulatory framework plays a critical role in enhancing competitiveness. It provides for laws, regulations and procedures that shape economic activities. High transaction costs due to cumbersome and lengthy compliance processes and procedures undermine firm competitiveness. Fees and levies charged by different Government Regulatory Agencies are weighing the ease of doing business and add costs to business, thereby impacting on competitiveness. In addition, competitiveness is also being negatively affected by multiplicity of regulatory agencies and the uncoordinated licensing requirements, which have increased the cost of compliance for industry.

Institutional Framework

6.1.2 Strong legal and administrative framework is key in influencing the institutional environment, which in turn is critical in enhancing competitiveness. To this end, adherence to international best practice on corporate governance, capacitation of these institutions is critical to ensure efficiency and effective service delivery in line with their respective mandates. Cognisant of the above, institutions such as ZIDA, Zimbabwe Anti-Corruption Commission (ZACC), Auditor General, Commercial Court and NCC are essential in dealing with bureaucracy, excessive regulations, corruption, accountability and transparency, which impose significant costs on business and slow down the development process of Zimbabwe.

6.1.3 Specifically, the Auditor General has been playing a pivotal role in the auditing of accounts of Government departments and agencies, directing measures that should be taken to improve the way public funds and property are managed and safeguarded. ZACC also deals with rampant corruption, which had continued to send negative signals that undermine competitiveness. Government also established the Commercial court in 2022, which is responsible for handling complex and high value national and international business disputes, which is key in improving the ease of doing business and enhancing competitiveness.

6.1.4 Meanwhile, transparency in the private sector, which is measured by use of standards and financial practices, is also essential for business and ensures access to information in a timely manner. The private sector plays an important role in broadening sustainable economicgrowth by eradicating poverty and reducing inequalities.

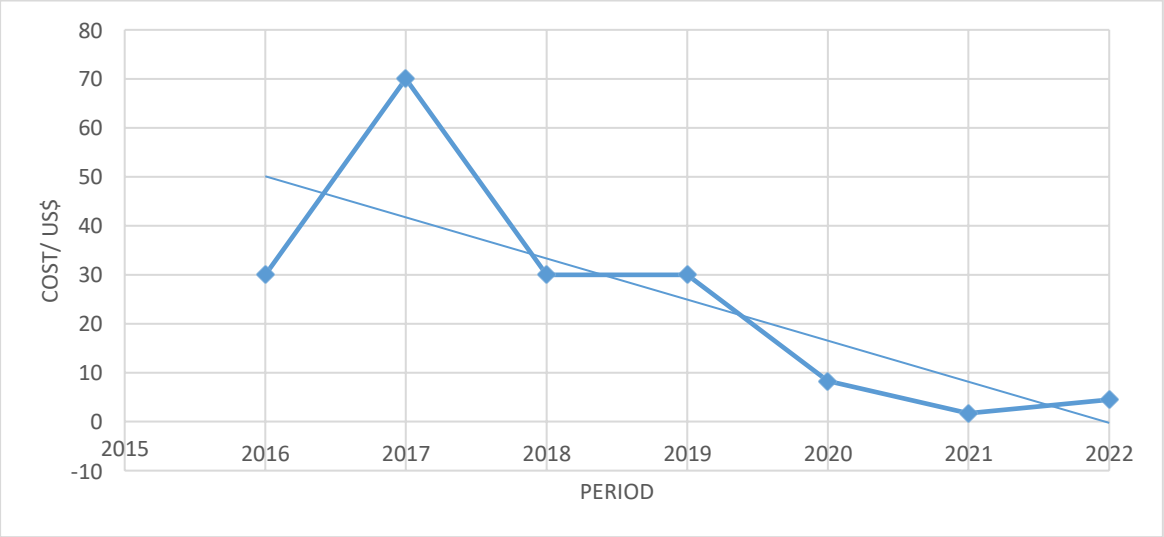
Fees and Levies

6.1.5 Fees and levies aimed at accelerating modernization and productivity improvements, that enhance competitiveness, are essential for economic growth and development. This is critical for enhancing competitiveness of the domestic firms and at the same time attracting foreign investment. This chapter provides an analysis of Government Fees and Levies impact on ease of doing business and competitiveness.

