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COUNTRY PROFILE 2017

ZIMBABWE

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First printing: May 2018

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Contents

Abbreviations

ASEAN	Association of Southeast Asian Nations
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECA	Economic Commission for Africa
FDI	foreign direct investment
GDP	gross domestic product
IMF	International Monetary Fund
SADC	Southern African Development Community
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
VAT	value added tax
WHO	World Health Organization
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMSTAT	Zimbabwe National Statistics Agency

Acknowledgements

The Country Profiles series is published annually by the Economic Commission for Africa (ECA). The aim of the series is to produce and disseminate country- and region-specific policy analyses and recommendations for economic transformation, with an emphasis on promoting sustainable growth and social development, strengthening regional integration and facilitating development planning and economic governance. The series is the result of the close collaboration of offices and departments within ECA, including its subregional offices and the African Centre for Statistics, with contributions provided by the Macroeconomic Policy Division, the Regional Integration and Trade Division, and the Social Development Policy Division.

The country profile for Zimbabwe was prepared by Oliver Maponga, of the Subregional Office for Southern Africa. The country profile was prepared under the overall coordination and substantive guidance of Deputy Executive Secretary for Knowledge Delivery of the Commission, Giovanie Biha, and the leadership of the Director of the Subregional Office for Southern Africa, Said Adejumobi, with direct supervision from the Chief of the Subregional Data Centre, Sizo Mhlanga.

The country profile benefited from substantive input from national institutions, including; the Zimbabwe National Statistics Agency (ZIMSTAT), the Reserve Bank of Zimbabwe, the Zimbabwe Chamber of Mines and the Ministry of Finance and Economic Development. Valuable contributions and comments were provided by the internal review panel put together by the Operational Quality Section of ECA. The members of the panel were: Robert Lisinge (Strategic Planning and Operational Quality Division), chair of the panel, Adrian Gauci (Social Development Policy Division), Francis Ikome (Macroeconomic Policy Division) and Sheng Zhao (African Centre for Statistics).

We would also like to thank Nomfundo Xenia Ngwenya, a former Chief Director for African Economic Integration at the South African National Treasury and currently group chief strategy officer at an investment firm in South Africa, for her expert critique and review of the profile.

A special mention goes to the Publications Section for the editing, translation, design and printing of the 2017 Country Profiles series.

Zimbabwe at a glance

General information	
Subregion	Southern Africa
Official language	English
Currency	United States dollar
Capital	Harare
Membership of regional economic communities	COMESA, SADC

Ranking	Position	Out of a total of	Year	Source
Human Development Index	154	188	2015	UN
Gender inequality index	154	188	2015	UN
Ibrahim Index of African Governance	39	54	2015	Mo Ibrahim Foundation
Ease of doing business index	159	190	2016	World Bank
Corruption perceptions index	154	176	2016	Transparency International

Economic growth

In 2017, the economy is projected to register a positive growth in real gross domestic product (GDP) terms of 3.7 per cent, rising from the 0.7 per cent growth registered in 2016, thanks to strong performance in the agriculture and mining sectors, which are expected to grow by 15.9 per cent and 7.5 per cent, respectively. The favourable rains in the 2016/17 season and the support from Government and the private sector buttressed growth in agriculture. The manufacturing sector, which between 2016 and the second quarter of 2017 experienced an increase in capacity use of about 70 per cent, is expected to continue this upward trend buoyed by import substitution interventions, including the introduction of Statutory Instrument 64 in 2016 restricting imports of certain commodities.

Fiscal policy

The expenditure overruns registered in 2016 of $902.2 million over the planned expenditures of $4 billion contributed to the growing deficit and debt. The budget deficit as a percentage of GDP rose from 1.2 per cent in 2014 to 8.7 per cent in 2016 but is expected to decline marginally to 8.4 per cent in 2017. However, the fiscal containment measures introduced in 2017 are expected to avert any further deterioration of the deficit in 2018. On account of these measures, the deficit target has been reduced to 4.0 per cent in 2018 and the budget is expected to balance by 2020. The country's debt to GDP ratio, which still exceeds the Southern African Development Community (SADC) threshold of 60 per cent, increased from 53 per cent in 2014 to 70 per cent in 2016 and is expected to increase further to 78 per cent by the end of 2017 under the pressure of government borrowing from the domestic market.

Inflation and Monetary policy

The inflation rate in Zimbabwe remained far below and outside the SADC macroeconomic convergence threshold of 3–7 per cent and stood at -0.9 per cent in 2016, having fallen to -3.4 per cent in September 2015, after which it rose again. While food inflation has remained lower than the annual inflation rate, non-food inflation has driven the upward trend in the annual inflation rate. The rate remained subdued in 2016 owing to low disposable incomes, low liquidity, the positive supply impact of the good agriculture season and the combination of the weakness of regional currencies against the United States dollar and low international prices, which together exerted further downward pressure on prices in Zimbabwe. The inflation rate has crept up into positive figures in 2017 and is projected to measure 0.7 per cent by the year end before rising further to 2.6 per cent by 2018.

Current account

The current account deficit narrowed to $552 million in 2016 from $1.5 billion in 2015 but is projected to increase to $651.1 million in 2017 before falling to $492.5 million by 2018. The narrowing current account deficit is due to the decline in imports as a result of measures introduced by the Government in 2015 to stimulate domestic production and to encourage value addition and beneficiation. These measures have increased the supply of domestically produced goods in some sectors and thus increased exports.

Capital and financial account

The capital account balance declined from $398.4 million in 2015 to $242.3 million in 2016, mainly a reflection of the country's inability to secure assistance from international financial development sources. Net foreign direct investment (FDI) in Zimbabwe remains modest and dropped from $471 million in 2014 to $286 million in 2016, after rising in 2015 to $591 million. Outflows of FDI remain relatively low and inflows have continued to decline since 2014 because of the unappealing investment environment in Zimbabwe characterized by liquidity challenges, low disposable incomes and perceived political risk.

Demography

The population of Zimbabwe is fairly young, with 61.1 per cent of its people under the age of 24, of whom 15.6 per cent are below 5 years of age and 45.5 per cent aged between 5 and 24. The population comprises 48 per cent males and 52 per cent females. The 2014 labour force and child labour survey showed that 68 per cent (35 per cent female and 33 per cent male) of the population resided in rural areas. Women outnumbered men in both urban and rural areas and they constituted 51 per cent of the rural population and 53 per cent of the urban population. Life expectancy in Zimbabwe was 60.6 in 2012, with females having a higher expectancy, with 64 years, than males, with 57.4 years.

Poverty and unemployment

The Zimbabwe Poverty Atlas (2015) shows that the incidence of poverty was higher in rural than urban areas and also shows that the levels of inequality in the country vary across districts and wards. According to the Poverty Atlas, in 2011/12, 72.3 per cent of all Zimbabweans were considered poor, while 62.6 per cent of households were deemed poor and 22.5 per cent of the population were living in extreme poverty. Income inequality as measured by the Gini coefficient was 0.42 in 2011/12, an improvement from 0.49 in 2001. An estimated 11.3 per cent of the Zimbabwean population aged above 15 was unemployed in 2014, dropping from an unemployment high of 21.8 per cent in 1992. The overall unemployment rate for young people aged 15–34 was 15.3 per cent, while that for young women was much higher, at 20.3 per cent, than that for young men, at 9.8 per cent.

Education

The overall literacy level in Zimbabwe was 98 per cent in 2014, a slight rise from 97 per cent in 2011. The literacy rates for young people (15–34 years) was above 99 per cent for both sexes, and close to 99 per cent for the 35–39 age group. For those aged 75 years and above, however, literacy levels were around 85 per cent for both sexes. The higher literacy levels among the young generation may be attributed to post-independence education policies emphasizing education for all and opening up of training opportunities for all citizens. Women were more likely to have completed lower levels of education than men and a higher proportion of men than women attained lower secondary, upper secondary and tertiary education. In terms of primary school enrolment, in 2014, 50.5 per cent of the enrolled children were boys and 49.5 per cent girls. The gender parity index for the national attendance ratio and the gross attendance ratio showed equality at both primary and secondary school levels.

Health

The budget allocation in Zimbabwe to the health sector remains below the Abuja target of 15 per cent and, over the last five years, has averaged 8 per cent of the national budget. HIV prevalence and infection rates remain high in Zimbabwe, although these have declined since the 1990s under the influence of a number of factors, including a change in sexual behaviour following education campaigns by all stakeholders. The adult HIV prevalence rate declined from 20.1 per cent in 2005 to 15 per cent in 2010 and dropped further to 13.5 per cent in 2016. Infection rates are higher among females, however, at 18 per cent compared to males at 12 per cent, because of such factors as early sexual activity by females, including early marriage, and also gender-based sexual violence. The prevalence rate is highest for males in the 45–59 age group at 29.9 per cent and highest for females at 29.1 per cent in the 35–39 age group. An estimated 1.3 million people are living with HIV in Zimbabwe.

Gender

There is no difference between the sexes in the country's under-5 survival rate and youth literacy rate. Where the proportion of under-fives who are not stunted and their life expectancy at birth are concerned, females score better than males. There is, however, a significant gender disparity in favour of males in political representation. According to data from the Women and Men Report 2016, 86 women are members of parliament, compared to 184 men. In the Zimbabwe Cabinet, of the 26 ministers, only 4 are women. Latest information from the Parliament of Zimbabwe shows that, in 2017, there were 88 female members of parliament compared with 180 males. At senatorial level there were 36 female senators as against 43 males. In access to credit, labour force participation, HIV prevalence and access to land, Zimbabwe has a gender parity score of 9.

Human exclusion

The unstable economic environment in Zimbabwe in recent years, characterized by high unemployment, has resulted in increasing levels of human exclusion in the country. The country's score on the index for human exclusion rose from 2.20 to 2.41 over the period 2000–2012, a period which coincided with the country's toughest times during its economic meltdown, 2007–2009. Human exclusion disaggregated by gender shows no significant reduction in the gender gap during that period, however, with men being comparatively more affected than women. Furthermore, exclusion in urban areas in Zimbabwe is increasing faster than in rural areas, and the pattern remains consistent over time. Human exclusion in Zimbabwe is driven by high levels of poverty, itself a direct result of unemployment, and the high poverty levels are often associated with high rates of neonatal mortality and child stunting.

1

Introduction

The Zimbabwe Government is currently consulting stakeholders on a new national development blue print, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET II), for the period 2019–2020, to replace ZIMASSET I, for 2013–2018, which ends in December 2018. The new economic blue print will be anchored on the same four pillars as ZIMASSET I: food security and nutrition; social services and poverty eradication; infrastructure and utilities; and value addition and beneficiation. The focus of ZIMASSET II will be on investment, research and science and technology innovation systems which are key to enhancing productivity, efficiency, competitiveness, industrialization and transformation. ZIMASSET II will be aligned with the 2030 Agenda for Sustainable Development and Agenda 2063.

The country's economic growth rate has been on a gradual decline since the peak of 2011, when real GDP growth was recorded at 11.9 per cent. The growth rate declined to 0.7 per cent in 2016, down from the 1.4 per cent registered in 2015, under the strain of relatively low commodity prices and the El Niño-induced drought, which adversely affected the country's predominantly rain-fed agriculture sector (Reserve Bank, 2017e).

The economy is projected, however, to register a positive growth of 3.7 per cent in 2017, underpinned by strong performance in the agriculture and mining sectors, and the planned investments in power, irrigation, rail and road transport and housing infrastructure. The economy is also responding positively to recent Government interventions to increase domestic production, competitiveness and exports. As a result, in late 2016 some companies in the food processing and packaging subsectors were operating at above 70 per cent of capacity and exports rose by 14 per cent in 2016, following the introduction of targeted export incentives by the Government (Ministry of Finance, 2017a).

