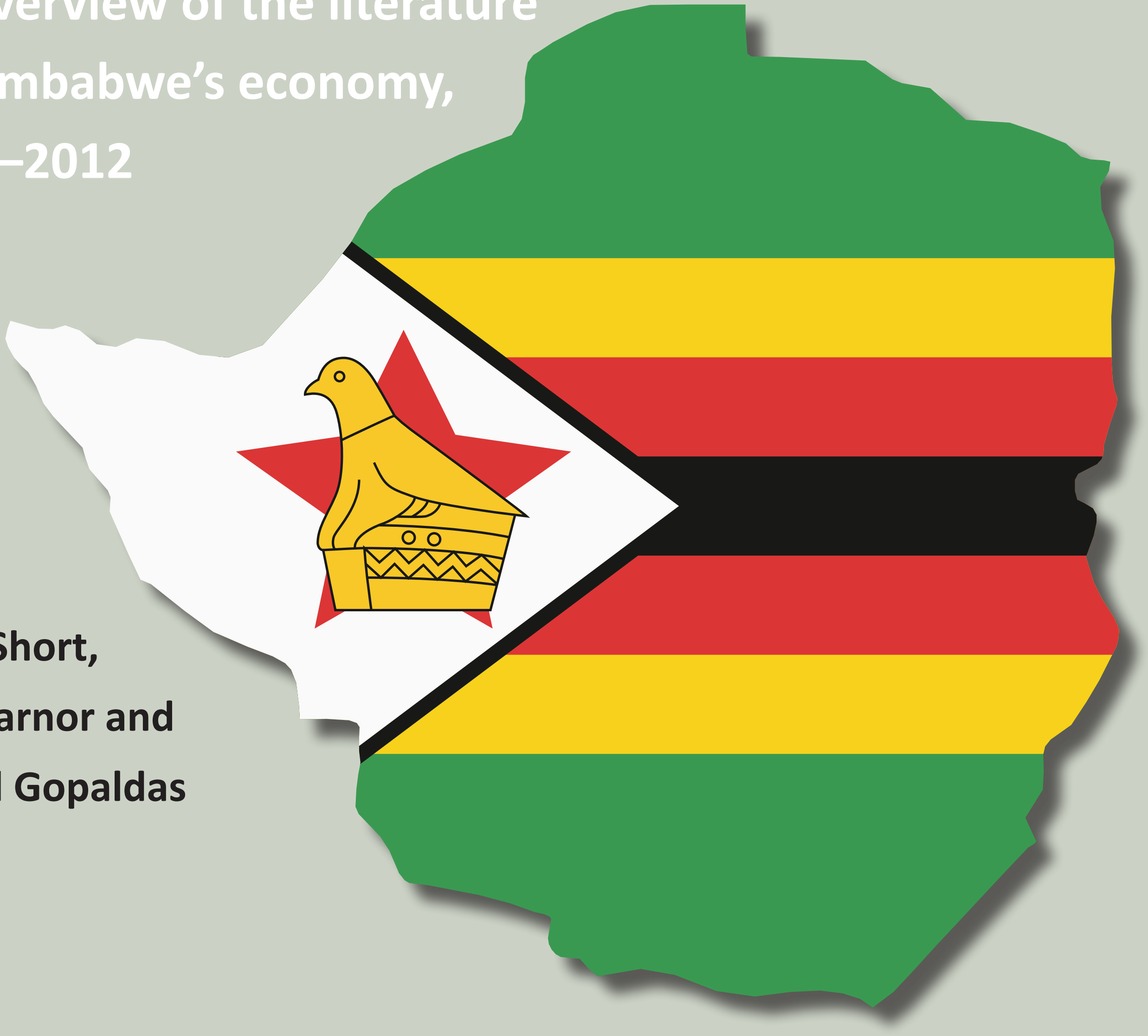
DISCUSSION PAPER 9/2012

Constraints and Interventions

An overview of the literature on Zimbabwe's economy, 2009–2012



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Strengthening Africa's economic performance

THE BRENTHURST FOUNDATION

Contents

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Executive Summary

This Discussion Paper provides an overview of the literature from 2009 to 2012 dealing with Zimbabwe's economy. It builds on an earlier review by Genesis Analytics for the Brenthurst Foundation for the period 2005 to 2008.[1] The paper incorporates the findings of a number of publications on the Zimbabwean economy and highlights common themes. The aim is to identify consensus around core constraints on economic growth as well as proposed interventions. It deals primarily with economic rather than political considerations.

Introduction

In 2008, Genesis Analytics, a Johannesburg-based consulting firm that advises governments and companies in emerging markets, compiled a report on Zimbabwe's economy which was crippled by deep recession and hyperinflation. Expectedly, the literature of the time largely focused on policies to stabilise and return the Zimbabwean economy to growth. Common threads running through the literature[2] were:

- A concerted effort was needed to rebuild the productive capacity of the economy after ten years of underinvestment and neglect.
- Economic recovery would be underpinned by a return to the rule of law and enforceable property rights, as well as improved safety and security.
- A credible stabilisation plan including both sound fiscal and monetary policies was needed for macroeconomic stability.
- Donor support was required to finance social spending on health, education, welfare and food aid in the wake of anticipated fiscal tightening.
- A reliance of market forces was proposed to remove the economic distortions introduced by interventionist economic policies.
- Self-sufficiency in food production was seen as an important component of a long-term economic recovery.
- An investment in government expertise and skills was recommended to ensure that the benefits that flowed from donor support were maximised, and that Zimbabwe did not become an aid-dependent economy.
- Deep-rooted governance reforms were needed to sustain economic recovery in the long-run. Strong institutions free from undue political interference were identified as important to long-term growth.

Figure 1 shows GDP growth rate, gross national savings rate, total investment rate and current account balance, all as a percentage of GDP from 2003 to 2012, with forecasts for 2013 and 2014. This provides a good comparison of the economy before and after 2009.

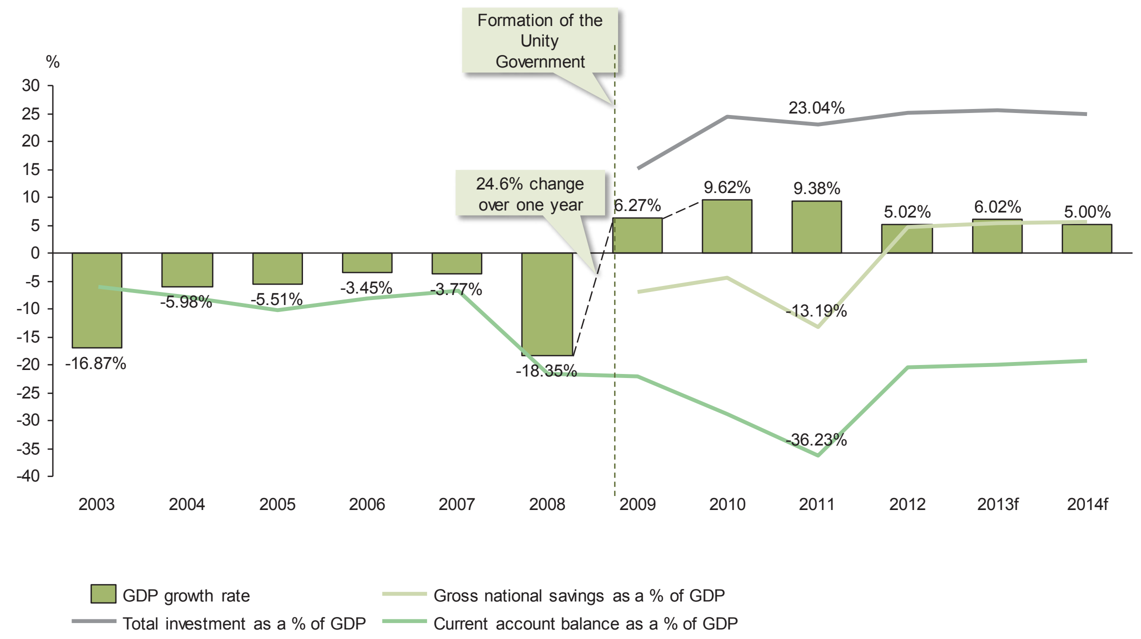
Three trends are evident from the data: Foremost, is that of a *general economic recovery* following crisis. This can partly be attributed to *dollarisation*, which allowed foreign currencies to be used locally, restoring price stability. This along with a global commodity boom put GDP growth back into positive territory. Second, *gross national savings and investments as a percentage of GDP, have improved since 2009*. While data were not available for these indicators prior to 2009, given the strongly negative GDP growth, it is likely that they also showed a declining trend.