Import Licences

6.1.6 Government, through the Ministry of Industry and Commerce (MIC), enforces import licenses to protect the local industry from unfair competition and to support industry to retool. Import licenses cost ZWL$$3 000 (US$ 4.47 as of December 2022), which is payable upon approval. The import licenses cost is relatively low to ensure trade competitiveness and has been on a downward trend as shown in Figure 38.

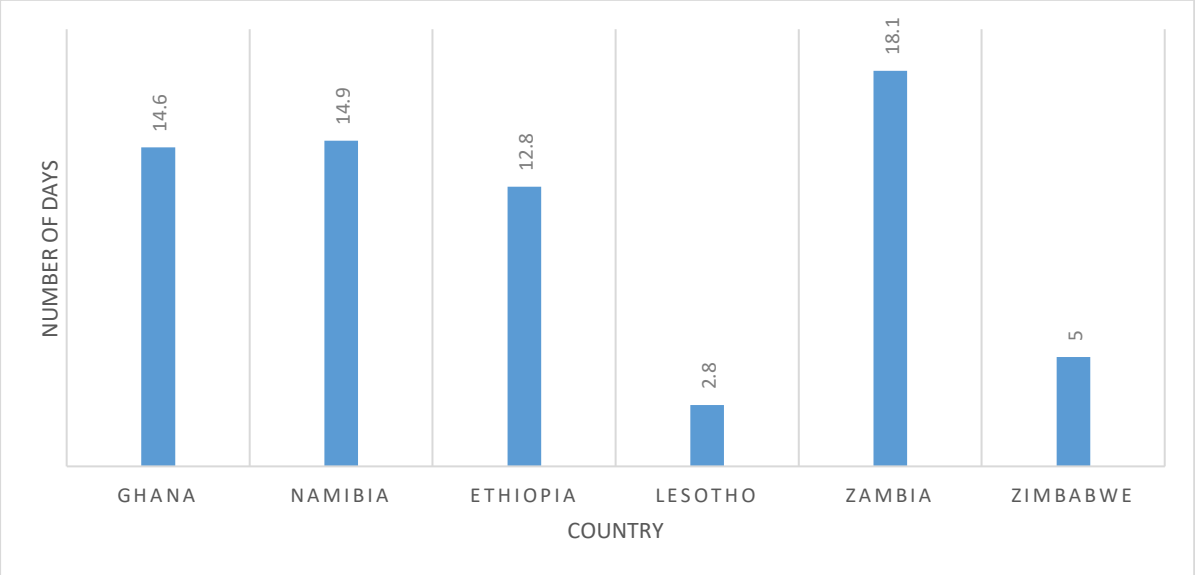
Figure 38: Import Licences Cost for Zimbabwe, 2015 – 2022



Source: MoIC

6.1.7 The number of days taken for a licence to be approved, after submission of applications, impacts on productive time for business. Zimbabwe uses an online import application and processing system, which takes a maximum of 5 days for a licence to be issued. However, the online system is usually down, which in turn negatively impact on competitiveness. Figure 35 shows import processing times for Zimbabwe against comparator countries.

Figure 39: Comparison of Zimbabwe's Competitiveness on Import License Compliance Time, 2022



Source: Trading Economics, MoIC

6.1.8 Zimbabwe is competitive compared to countries like Zambia, Ghana, Ethiopia and Namibia. However, there is still room for Zimbabwe to improve on the import license waiting period to less than 3 days as is the case in Lesotho.

Consignment Based Conformity Assessment

6.1.9 In order to curb the influx of cheap substandard and hazardous products, Government is implementing the Consignment Based Conformity Assessment (CBCA) programme, which entails verification of conformity to set national and international standards of products destined for Zimbabwe prior to shipment. Currently, the programme provides for destination inspection for products that are not verified at source. The verification is being done by Bureau Veritas, Cotecna, EAA Company Ltd and Standards Association of Zimbabwe (SAZ) on behalf of the Government.