The economy is slowly emerging from deflation with a positive inflation rate expected in 2017. The negative inflation rate of -0.93 per cent recorded in 2016 is still well below the SADC regional convergence rate of 3–7 per cent. Low disposable incomes, low liquidity and the positive supply impact of the good agriculture season, combined with the weakness of the regional currencies against the United States dollar and, hence, the diminished impact of low international prices on the local economy, all contributed to the country's low inflation rate.

The overall literacy level in Zimbabwe in 2014 was 98 per cent. The literacy rate for the 15–39 age group was slightly higher, at 99 per cent for both sexes (Zimbabwe National Statistics Agency, 2016b). On health, the country has made progress by reducing the adult HIV prevalence rate from 20.1 per cent in 2005 to 15 per cent in 2010 and then 14 per cent in 2016. Infection among females is higher than that among males, however, at 18 per cent compared to 12 per cent, because of early marriage and gender-based sexual violence. There is no difference between the sexes in the country's under-5 survival rate and youth literacy rate. Where the proportion of under-fives who are not stunted and their life expectancy at birth are concerned, females score better than males. The high levels of unemployment and poverty have contributed to rising levels of human exclusion. The country's score on the human exclusion index rose from 2.20 to 2.41 over the period from 2000 to 2012 and exclusion in urban areas in Zimbabwe is increasing faster than in rural areas because of the higher levels of unemployment in the latter.

To stimulate exports and enhance the domestic and international competitiveness of locally produced goods, the Government has introduced an export incentive scheme, while at the same time curtailing the import of foreign goods through Statutory Instrument 64 of 2016. The introduction of the local bond notes, which had been expected to ease the country's cash shortage, has been less successful than expected and cash shortages persist. Furthermore, the country is facing an acute shortage of foreign currency to support import-dependent sectors, including manufacturing.

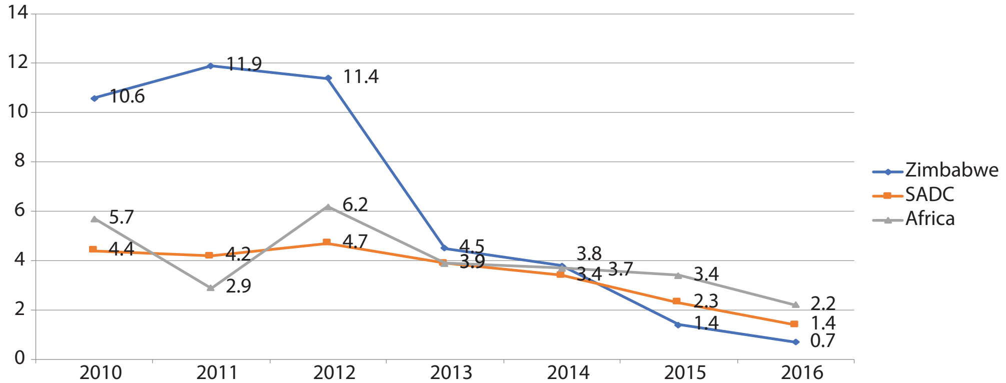
2

National and subregional context

The economy registered only modest growth in 2016 due to slightly lower than expected commodity prices and slow global growth. Although the commodity prices were lower than those registered in 2015, noticeable rebounds in prices were registered for base metals, gold and platinum group metals. While the sectors of mining, finance and insurance, and construction contributed positively to growth in 2016, overall growth was weighed down by declines in agricultural output and hydroelectricity generation due to the drought. The economy is projected to register a positive growth in real GDP of 3.7 per cent in 2017, however, thanks to strong performance in the agriculture and mining sectors, which are expected to grow by 15.9 and 7.5 per cent respectively (Ministry of Finance, 2017a). The better than usual rains in the 2016/17 season, the support provided by the Government through the Command Agriculture Programme and the Presidential Input Scheme and by the private sector through contract farming will further buttress the positive contribution of the agriculture sector to national economic growth (Reserve Bank, 2017d).

The country's real GDP growth rate has continued to decline from the boom of 2011, when the economy grew by 11.9 per cent on the back of high commodity prices (figure 1). Since 2014, the real GDP growth rate in Zimbabwe has dipped below both the SADC

Figure 1: Real annual GDP growth, 2013–2016



Source: DGE, 2017; BEAC, 2017; IMF, 2017*

2016: estimated (e); 2017: forecast (f).

and Africa average growth rates and low mineral prices and poor agricultural yields have continued to weigh down overall growth.

Zimbabwe is a member of the 16-member Southern African Development Community (SADC)[1], the 19-member Common Market for Eastern and Southern Africa (COMESA)[2] and the COMESA, SADC and East African Community (EAC) Tripartite Free Trade Area. Table 1 shows the relative position of Zimbabwe within COMESA and SADC in respect of selected economic indicators. With a real GDP growth rate of 0.7 per cent in 2016, Zimbabwe ranked seventh in the SADC region, where the United Republic of Tanzania was the fastest growing country with a 7 per cent growth rate. The country's share of regional GDP in SADC rose to 2.8 per cent in 2016 from 2 per cent in 2012. Its share of regional GDP in COMESA declined, however, from 2.1 per cent in 2012 to 1.82 per cent in 2016. Zimbabwe is highly indebted and, in 2016, had the largest debt-to-GDP ratio at 63.4 per cent, compared to a SADC regional average of 41 per cent. At $1,168, GDP per capita in Zimbabwe in 2016 was lower than both the SADC and COMESA averages, at $1,834 and $1,814 respectively.

Table 1: Zimbabwe in SADC and COMESA (2011–2016)

	2011	2012	2013	2014	2015	2016
Zimbabwe GDP (US$ billion)	12.07	14.06	15.22	15.83	16.07	16.62
SADC GDP (US$ billion)	702.73	711.65	703.99	706.97	630.13	599.89
COMESA GDP (US$ billion)	616.15	678.49	715.92	759.80	829.80	909.86
Zimbabwe share of SADC GDP (%)	2	2	2.2	2.2	2.5	2.8
Zimbabwe share of COMESA GDP (%)	1.95	2.1	2.1	2.1	1.93	1.82
Zimbabwe per capita GDP (US$)	947	1076	1139	1160	1153	1168
SADC average (US$)	2441	2441	2322	2267	1976	1834
COMESA average (US$)	1315.6	1428.6	1446.9	1561.5	1642.7	1813.7
Zimbabwe annual real GDP growth rate (%)	11.9	11.4	4.5	3.8	1.4	0.7
SADC average (%)	4.2	4.7	3.9	3.4	2.3	1.4
Zimbabwe imports of goods and services as % of GDP	71.2	53.2	50.6	47.1	44.6	44.6
SADC average	36.1	36.8	38.4	37.7	35.6	32.2
Zimbabwe debt-to-GDP ratio (%)	61.2	53.3	58.7	68.4	66.5	63.4
SADC average (%)	25.6	29.7	30.7	34.1	35.6	41

Source: SADC (2017); Ministry of Finance (2017b); Reserve Bank (2017d).

1 The other SADC member States are: Angola, Botswana, Comoros, the Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania and Zambia. The Comoros is not included in the data on SADC.
2 The other member States of COMESA are: Burundi, the Comoros, Djibouti, Egypt, Ethiopia, Eritrea, Kenya, Libya, Malawi, Mauritius, Rwanda, Swaziland, the United Republic of Tanzania, the Sudan, Tunisia, Uganda and Zambia.

Box 1 summarizes the performance of Zimbabwe in the various dimensions of the Africa Regional Integration Index and demonstrates that, overall, the country ranked seventh in COMESA with a score of 0.45 and sixth in SADC with a score of 0.49. Kenya (COMESA) and South Africa (SADC) were the best performing countries in those regions, with scores of 0.57 and 0.74 respectively. The best performing country scores 1 on the index and the worst scores zero. The country performs particularly well in terms of productive integration in SADC and moderately in both infrastructure and financial integration in both SADC and COMESA. Zimbabwe could, however, improve its ranking considerably on the index by upgrading its infrastructure and increasing its productive capacity with the aim of diversifying and boosting trade with its regional partners in COMESA.

Box 1: Africa Regional Integration Index: Zimbabwe

The Africa regional integration index is designed to measure the extent to which each country in Africa is meeting its commitments under the various pan-African integration frameworks, such as Agenda 2063 and the Abuja Treaty. The index, which is a joint project of the African Development Bank, the African Union Commission and ECA, covers the following dimensions: free movement of people, trade integration, productive integration (development of regional value chains), regional infrastructure, and financial integration and macroeconomic policy convergence. The following section analyses the five dimensions and their respective indicators. A technical description of the indicators is found at https://www.integrate-africa.org/.

Overall rank: Zimbabwe is seventh in COMESA (score 0.45). The best performing country in COMESA is Kenya (score 0.57). Zimbabwe is sixth in SADC (score 0.49). The best performing country in SADC is South Africa (score 0.74).

Free movement of people:	**Trade integration**	**Productive integration**	**Infrastructure**	**Financial and macroeconomic integration**
Sixth in COMESA, (score 0.40). The best performer in COMESA is Seychelles (score 0.70). Fifth in SADC, (score 0.66). Seychelles and Swaziland are the best performers (joint-first with a score of 0.70) in SADC.	Seventh in COMESA (score 0.65). The best performer in COMESA is Zambia (score 1). Fifteenth in SADC (score 0.08). The best performer in SADC is South Africa (score 1).	Fifteenth in COMESA (score 0.36). The best performing country in COMESA is Egypt (score 0.76). Zimbabwe is the best performing country in SADC (score 0.74).	Ninth in COMESA, (score 0.47). The best performer in COMESA is Seychelles (score 0.71). Eighth in SADC (0.46). The best performer in SADC is Botswana (score 0.82).	Ninth in COMESA (score 0.40). The best performer in COMESA is Seychelles (score 0.50). Fifth in SADC, (score 0.50). The best performer in SADC is South Africa (score 0.92).

Source: https://www.integrate-africa.org.

Free movement of persons: Zimbabwe scores moderately in both COMESA (ranked sixth) and SADC (ranked fifth). The country has ratified the SADC treaty on the free movement of persons and is yet to ratify that of COMESA. Zimbabwe allows two thirds of other countries in COMESA and more than three quarters of other SADC member States to enter visa-free or with a visa on arrival.

Trade integration: Zimbabwe performs moderately in COMESA (ranked seventh) and is the worst performer in SADC. Based on data used in the calculation of the Index, the country has a high average applied tariff of nearly 24 per cent on imports from SADC; however, it has an average applied tariff of just 0.1 per cent on imports from COMESA. This partly explains why the country has performed better within COMESA than within SADC on this dimension of the Index. In terms of regional trade, over the period 2010–2013, the country's trade flows as a share of regional trade measured only about 6 per cent and 5 per cent respectively for SADC and COMESA.

Productive integration: Zimbabwe seems to be integrated in regional value chains within SADC (ranked first) than within COMESA (ranked fifteenth). Over the period 2010–2013, the country's imports of intermediate goods from SADC were about twice the volume of equivalent imports from COMESA. With regard to the regional exports of intermediate products, the ratio was 5:1 for SADC vis-à-vis COMESA. This ratio notwithstanding, the trade complementarity of Zimbabwe vis-à-vis its regional partners is still low. The UNCTAD merchandise trade complementarity index for the country is about 0.18 (over a range from zero to one) for the two regional economic communities. This indicates that the country's potential to integrate regional value chains is far from fully exploited.

Infrastructure integration: Zimbabwe is an average performer in both COMESA (ranked ninth) and SADC (ranked eighth). On the infrastructure development index of the African Development Bank, Zimbabwe scored around 24 (on a range of 0 to 100) which makes it a relatively moderate performer in the regional economic communities. This performance is however well below that of regional top performers such as South Africa, Mauritius and Seychelles.

Financial integration and macroeconomic policy convergence: Zimbabwe is a moderate performer in both SADC and COMESA. The dollarization of the economy has helped to keep the inflation rate relatively low compared to the average rates in both COMESA and SADC.