The indicators show a shift from economic crisis management before 2009 to measures aimed at stimulating and sustaining growth after 2009

Finally, the *current account balance as a percentage of GDP has not shown the same recovery*. The deficit only started to improve after 2011, and still remains large. This reflects an economy that is highly dependent on imports with low levels of exports. The deficit is predicted to persist because of the large size of arrears, the absence of a strong financial and repayment policy, and due to high levels of public spending.

The indicators show a shift from economic crisis management before 2009 to measures aimed at stimulating and sustaining growth after 2009. This shift is also reflected in the content of the literature from 2009 to 2012.

Figure 1: Zimbabwe Key Indicators, 2003–12, with forecasts for 2013 and 2014



Note: Data for total investment, and gross national savings as a % of GDP not available before 2009
Source: IMF databank

2009–2012 Literature Review Findings

The publications from 2009 to 2012 are tabulated in the Appendix. The table highlights the themes of each publication, as well as the chief constraints and suggested interventions. The publications are listed in order from those with a broader, macro focus to those with a more specific or thematic focus.

Common Themes in Diagnosis

The articles identify a number of common constraints, as well as necessary interventions for growth. The most common constraints are political uncertainty, fiscal slippages, financial sector instability, agricultural sector challenges, the threat of indigenisation, infrastructure constraints, and labour market-related problems such as a lack of skills.

The bubble graph on page six is a visual description of the constraints, highlighting the frequency with which they featured as the main theme(s) in the publications reviewed.

Internal disagreements, succession battles, overlapping mandates and ambiguous signals on indigenisation contribute to the lack of clarity, resulting in an atmosphere of political and policy uncertainty.

Poor transparency regarding diamond revenues, as well as unsustainable expenditure, especially government employment costs, are key issues surrounding fiscal slippage. Debt levels are also unsustainable and need to be contained through active external support, in order to manage the deficit.

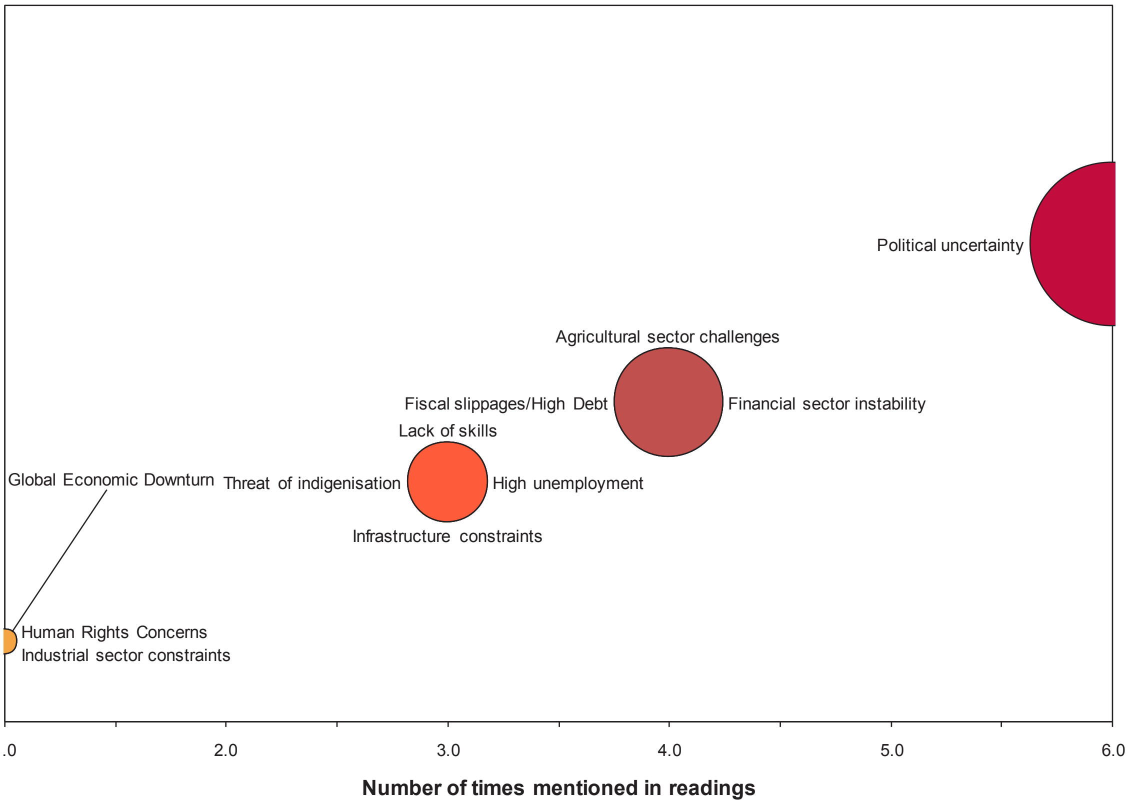
Liquidity constraints, the increase in non-performing loans, a levelling-off of credit, short-term deposits, and a relatively weak financial regulatory framework are identified as contributing factors to the financial sector instability.

The agricultural sector challenges include poor access to finance for farmers, lack of expenditure on research, poor weather, and low levels of competitiveness and productivity.

There is a consensus in the literature that indigenisation deters foreign investment and business, and is a constraint to growth.

Dilapidated infrastructure and high infrastructure costs are binding constraints to growth. Furthermore, there is a shortage of medium-to-long-term finance for investment in the maintenance, rehabilitation and upgrading of infrastructure.

Figure 2: Zimbabwe: Bubble Graph of Key Constraints



Labour market constraints are created by the country's high rate of unemployment, coupled with a shortage of skilled workers (related to a large diaspora).

Common Themes in Interventions

The publications suggest a number of common interventions in response to the constraints outlined above.

The government can mitigate political uncertainty by promoting improvements in the business climate, such as securing property rights and clarifying or revising indigenisation regulation, while working towards more uniformity in the coalition government.

Ensuring greater fiscal transparency and accountability, improving the expenditure mix, and decreasing the public wage bill are all key interventions to containing fiscal slippage.

In response to the threat of financial sector instability, the publications suggest that the government adopt a more sustainable banking model, facilitating lending for long-term projects. Strengthening the financial regulatory framework, increasing supervisory efforts and addressing weaknesses in the financial industry are further key interventions.