6.1.10 Conformity Assessment procedure attracts a minimum fee of 0.5% of the Free On Board value up to a maximum of US$2 675 per consignment. The expected turn around period for assessment is 5 days for Pre-shipment Inspection, while destination inspection takes 48 hours.

6.1.11 CBCA requirements and compliance costs are payable only in US Dollars and are uniformly charged across all the countries, including Botswana, Nigeria, Ghana, Ethiopia, Tanzania, Algeria, Kenya and Zimbabwe in Africa.

Forestry Commission of Zimbabwe

6.1.12 The Forest Act (Chapter 19:05) and the Communal Land Forest Produce Act (Chapter 19:04) mandates the Forestry Commission of Zimbabwe to regulate the trade in timber and timber products. The fees range between US$20 - US$100 as indicated in the Table 12.

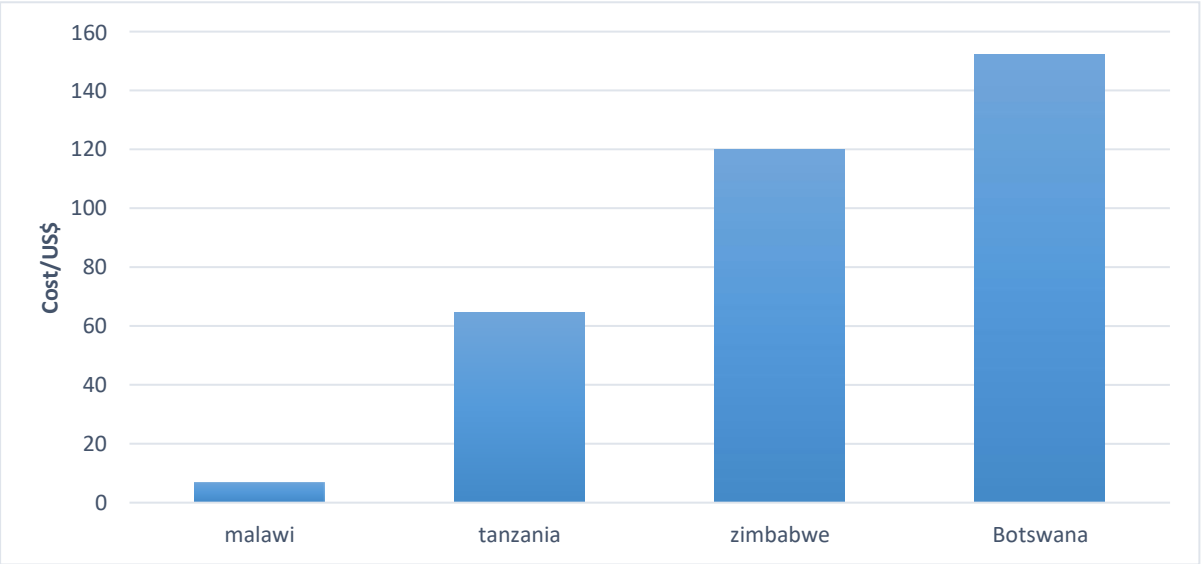
Table 12: Forestry Commission of Zimbabwe Regulatory Fees

Licence	Fee (US$)
Application fee for timber trader's licence	$20
Timber trader's licence	$100
Application fee for renewal	$20
Trader's licence renewal	$100
Forest produce movement or export permit	1% of export value or $100 whichever is higher

Statutory Instrument 116 of 2012 and submissions from Forestry Commission

6.1.13 The industry expressed that the amount charged, especially on forex produce movement *(1% of export value or US$100 whichever is higher)* is too high given the services that the timber and furniture industries are getting from the regulator. A comparison of timber export licence/ permit costs in the region indicates that Zimbabwe`s forestry export compliance costs are among the highest in the region, as shown below in Figure 40.