3

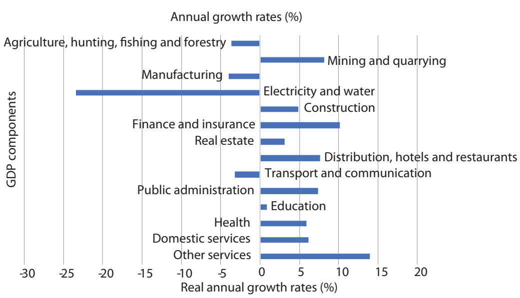
Economic performance

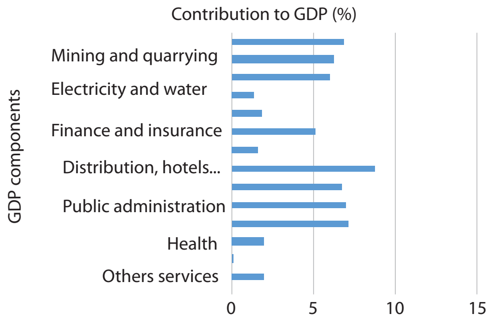
3.1 Economic growth

The Zimbabwean economy registered a modest 0.7 per cent growth rate in 2016, lower than the 1.4 per cent growth rate registered in 2015, and has continued on a downward trend since the high point of 2011 (Ministry of Finance, 2017b). Weakening commodity prices have been the major contributor to the lower growth. Although noticeable rebounds in commodity prices were registered in 2016 for base metals, gold and platinum group metals, their positive impact on growth was undermined by a weak and underperforming agriculture sector, primarily attributable to the adverse effects of the El Niño-induced drought which directly reduced agricultural output and electricity generation (Ministry of Finance, 2017a).

The largest contributors to GDP were: distribution, hotels and restaurants, education, and public administration. At the same time, however, the natural resources sectors of agriculture, hunting, fisheries, mining and quarrying alone accounted for 18 per cent of real GDP in 2016 (figure 2), a marginal increase on their contribution of 17.9 per cent in 2015. Agriculture, hunting and fishing alone accounted for 9.4 per cent of real GDP in 2016 and mining and quarrying for 8.6 per cent (Zimbabwe National Statistics Agency, 2016e). The manufacturing sector's contribution to real GDP declined from 8.8 per cent in 2015 to 8.3 per cent in 2016 under the effect of structural constraints faced in the sector,

Figure 2: GDP component share and growth, 2016





Source: Zimbabwe National Statistics Agency (2016e).

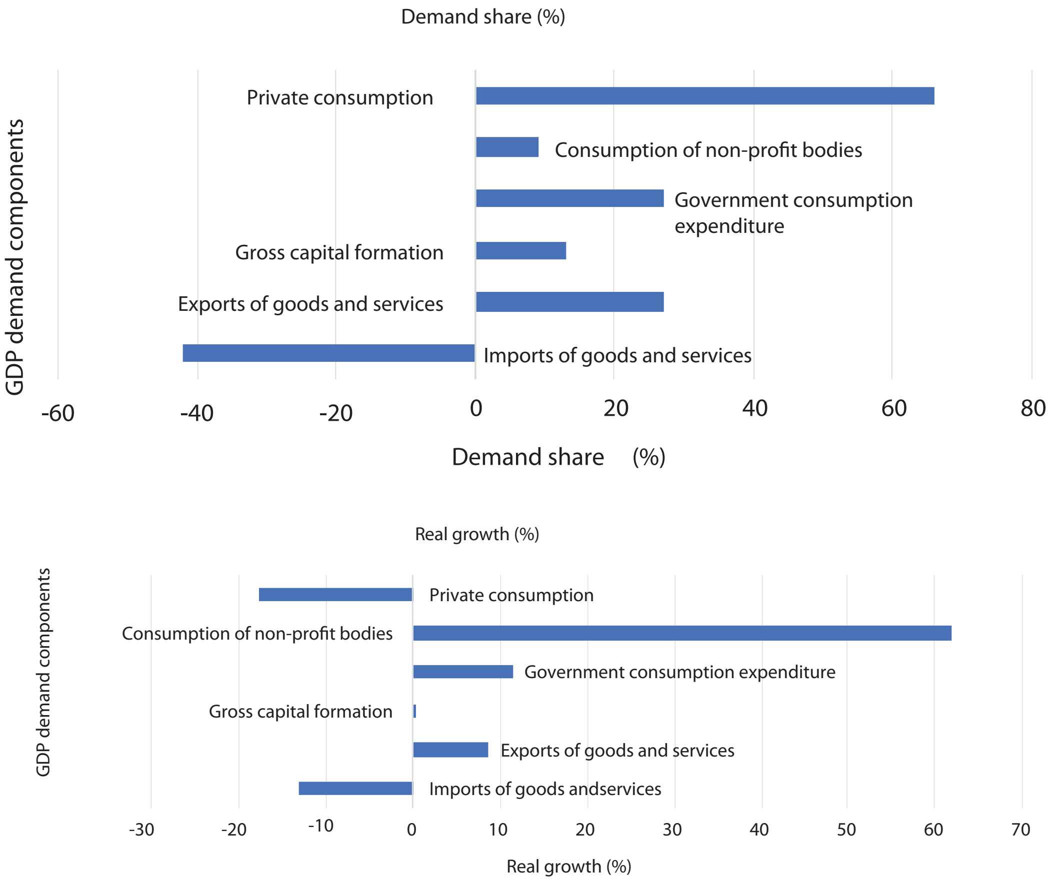
such as antiquated equipment, limited access to capital for expansion and upgrading due to the economic sanctions imposed on the country, low aggregate demand, low liquidity, high costs of utilities, low investment, and competition from imported goods. As a consequence of these structural constraints, capacity use in the manufacturing sector remained low and was estimated at only 47.4 per cent in 2016, a slight improvement over the 34.3 per cent recorded in 2015 (Ministry of Finance, 2017b). The shrinking manufacturing sector has given rise to higher unemployment and a consequent growth of the informal sector.

The manufacturing sector declined by 4.0 per cent in 2016 (figure 2) from a growth of 0.2 per cent in 2015, owing to contraction in the subsectors of furniture, chemicals, drinks and tobacco. Growth in such sectors, however, as clothing and footwear, non-metallic mineral products, foodstuffs and transport and equipment partially offset the impact of the contracting sectors (Reserve Bank, 2017d). The promotion of value addition in the extractive sectors and the introduction of Statutory Instrument 64 of 2016 to curb imports, the provision of export incentives and other measures to enhance the ease of doing business gave impetus to the revival of some subsectors in manufacturing sector and, consequently, the country's capacity use increased in late 2016 and early 2017 (Ministry of Finance, 2017b). Subsectors such as milling and baking; food, fruit and vegetable processing; iron and steel making; battery manufacturing; packaging; pharmaceuticals; and furniture manufacturing, also benefited from import controls and this spurred growth in local production, employment and other associated domestic linkages. Consequently, the country's score on the volume of manufacturing index increased from 89.8 in 2014 to 90.3 in 2016 (Ministry of Finance, 2017a; Reserve Bank of Zimbabwe, 2017d). That said, however, growth in the sector is projected to stagnate at 0.3 per cent in 2017 because of structural challenges related to competitiveness on the exports market (Ministry of Finance, 2017b). Nevertheless, the planned implementation of special economic zone projects will provide further opportunities to revive industry through the new productive investment.

The mining sector grew by an estimated 8.2 per cent in 2016, up from 0.4 per cent in 2015 (figure 2), spurred by firmer mineral prices during the year. The production of gold and platinum group metals increased by 15.8 per cent and 20.3 per cent respectively between 2015 and 2016 (Reserve Bank, 2017d; Ministry of Finance, 2017b). The higher output in platinum group metals was due to increased mining and milling activities at Zimplats, together with increased production by other producers (Reserve Bank, 2017d). Furthermore, the improved deliveries of gold by artisanal and small scale miners accounted for the recorded gold output increase in 2016. In addition, the recapitalization of Hwange Colliery Company, the review of mineral royalties and the lifting of the ban on chrome exports are all expected to contribute to an expected 7.5 per cent growth in the sector in 2017. The revival of the world economy and the resultant firming of commodity prices is expected to add further impetus to more investment in the minerals sector, with a view to taking advantage of the country's abundant resources (Reserve Bank, 2017d; Ministry of Finance, 2017b). Despite optimism about the sectoral prospects in 2017, leakages in the gold and diamond sectors need to be tackled to capture the full development potential of the sector. To make the investment climate still more attractive, in early 2017 the Zimbabwean Government reviewed indigenization laws, adjusted royalty rates for the platinum sector and reduced ground rentals for specific minerals. In the medium-to-long-term, these initiatives could result in increased investment in all sectors. Value addition in the agriculture and mining sectors remains imperative, however, for enhancing the export of diversified finished products and for deepening structural transformation.

There was a marginal improvement in the agriculture sector, from a decline of 5.2 per cent in 2015 to a decline of 3.6 per cent in 2016. The El Niño-induced drought in the 2015/16 season saw a reduction both in maize, cotton and groundnuts output and in output from the livestock

Figure 3: **Demand shares and growth, 2016**



Source: Zimbabwe National Statistics Agency (2016e).

sector (Ministry of Finance, 2017b). In 2017, however, the agriculture sector was boosted through the government-supported Command Agriculture programme and the Presidential Input Support Scheme, which targeted vulnerable households, and also by the private sector through contract farming support. The favourable rains in the 2016/17 season contributed to higher yields and about 2.2 million tons of maize were delivered. The sector is expected to grow by 15.9 per cent in 2017 (Ministry of Finance, 2017b). The growth of agricultural value chains anchored on a booming sector will contribute to structural transformation through value-added exports and linkages.

The electricity and water sector contracted the most in 2016, as a consequence of the El Niño effect, which reduced water levels and hence had a negative impact on hydroelectric power generation. As a result, the sector contracted by 23.4 per cent in 2016, up from a contraction of only 5 per cent in 2015 (Zimbabwe National Statistics Agency, 2016e).

The construction sector and the finance and banking sector both expanded in 2016. Growth in the construction sector measured 4.9 per cent in 2016, up from 4.0 per cent in 2015. For its part, the finance and banking sector registered the highest growth rate of all sectors in 2016, rising to 10.2 per cent from a growth of 5.5 per cent in 2015 thanks to increases in both interest and non-interest income. Huge lending by the banks to the Government in 2016 increased bank interest income on the maturity of treasury bills.

As shown in figure 3, private consumption constituted the largest share of demand in 2016, with consumption by non-profit bodies accounting for the smallest share and fixed capital formation the second smallest. The low investment in capital formation is a concern as public investment projects which are key for growth, such as irrigation, power and roads, are not receiving finance and this undermines future growth prospects. Private consumption (in real terms) declined by 17.7 per cent in 2016 from a growth of 7.6 per cent in 2015, whereas consumption by non-profitmaking organisations grew by over 60 per cent. This growth could be due to the rising levels of economic vulnerability which necessitate the intervention of non-profit-making organizations. In 2016, export demand grew by 8.8 per cent in 2016, while import demand declined by 13 per cent. The decline in imports is due to deliberate government measures to reduce imports so as to create space for locally produced goods. Gross fixed capital formation grew marginally, by 0.5 per cent, in 2016 from a growth of 5.6 per cent in 2015.

3.2 Fiscal policy

Total revenues and grants amounted to \$3.50 billion in 2016, down from \$3.74 billion in 2015, while total expenditure (table 2) and net lending rose to \$4.92 billion in 2016 from \$3.86 billion in 2015, resulting in a deficit of \$1.42 billion (Reserve Bank, 2017d). The budget deficit rose from \$123 million in 2015 to \$1.42 billion in 2016, an increase of \$1.298 billion. The increased expenditure was on account of the high grain imports following the drought of the 2015/16 season. The large deficit necessitated borrowing from the domestic market, principally the Reserve Bank, to finance the grain imports. The large government wage bill, which accounted for 66 per cent of expenditure in 2016, combined with the poor performance of State-owned enterprises continue to strain government finances (Ministry of Finance, 2017a; 2017b). The failure to contain the deficit and borrowing is having serious economic and financial implications, in particular while there is so little support for efforts to stimulate production.