Agricultural sector challenges can be tackled by a government policy to reinvest in the agricultural sector in order to enhance productivity and competitiveness. This would include providing more research support for informed policy decisions, as well as improving access to finance and support for farmers.

The infrastructure constraint would require a stronger policy framework to encourage private sector investment – this includes an enhanced legal, regulatory, and administrative framework. A focus on maintenance, rehabilitation and upgrading of infrastructure is also necessary.

Interventions to improve the unemployment and skills constraints will require the government to address issues like the quality and quantity of work. Furthermore, the government will need to increase economic activity among demographics worst affected by unemployment, this requires promotion of entrepreneurship in rural areas as well as technical and financial resources to the youth.

The rest of this report provides a more detailed description of the publications reviewed.

Summary of Publications Reviewed

International Monetary Fund (2012)

'Zimbabwe'

Purpose and context

This IMF report describes the main risks facing Zimbabwe. It explains how likely these threats are, and what effects they may have. It also provides a comprehensive set of strategies to tackle these potential problems.

Diagnosis of key constraints/risks

The publication highlights a number of economic and political risks for Zimbabwe going forward, their relative likelihood, and their potential impact if realised.

Overall, the report states that Zimbabwe's significant outstanding debt remains an impediment to medium-term fiscal and external sustainability.

A possible resurgence of political instability, especially in the lead up to the 2013 elections, is of significant likelihood as the deteriorating relationship between the coalition partners in government could complicate decision-making. Such instability could result in policy setbacks, lower business confidence and a further contraction of economic activity.

A deeper global downturn, primarily caused by an intensification of the Euro area crisis, could pose a moderate risk. Zimbabwe is heavily dependent on external credit flows alongside accumulated arrears, to finance its large current account deficit. The country's economy is currently sustained by strong demand for key exports. Lower commodity prices could heighten balance of payment pressures.

Another source of risk is the potentially destabilising effect of the indigenisation programme, particularly on investment flows. It is moderately likely that uncertainty and inconsistencies around the application of the indigenisation policy will continue to affect investment decisions, particularly for new investments, across the productive sector and for FDI. This could limit flows of well-needed foreign direct investment, including in the mining sector. Indigenisation in the banking sector could exacerbate existing liquidity and credit risks, and reduce potential sources of external credit flows.

The risk of fiscal slippages is also moderately likely as diamond revenues could fall short of the revised projection, while trade unions continue to exert pressures on government to increase civil servants' wages. If these increases materialise the authorities are likely to tap into already low levels of deposits, potentially causing another liquidity crunch and new accumulation of domestic arrears.

> Zimbabwe's significant outstanding debt remains an impediment to medium-term fiscal and external sustainability

Financial sector instabilities, including liquidity constraints, pose a moderate to significant threat. Several banks remain weakly capitalised with imprudently low liquidity buffers. Asset quality has deteriorated, reflecting unsound lending practices and poor risk management; furthermore, several banks are overstretched. In the absence of a lender of last resort facility, deterioration in bank capitalisation would lead to further loss of confidence in the banking system, aggravation of already tight liquidity conditions, and possible bank runs.

A key point of concern raised in the report is that Zimbabwe is inadequately placed to deal with such risks, particularly the fiscal risks, due to a low level of external reserves and a lack of a robust lender of last resort.

Requirements for growth

The IMF proposes a number of strategies of 'vigorous reforms' that will hopefully lead to higher sustained growth. Restoring fiscal sustainability and reducing financial sector vulnerability are proposed in the report.

Restore fiscal sustainability

To achieve this, public sector wage increases should be suspended, and civil servants' allowances should be converted into part of their taxable salaries, yielding additional revenue of about half a percentage of

GDP. The government should seek donor funding for the census, constitutional referendum, and general election to help reduce the risk of fiscal slippages. Moreover, there are a number of specific actions that could be pursued to ensure fiscal prudency:

1. *Fast-track the Diamond Act*[3]: The drafting and submitting of the Diamond Act should be fast-tracked. The Revenue Authority's capacity to monitor and assess the production and trade of diamonds must be enhanced.
2. *Develop a strategy to achieve a more balanced expenditure mix and strengthen the revenue base*: The IMF proposes that inflation is used as an upper limit on wage increases to release fiscal space for improved service delivery and investment in key areas like sanitation, access to potable water, timely provision of agricultural inputs and social protection for the poor and vulnerable.
3. *Improve public financial management*: The government should reinforce expenditure control, and strengthen the human resources and payroll management system to help contain the wage bill. Other key reforms include improving financial monitoring and oversight, strengthening the governance of public enterprises and developing a medium-term expenditure framework.

Reduce financial sector vulnerabilities

The IMF commended proposed amendments to the Banking Act to improve oversight and surveillance. The government plans to strengthen the Troubled and Insolvent Bank Resolution Framework to incorporate prompt corrective actions, and improve corporate governance. The IMF further recommended closer monitoring of banks with low liquidity buffers and high and increasing credit exposures.

Although restructuring of the Reserve Bank of Zimbabwe (RBZ) is an ongoing initiative, further recommendations were made by the IMF in this regard. This included transferring the liabilities from RBZ's balance sheet to a fund managed by the finance ministry, proceeds from the disposal of non-core assets should be applied to the funding of the systemic liquidity facility, and better transparency in reporting on RBZ's activities including publication of external audits.

Donor focus

The IMF report suggests that most donor support will be used towards humanitarian assistance. However, it draws attention to the pressing debt problem facing Zimbabwe, as well as the upcoming constitutional referendum and national elections, which is likely to necessitate external funding in order to ensure transparency and accountability.

Business Monitor International (2012)

'Zimbabwe Business Forecast Report'

Purpose and context

Business Monitor International is an independent provider of country and industry information, and deals mainly with emerging markets. This report covers a number of themes central to Zimbabwe's political and economic context. It focuses on the economic risks and outlook, and addresses domestic politics, balance of payments and fiscal and monetary policy.

Diagnosis of key constraints/risks

Zimbabwe is confronted with an enormous current account deficit, which is unlikely to be closed by capital and financial inflows. The government has taken steps in coordinating with the World Bank and the IMF, by asking for debt relief. If granted, this is expected to lead to increased government expenditure, as well as investment credibility. In terms of fiscal policy, the government raised taxes and cut spending due to diamond revenues being lower than expected in 2011 and due to increased expenditure on unbudgeted army recruitment.

The stabilisation of the inflation rate, seen after the adoption of a multi-currency regime, is likely to prevail as long as the foreign currency is in place, although the inflation rate is still dependent on a number of factors. For instance, inflation is linked strongly to the US Dollar/Rand exchange rate, as well as South African inflation rates, given that majority of Zimbabwean imports come from South Africa. It is also influenced by international oil prices and local utility charges.

The inability of the factious Unity Government to work together on a number of issues has discouraged investors. One of the most prominent risks highlighted in the report is the possible collapse of the Unity Government, which may see the reversal of the economic policies of the last three years. The succession battles of President Robert Mugabe, as well as any violence in the upcoming 2013 elections, could also have a destabilising effect on stability in the country.

> A projected three to four million Zimbabweans live outside of the country

Indigenisation is another contentious issue that has the potential to restrict international investment in Zimbabwe. Indigenisation requires every business with an asset value of $500 000 or above to transfer a 51 per cent ownership to 'indigenous Zimbabweans'. There have been discussions to extend the indigenisation requirement to the banking industry. The report argues that the effect of the indigenisation laws on the banking sector would be low availability and high costs of bank borrowing. This would hinder the growth and operational efficiency of companies, and may also result in a bank run, which would further cripple the already-ailing Zimbabwean economy.