Figure 40: Comparison of Timber Export License Cost, 2022



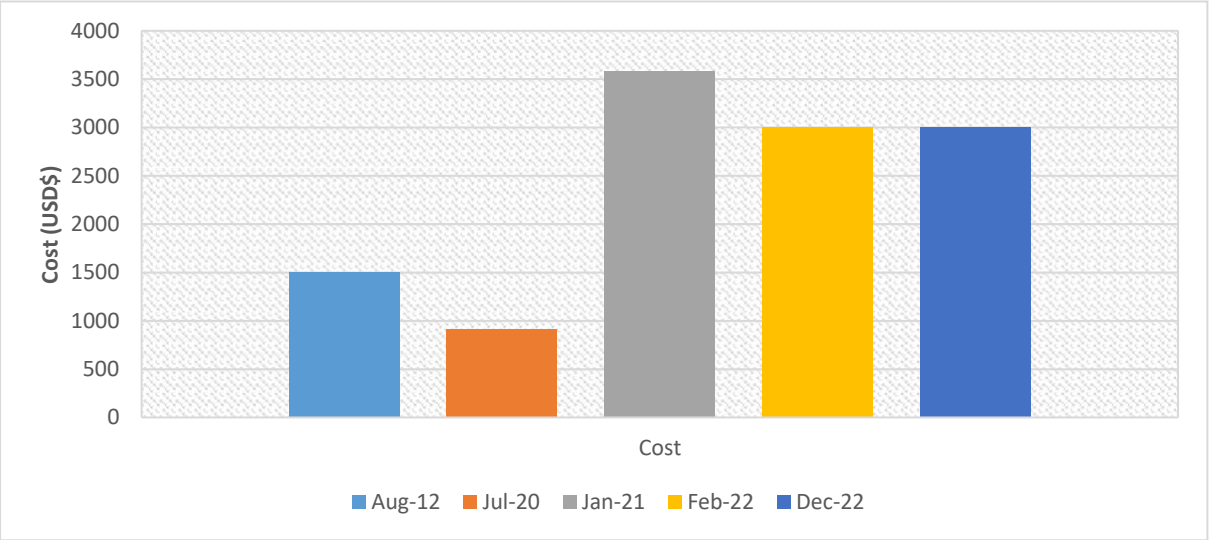
Source: NCC Compilation based on respective country institutions

6.1.14 Zimbabwe is only competitive when compared to Botswana and high compliance costs render the sector uncompetitive, which in turn discourages growth and investments in the sub-sector.

Radiation Protection Authority of Zimbabwe Regulations

6.1.15 The Radiation Protection Authority of Zimbabwe (RPAZ), under the Radiation Protection Act [*Chapter 15:15*] of 2004, is mandated to issue standards and norms governing exemption, notification, registration and licensing of radiation sources as well as to issue authorizations for the possession and use of radiation sources. The Radiation Protection Act fees are issued out through Statutory Instruments. Figure 41 shows the radiation charges for laboratories, refractories refurbish, water treatment and purification, ceramics and building materials for the period 2012 to 2022.

Figure 41: Radiation Charges for Laboratories, Refractories Refurbish, Water Treatment and Purification, Ceramics and Building Materials, 2012 – 2022