Tax revenues accounted for \$3.24 billion (92.4 per cent) of total revenues in 2016 and non-tax revenue contributed \$265 million to the country's total revenue (Ministry of Finance, 2017a).

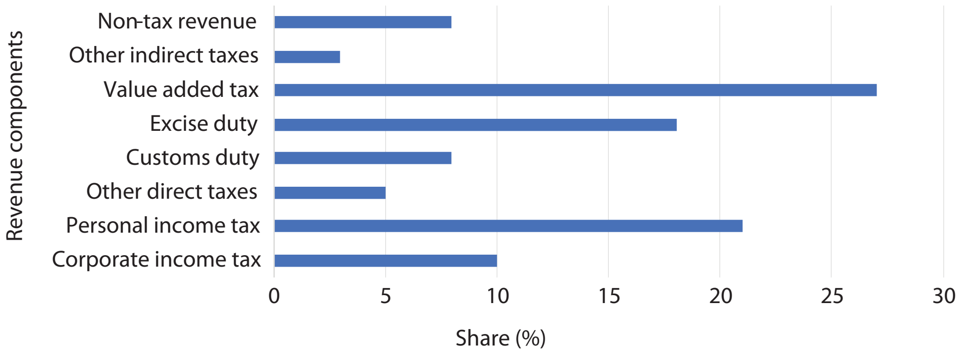
The principal sources of income for the Government in 2016 were value added tax (27 per cent), excise duty (18 per cent) and personal income tax (21 per cent), which together accounted for 66 per cent of total income (figure 4). In 2016, value added tax contributed \$963.2 million to total revenue, excise duty \$641.9 million and personal income tax \$735.8 million. Total government revenue is expected to rebound in 2017 to a projected \$3.7 billion thanks to measures such as minimizing profit shifting by corporates (curtailing illicit financial flows), mitigation of tax fraud by agents through the enforcement of a regulatory regime and formalization of small and medium-sized enterprises (Ministry of Finance, 2017a).

Table 2: Zimbabwe fiscal accounts, millions of US\$, 2013–2016

Item	2013	2014	2015	2016
Total revenue and grants	3 741	3 770	3 737	3 502
Total expenditure and net lending	4 027	3 912	3 860	4 923
Deficit	-286	-142	-123	-1 421
Financing	322	249	104	1 436
Foreign	6	-147	188	-69
Domestic	270	208	173	1 258
Fiscal balance, on a commitment basis, excluding grants (deficit)	5.5	(7.9)	(19.1)	(11.8)

Source: Reserve Bank (2017d).

Figure 4: Sources of income, Zimbabwe, 2016



Source: Zimbabwe National Statistics Agency (2016e).

In the face of rising deficit and borrowing, together with the low investment in productive activities, the Government's fiscal policy is focused on rationalizing expenditure by reducing outlays on consumption, in particular the wage bill, and also by curtailing support for non-performing State-owned enterprises and reorienting expenditure towards capital and social programmes. Furthermore, measures have been introduced to boost the collection of tax revenues (Ministry of Finance, 2017a).

The rising levels of total external debt continue to constrain fiscal space. The country's total external debt ballooned from $7.498 billion in 2012 to $11.3 billion in 2016, of which public and publicly guaranteed external debt totalled $7.3 billion and domestic debt the remaining $4 billion. Bilateral[3] creditors were owed $4.2 billion or 57.5 per cent of the total public and publicly guaranteed external debt in 2016 and multilateral organizations were owed $2.5 billion (Ministry of Finance, 2017a). The debt-to-GDP ratio in Zimbabwe remains way above the SADC convergence levels.

3.3 Inflation and monetary policy

The deflationary environment persisted in 2016 and the annual headline inflation for the year measured -0.93 per cent, compared with -2.4 per cent in 2015, as shown in figure 5 (Reserve Bank, 2017d). Increases in both food and non-food inflation accounted for the higher rate in 2016. Furthermore, the firming of the South African rand[4] against the United States dollar, along with the increases in international oil prices exerted upward pressure on the annual headline inflation rate (Zimbabwe National Statistics Agency, 2016e). Nevertheless, the

3 Of these, members of the Paris Club accounted for $3.1 billion and non-members the remaining $1.7 billion (Ministry of Finance, Annual Budget Review for 2016, 2017a).

4 South Africa is the largest trading partner of Zimbabwe (in terms of both imports and exports) and in 2016 accounted for 38.4 per cent of total imports and 79.5 per cent of total exports. In 2016 the trade deficit with South Africa was $3.2 billion and this deficit continues to grow despite measures to restrict imports and also to promote exports (Reserve Bank, 2016d).

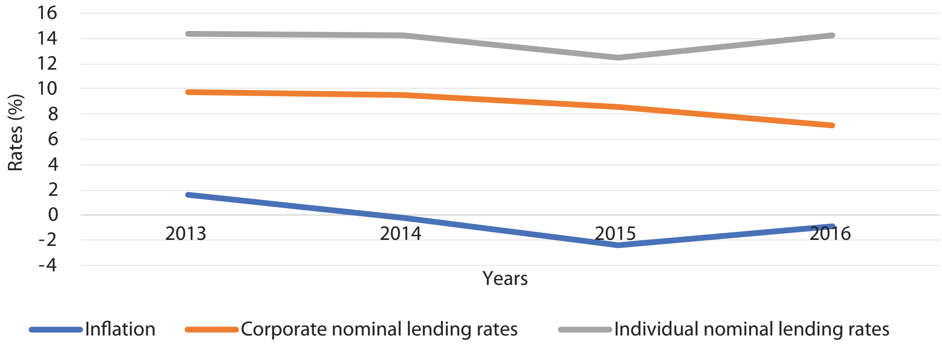
inflation rate remained outside the SADC convergence rate of 3–7 per cent, at a level below that range.

The economy has moved out of deflation and in the first half of 2017 and an inflation rate of 0.2 per cent was recorded. This rate crept up to 0.78 per cent in September 2017 before rising further to 2.64 per cent in the following month after a spate of price increases precipitated by fears of shortages of commodities and the widening informal exchange rate between the United States dollar and the local bond note and shortages of foreign currency. Despite the increase in the use of plastic money and electronic transfers to make payments, the limited availability of both the dollar and the local bond notes continues to exert upward pressure on local prices as the parallel market continues to grow and a three-tier pricing structure continues to thrive. Added to this, domestic financing of the budget deficit will exert further upward pressure on the inflation rate, as will any appreciation of the South African rand and any increases in international oil prices. Despite these developments, annual inflation in 2017 is expected to be limited to 0.7 per cent before rising to 2.6 per cent in 2018, given both domestic and external factors but it will still be outside the SADC convergence rate (Ministry of Finance, 2017b).

The relationship between corporate nominal lending rates, individual nominal lending rates and the inflation rate is shown in figure 5. The corporate nominal lending rate averaged 8.71 per cent between 2013 and 2016, while the individual nominal lending rate average was somewhat higher at 13.84 per cent during the same period.

The implied nominal effective and real effective exchange rates, based on the nominal exchange rate for the United States dollar and domestic inflation, continued to appreciate in 2016 (Reserve Bank, 2017d). Consequently, Zimbabwean exports progressively lost competitiveness in both domestic and external markets and thus still further weakened the

Figure 5: Inflation and nominal lending rates



Source: Reserve Bank (2017a).

already struggling exports sector. Even with import restrictions, the stronger dollar continued to make imports cheaper and this contributed to the worsening trade deficit.

3.4 Current account

Merchandise exports increased from $3.61 billion in 2015 to $3.70 billion in 2016, driven mainly by increased gold and tobacco exports. Exports are projected to rise to $4.3 billion for 2017 and to rise further to $4.6 billion in 2018 on account of the current export promotion initiatives (Ministry of Finance, 2017b).

Mining and agriculture products dominate merchandise exports by Zimbabwe. The major exports in 2016 were: flue-cured tobacco, semi-processed gold, platinum group metals, nickel, high carbon ferrochrome and diamonds, as shown in figure 6 (Reserve Bank, 2017a). Mineral exports grew by 6.4 per cent in 2016 while exports from the agriculture sector grew by 4.8 per cent over the same period.

The proportion of manufactured exports in total exports remains depressed, owing to an array of structural and operational challenges facing the manufacturing sector, including cheaper imported substitutes, erratic power supplies, obsolete equipment, lack of access to foreign currency and shortage of long-term capital. These constraints have had a subduing effect on the share of manufactured exports in total exports: in 2016, manufactured exports accounted for only 8.7 per cent of total exports while mineral exports accounted for 60 per cent and agriculture exports accounted for 28.8 per cent of total exports. The key export destinations were South Africa (79.5 per cent), Mozambique (9.43 per cent), and the United Arab Emirates (4.10 per cent) (Ministry of Finance, 2017b).

Value added exports are generally on the increase, fuelled by the firming of commodity prices, together with enhanced domestic value addition and beneficiation (Ministry of Finance,

Figure 6: Exports composition, Zimbabwe, 2012–2016

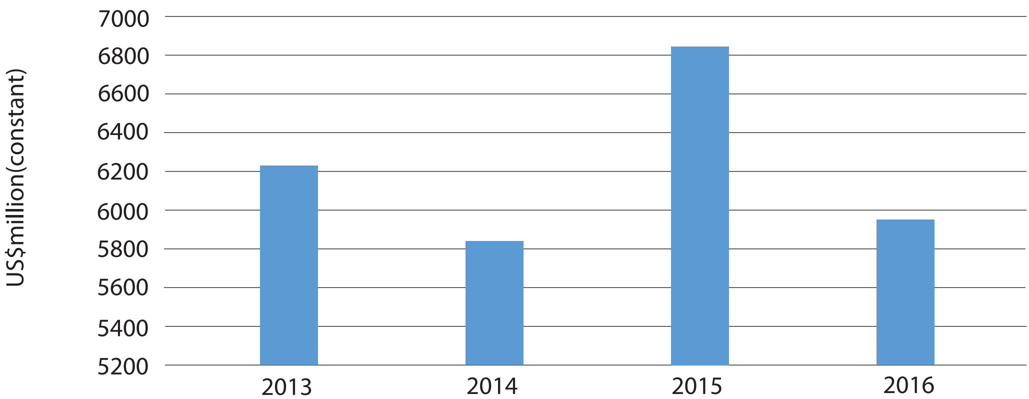
Source: Reserve Bank (2017d).

2017b). During the first half of 2017, exports grew by 18.6 per cent by comparison with the same period in 2016, rising to $1.37 billion from $1.12 billion. The major exports were gold, tobacco, platinum group metals and ferrochrome. During the second quarter of 2017, however, merchandise exports increased to $611.6 million, from the $499.2 million realized in the same period in 2016. In the second quarter of 2017, exports were 15.4 per cent lower than those in the first quarter of 2017, largely because of declines in tobacco and diamond exports (Reserve Bank, 2017a).

Although, in the foreseeable future, merchandise exports will continue to be dominated by the resources sector, the exact composition is bound to include a growing proportion of value added products as the beneficiation policies under ZIMASSET II and other targeted export incentives begin to bear fruit. Furthermore, once the envisaged productive activities in the special economic zones get under way, they will quickly lead to an increase in value added exports.