The land reform programme has also discouraged investment in agriculture and other industries. Commercial agriculture diminished after the government expropriated the land of white farmers. Even though there has recently been a slight resuscitation of this industry, pre-2000 levels of economies of scale in the agricultural sector remain highly unattainable.

Moreover, the quality and productivity of commercial land used previously is not well-documented. This, along with the fact that irrigation and water management systems are run-down, poses severe implications for food security in Zimbabwe.

The report notes that a projected three to four million Zimbabweans live outside of the country. The mass emigration from Zimbabwe has eroded the level of human capital in the country, and poses significant adverse consequences for economic growth. The unemployment rate soars at around 80 per cent and the lack of opportunities in the formal market has prompted individuals to emigrate, or to seek work in the informal economy. Many survive on the remittances sent by relatives working abroad.

Compounding the lack of availability of skills problem, is the fact that the education system has not received adequate funding: a number of secondary schools and universities close intermittently due to a lack of operating capital.

Requirements for growth

The government will essentially need to work towards more political stability to achieve improvements in the business climate in the medium- to long-term. In addition, the inflation rate needs to be closely managed by government policy, maintaining the foreign currency regime.

A focus on reinvesting in the agriculture sector could strengthen the economy and provide necessary jobs and foreign exchange revenue. In addition, government needs to reassure the international community that investments would be safe from expropriation.

The government will need to revisit the indigenisation strategy. Indigenisation of the banking industry may repel much-needed investment.

Positioning Zimbabwe as a low-cost producing country could prove to be an effective strategy, and is dependent on government supplying crucial infrastructure.

Donor focus

Zimbabwe is largely dependent on donor injections into the economy; however, the international community is becoming increasingly wary of the surge in imports seen in Zimbabwe and in the equivocal government stance on the indigenisation policy. An overhaul of the country's economy will require a coordinated donor response.

African Development Bank (2011)

'Zimbabwe: Country Brief 2011–2013'

Purpose and context

The aim of this country brief is to update the African Development Bank's Board of Directors on recent developments in Zimbabwe, and to serve as an instrument for the bank's interventions in the country.

Diagnosis of key constraints/risks
While government finances have improved, issues such as the accounting of diamond revenues and the rising wage bill result in limited fiscal space for social and infrastructure programmes. The absence of external financing is also predicted to lead to an accumulation of domestic arrears.

Zimbabwe continues to be one of the least competitive countries in the world, and was ranked 157 out of 183 countries in the World Bank 2011 *Doing Business Survey*. The infrastructural regulatory environment is deficient. The major concerns for investment climate are the land reform policy and the indigenisation legislation.

Requirements for growth
The report proposes the following requirements to improve growth in Zimbabwe:

1. *Improve the investment climate*, especially in areas such as property rights, indigenisation, and land reform.
2. *Sustain fiscal reforms which are critical for increasing growth and reducing poverty*. Higher tax collections and public financial management reforms will unlock critical resources for various sectors, especially for infrastructure.
3. *Accelerate structural reforms*. This is necessary in order to boost growth, preserve competitiveness, improve public service delivery, lower production costs and reduce capacity constraints.

African Economic Outlook (2012)

'Zimbabwe'

Purpose and context
This report is prepared by African Economic Outlook. It combines the expertise of the African Development Bank, the OECD Development Centre, the United Nations Economic Commission for Africa, the United Nations Development Programme and a network of African think tanks and research centres. Its wide country coverage and methods of analysis are essential to understand the economic, social and political developments of African countries. This report discusses the growth trend in Zimbabwe, as well as macroeconomic policy and economic and political governance.

Diagnosis of key constraints/risks
The overlapping mandates between government departments, such as the Ministry of Economic Planning and the Ministry of Youth Development, Indigenisation and Empowerment make it difficult for economic policies to be executed. Uncertainty also arises from policy inconsistencies, especially concerning indigenisation and economic empowerment regulations.

There are also contestations among the Unity Government around key issues such as security sector reforms, media reforms, the new constitution, the national referendum and the pending national elections.

The absence of external financing is predicted to lead to an accumulation of domestic arrears

The overall balance deficit continues to persist. Most of the expenditures are current and effectively crowd out capital expenditure, which is needed for economic growth. The fiscal space remains constrained by the lack of engagement of international development partners and the lack of transparency concerning diamond revenues. The budget is weakly linked to policy priorities because of the limited fiscal space, which allows only for recurrent expenditures such as employment costs.

Nominal lending rates have been high, mainly due to the liquidity crunch and a high demand for credit, while deposit rates have remained low, reflecting idle bank balances.

There are certain inherent financial sector risks that persist. These mainly have been attributed to volatile deposits of a short-term nature, absence of an active interbank market, lack of an effective lender of last resort, market illiquidity, cash-based transactions, and limited access to external credit lines.

Requirements for growth
The government will need to prioritise the budget for long-term stabilisation goals. This requires rebuilding policy management capacity and accountability

in the management of public resources in order to establish political credibility.

Stabilisation of the financial sector, and management of the financial sector risks have been earmarked as key objectives by this paper. One recommendation to allow non-compliant banks to meet the prescribed capital requirements and to enhance soundness in the financial sector is for government to encourage mergers between banks.

Donor focus

The focus of donor support on humanitarian assistance has largely facilitated the recovery of the social sectors.

African Development Bank (2011)

'Infrastructure and Growth in Zimbabwe'

Purpose and context

The African Development Bank's report on infrastructure, commissioned by the Zimbabwean government, highlights how policy actions and investment in infrastructure play a crucial role in the development of developmental trade and in promoting economic linkages with the African continent. The report also provides the government, the donor community and the private sector with a detailed assessment of infrastructure investment opportunities in Zimbabwe.

Diagnosis of key constraints/risks

Economic growth and development cannot be achieved without the availability of economic and social infrastructure. Dilapidated infrastructure in Zimbabwe has resulted from a number of factors.

The first includes inadequate public expenditure on the maintenance and rehabilitation of existing infrastructure assets like power, water, sanitation and transport.

There also seems to be a lack of skills in the public sector, as well as a fragmented approach to regulation and oversight among ministries responsible for these sectors.

Inadequate institutional and regulatory frameworks have led to decreased investment. Rehabilitation of the bulk of infrastructure, including power, roads, railways, civil aviation, water, transport and information and communications technology (ICT) is necessary.

Furthermore, the unsuitable legal framework, uncertainty about the regulatory framework and the weak financial position of public partners, all lower the amount of public private partnership (PPP) opportunities in the country.

Requirements for growth

Government needs to strengthen the policy framework for private investment in infrastructure. This may be in the form of partnership arrangements with government entities.

Restructuring state enterprises, including privatisation, could ensure stable long-term funding for key long-term projects. The financial and technical restructuring process would need to take place on a case-by-case basis, with particular attention to stakeholder interests. Long delays in restructuring state-owned enterprises (SOEs) will delay increases in capacity in important infrastructure areas such as power generation, railway services, airport capacities and services at key tourist destinations.

Finally, strengthening the legal, regulatory and administrative environment relevant to infrastructure services is likely to bring a range of direct and indirect benefits to Zimbabwe. These include improved services and lower costs, as well as an improved environment for tourism and business activity.

Donor focus

The infrastructure programme set out in the publication would necessitate a high level of funds from the donor community, especially with respect to water, power and roads. In addition, developing domestic capacity, by providing technical assistance, is likely to require donor involvement.