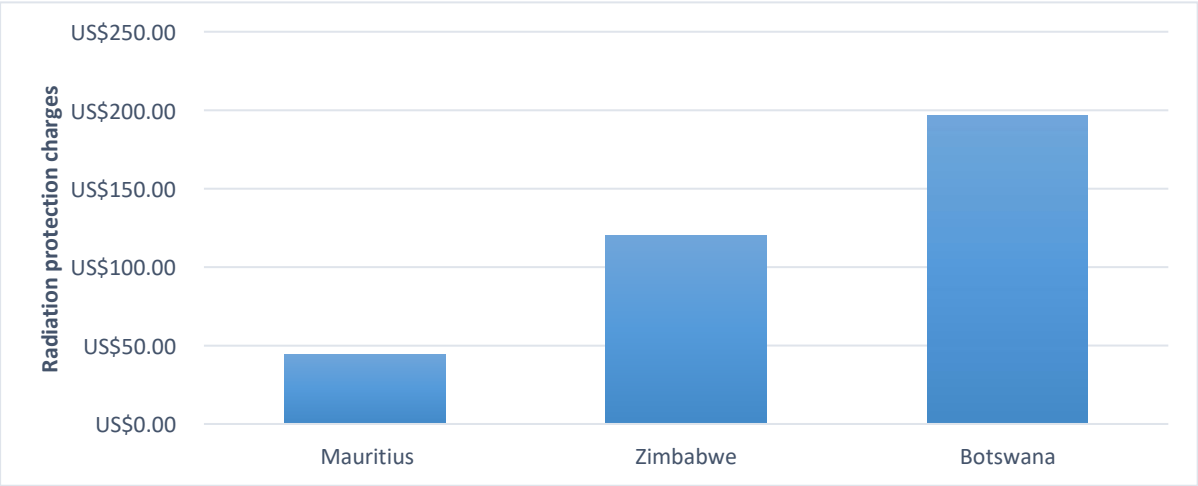


Source: SI RPA Statutory Instruments

6.1.16 Figure 41 shows that fees fluctuated from August 2012 to February 2022, with a minimum of US$909 in July 2020 and a maximum charge of US$3 584 in January 2021, before declining to US$2 000 between February and December 2022.

6.1.17 Any general increase in radiation fees adds to costs of production and negatively impacts on competitiveness of local firms. Figure 42 depicts a comparison of radiation protection application fees against comparator countries.

Figure 42: Comparison of Radiation Protection Charges/ Fees, 2022



Source: NCC Compilation based respective Country Radiation Authorities

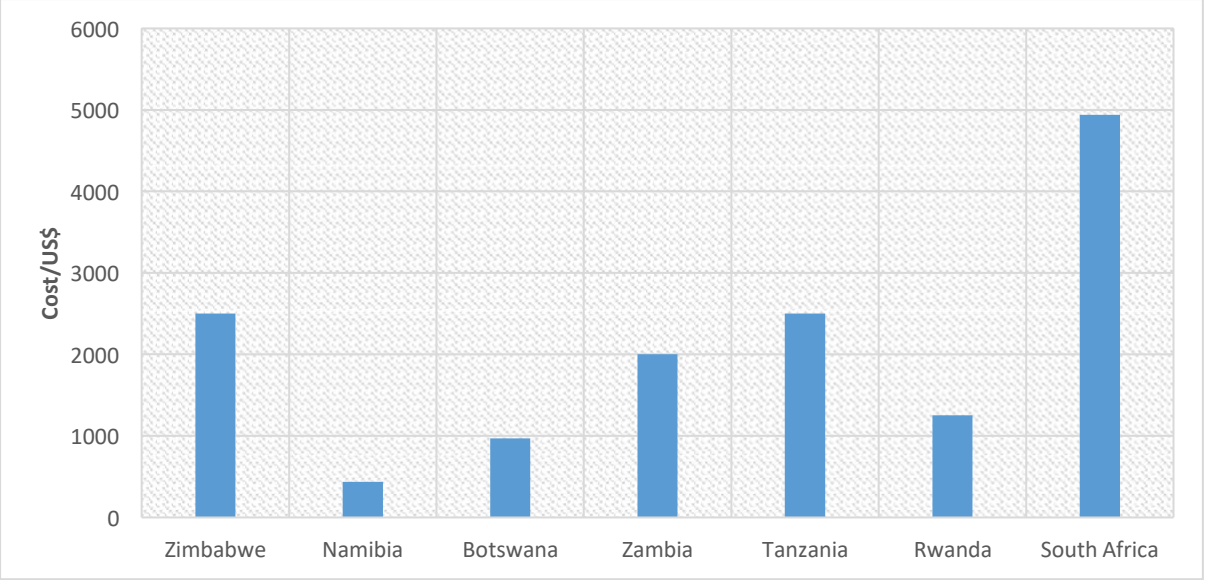
6.1.18 Figure 42 shows that Zimbabwe radiation application fee is competitive compared to Botswana while Mauritius is performing better.

Medicines Control Authority of Zimbabwe Compliance

6.1.19 Every nation has a medicines control body that regulates the acquisition, handling and consumption of drugs for the safety of its citizens. The Medicines Control Authority of Zimbabwe is empowered by the Medicines and Allied Substances Control Act [Chapter 15:03] to issue licenses and inspect manufacturers of medicines to ensure that they conform to minimum requirements as set out in the Act. They also process applications for importation of unregistered medicines, narcotics and psychotropic substances.