Total imports decreased by 14.3 per cent in real terms from a high of $6.86 billion in 2015 to $5.96 billion in 2016 mainly as a direct result of measures to stimulate domestic production and value addition, which increased the supply of domestically produced goods (Ministry of Finance, 2017a). The major imports were foodstuffs ($634.4 million), fuel ($1.3 billion) and electricity ($190.3 million). The import of electricity increased by 480 per cent from $32.7 million in 2015 as a consequence of shortfalls at Kariba South Hydro-Power Station and Hwange Power Station. Among other factors, the foreign currency management measures put in place by the Reserve Bank, coupled with import management measures introduced by the Government and the general decline in economic activity during the year contributed to

Figure 7: **Value of imports, Zimbabwe, 2013–2016**



Source: Zimbabwe National Statistics Agency (2016e).

the reduced import bill in 2016 (Reserve Bank, 2017d). The major sources of imports in 2016 were South Africa (38.4 per cent), China (7.44 per cent) and India (2.23 per cent).

Imports into Zimbabwe during the first half of 2017 increased by 5.6 per cent over the total for the same period in 2016 and were dominated by fuels, electricity, fertilizers, medicines and grain. South Africa, Singapore, China and Zambia were the leading suppliers. Merchandise imports for the second quarter of 2017 were also 7.5 per cent higher than those in the first quarter of 2017. Total merchandise imports for the second quarter of 2017 amounted to $1.37 billion, 14.4 per cent higher than the $1.19 billion for the comparable quarter in 2016. The imports are forecast to amount to $6.7 billion in 2017 and are expected to increase to $7.0 billion in 2018 (Ministry of Finance, 2017b).

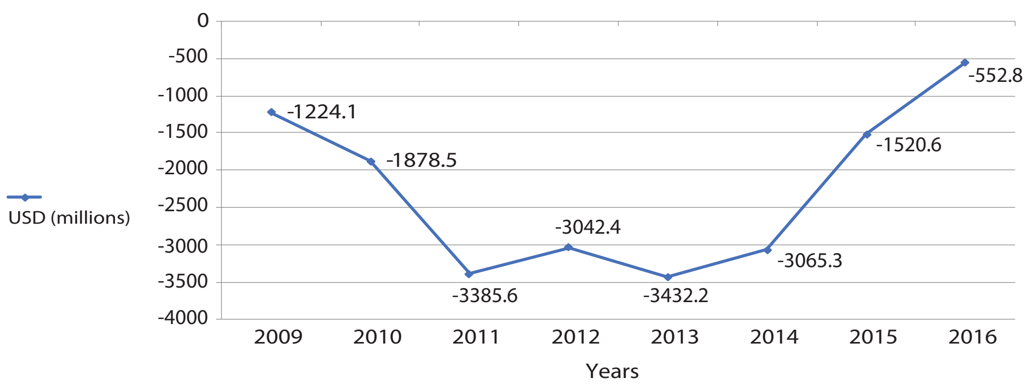
The current account deficit narrowed to $552 million from $1.5 billion in 2015, as shown in figure 8. The deficit is projected to reach $651.1 million in 2017, however, before falling to $492.5 million in 2018 as the deficit-reducing measures begin to take effect (Ministry of Finance, 2017b). Gross foreign reserves increased from $352.3 million in 2015 to $406.8 million in 2016 and import cover (in months) at 100 per cent (goods and services) rose from 0.7 in 2015 to 0.8 in 2016 (Reserve Bank, 2017d).

The external sector is expected to continue to improve significantly over the coming years, on account of measures to boost exports and curbs on imports being introduced by the Reserve Bank and the Government.

3.5 Capital and financial accounts

The capital account declined from $398.4 million in 2015 to $242.3 million in 2016, mainly a reflection of the country's inability to secure assistance from development partners. There was a decline in portfolio investment, FDI and offshore loans to both public and publicly

Figure 8: **Current account balance, Zimbabwe, 2009–2016**



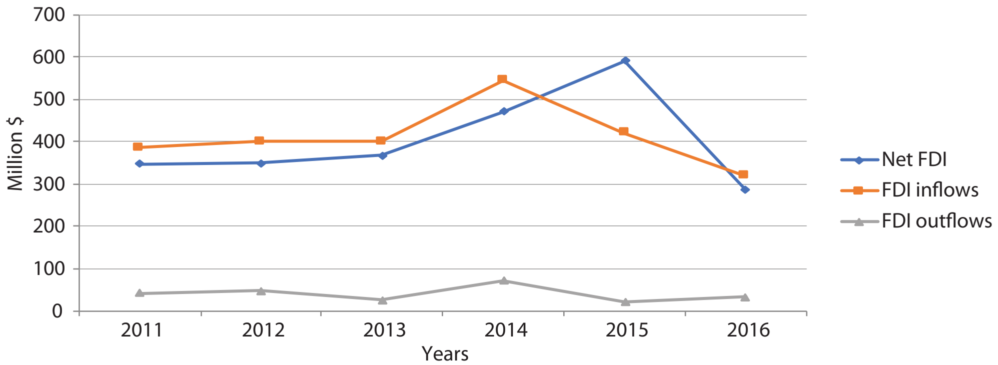
Source: Reserve Bank (2017d); Ministry of Finance (2017a).

guaranteed institutions and the private sector, which fell from $1,291.2 million in 2015 to $475.6 million in 2016. Developments in the current, capital and financial accounts resulted in an overall balance-of-payments deficit of $8.4 million in 2016, down from a deficit of $188.9 million in 2015. The overall balance-of-payments deficit was mainly financed through the accumulation of external payment arrears against a backdrop of low foreign currency reserves (Reserve Bank, 2017d; Ministry of Finance, 2017a).

During 2016, the Government was able to clear arrears to the International Monetary Fund (IMF) Poverty Reduction and Growth Trust amounting to $107.9 million, as part of the debt clearance strategy concluded between Zimbabwe and its three principal creditors, IMF, the World Bank and the African Development Bank, on the sidelines of the IMF-World Bank Group annual meetings, held in Lima in October 2015. As a result of the clearance of its arrears to IMF, Zimbabwe was removed from remedial measures imposed by IMF in 2001 in response to overdue financial obligations (Reserve Bank, 2017d).

Net FDI in Zimbabwe remains modest, declining from $471 million in 2014 to $286 million in 2016, after rising in 2015 to $591 million (figure 9). The FDI liabilities stock5 in 2014 measured $4.3 billion and increased to $4.5 billion in 2015. The leading FDI liabilities stock sources in 2014 were South Africa (45 per cent), the United Kingdom of Great Britain and Northern Ireland (26 per cent), China (7 per cent) and Nigeria (4 per cent) and, in 2015, South Africa (42.4 per cent), the United Kingdom (30.3 per cent) and China (6.3 per cent). The main components of FDI liabilities stock were accumulated earnings and reserves, measuring 37 and 24 per cent respectively in 2014, and 42 and 23 per cent respectively in 2015. The target sectors for FDI liabilities stock in 2015 were manufacturing (29 per cent), finance and

Figure 9: **Foreign direct investment in Zimbabwe, 2011–2016 (millions of US dollars)**



Source: United Nations Conference on Trade and Development (2017).

5 FDI liabilities stock is defined to include: paid-up shares, share premium, reserves, other equity, accumulated earnings, investment fund shares and related party debt.

insurance (24 per cent) and mining and quarrying (17 per cent) (Zimbabwe National Statistics Agency, 2017).

Outflows of FDI remain relatively low and inflows have continued to decline since 2014, owing to the unappealing investment environment in Zimbabwe characterized by liquidity challenges, low disposable incomes and political instability. In addition, inflows of FDI, estimated to reach $380 million in 2017, remain low because of limited access to credit from international markets, against the backdrop of challenges in clearing arrears. Although the inflows are projected to increase to $395 million in 2018, they remain insufficient to close the domestic savings-investment gap (Ministry of Finance, 2017b).

Furthermore, Zimbabwe remains generally unattractive as an investment destination. In 2015, Zimbabwe ranked thirty-ninth on the Ibrahim Governance Index and in 2016 the country ranked 154th on the World Bank's ease of doing business index and 159th on the corruption perceptions index of Transparency International. Thus, despite efforts by the Government to market Zimbabwe as a safe investment destination, these indicators point to an unattractive investment climate and undermine any investment promotion efforts. The political environment in Zimbabwe, which has been in a state of flux since November 2017, could have a positive effect on investor confidence in the country once it stabilizes and could result in increased FDI inflows. The successful holding of elections due later in 2018 could further strengthen the country's position internationally.

4

Social developments

4.1 Demography

According to the 2012 census, the population of Zimbabwe was 13,447,286, comprising 6,485,676 males (48 per cent) and 6,961,610 (52 per cent) females (Labour Force and Child Labour Survey, 2014). The population has more than doubled, from its total of 7.5 million in 1982, and is expected to reach 19.3 million in 2032 (Zimbabwe National Statistics Agency, 2015a). The 2014 survey showed that 68 per cent of the population, with a slight preponderance of females, resided in rural areas. Women outnumbered men in both urban and rural areas, constituting 51 per cent of the rural population and 53 per cent of the urban population (Zimbabwe National Statistics Agency, 2016b).

The country has a relatively young population, 61.1 per cent of which is under the age of 24, 15.6 per cent under 5 and 45.5 per cent between 5 and 24. Life expectancy in Zimbabwe was 60.6 in 2012, with females having a higher life expectancy (64 years) compared to 57.4 for males (Zimbabwe National Statistics Agency, 2013a).

4.2 Poverty and unemployment

The Zimbabwe Poverty Atlas (2015) shows that the incidence of poverty was higher in rural areas than urban areas and that the levels of inequality in the country vary across districts and wards. Poverty was found to be most prevalent in Matabeleland North (85.7 per cent) and least prevalent in Harare (36.4 per cent) and Bulawayo (37.2 per cent). The other provinces had poverty prevalence rates ranging between 65 and 76 per cent. According to the Food Poverty Atlas, in 2011/12, 72.3 per cent of all Zimbabweans were considered poor,[6] with 62.6 per cent of the households deemed poor and 22.5 per cent of the population living in extreme poverty (Zimbabwe National Statistics Agency, 2013a). In rural areas, 76 per cent of households were considered poor, compared to 38.2 per cent of urban households. Individual poverty prevalence was 84.3 per cent in rural areas, compared to 46.5 per cent in urban areas, while 30.4 per cent of the population in rural areas were categorized as living in extreme poverty, compared to 5.6 per cent in urban areas. In addition, the incidence of poverty in male-headed households differed minimally

6 The Zimbabwe National Statistics Agency defines poverty as the inability to attain a level of well-being constituting a realistic minimum as defined by society, while extreme poverty represents households whose per capita consumption expenditures fall below the minimum consumption expenditure necessary to ensure that each household member can consume a minimum food basket containing 2,100 calories (Zimbabwe National Statistics Agency, 2013a).

from that in female-headed households, at 62.9 and 62 per cent, respectively. The poverty gap index among people in rural areas is 42.8 per cent, compared to 15.5 per cent in urban areas. Income inequality as measured by the Gini coefficient was 0.42 in 2011/12, an improvement from the 0.49 score recorded in 2001.

The Food Poverty Atlas (2016),[7] based on a food poverty line of $30.86 per person per month which was compared with per capita consumption expenditure at the household level, further confirmed that even food poverty is also a rural phenomenon and was widespread in the wards located in rural district councils, with much lower incidences in wards located in urban areas (Zimbabwe National Statistics Agency, 2016a). The analysis shows that the incidence of food poverty ranged from a high of 43.1 per cent in predominantly rural Matabeleland North to a low of 6.3 per cent in Harare, a predominantly urban province. The overall average of the incidence of food poverty country-wide was 22.16 per cent in 2015.

In 2014, an estimated 11.3 per cent[8] of the Zimbabwean population aged above 15 was unemployed, a significant drop from the rate of 21.8 per cent recorded in 1992 (Zimbabwe National Statistics Agency, 2014a), as shown in table 3. The broad unemployment rate for young people aged 15–34 was 15.3 per cent, with young women having a higher rate at 20.3 per cent than young men, at 9.8 per cent. Urban unemployment was significantly higher than rural unemployment, at 29.5 per cent compared to 2.6 per cent, and youth unemployment

Table 3: Employment and unemployment levels in Zimbabwe, 2011 and 2014

	Employment/ unemployment (%)	
	2011	2014
Labour force participation rate (15+ years)	87.3	90.8
Youth labour force participation rate (15–24 years)	79.3	84.1
Unemployment rate (15+ years)	10.7	11.3
Urban unemployment (15+ years)	26.1	29.5
Rural unemployment (15+ years)	3.4	2.6
Youth unemployment (15–24 years)	16.5	16.4
Population working age 15+ years (female)	53.8	53.6
Population working age 15+ years (male)	46.2	46.4

Source: Zimbabwe National Statistics Agency (2014a).