Africa Infrastructure Country Diagnostic (2012)

'Zimbabwe's Infrastructure: A Continental Perspective'

Purpose/context

This study was designed in order to expand knowledge of physical infrastructure in Zimbabwe. The Africa Infrastructure Country Diagnostic was commissioned by the Infrastructure Consortium for Africa, with the intention of scaling up donor finance for infrastructure in support of African development. This paper identifies the problems pertaining to Zimbabwe's infrastructure.

Diagnosis of key constraints/risks

The study outlines the following key constraints and challenges in certain infrastructure areas:

1. *Air Transport*: Increasing competition and improving financial health.
2. *Information and communication technology*: Boosting competition sector-wide to reduce costs and increasing internal connectivity.
3. *Irrigation*: Capturing significant unexploited potential, particularly for large-scale irrigation schemes.
4. *Power*: Huge investment and rehabilitation needs to be financed. Strengthening sector finance by increasing tariffs and enforcing revenue collection.
5. *Railways*: Removing tariff distortions that prevent railways from functioning effectively.
6. *Roads*: Securing financing for rehabilitation and maintenance, addressing border delays and improving rural accessibility for rural agricultural land.
7. *Water resources*: Providing improved water security for agriculture.
8. *Water and sanitation*: Reversing decline in access to sanitation. Improving performance of utilities and rehabilitating infrastructure, with the intention of restoring water quality.

Requirements for growth

The table below presents recommendations to address infrastructure constraints:

Infrastructure area	Economic target	Social target
Information and communication technology	• Install fibre-optic links to neighbouring capitals and submarine cable	• Provide universal access to GSM signal and public broadband facilities
Irrigation	• Develop additional hectares of large-scale and economically viable small-scale irrigation	• Not applicable
Power	• Develop new generation capacity and inter-connector capacity	• Rise electrification
Transport	• Achieve regional connectivity with good quality roads and railways	• Provide rural road access to agricultural land, as well as urban roads access
Water supply and sanitation	• Not applicable	• Achieve Millennium Development Goals • Clear sector rehabilitation backlog

Source: Adapted from AICD

Mills (2012)

'Backwards to Beit Bridge? A Strategy to Revive Zimbabwe's Industry'

Purpose and context

This report was written by the Director of the Brenthurst Foundation, which is a Johannesburg-based think tank committed to strengthening Africa's economic performance through stimulating new thinking for the continent's development challenges. This paper explains the reasons for Zimbabwe's industrial decline and highlights the importance of governance to resuscitate the industry. Once the politics is addressed, a number of key drivers could be reinstated to revive the economy.

Diagnosis of key constraints/risks

The system of elitist control, stemming from violence, farm seizures and self-enrichment during the crisis years still characterises Zimbabwean politics today. Rather than creating opportunities through production, wealth creation in the country has depended on the redistribution of existing assets through political connections and trading on the margins. Both the underlying cause and solution of Zimbabwe's failed state is political.

Major reasons for the industrial decline include the absence of security for investments, unreliability of electricity and water supply, poor infrastructure, a former hyperinflationary environment, high costs of borrowing, a deterioration of business ethics and efficiency and the collapse of the agricultural sector which provides most of the raw materials to this industry.

The report draws attention to the clothing and textile manufacturing sector in which the number of jobs has decreased from 35 000 and 18 000 to 6 500 and 1 500 respectively. The main reasons for the loss in textile jobs include:

1. The failure to properly regulate imports from the Far East and China. This is compounded by the fact that some 'privileged' Chinese immigrants are allowed to bring duty-free containers into Zimbabwe.
2. Widespread fraud that occurs at the borders and warehouses, as well as declaring the incorrect value of exports.
3. Uncompetitive labour and productivity rates in comparison with East and South Asian producers.
4. The third-party single transformation requirement, which prohibits regional manufacturers from using third-party fabric to transform into clothes and then export duty-free. Manufacturers are therefore required to make the clothing and also participate in another phase in the value chain up to 25 per cent of the cost.
5. Textile producers were too slow to respond to changes in consumer demand, and continued to produce only what they could.

Requirements for growth

Economic recovery relies on political stability, the impartial imposition of the rule of law, investments in government services and the creation of a competitive policy – in essence, 'getting the politics right'. Substituting the indigenisation legislation and regaining international community and donor support (by having a credible election outcome and a credible government) are also critical in coming up with a political solution.

In addition to improving governance, achieving 'middle-income' status for the country requires creating an enabling business environment. This entails encouraging wealth creation through investment and property rights.

Once the political solution is stabilised, achieving growth is dependent upon reinstating key drivers of the economy. The paper identifies a number of drivers:

1. *Agriculture*: The industrial sector depends on the health of the agricultural sector.
2. *Mining*: There is a need to focus on production before beneficiation, even though these returns are lower. While production is a result of comparative advantage, beneficiation relies on competitive policy and infrastructural aspects.
3. *Construction*: This sector has potential to create jobs and is critical for infrastructure delivery. A national home ownership drive focussing on affordable finance may increase capacity in construction.
4. *Tourism*: Investor doubts over the security of tenure, and over regulation and costs of access complicate growth in this sector. The revival of the tourism sector should stimulate construction among other domestic services, particularly in less accessible tourist resorts.
5. *Transport and power*: A national infrastructure master plan, which focuses on transport, water and electrification, is needed to address the problem of dilapidated infrastructure.

Increasing efforts in vocational training, gaining global competitiveness, lowering cost to finance, using trade agreements wisely and eliminating corruption are further identified as essential ingredients for growth.

Magure (2012)

'Foreign Investment, Black Economic Empowerment and Militarised Patronage Politics in Zimbabwe'

Purpose and context

This primary focus of this article, published in the *Journal of Contemporary African Studies*, is indigenisation. The paper suggests that the manner in which the process is being implemented is not achieving the desired objective of empowering the previously disadvantaged sections of the Zimbabwean population. The previous economic empowerment efforts are also shown to be relevant to the current phase of economic transformation, which is targeting the financial, mining and manufacturing sectors.

Diagnosis of key constraints/risks

The article suggests that a 'one-size-fits-all' approach to indigenisation of the economy is flawed, as it deters foreign investment. The empowerment policies in Zimbabwe are closely related to patronage politics found in the country. Moreover, the Zanu-PF's indigenisation strategy in the past served to create an unfavourable business environment. The continuous indigenisation debate demonstrates the absence of a clear government policy.

In terms of the agricultural sector, the land programmes reform had an enormous destabilising effect on the country. It lowered the supply of agricultural inputs and reduced the demand for agricultural equipment and farming inputs. There are many farms in Zimbabwe today that lie unproductive. These developments are particularly relevant to the current indigenisation debate. They also draw attention to the link between failing to respect property rights and economic decline. Some argue that indigenisation could once again benefit a few, without creating value to existing wealth.

In 2011, business confidence plummeted due to threats of take-overs of foreign-owned banks. It is argued that Zimbabwe needs economic growth, and that the indigenisation policy must wait until this growth is realised. By implementing the indigenisation process however, such growth may remain difficult to achieve.

In terms of the manufacturing sector, issues like capacity underutilisation pose a challenge to the industry. The manufacturing industry requires FDI, and without it, firms will not be able to recover production costs.

With respect to the mining sector, companies are deliberately closing down, stripping assets and selling machinery, so that they are not included in the indigenisation drive. Mining exploration, commissioning and production also require capital inflows which are not locally available.