6.1.20 The medicines regulation compliance costs are uncompetitive against regional countries like Namibia, Botswana, Zambia and Rwanda, with an average cost of US$2 500 for registering a new foreign medical product. Figure 43 depicts a comparison of foreign medical product registration costs in Zimbabwe's comparator countries.

Figure 43: Registration of Foreign Medicine, 2022



Source: NCC Compilation based on respective Country's Medicines Control Regulatory Authorities

6.1.21 In addition to the exorbitant cost, the process of registering a new pharmaceutical product takes an average of 1 year and this affects investment into new products.

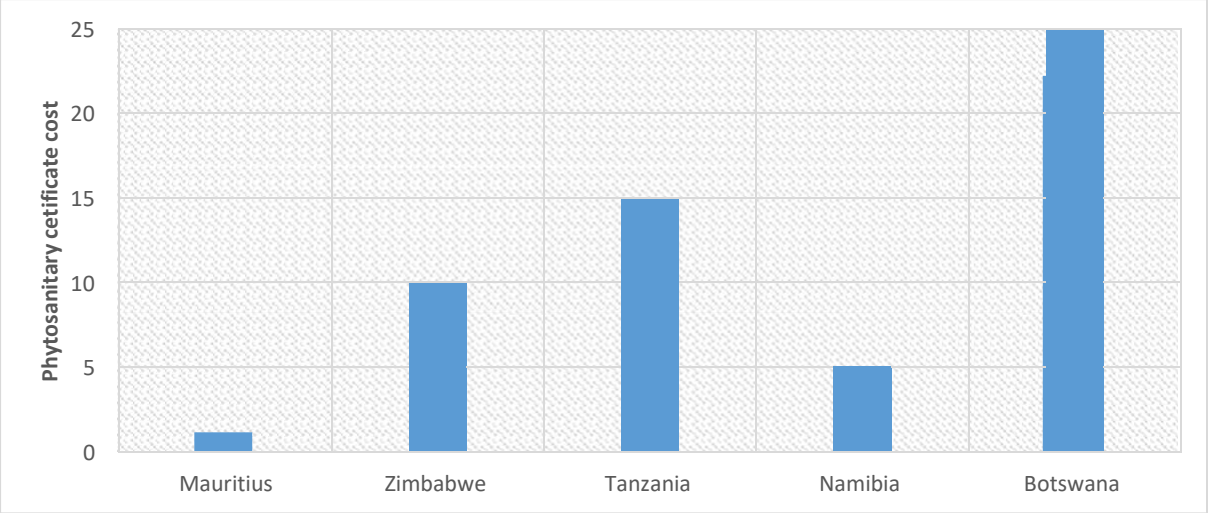
Rural District Councils Fees

6.1.22 Industry operating in areas controlled by local authorities/Rural District Councils (RDC) face extra compliance costs that impinge on competitiveness. For instance, RDCs charge Land Development Levy of US$3 per hectare per year and cattle levy of 10.5% of the price for cattle sold at the RDC auction floors. In terms of regional comparison, South Africa charges a very competitive cattle levy of 0.07%, whilst for Botswana the levy varies per district just like Zimbabwe. The levies increase operational costs and affect competitiveness of industries.

Phytosanitary Certificate Fees

6.1.23 High costs of obtaining phytosanitary certificates[10] impact on competitiveness and ease of doing business. Zimbabwe phytosanitary certificate cost of US$10, which is five times more than that of Mauritius (US$1.14) and Namibia (US$5.45). On the other hand, Zimbabwe is competitive compared to Tanzania (US$15) and Botswana (US$22.21). Figure 44 shows phytosanitary certificate cost for Zimbabwe against comparator countries.

Figure 44: Zimbabwe's Phytosanitary Cost vs Comparator Countries, 2022



Source: NCC Compilation Based on Respective Country Authorities

6.1.24 Furthermore, it is worth noting that, even though the Plant and Quarantine offices are situated in Mazowe the certificate can be collected in Harare through the one stop agricultural shop.