7 Based on a small area estimation method.
8 The 2014 labour force survey defines unemployment broadly, as referring to persons who are 15 years and older and without work, but available for work. It does not include those actively seeking work. Furthermore, this unemployment rate is at variance with the estimates of other stakeholders, for example the World Bank, which reports an unemployment rate of just over 5 per cent, while other commentators set the unemployment rate as high as over 80 per cent.

was higher in urban areas, at 37.5 per cent compared to 4 per cent in rural areas. The unemployment rate of urban young women was higher, at 46.6 per cent, compared to urban young men, at 26.3 per cent. A large proportion of those in employment in urban areas are in the informal sector, while for the rural areas the employed are predominantly in the agricultural sector. In all, 95 per cent of those in employment in 2014 were in informal employment, an increase of more than 10 percentage points from the 84.2 per cent in informal employment in 2011 (Zimbabwe National Statistics Agency, 2014a).

Despite initiatives to improve the business environment in Zimbabwe, the manufacturing sector continues to struggle, while, on the other hand, the informal sector[9] has continued to grow, measuring 13.7 per cent of GDP in 2014, with a slightly higher proportion of women in the sector than men. According to the 2014 labour force and child labour survey, countrywide, 16 per cent of the total number of employed persons were underemployed,[10] and the proportions were almost the same for women and men.

4.3 Health

The budget appropriation in Zimbabwe to the Ministry of Health and Child Care in 2016 was only 8.5 per cent of vote appropriations, the fourth highest vote among all appropriations in the year (Ministry of Finance, 2017b). The total health and childcare allocation has remained below the 15 per cent Abuja target and the average for sub-Saharan Africa of 11.3 per cent. As a share of GDP, the health and childcare budget in 2016 was 0.7 percentage points lower than the sub-Saharan Africa average of 3 per cent (Ministry of Health, 2016). The per capita health allocation in Zimbabwe was only $24.34, against a SADC regional average of $146.29. Despite the low budget allocations to the Ministry of Health and Child Care, the country has made progress in reducing the incidences of HIV, malaria and tuberculosis. The support of development partners which, in 2016, contributed $400 million to health programmes, has been largely responsible for this success. The incidence of malaria and tuberculosis has declined significantly and, in 2014, malaria incidence dropped to 40 cases per 1,000 people and, in 2013, tuberculosis incidence to 552 cases per 1,000 people. Life expectancy at birth has improved and the country has seen a reduction in maternal and infant mortality, and also in the prevalence of HIV and tuberculosis and, since 2003, life expectancy at birth has been rising and approaching the levels seen during the pre-HIV period.

Furthermore, since the 1990s the country has experienced a steady decline in HIV prevalence due to a number of factors, including a change in sexual behaviour following education campaigns by Government and other stakeholders (Zimbabwe National Statistics Agency, 2016d). The adult prevalence rate declined from 20.1 per cent in 2005 to 15 per cent in 2010 and was estimated at 13.5 per cent in 2016. Infection was higher among females, however,

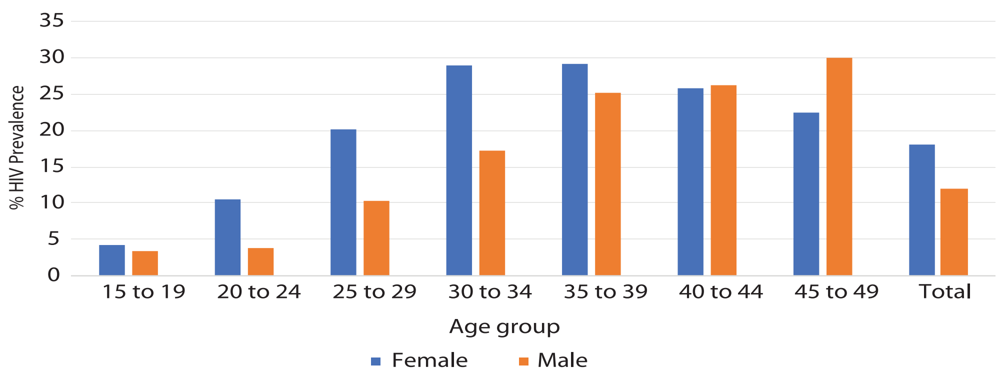
9 Measured by persons employed in the informal sector as a percentage of all employed persons.

10 In the 2014 labour force and child labour survey, time-related underemployment was defined as all those employed persons aged 15 years and above involuntarily working less than 40 hours a week who wanted to work additional hours during the seven days preceding the survey.

at 18 per cent, compared to males at 12 per cent, demonstrating that gender inequality is a major factor. The HIV prevalence rate was highest for males in the 45–59-year age group, at 29.9 per cent, and, at 29.1 per cent, highest for females in the 35–39-year age group (figure 10). HIV prevalence increases with age until it reaches a peak of 31 per cent among women aged 40–44 and 29 per cent among men aged 50–54. Unprotected sexual behaviour is the major cause of the spread of HIV and an estimated 1.3 million Zimbabweans are currently living with HIV.

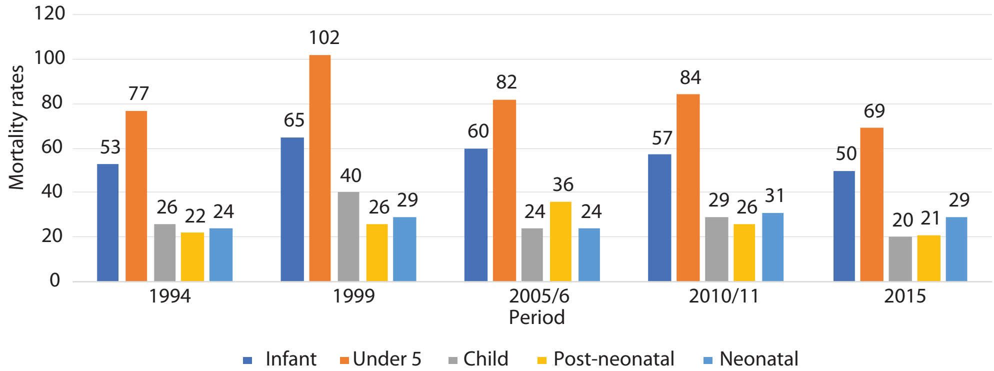
The infant mortality rate in Zimbabwe in 2015 was 50 infant deaths for every 1,000 live births, dropping from 65 deaths per 1,000 live births in 1999. Similarly, the under-5 mortality rate was 69 deaths for every 1,000 live births in 2015, down from 102 deaths per 1,000 live births in 1999. Both the under-5 and infant mortality rates have declined steadily since 1999, thanks to interventions by the State, but are yet to reach the lower levels recorded in the 1980s (figure 11). Economic challenges in the late 1980s and the high incidence of HIV and AIDS accounted for the high mortality. The maternal mortality ratio has increased from 614 per 100,000 live births in 2014 to 651 per 100,000 live births in 2015 (Zimbabwe National Statistics Agency, 2016d).

Figure 10: **HIV prevalence (15–49 age group)**



Source: Zimbabwe National Statistics Agency, Understanding Gender Equality in Zimbabwe (2016).

Figure 11: Mortality rates



Source: Zimbabwe National Statistics Agency (2016c).

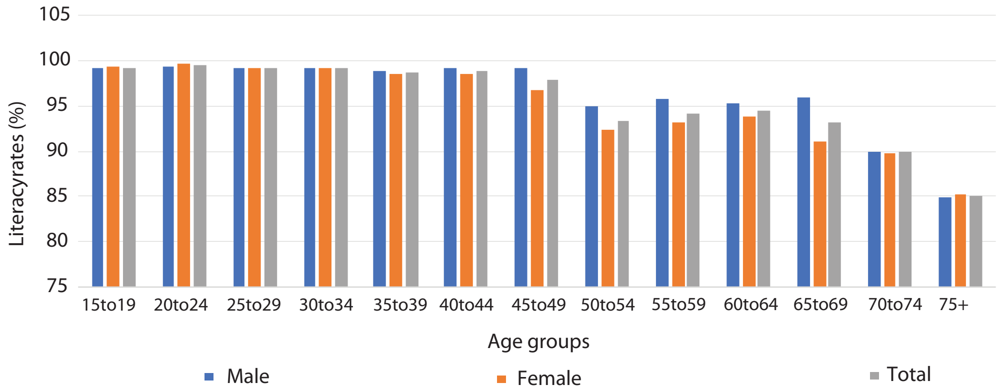
Inequities in health are also marked by a sharp urban-rural divide with infant mortality, under-5 mortality and malnutrition being significantly higher in rural areas. The prevalence of stunting, wasting and underweight, for example, is higher in rural areas, estimated at 33.4, 3.2 and 10.2 per cent, respectively, than in urban areas, where the corresponding rates are 27.5, 2.1 and 8.1 per cent (Ministry of Health, 2016). Childhood mortality also varies among the country's provinces, from a low of 50 under-5 deaths per 1,000 live births in Bulawayo to more than 100 under-5 deaths in Mashonaland East, Mashonaland West and Manicaland. The survey also showed that childhood mortality decreases with mother's education and household wealth. Under-5 mortality is five times greater among children whose mothers have only primary education (106 deaths per 1,000 live births) than among children whose mothers have gone beyond secondary school (26 deaths per 1,000 live births) (Zimbabwe National Statistics Agency, 2016d).

4.4 Education

A majority of Zimbabweans have attained some level of education and 95 per cent of males aged 6 and older have attended school, compared with 91 per cent for females (Zimbabwe National Statistics Agency, 2016d). The literacy level in Zimbabwe was 98 per cent in 2014, a slight improvement from 97 per cent in 2011. The literacy rates for the young (15–34 years) was above 99 per cent for both males and females, while for the 35–39 age group, the rates were also close to 99 per cent, as shown in figure 11. By comparison, for those aged 75 and older, the literacy levels were around 85 per cent for both sexes. The higher literacy levels among the young generation are the result of post-independence education policies emphasizing education for all and providing schooling opportunities countrywide (Zimbabwe National Statistics Agency, 2016b).

During the period 2012–2014, expenditure by Zimbabwe on education averaged 29 per cent of the overall government budget and 8.4 per cent of the country's GDP. In terms of

Figure 12: Literacy rates for the population aged 15 and above



Source: Zimbabwe National Statistics Agency (2016b).

the distribution of this expenditure across the levels of schooling, however, infant and junior education accounted for 50 per cent of the budget in 2014, while secondary education absorbed 27 per cent and higher education 17 per cent (UNESCO, 2016). A review of education in Zimbabwe showed that the majority of expenditure in this sector is allocated to salaries at school level, which absorb no less than 95 per cent of the sector budget, leaving a very narrow margin for other recurrent – and in particular capital – expenditure, including laboratories and teaching aids. The budgetary allocation on education11 in 2016 was 28.84 per cent of total vote appropriations for the year, excluding debt service and other statutory appropriations.