A 'one-size-fits-all' approach to indigenisation of the economy is flawed

A contradictory stance by government regarding indigenisation demonstrates a lack of policy clarity. This business risk and political instability are forcing domestic and foreign capital to leave the country. Thus, the 'fast-track' indigenisation programme is likely to have an effect on poverty alleviation efforts and on overall economic health.

Requirements for growth

Government should focus on achieving sustainable economic growth, rather than concentrating on indigenisation. The need is to create a more business friendly environment: The government must strike a balance between indigenisation and attracting foreign investment. A general indigenisation strategy is not appropriate. Even if the indigenisation strategy is pursued, special attention will need to be given to vital sectors in order to avoid deterring critical investment.

Donor focus

The government needs to form strategic partnerships with various stakeholders to ensure productive sectors are revived. Issues like poor infrastructure and antiquated technology could be addressed with more donor support.

International Institute for Science, Technology and Education (2012)

'The Impact of Government Agricultural Expenditure on Economic Growth in Zimbabwe'

Purpose and context

The International Institute for Science, Technology and Education (IISTE) is an independent organisation delivering support and services to education professionals and researchers around world, especially those from the developing countries. This *IISTE* study, which was published in the *Journal of Economics and Sustainable Development*, investigates how government spending on agriculture has affected economic growth. The expenditures of government were divided into three functions, namely extension, credit assistance and research and development.

Diagnosis of key constraints/risks

The agricultural sector is of great importance to Zimbabwe, and strategies focused on agriculture need to be implemented to revive the economy. The declining performance of this sector has resulted in rampant food shortages, associated hikes in food prices and the increase of the import bill.

The result of the study indicates that there was a negative relationship between real GDP and agricultural expenditure on credit. The study also found a negative relationship between economic growth and expenditure on credit assistance. This may be due to the fact that most farmers who receive loans for farming purposes use these funds for other reasons, which in turn affect agricultural output. Another explanation could be that adverse weather caused a decline in agricultural output.

Requirements for growth

A positive relationship was seen between real GDP and government expenditure on research and development. This positive correlation could signify that more investment in agricultural research and development may result in better-informed policy-making, which may have spill-over effects to other sectors, generating broad economic growth. More expenditure on research could also improve research policy, which is user-determined.

Since the relationship between real GDP and expenditure on credit assistance was negative, an improvement on loan management is necessary. Repayment of loans should be enforced so that farmers use their resources productively.

The technical knowledge of farmers needs to be enhanced, and more support on agricultural research and education provided. The Department of Agricultural Research and Extension Services (AREX) needs to be capacitated to ensure they are equipped to deal with challenges faced by farmers. AREX should also be accessible to farmers, encourage training between farmers, and be allowed to keep the income generated.

Policy-makers should also promote irrigation development in climate-vulnerable areas, which will allow farmers to irrigate crops that need a lot of water despite unfavourable weather conditions.

The government should consider factors like efficiency of public spending and the efficiency of service delivery. Farmers can also play a role by being proactive in receiving necessary training on farming techniques. They could also form producer organisations so that they become more linked to markets, which could increase their incentives to produce more output more profitably.

Development Bank of Southern Africa (2011)

'Zimbabwe's Agricultural Reconstruction: Present State, Ongoing Projects and Prospects for Reinvestment'

Purpose and context

The report, which was coordinated by the Development Bank of Southern Africa and the French Development Agency (*Agence Française de Développement*), identifies Zimbabwe's development needs in the economy, particularly in agriculture. The report discusses the economic and agricultural policies, as well as their coordination and functioning, as a basis for dialogue regarding investment in the agricultural sector. The paper suggests that post-crisis reconstruction requires a three-fold development approach, combining macro, policy and governance reforms.

Diagnosis of key constraints/risks

Serious problems include a lack of a relevant and well-defined policy and institutional framework, which is leading to an ineffective development

Figure 3: Proposed potential areas of investment in agriculture

Category	Nature of Investment	Notes
Public	**Policy Reform** • Agricultural and land policy • Inter-linkages with broader economic policies **Institutional and administrative reforms** • Restructuring the Ministry of Agriculture, Mechanisation and Irrigation Development • Restructuring parastatals • Cooperative development **Legal reform** **Property rights** **Research and extension** • Public agricultural research • Pro-poor extension services **Public economic infrastructure** • Electricity and energy (coal, mining, hydroelectricity) • Transport and communications (roads, railways and telecommunications) • Irrigation rehabilitation and development **Post-harvest and market-based infrastructure, linked to value chain development** • Information technology • Information dissemination • Storage grain, warehouse infrastructure, abattoirs • Retail development (agri-dealers) • Output market development **Economic institutional infrastructure and market-based instrument support** • Stop orders • Vouchers • Contract farming and contractual arrangements **Social infrastructure and capacity building** • Agriculture union capacity building • Decentralised management capacity building (irrigation schemes, for example) **Manufacturing and agro-processing capacity development** • Revitalisation and modernisation of machinery in input and processing industry • Adaptation for small-scale initiatives	**Long-term investments**
Private Sector	**Credit and financial services** • Loan guaranty arrangements for agribusinesses, as well as farmer microcredit facilities • Private sector credit facilities • Support for credit to farmers by agribusinesses • Insurance	**Immediate investments**

Source: DBSA, 2011

strategy. This is evidenced by the absence of effective support to agriculture, like research and agricultural extensions, which hinders information sharing and the transfer of technologies to the farming community. Furthermore, poor infrastructure hampers the movement and marketing of agricultural produce.

Additional constraints on productive capacity include: limited access to working capital and agricultural finance; insufficient training in production and crop management; the lack of fuel; sporadic supplies of electricity; and high costs.

Requirements for growth

The agricultural sector should aim to move away from food aid and relief programmes to a developmental, self-sufficient approach. Hence, humanitarian aid should be combined with a development approach, requiring technical assistance and an unconstrained private sector.

Government must create an enabling environment by ensuring that property rights are secured and that land is free from expropriation. The establishment of a stimulating economic environment will also arise by reviving the role of the private sector in agriculture, as well as in upstream and downstream sectors. This should be supported by domestic and foreign investment, and through increased government and donor cooperation. The report also states that while debt relief is a crucial problem, it should be considered once governance and policy issues have been resolved.

> Both government and donors should shift from an assistance-aid approach to a more long-term, demand-driven and developmental strategy

The role of development financial institutions is important in supplementing agricultural sector support, through the provision of customised financial models for farmers and in supporting infrastructure development.

The figure on page 16 shows the proposed areas of agricultural investment, after stakeholder consultations were conducted. It demonstrates the roles of the public and private sectors, the nature of investment, as well as the time frame of these investments, from longer-term investments to immediate investments.

Donor focus

Both government and donors should shift from an assistance-aid approach to a more long-term, demand-driven and developmental strategy. Moreover, there is a lack of coordination between donors due to different political stances towards Zimbabwe and donor visibility.

Chagwiza (2012)

'Rejuvenating the Zimbabwean Economy: The Role of Banks'

Purpose and context

Chagwiza's paper provides an overview of the banking industry, its functions and the role it plays in Zimbabwe. The paper was published is the *Journal of Sustainable Development in Africa*, and underscores how and why banks should stimulate sustainable development in the country.

Diagnosis of key constraints/risks

Some financial intermediaries are not allocating large domestic deposits to productive sectors of the economy though lending. This has led to a number of businesses seeking loans internationally because local banks are unwilling to help them recapitalise.