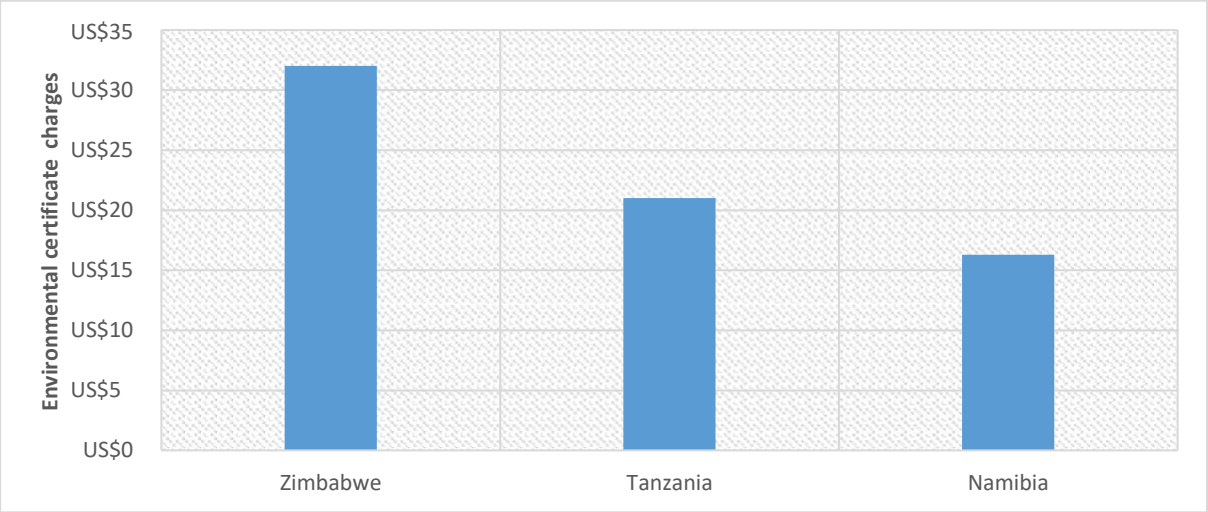
[10] Phytosanitary certificate is a document of proof that a commodity, primarily live animals and agricultural products, has undergone all the necessary protocols and treatment to remove all damaging pests.

This scenario increases cost of doing business, as production time is lost given that some businesses are not located in Harare.

Environmental Management Charges

6.1.25 Environmental Management regulation charges impact on competitiveness as they add to cost of doing business. At a cost of US$32 for environmental management certification charges, Zimbabwe is not competitive compared to Tanzania (US$21) and Namibia (US$16). Figure 45 shows the environmental management certification charges for Zimbabwe against comparator countries.

Figure 45: Zimbabwe Environmental Certification Charges vs Comparator Countries, 2022



Source: NCC Compilation Based on Respective Country Responsible Authorities

6.1.26 Business struggles to attain the maximum possible environmental protection category (blue status) due to various operational constraints, including factors beyond their control as a result of locally available quality of raw materials and end up paying more in licensing fees, In addition, to the registration fees compliance cost, there are compliance charges for atmospheric pollution, in Zimbabwe, which are additional costs to business thereby weighing on competitiveness, as shown in Table 13:

Table 13: Zimbabwe's Atmospheric Pollution Regulation Costs, 2009

License band	Volume of emissions discharge per mt per quarter				
	< 5 mt	> 5 but < 50mt	> 50 but < 100 mt	> 100 but < 200 mt	> 200 mt
Blue	$100	$145	$280	$555	$1 110
Green	$145	$280	$555	$1 110	$2 000
Yellow	$280	$555	$1 110	$2 000	$4 500
Red	$555	$1 110	$2 000	$4 500	$9 000
5% administration fee shall be charged on all fees					

Source: Environment Management (Atmospheric Pollution Control) Regulations

6.1.27 The environmental management regulation cost is also based on whether a product is hazardous (ranging from US$10 to US$1,000), and if it is effluent as well as solid waste disposal ranging from US$80 to 50% +discharge levy+ monitoring fees or US$1 200, whichever is greater.