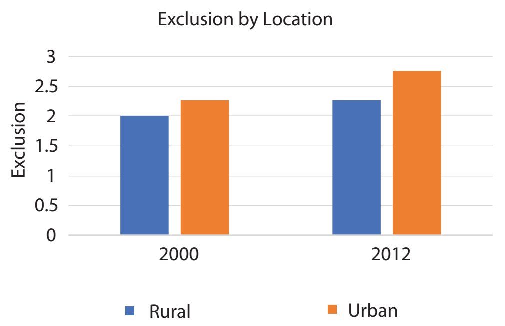
The 2014 labour force survey showed that 63 per cent of males and 60 per cent of females in the 3–24 age group were attending school. The same survey showed that women were more likely to have completed lower levels of education than men and that a higher proportion of men than women had attained lower secondary, upper secondary and tertiary levels of education. In terms of school enrolment, the survey showed that, in 2014, 50.5 per cent were boys and 49.5 per cent girls. At the primary school level, the gender parity index for the national attendance ratio and the gross attendance ratio are 1.01 and 0.96 respectively. At secondary school level, the indices are 1.03 and 1.02 respectively. This demonstrates relatively little difference in the overall school attendance rate by both girls and boys at either primary or secondary school levels (Zimbabwe National Statistics Agency, 2016d).

4.5 Human exclusion

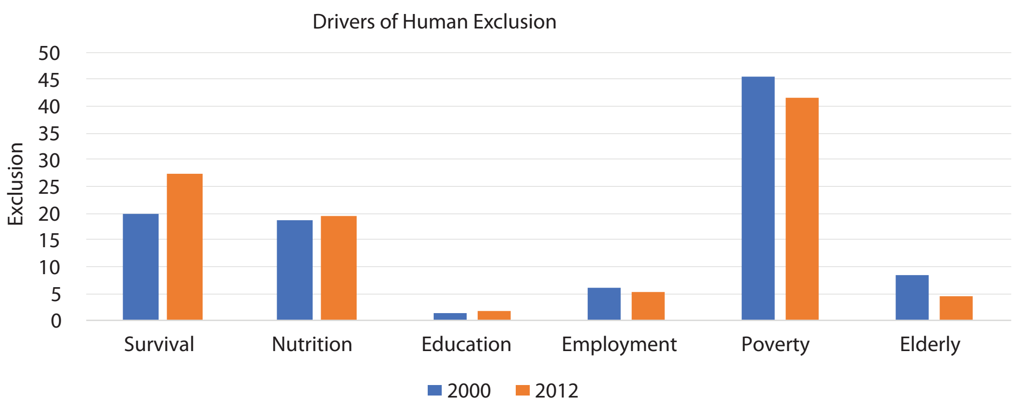
The economic environment in Zimbabwe in recent years has been characterized by economic contraction and high unemployment across all age groups and this in turn has contributed towards increasing levels of human exclusion in the country. Human exclusion increased from 2.20 to 2.41 over the period from 2000 to 2012 (box 2). This period coincided with the

11 Primary, secondary and tertiary education combined.

Box 2: Human exclusion



Human exclusion in Zimbabwe is driven by high levels of poverty, which are themselves a direct result of lack of incomes because of high unemployment. High rates of neo-natal mortality and child stunting are thus common, owing to the levels of poverty. While the contribution of poverty is decreasing, its share in overall exclusion remains critical. Exclusion in the early stages of life, as measured by neo-natal mortality and child stunting, warrants specific policy attention. Furthermore, the disparity in exclusion by gender and location highlights the need for equity-based public policies in health, education and labour markets to address such imbalances.



Source: ECA computations based on national data, Zimbabwe National Statistics Agency, African Social Development Index: Measuring human exclusion for structural transformation, ECA (2016).

worst economic times in Zimbabwe, between 2007 and 2009. These economic challenges, which have abated slightly since 2009, deepened the levels of exclusion in general. When disaggregated by gender, however, human exclusion shows no significant reduction in the gender gap over that period, with men being comparatively more affected than women. Furthermore, exclusion in urban areas in Zimbabwe is increasing faster than in rural areas, and the pattern remains consistent over time. This could be attributable to the rising levels of unemployment occasioned by the collapse of the manufacturing sector, which operated at only 47.4 per cent capacity utilization in 2016, after dropping to even lower levels in 2014 and 2015. The slow growth and the decline in economic performance have resulted in a situation where large proportions of the population can ill-afford health and education services. Tackling the high level of unemployment will help to remedy the disproportionate levels of exclusion as an increase in the population's disposable income will ensure their active participation in the economy. As industry is resuscitated, the increase in access to jobs will provide relief as incomes will rise, but government programmes which target the vulnerable will need to be further expanded.

The country has put in place an extensive range of social protection measures to tackle the costs of nutrition and health facilities. Over the last decade, the coverage of these measures has been limited, however, because of the country's economic challenges. The situation is expected to improve as growth stabilizes and inflows to the treasury improve. The national poverty alleviation action programme, which includes a community action project and an enhanced social protection strategy, is also designed to address inequalities but its scope has been constrained by financing shortages. The social transfer policy framework for the period 2011–2015 has been implemented with a view to harmonizing the broad array of continuing social transfer initiatives rolled out through several funding mechanisms into a coherent and consolidated system. It is targeted at women, youth and people with disabilities and includes other initiatives to enhance food security, such as agricultural input support, a public works programme and social cash transfers. The interim poverty reduction strategy paper for 2016–2018 is also intended to buttress social protection in the country.

4.6 Gender

The status of gender equality and women's empowerment is measured in terms of the indicators discussed in box 3. These are important for the improvement of women's lives and their contribution to sustainable development in Africa.

In 2004, ECA introduced the African Gender and Development Index to measure gaps between the status of African men and women and assess the progress made by African Governments in implementing gender policies.

Scoring of performance is based on the Gender Status Index, one of the components of the African Gender and Development Index. The score for each key indicator is an unweighted arithmetic average: the female-to-male ratio of the indicator values is multiplied by 10 and the result is rounded to the nearest whole number. A score of zero represents the highest level of inequality; a score of 5, an average level of parity; and a score of 10, complete parity. Parity levels above 10 represent situations in which women have outperformed men, regardless of the development level of the area concerned.

Box 3: Gender equality and women's empowerment

The African Gender and Development Index is a composite index made up of two complementary components: the Gender Status Index and the African Women's Progress Scoreboard. Together, these indices provide data and information on the status of gender equality in countries and the effects of national gender policies in addressing women's marginalization. As the quantitative dimension of the African Gender and Development Index, the Gender Status Index covers aspects of gender relations that can be measured through mathematical computation, and provides a quantitative assessment of gender equality. The Gender Status Index considers three aspects: social power (capabilities), economic power (opportunities) and political power (agency). Each variable in the Gender Status Index is given the same weight. For each variable, the indicator of gender equality is calculated in the same way. The Gender Status Index compares female achievement and male achievement and expresses this as a ratio. The closer the indicator is to 1 (one), the better the performance on gender equality is in the country.

The African Gender Development Index enables policymakers to assess performance in implementing policies and programmes geared towards ending women's marginalization. Countries' scores are calculated on the basis of Gender Status Index data. The Gender Status Index is one of the components of the African Gender Development Index. For each key indicator, the score is calculated by taking the female to male ratio of the indicator values, multiplying it by 10 and rounding the result off to the nearest whole number. A score of zero represents the highest level of inequality, 5 shows middle parity level while 10 represents perfect parity. Parity levels exceeding 10 represent situations where women have outperformed men, irrespective of the level of development of the area being assessed.

Employment : 9

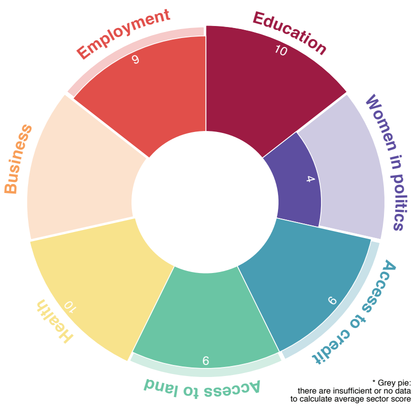
Employment in nonagricultural sector	No date
Labour force participation rate	9

Business : NaN

Top management in firms	No data
Ownership in firms	No data

Health : 10

Under-five survival rate	10
Children under age five who are not stunted	11
Life expectancy at birth	11
Share of population without HIV	9



Education : 10

Youth literacy rate	10
Enrolment ratio in secondary education	No data
Enrolment ratio in tertiary education	No data

Women in politics : 4

Representation in parliament	5
Ministerial positions-cabinet	2

Access to credit : 9

Account at a financial institution	8
Borrowed from a financial institution	9

Access to land : 9

Access to land	9

Stand-alone indicators

Access to drinking water source within 15 minutes (urban)	97
Access to drinking water source within 15 minutes (rural)	67
Improved sanitation (urban)	49
Improved sanitation (rural)	31
Maternal mortality ratio	651

Source: African Union Commission and ECA (2015).

Most of the data used to calculate the scores for Zimbabwe in box 3 were drawn from the latest nationally available data sources, primarily the country's 2015 demographic and health survey and the 2016 Women and Men Report by the Zimbabwe National Statistics Agency. For a few indicators, however, where there were no disaggregated national data, international data were used. These international sources include the International Labour Organization (ILO) statistical database, the World Bank's Global Findex and the 2015 update of the United Nations Children's Fund (UNICEF) and World Health Organization (WHO) report on progress on sanitation and drinking water.

The Zimbabwean Government has ratified a number of gender-related international and regional instruments, including the Convention on the Elimination of All Forms of Discrimination Against Women, the Beijing Declaration and Platform for Action, the Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa and the SADC Protocol on Gender and Development. In addition, the 2013 Constitution of Zimbabwe sets out elaborate provisions on gender equality and women's empowerment, which have been put into effect through legislation and policies such as the national policy on gender. All these demonstrate the Government's commitment to equality and empowerment.

In Zimbabwe, gender equality is observed for the under-5 survival and youth literacy rates. Females have a better rate among under-5 children who are not stunted and for life expectancy at birth. There is significant gender disparity tilted towards males in political representation. According to data from the 2016 Women and Men Report, only 86 women (88 in 2017) are members of the national Parliament, compared to 184 men (180 in 2017). In a Cabinet of 26 ministers, only four are women. Data from the World Bank's Global Findex gave gender parity scores of 9 for access to credit, labour force participation, HIV prevalence and access to land.

The 2015 demographic and health survey reports a maternal mortality rate of 651 per 100,000 live births. Access to a drinking water source is estimated at 97 and 67 per cent for urban and rural areas respectively. Access to improved sanitation is 49 per cent for urban areas and 31 per cent for rural areas.

5

Major policy challenges

A major fiscal challenge is posed by the country's budget deficit, which has been financed through the issuance of Treasury bills and by recourse to an overdraft with the Reserve Bank and has become unsustainable. Added to this, social and economic development in Zimbabwe is severely constrained by such factors as the structural problems due to economic sanctions, the country's high external debt, industrial contraction and the resulting informalization of the economy, high levels of youth unemployment, inequality, extreme poverty in rural areas, water and electricity shortages, a continuing high prevalence of HIV and AIDS, the lack of foreign exchange, perceived political instability and liquidity (local cash and foreign exchange) limitations. The strength of the United States dollar has continued to undermine the export competitiveness of Zimbabwean products despite the export promotion initiatives introduced by the Government in recent months. Given the high value of the dollar, imports remain cheaper. Overall, the implementation of the sectoral strategies outlined in ZIMASSET continues to guide the developmental trajectory in Zimbabwe.

6

Thematic analysis: Promoting development in Zimbabwe through local content and the establishment of special economic zones

In its endeavour to transform the economy as part of the implementation of ZIMASSET I, the Government has pursued the twin strategies of establishing special economic zones and developing a local content policy framework with regulations to anchor industrial development and export growth. While such zones are expected to attract investors in the designated areas, thereby boosting local production and exports, the introduction of local content policies is expected to deepen linkages between production and supply value chains in the economy. These two complementary strategies are part of the national industrialization framework designed to provide opportunities for broader participation in the economy by local businesses and entrepreneurs and thus to generate other multiplier effects, including employment in related sectors.

