

International Monetary Fund



Investment Climate in Zimbabwe

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CFO asks CEO: "What happens if we invest in developing our people and then they leave us?"

CEO: "What happens if we don't, and they stay?"



Outline

- **Recent economic developments**
- **Regional comparisons**
- **The Legal framework for Investment in Zimbabwe**
- **Push and pull factors**
- **What is the government doing?**
- **Zimbabwe – IMF relations**



Recent economic developments

	2012	2013	2014 est	2015 est
Real GDP	\$11,2m	\$11,8m	\$12,1m	\$12,5m
Real GDP growth (annual % change)	10.6%	4.5%	3.1%	3.2%
Inflation	3.7%	1.6%	0.0%	0.4%
Trade balance	-\$2,9m	-\$3,1m	-\$2,8m	-\$2,7m
Current account balance	-\$3,1m	-\$3,4m	-\$3,0m	-\$3,1m
Capacity utilization in manufacturing sector	44.2%	39.6%	36.5%	



Regional comparison – total investment in percent of GDP

Country	2012 %	2013 %	2014 est %	2015 est %
Mozambique	53.6	50.1	50.1	57.5
Zambia	34.2	33.6	31.9	32.4
Botswana	39.2	33.9	31.9	31.3
SADC Average	21.8	21.5	21.4	21.8
South Africa	19.4	19.4	19.4	19.5
Malawi	16.9	16.9	19.9	20.2
Zimbabwe	14.2	14.4	13.7	12.9

Source : IMF



Regional comparison – net FDI in percent of GDP

Country	2012 %	2013 %	2014 est %	2015 est %
Zimbabwe	2.4	1.5	2.0	2.0
Malawi	2.0	2.4	2.6	2.4
Mozambique	36.5	33.0	29.8	26.7
SADC Average	1.0	1.2	1.7	2.1
Botswana	1.0	1.3	1.2	1.1
South Africa	0.4	0.7	1.0	1.0

Source : IMF World Economic Outlook Database



Zimbabwe's Export Markets

	2009	2010	2011	2012	2013
Total exports	US\$2,3b	US\$3,2 b	US\$3,5b	US\$3,9b	US\$3,5b
Top Country	South Africa	South Africa	South Africa	South Africa	South Africa
Value of exports to SA	US\$1,2 b	US\$1,7b	US\$2,4b	US\$2,7b	US\$2,6b
% of total exports	53%	54%	67%	69%	75%
2nd top export market	Netherlands	UAE	UAE	UAE	Mozambique
Top Product	Printed books, newspapers, picture	Precious stones, metals etc	Tobacco and manufactured tobacco substitutes	Precious stones, metals etc	Precious stones, metals etc
Value of the product as a % of total exports	19.2	19.5	20.4	37.0	27.6

Source: Trade Map



The Legal framework for Investment

● Indigenization and Economic Empowerment Policy and Law:

- ◆ The policy seeks to integrate the majority of Zimbabweans into the mainstream economy
- ◆ Implementation started in March 2010 after the gazetting of the IEE (General) Regulations of 2010
- ◆ The framework consists of 3 pieces of legislation: *the IEE Act, IEE regulation and the general notices for mining, manufacturing and other sectors*
- ◆ The 51/49 percent ownership structure applies to all sectors; implementation can be staggered (*National Budget 2015, p.216*).
- ◆ Amendments to the IEE have since been done through the Government Gazette



Implementation of IEE

Zimbabwe Investment Authority

- Processes new investment projects
- Forwards to line ministry for compliance with IEE

Line Ministry

- Carries out an assessment; negotiates with investor
- Assesses compliance with IEE
- Issues compliance certificate within 14 days of application (after assessment)
- Transmits copy of the compliance certificate to the Indigenisation Board for registration
- Monitors compliance with IEE
- Has been mandated to amend previously approved indigenisation plans at the request of the investor



The Legal Framework for Investment cont...

- The Investment Act
- The Environmental Management Act
- Local Authorities Act
- Immigration and work permits issuance
- Labor laws and regulations
- Dispute settlement systems: disputes are settled through the courts (civil, magistrates, high court and the supreme court)



Pull factors

- Population of 13.1 million with high literacy levels
- Macroeconomic and political stability
- Large mineral deposits, good climate, good soils
- Incentives for exporters as per 2015 Budget
- Export markets with preferential treatment under SADC, COMESA, EU
- Reduced transaction costs for new firms due to new technology and improved communications
- Limited exchange controls, i.e., flow of capital and the ease of repatriating dividends and capital
- Limited exchange rate risk



Push factors

- Inadequate infrastructure
- Liquidity challenges, high financial charges, NPLs, short term deposits, shallow financial markets, financial position of the central bank
- High cost of labor in comparison to the region
- The countries debt overhang at US\$8.3 billion in December 2014
- Deflation, unemployment, and weak South African Rand (main trading partner)
- Government policies encouraging outward FDI
- Perceived Corruption
- Trade deficit US\$3 billion in (Jan – Nov 2014) and nature of imports – consumptive rather than productive
- Low production levels at 36% (2014)



Targeted approach - Constraints and Plans for the Medium Term

	Constraint	Plans for the Medium Term
1.	Negative Image/ Perception	Launch the "Invest in Zimbabwe" Brand and conducting investment promotion tours
2.	Debt Overhang	Implementation of the debt strategy
3.	Inadequate funding for investment promotion activities	Continuous engagement with local investors and development partners
4.	Poor and Worn out Infrastructure	Encourage PPP/JV arrangements in infrastructure development
5.	Lack of access to long-term and low cost financing to business	Continuous negotiation for lines of credit and ratification of BIPPAs
6.	Use of antiquated technology	Encourage investment in modern technology
7.	Ineffective OSS	Amendment of ZIA Act to give legal effect to OSS operations and address secondment of staff



Other Government policies encouraging investment

- Doing business reform agenda
- Review of public entities
- The full operationalisation of the One Stop Shop, priority in 2015
- Special economic zones
- Investment policy formulation to bring coherence to all investment related policies and provide policy direction on the investment climate



Zimbabwe and the IMF

- In June 2014, Zimbabwe successfully completed an IMF Staff Monitored Programme (SMP) and met all the targets and commitments under that SMP
- Under that SMP, Zimbabwe sought to establish a credible track record of implementing comprehensive and sound macro-economic policies and reforms in order to send clear and positive signals to creditors through:
 - ◆ Strengthening public financial management
 - ◆ Reducing financial sector vulnerabilities
 - ◆ Increasing transparency in the flow of revenues from the mining sector



Zimbabwe and the IMF cont...

- The successor SMP provides a coherent macro-economic framework that supports the government's efforts to promote inclusive growth in line with ZIM ASSET
- The objectives of the new programme are to:
 - ❖ Consolidate the fiscal position
 - ❖ Improve the external position
 - ❖ Restore confidence in the financial sector;
 - ❖ Mobilise international support for resolving the external debt situation
 - ❖ Make progress in key structural reform areas in order to enhance the business climate, boost productivity and competitiveness, and build confidence



Useful documents and links

- IMF Reports www.elibrary.imf.org
- CZI Manufacturing Sector Survey www.czi.co.zw
- 2015 National Budget www.zimtreasury.gov.zw
- www.zimtrade.zo.zw
- www.investzim.com



Thank you!