6.1.28 The charges are difficult to compare as the basis are different in each country. For example, in Tanzania it ranges from US$0.15 to US$21,486 depending on whether it is agricultural, livestock, forestry, tourism, energy, oil and natural gas, transport, food and beverages, among other classifications. On the other hand, Mauritius Hotels and guest houses are charged 0.85% of the revenue monthly, Enterprise engaged in stone crushing or in the manufacture or processing of aggregates, concrete blocks, pre-cast units, coral sand, rocks and or basalt sand are charged 0.75% and Enterprise engaged in the manufacture, assembly, or importation of mobile phones, batteries for vehicles and pneumatic tyres are charged US$1 per unit.

6.2 Conclusion

6.2.1 Business faces delay due to different institutions located at different geographical locations requiring physical visits to issue permits. Automation is therefore a key driver of efficiency and productivity, as it will reduce the time of obtaining licenses and permits as well as the cost of doing business.

Recommendation 1: *Fully automate and upgrade the online system to ensure that the license and permit approval process takes less than 3 days and curb human interface, thereby reducing time and cost. This requires continued stakeholder dialogue.*

Recommendation 2*: Expedite the Single Window initiative on import licencing.*

Recommendation 3*: Introduce E-procurement.*

Recommendation 4*: There is need for more awareness of the CBCA Programmeme so that importers do not exceed time taken for inspection as a result of submitting inadequate papers at the port of entry, thereby incurring more costs.*

Recommendation 5*: Strengthen national quality infrastructure to enable in-country inspection including market surveillance.*

Recommendation 6: *Reduce fees and levies to cost recovery levels commensurate to service delivery in line with comparator countries and make the products competitive.*

Recommendation 7*: Decentralize the issuance of SPS certificates in line with the devolution agenda.*

Recommendation 8: *Capacitate public institutions to ensure efficacy in service delivery, which is critical for enhancing competitiveness.*

Recommendation 9: *Private sector is urged to adhere to use of standards and international best practice in auditing and accounting practices to enhance transparency.*

CHAPTER SEVEN

7 CONCLUSION AND WAY FORWARD

7.1 Conclusion

7.1.1 The Government of Zimbabwe has made significant strides to set the economy on a sustainable recovery and growth trajectory. Such efforts have in recent months yielded positive results as evidenced by declining inflation and converging exchange rates on the macroeconomic front. Furthermore, investments towards rehabilitation, upgrading and modernisation of infrastructure is also expected to have a positive impact on competitiveness. However, despite such efforts, there still exist competitiveness gaps in the economy, which if addressed, can propel the country's competitiveness to higher levels.

7.1.2 In order to achieve this, the country is urged to invest in attainment macroeconomic fundamentals as well as developing key sound institutional framework that promote public and private sector driven innovation, vibrant financial system that support investments, efficient functional infrastructure network and favourable institutional and regulatory systems that are pro-business.

7.1.3 These factors have been identified as key constraints towards driving the country's competitiveness to the desired world rankings as envisaged in NDS1.

7.2 Way Forward

7.2.1 The successful implementation of the 2022 ZCR recommendations is key in enhancing the country's competitiveness and requires collaboration of all relevant stakeholders, including Government, Private Sector, Development Partners, Academia and Civil Society Organisations.

7.2.2 Furthermore, the institutional and regulatory frameworks on competitiveness have strong implications for economies, as they can lead to unforeseen negative externalities and considerable regulatory costs for businesses and citizens. To this end, the Government is urged

to adopt and institutionalise the Regulatory Impact Assessment (RIA) with a view to improve the country's regulatory governance cycle.

7.2.3 Cognisant of the above, implementation of the recommendations in the Report is critical to enhance productivity and competitiveness. This in turn requires support in terms of resources, both financial and human capital.

7.2.4 In this regard, Government and relevant stakeholders are urged to adequately support the Commission for smooth implementation of planned programmes to achieve its mandate of facilitating the creation of a competitive business environment in Zimbabwe.

7.2.5 Pursuant to the above, the improvement of Zimbabwe's competitiveness will go a long way in contributing towards the attainment of an Upper Middle-Income Society by 2030.

"Enhancing Zimbabwe's Global Competitiveness"

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