6.1 Special economic zones and development

A policy, legal and regulatory framework to guide the establishment of special economic zones has been developed and the locations for the pilot zones have been identified. According to the Zimbabwe Special Economic Zones Act (chapter 14:34) and its regulations, a special economic zone is a geographical region that has a policy, legal and regulatory framework and an environment which is significantly better than the rest of the economy. Investors in a special economic zone enjoy specific privileges, including tax rebates and exemption from payment of certain taxes. The current special economic zone strategy builds on the experience of export processing zones, which were introduced between 1996 and 2006 under the Export Processing Zones Act (1995).

Among other provisions, the incentive package available to all qualifying investors in the special economic zones includes rebates on raw materials, intermediate products, equipment and machinery imported for use solely in the special economic zone, customs and excise exemptions and rebates on defined inputs. Qualifying conditions for investors and zones are elaborated in Statutory Instrument 59 of 2017. The conditions include:

a. A valid investment licence issued in terms of section 26 of the Special Economic Zones Act (chapter 14:07);

b. Evidence that the special economic zone is not situated in an industrial park;

c. Particulars of the raw materials, intermediate products, equipment and machinery, that the licensed investor wishes to import under rebate;

d. The restriction that the rebate can only be granted for any one particular type of equipment or machinery once in five years, or for such short period as the Commissioner may approve.

In addition to the rebate benefits, the income of a person, partnership or company licensed to operate in a special economic zone and exports all of its goods and services is taxed at 0 per cent for the first 5 years and 15 per cent thereafter. Furthermore, payment of the mandatory 3 per cent AIDS levy is waived in the special economic zones. The other incentives applied in special economic zones relating to pay-as-you-earn tax, resident shareholder's tax, non-

Table 4: Other fiscal incentives for special economic zone investors in Zimbabwe

Fiscal element	Investor privileges
Pay-as-you-earn tax	Taxable income of individual (holding temporary employment permit) from employer with a licence to operate in a special economic zone where the employer exports all of its goods and services is taxed at 15 per cent and the 3 per cent AIDS levy is waived
Resident shareholder's tax	Any dividend so distributed by licensed investor, which arises from their operations in a special economic zone and there they export all of their goods and services is not subject to resident shareholder's tax
Non-resident shareholders' tax	Any dividend so distributed by licensed investors who export all of their goods and services which arises from their operations in a special economic zone is not subject to non-resident shareholders' tax
Non-residents' tax on fees	Services rendered to licensed investors in respect of their operations in an export processing zone shall not be treated as fees and are not subject to non-residents' tax on fees
Non-residents' tax on royalties	Every payer of royalties to a non-resident person is required to withhold non-residents' tax on royalties from those royalties. However, any royalty payments to non-resident persons, partnerships or foreign companies with a licence to operate in a special economic zone and which export all of their goods and services shall not be subject to non-residents' tax on royalties
Special initial allowance	50 per cent shall be allowed in the first year of assessment in which the taxpayer claims the special initial allowance and 25 per cent in each of the next two years of assessment following that year
Value added tax	VAT refunds in respect of local purchases by a special economic zone licensee

Source: Special Economic Zones Act (2017).

resident shareholders' tax and VAT refunds introduced with effect from 1 January 2017 are shown in table 4.

The prioritized sectors and the specific subsectors (as set out in table 3) in the development of special economic zones are agriculture, tourism, mining, services and manufacturing, each of which has its own timeframe. In selecting these priority sectors and subsectors, the considerations were: the size and type of the potential zone; the location and readiness of the zone for special economic zone status; the current economic activity in the area; and the potential of the activities to be undertaken in the zone to deliver on the ZIMASSET I objectives. The resource base (agricultural land, minerals, tourist resources, etc.) seems to be the primary consideration for the selected subsectors in table 5.

To initiate the gradual process of establishing special economic zones, the Government designated Sunway City Integrated Industrial Park (Harare), the Victoria Falls financial hub (Victoria Falls), the Bulawayo industrial hub (Bulawayo) and Tokwe Mukosi Dam (Masvingo) as the pilot zones.

While there has been abundant evidence elsewhere of the potential of special economic zones to spur development – for example in the region of the Association of Southeast Asian Nations (ASEAN) – as the Government conceptualizes the specific nature of the activities to be undertaken in the four pilot zones, it is vital that a critical analysis be made of the various institutional frameworks or structures that could be employed in promoting and managing the zones to ensure optimal benefits. The special economic zones could be fully public, where the Government develops, operates and regulates the activities, or, alternatively, the private sector could develop and operate the zone under public regulation. Another important consideration should be whether the special economic zone is sector-specific (for example,

Table 5: Sectoral opportunities for special economic zones

Sector	Subsector, potential areas, opportunity
Agriculture	Food crop production and processing (Mashonaland West; central provinces)
	Fruit processing (Manicaland)
Tourism	Victoria Falls, Hwange and Kariba region
	Masvingo, Great Zimbabwe and South Eastern Lowveld
Mining	Diamond cutting, polishing and jewellery manufacture (Harare and Mutare)
	Platinum refinery (Ngezi and Selous)
Services	Business process outsourcing
	Health services provision
Manufacturing	Iron and steel production (Midlands)
	Leather and footwear (Midlands and Matabeleland)

Source: Ministry of Macro-Economic Planning and Investment Promotion (2014).

limited to agriculture and agricultural value chains; or to a single activity or enterprise; or whether it could accommodate a wide range of interrelated sectors and activities (wide-area zone)). The experience from ASEAN provides lessons for the choice of strategy in the nature of the zone, with wide-area zones being the most common, although specialized single-activity zones have also flourished (ASEAN, 2016). The four selected pilot special economic zones encompass the attributes of the three models and are building on comparative advantages already existing in these locations.

In addition to the Special Economic Zones Act, the operating environment for these zones needs to be further streamlined and an institutional framework set in place with clear regulations to address all issues that might undermine the overall intentions of the strategy. Critical issues in this context include elaboration of the exact role of the State in the special economic zones, the nature and packaging of specific and general incentives, the development of performance-related incentives, the relationship between special economic zone companies and other operators in terms of linkages, technology transfer issues and the development of a monitoring and evaluation framework. Monitoring the performance of the zones based on agreed milestones and with a view to containing activities that might undermine the delivery of benefits to the State, including illicit financial transactions and transfer pricing, is important. Monitoring will make possible the adjustment of operating conditions as the special economic zones mature.

Since, on their own, special economic zones are not a panacea for industrialization and transformation, support from the Government through infrastructure and appropriate and dynamic legal and regulatory frameworks is important. The special economic zones have to be integrated into the broader regional industrialization framework being promoted by both SADC and COMESA, and to build in particular on the opportunities presented by regional value chains for the commodities sector. Regional value chains present opportunities for transformation through integrated industrial development, which in turn harnesses comparative advantages in the different member States.

6.2 National local content policy and development

Within the framework of the implementation of ZIMASSET, the Government underscores the importance of local content regulations as an anchor for social and economic development. Local content regulations ensure that local inputs, including both skilled and unskilled labour, participate in the production and supply chains. The regulations will facilitate the development and growth of local supply chains (for inputs), local entrepreneurs (local capital or investors), local expertise (skilled manpower) and have the potential to contribute technology transfer and industrialization. The introduction of some local content requirements and restrictions on imports has resulted in increases in manufacturing sector capacity use and new investments in Zimbabwe during the last three years. With more explicit local content requirements, capacity use could be further boosted and the manufacturing sector could take off (Reserve Bank, 2017d). The local content regulations will complement the indigenization and localization strategy anchored on the Indigenization and Economic Empowerment Act (2007), which seeks to increase local ownership.

As Zimbabwe develops local content regulations to anchor industrialization and the development of local enterprises, however, it should act in a strategic manner and be guided by the optimization of local benefits through the following four pillars:

a. Increasing employment, skills and development of human capital;

b. Increasing the local procurement of goods and services along the production and supply chains;

c. Increasing the level of local ownership (State and private) and equity participation;

d. Increasing the proactive participation of local financial institutions in the local extractive sectors.

While the agriculture value chains are generally more developed within the national borders in Zimbabwe, it is the mining sector value chains which still remain predominantly externally oriented. For this reason, it is important to develop regulations which accompany local content policies to provide measurable milestones relating to value addition and the export of finished products. By facilitating the shifting of focus from foreign investment to greater local involvement, local content regulations provide opportunities for entrepreneurs to be part of productive activities. Experiences in Brazil, Ghana, Nigeria, Namibia, Norway and South Africa, for example, have demonstrated the potency of such regulations as a development strategy to anchor local linkages development and the retention of business value locally.

Key to the effectiveness of a local content policy is the development of the requisite legal and regulatory frameworks to make the policy legally enforceable. Furthermore, the local content policy legal and regulatory framework should be supported by well capacitated institutions. The instruments of local content should be clearly articulated and include measurable indicators to facilitate evaluation of the attainment of the local employment and skills development expectations within a specified time period. A mandatory skills development level could, for example, be introduced to compel companies to contribute to the development of skills to facilitate the recruitment of local personnel in jobs higher up the value chain. Success in meeting objectives regarding the employment of local staff should be clearly assessed. Local content legislation which provides for the preferential treatment of locally produced and supplied goods and services is also required. Given the capacity limitations in Zimbabwe, local content requirements should be accompanied by mandatory and gradual supplier development programmes.

Equity participation by local citizens is another pillar of localization which could be entrenched through local content requirements. To this end, for example, the indigenization requirements in Zimbabwe are designed to increase the participation of local citizens in business ventures. As they currently stand, however, the indigenization regulations could be recalibrated to lower the threshold of local ownership and the local component could be augmented through State free carried interest12 in any venture where foreign entities are in the majority. In this context, a lesson could be learned from the experiences of Ghana, where the Government has a 10 per cent free carried share in all mining projects, and of Ethiopia, where the Government has a 5 per cent free carried share in the minerals sector.

In addition to providing local citizens with the right to first refusal in allocating projects and shares, local content regulations should make it mandatory for companies to list on the Zimbabwe Stock Exchange, thus affording local citizens the opportunity to participate as shareholders. The experience of Ghana and South Africa in ownership, however, has pointed to the need for mechanisms to prevent the practice known as "fronting" in these local ventures. Strategies and instruments to test the authenticity of the levels of local investment and materiality of the participation of local citizens in joint ventures should be developed as part of local content regulations.

The participation of local financial institutions in productive processes in Zimbabwe is one of the weakest links in this system, in particular in the minerals sector, because of general risk aversion. The local content regulations should include incentives to attract local financial institutions into the sector, encouraging them to lend to potential local investors. State financial resources, including sovereign wealth funds, could provide the seed funds for local financial institutions or anchor investments by the local banks. Insurance sector funds, including pension funds, should be encouraged by local content regulations to participate in the sector.

A local content strategy works best when the business case from the private operator is aligned to the development case from the State. Thus, the push for local content in Zimbabwe should be selective and strategic (in terms of the specific value chains that it targets) and should be supported by supplier development programmes to address the local productive capacity gaps. A gradual approach which enables local entrepreneurs to develop competitive capacity should guide the implementation of local content regulations, except in supply sectors where capacity already exists. Furthermore, the development of an institutional framework that can measure adherence to requirements and sanction failure is imperative. The parameters for satisfying local content regulations should be clearly spelled out in law and consistent across sectors. In addition, the local content framework in Zimbabwe must be harmonized with the regional approach to industrial development and the development of value chains in both the SADC and COMESA regions to benefit from economies of scale.

12 Guaranteed State share ownership in a venture without direct investment.

Once in place, a local content framework supported by clear milestones will provide a stable and predictable platform for the more extensive contribution of special economic zone entrepreneurs and investments to local development. The aspirations of the Zimbabwe Agenda for Sustainable Socio-Economic Transformation of increased investment, employment and income generation, increased value addition and beneficiation, linkages, and export growth and diversification will be anchored on these twin strategies.

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Printed in Addis Ababa, Ethiopia by the ECA Printing and Publishing Unit.
ISO 14001:2004 certified. Printed on chlorine free paper.

Economic Commission for Africa | Commission économique pour l'Afrique
1958 - 2018