The reasons banks are reluctant to loan include the preservation of their capital and liquidity ratios. Loans offered are mainly short-term and expensive, which deter businesses from borrowing or force them to opt for rights issues, resulting in lower production capacity. It was found that banks' lending interest rates are high and that the deposit interest rates are very low. The high lending rates preclude firms from borrowing, which affects economic growth.

Banks are also reluctant to finance small to medium enterprises that lack collateral, despite the fact that these firms may be highly innovative. This has affected the agricultural, manufacturing and mining sectors, which are crucial for Zimbabwe's economic growth. For instance, manufacturing companies have a lack of resources to finance operations, which hampers production volumes and prevents expansion and diversification.

Requirements for growth

The study notes that most banks in Zimbabwe do not finance high-risk projects with longer payback periods. It argues that banks should consider adopting a profit-sharing model, either the sharing mode or sale mode. In the first, banking institutions provide financing to companies, expecting a permanent declining or timed share return. The latter refers to a bank purchasing assets and raw materials for a company against future payment, either in a lump sum or in instalments.

Chimucheka (2012)

'Impediments to Youth Entrepreneurship in Rural Areas of Zimbabwe'

Purpose and context

The *African Journal of Business Management* published this article, which aims to identify the benefits of entrepreneurship to Zimbabwe. The article discusses the challenges associated with youth entrepreneurship, based on a survey involving members of the country's rural youth. The paper also suggests possible interventions by the government to overcome these hurdles.

Diagnosis of key constraints/risks

Small and medium enterprises are seen as engines of economic growth in Zimbabwe, and could be established to address issues such as youth unemployment and poverty. However, a number of challenges prevent these goals from being reached.

A lack of capital was stated by respondents as the major impediment to youth entrepreneurship in Zimbabwe. Compounding this problem is the fact that bank finance is not easily accessible in rural areas.

Corruption by local authorities was cited as another factor. This affected the access to resources, especially those provided by the state to promote youth employment. Insufficient and unreliable government support was also identified as an important factor. Respondents stated that government encourages them to participate in indigenisation and economic empowerment, as opposed to promoting entrepreneurship.

Other factors include poor location, lack of demand for products, lack of effective training and high production costs.

Requirements for growth

An evaluation of training centres is needed in order to assess to what degree training centres in Zimbabwe equip the youth with relevant entrepreneurial skills, and to what extent tertiary institutions equip them with these skills.

The government should invest in financial, human, technological and physical resources. Government should also consider including entrepreneurship in the national school curriculum, especially at secondary school. The government should also offer loans to the youth for sustainable projects, monitor the progress of structures that promote entrepreneurship and allow information sharing through providing networking opportunities.

Reinforce the roles of local authorities as partner with government agencies to encourage entrepreneurship in their respective areas.

United Nations (2010)

'Country Analysis Report for Zimbabwe'

Purpose and context

This United Nations publication deals with both the social and economic problems in the country. The report serves to address a number of developmental priorities in Zimbabwe, viewing these problems mainly through a humanitarian lens.

Diagnosis of key constraints/risks

There is the vital problem of a skills deficit and exorbitant unemployment, especially among women and the youth. Due to large work shortages in the labour market, the United Nations suggests that underemployment, rather than unemployment, is the more relevant problem in Zimbabwe. Problems like the increasing diaspora, low productivity, vulnerable and degrading employment, and the mismatch of skills demand and supply in the economy remain.

The country has also been affected by political and social polarisation, which easily translate into violence and compromise the safety of citizens.

This poses a legitimate threat to human rights. Moreover, a lack of resources, as well as mistrust among the public, render law enforcement agencies weak.

Requirements for growth

Both micro- and macro-economic policy approaches are necessary in bringing about improvements in the quality and quantity of work available to Zimbabweans.

Government needs to foster competitive business environments while simultaneously establishing mechanisms to protect the poor and vulnerable. State organs and institutional capacity are also instrumental in bolstering service delivery efforts.

More social dialogue should be encouraged to ensure the protection of human rights and equality.

Donor focus

Zimbabwe has become increasingly dependent on humanitarian aid from foreign donors for the provision of basic social services. Donor support was susceptible to the global economic downturn experienced in 2008 as well as the uncertainty in the country.

Conclusion

This overview of the recent literature on Zimbabwe provides key insights into the state of the economy and drivers of economic development since the introduction of the Unity Government in 2009. While hyperinflation has been brought under control, and GDP growth rates have increased from negative levels, there are still constraints in place.

The literature prioritises the following constraints:

- Political uncertainty
- Fiscal slippage
- Financial sector instability
- Agriculture sector challenges
- Infrastructure constraints
- Unemployment and a lack of skills

The literature prioritises the following interventions:

- Ensuring more policy clarity to create a more friendly business environment
- Ensuring fiscal transparency and accountability to deal with the rising deficit
- Promoting more sustainable banking models that contribute to the development of the economy
- Reinvesting in agriculture to bolster economic growth
- Establishing a robust policy framework for infrastructure development
- Addressing issues such as unemployment, skills deficit and underemployment

Endnotes

1 Genesis Analytics, *Scan of Zimbabwe Economic Recovery Literature*, 2008.

2 The main publications included in the Genesis 2008 report were Adam Smith International (2008); Multi-Donor Trust Fund (2008); Hanke (2008); European Commission (2008), Games (2005); Herbst, Mills and McNamee (2008); Coorey, Clausen, Funke, Munoz (2007); Parsons (2007) UNDP (2008); Moss and Patrick (2006); Hawkins (2008).

3 The Diamond Act is intended to enhance transparency in the diamond sector, and is seen as key in strengthening revenues and reducing fiscal pressures.

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Appendix

Comparison of Key Papers, 2009–2012

Paper	Purpose/context	Thematic focus	Diagnosis of constraints to growth	Requirements for growth	Donor focus
International Monetary Fund (2012)	The IMF country report focuses on the economic risks and outlook facing Zimbabwe	Political uncertainty; fiscal slippage[1]; threat of indigenisation; financial sector instability; global economic downturn	• Political instability is complicating the decision-making process and lowering business confidence • Unaccounted-for diamond revenues and high public wage bills erode social and capital spending • Indigenisation is likely to restrict capital inflows into the economy, and worsen the liquidity crunch • Irresponsible lending practices, poor risk management and undercapitalised banks confront the financial sector • Fluctuations in global demand threaten exports and credit	• Restore fiscal sustainability by: - Fast-tracking Diamond Act - Strengthening revenue base - Improving public financial management - Achieving more balanced expenditure mix[2] • Reduce financial sector vulnerabilities by: - Amending Banking Act - Restructuring the Reserve Bank of Zimbabwe	• Donor support will likely remain limited to humanitarian assistance • Strong macroeconomic policies and a comprehensive arrears clearance framework need donor support • Authorities should seek donor funding for the census, the constitutional referendum, and • General elections to help reduce the risk of fiscal slippages
Business Monitor International (2012)	BMI is a leading, independent provider of data, analysis, ratings, rankings and forecasts. This report discusses the country's economic risks, domestic politics and macroeconomic policies	Policy uncertainty; fiscal slippage; financial sector instability; infrastructure constraints; high unemployment; lack of skills; threat of indigenisation; agricultural sector challenges	• Fragile political government • Unsustainable debt levels • High government spending and poor management of funds • High liquidity constraints • Unemployment hovers at around 80 per cent and there appears to be a lack of opportunities in the formal market • Indigenisation deterring FDI • Decline in commercial agriculture	• Focus on creating an environment of political transparency and accountability • Reinvest in agricultural sector for job generation and food security • Create enabling business environment, with an emphasis on rethinking the indigenisation strategy • Consider positioning Zimbabwe as a low-cost producer	• A major economic reconstruction effort will be required, which is likely to be • Supported by international agencies and donors

Paper	Purpose/context	Thematic focus	Diagnosis of constraints to growth	Requirements for growth	Donor focus
African Development Bank (2011)	This report was written to understand the recent developments in Zimbabwe, so as to advise the bank on potential interventions in the country	Political uncertainty; fiscal slippage	• Zimbabwe is one of the least competitive countries in the world • Poor investment climate, resulting from land reform policy, dilapidated infrastructure and indigenisation • Accounting of diamond revenues, rising public wage bill, external indebtedness	• Improve investment climate • Accelerate structural reforms • Sustain fiscal reforms for economic and pro-poor growth	• Not specified
African Economic Outlook (2012)	The AEO combines the expertise of the AfDB, OECD, UNECA and UNDP. This report focusses on GDP growth, macroeconomic policy and economic and political governance	Policy uncertainty; fiscal slippage; financial sector instability	• Overlapping mandates and policy inconsistencies between government departments • Contestations around key issues such as national elections and security reforms • Fiscal space severely limited and budget weakly linked to priorities • High lending rates and low deposit rates	• Prioritise inclusive long-term growth with a strong socio-economic agenda • Encourage co-operation between banks to stabilise financial sector	• The focus of donor support on humanitarian assistance has largely facilitated recovery of the social sectors
African Development Bank (2011)	This report was compiled for the Zimbabwean government in order to assess the main problems in infrastructure, and provide recommendations to spur private investment in infrastructure	Infrastructure constraints	• Poor quality of infrastructure which has eroded competitiveness • Institutional and regulatory inadequacies result in minimal private investments in infrastructure • The deterioration of infrastructure has spill-over effects to other productive sectors	• Strengthen the policy framework for private investment in infrastructure • Strengthen the legal, regulatory and administrative environment for the provision of infrastructure services • Focus on technical and financial restructuring of SOEs in order to ensure long-term funding for infrastructure projects	• Provided donor confidence is restored, the proposed infrastructure programme would require an allocation of up to 40 per cent of donor funding for infrastructure programmes • The bulk of the donor funds should be allocated to water, power and roads • Donors could also provide assistance to develop domestic capacity
Africa Infrastructure Country Diagnostic (2012)	The report identifies key areas of infrastructure, and discusses the challenges and remedies needed	Infrastructure constraints	• Quality of service has declined • Challenges persist in various infrastructural areas	• Increase support for different areas of infrastructure • Aim to achieve economic and social targets	• Not specified

Paper	Purpose/context	Thematic focus	Diagnosis of constraints to growth	Requirements for growth	Donor focus
Mills (2012)	This report was written by the Brenthurst Foundation and focuses on the industrial decline, and strategies needed to resuscitate the industrial sector	Political uncertainty; industrial sector constraints	• Zimbabwean politics is characterised by a system of elitist control • Wealth creation is reliant on redistributing existing assets through political connections and trading on the margins • Factors such as poor infrastructure, erratic utilities supply, the collapse of the agricultural sector and high costs of borrowing explain the decline in the industrial sector • The textile industry faces a number of constraints, concerning trade requirements, fraud and graft, and failure to properly regulate imports	• 'Getting the politics right' by addressing issues such as indigenisation and by ensuring free and fair elections • Create an enabling environment by encouraging wealth generation through investments, property rights and the rule of law • Reinstate key drivers of the economy, including agriculture, mining, transport and power, construction and tourism, in order to promote growth	• Not specified
Magure (2012)	This journal article describes the current indigenisation strategy, and explains what lessons could be learnt from past indigenisation attempts	Threat of indigenisation; political uncertainty	• 'One-size fits-all' indigenisation is flawed and may further cripple the economy • The indigenisation policy will not promote or retain FDI • Indigenisation could be hijacked by a privileged few, without creating wealth • The policy lacks transparency and could have knock-on effects on the economy	• Focus on economic growth, rather than indigenisation • Create a more business-friendly environment by revisiting indigenisation strategy	• Establishing strategic partnerships with donors and investors is critical in sourcing FDI, needed to revive commerce and industry
International Institute for Science, Technology and Education (2012)	The journal article provides a study regarding the effect of agricultural expenditure on economic growth	Agricultural sector challenges	Rampant food shortages, high prices and increases in agricultural imports	• Invest more in agricultural research and education to set up policy that is user-determined • Provide well-managed credit assistance by improving the management of loans and farming tools • Enhance technical knowledge of farmers • Promote irrigation development in vulnerable areas	• Not Specified

Paper	Purpose/context	Thematic focus	Diagnosis of constraints to growth	Requirements for growth	Donor focus
Development Bank of Southern Africa (2012)	This report focuses on agricultural policy, and discusses the macro, policy and governance reforms needed for growth and development	Agricultural sector challenges	• The lack of a relevant and well-defined policy and institutional framework in the agricultural sector • Deteriorating infrastructure for the marketing and manufacturing of produce • A lack of efficient and effective support to agriculture • Zimbabwean agriculture appears to be in short-term survival strategy mode, rather than having a long-term development strategy	• Adopt a more proactive agricultural production and development plan • Establish a stimulating environment by improving technology and infrastructure and reducing marketing costs in order to ensure private investment • Provide more agricultural research support	• Both government and donors have to shift from an assistance-aid approach to a developmental one • The donor community, along with government, should focus efforts on improving returns on agricultural investment • Lack of coordination between donors due to political stances, donor visibility and assistance approaches
Chagwiza (2012)	This journal article analyses the role played by banks in promoting growth in Zimbabwe	Financial sector instability	• Some financial institutions do not allocate domestic deposits to productive sectors of the economy • Institutions are reluctant to lend to businesses and industries due to liquidity constraints • A lack of capital injections contribute to the ailing economy • Banks are unlikely to finance high-risk projects with long pay back periods • Banks are reluctant to finance SMEs that lack adequate collateral, even if these firms show promise	• Introduce new models of lending, such as profit-sharing models: - *Sharing mode*: banks provide financing to companies with an expected return, and this can be permanent, declining or timed. - *Sale mode*: bank buys assets and raw materials for a company against future payment	• Not Specified
Chimucheka (2012)	This journal article addresses the constraints to youth entrepreneurship and provides associated recommendations	High unemployment; lack of skills	• Deficits in decent work • Lack of youth employment prospects • Presence of many challenges to youth employment	• Evaluate the extent to which training centres equip the youth with entrepreneurial skills • Increase government support in financial, human, physical and technological resources • Encourage local authorities to promote entrepreneurship in respective areas	• Not Specified

Paper	Purpose/context	Thematic focus	Diagnosis of constraints to growth	Requirements for growth	Donor focus
United Nations (2010)	This report was compiled by the United Nations Country Team, and focuses on the social and economic objectives of Zimbabwe	Agricultural sector challenges; high unemployment; lack of skills; human rights concerns	• Lack of productivity and competitiveness in the agricultural sector due to unreliable infrastructure and external factors • Problems of unemployment and skills deficit, especially among the youth and women • Propensity of social and political polarisation, which may lead to violence	• Consider micro and macro policy approaches • Foster competitive business environments • Encourage more social dialogue to deal with social issues	• Main focus on humanitarian assistance to achieve socio-economic imperatives

Appendix Endnotes

1 Fiscal slippage refers to the failure to meet expectation with regard to the handling of the fiscus.
2 Expenditure mix refers to the way in which government expenditure is allocated and used.