



# **THE EUROMONEY ZIMBABWE BREAKFAST BRIEFING: 2009**

**Presentation by the Minister of Finance,  
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on

***Making Zimbabwe Move Again: Growth and Investment  
Opportunities in the New Zimbabwe***

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# INTRODUCTION

- After years of conflict and confrontation, a new era was ushered in Zimbabwe following the formation of the Inclusive Government, which commenced work in February 2009 having been established by the GPA executed by Zimbabwe's main Political Parties in September of 2008.
- The Inclusive Government inherited an economy with a number of challenges, which became more severe by 2008.

# INTRODUCTION (Cont.)

- *These challenges included:*
  - Shrinkage of the economy by over 40% over the period 2000 - 2008;
  - A decade-long high inflation which spiraled out of control to unprecedented levels of over 231 million percent by July 2008;
  - An almost collapse in economic activity with severe capacity underutilisation of below 10%, and subsequent shortage of basic commodities in the formal market;

# INTRODUCTION (Cont.)

## *Challenges Cont.*

- Price distortions and misalignments that were counterproductive and promoting speculative activities in both foreign exchange and goods markets;
- Erosion of Central Government Budget causing almost complete collapse in provision of public services particularly in health, education, water, sanitation;
- Shrinkage of the financial services sector;

# INTRODUCTION (Cont.)

## *Challenges Cont.*

- Low Reserves position with gross reserves of about US\$6 million; and
- Unsustainable external debt arrears of over US\$3.7 billion.

# SHORT TERM EMERGENCY RECOVERY PROGRAMME (STERP)

- Against a background of such severe economic and humanitarian crisis, the central thrust of the Inclusive Government, consistent with the GPA was to:
  - *Restore economic stability and growth and lay the basis for a more transformative mid-term to long-term economic programme that will turn Zimbabwe into a progressive developmental State.*

Pursuant to the above, the Short Term Emergency Recovery Programme (STERP) was launched on 19 March 2009.

# STERP (Cont.)

- STERP ANCHORS WERE AS FOLLOWS:

- A) Democratisation**

- Crafting of a new people-driven Constitution
    - Media Reforms
    - Strengthening the Rule of Law
    - Deepening personal freedoms and personal security
    - Consolidating the enjoyment of the rights to freedom of association and movement
    - Implementing a programme of National Healing

# STERP (Cont.)

## **B) Social Protection, including Social Safety Nets**

- Restoring delivery of social services in Health, Education, Water & Sanitation, Shelter and other social services.
- Assistance to Specially Targeted Vulnerable Groups
- Food and Humanitarian Assistance

# STERP (Cont.)

## C) Macro-economic Reforms

- **Adoption of multiple currencies and abandonment of the Zimbabwean Dollar**
- Removal of Quasi-fiscal Operations
- Removal of Controls in the economy including foreign exchange surrender requirements on exporters and price distortions;
- Removal of exchange controls;

# STERP (Cont.)

## C) Macroeconomic Reforms (Cont).

- Restoration of a regime of real positive interest rates;
- Revival of the financial services sector;
- Cash Budgeting
- *Launch of National Payments System,*
- *Reopening of the Zimbabwe Stock Exchange*

# STERP (Cont.)

## D) Supply Response

- Improving Capacity Utilisation in key productive sectors of agriculture, mining, manufacturing, construction, tourism, among others, from below 10% in January 2009 to 60% by June 2009.
- Revival of agriculture, manufacturing and other sectors;

### *Agriculture*

- Land Audit,
- Decontrolled Marketing of all agricultural commodities
- Removal of the GMB Monopoly in grain trading.

# STERP (Cont.)

## *Mining*

- Liberalised the marketing of ALL minerals including GOLD. (This entails levying of international commodity prices, and thus removed the gap between domestic and international prices and afforded mining house to get full value of their minerals;
- Removal of all foreign exchange surrender requirements on all mineral exports earnings including gold;
- Review of the Mining Fiscal regime

# STERP (Cont.)

## ***Manufacturing & Other Sectors***

- Removal of all price Controls
- Duty Reduction to 0 - 5% on capital equipment
- Other Special Capital Allowances

**E) Utilities and Infrastructure Rehabilitation.**

**F) Re-engagement with the International Community.**

# Developments in 2009

## Macro-Economic Stabilisation

### Inflation Reduction

- Successfully taming inflation from hyperinflation levels to single digit levels as indicated in the following month on month inflation figures for 2009:
  - Jan (-2.3%), Feb (-3.2%), March (-3.1%), April (-1.1%), May (-1.0%), **June (0.6%), July (1.0%), Aug (0.4%)**
  - Dec Projection (0.6%)
- Projected annual average for 2009 is now at – 7%.
- Key Factors for containing inflation:
  - Stable Multiple Currencies
  - Cash Budget
  - Supply Response

# Developments in 2009

## Improved Overall Capacity Utilisation

- *Capacity* Increase from below 4% in March 2009 to current levels of around 35 – 50% and in some cases around 70%.
- 2009 GDP growth initial projection of 3.7% now revised to 6 - 7%
- 2010 - 2012 GDP Projections: 6 - 15%
- Positive Sectoral growth rates expected particularly in Agriculture, Mining, Manufacturing, Tourism, etc

# Developments in 2009

## Public Services Delivery

- Some progress in health and education though constrained by availability of resources – financial, human capacity, etc

## **Health**

- Resource targeting of key institutions e.g. Harare, Parirenyatwa, Bulawayo and Mutare Hospitals.
- Drugs improvement from 32% to above 70% in some cases.
- Infrastructure rehabilitation e.g. water reticulation
- Equipment availability
- Incentives for attraction and retention of health personnel.

# Developments in 2009

## Public Services Delivery

### **Education**

- Reopening of Schools;
- Return back of teachers owing to stable incomes in hard currencies (though still low) complemented by staff incentives by parents;
- Clearance of examination marking backlog;
- Improvement in the supply of learning and teaching materials;

### **Utilities**

- Benefiting from introduction and implementation of viable economic tariffs, stable currencies and deregulation measures e.g. in the fuel industry;

# Developments in 2009

## Fiscal Developments 2009

- Revenues - Improving monthly collections from US\$5.6 million in January 2009 to above US\$90 million from July 2009.
- However, bulk of revenue is still driven by consumptive expenditures e.g. VAT at 43% with Corporate Tax at 4.4%
- Expenditures aligned to revenues in line with Cash Budgeting.
- Expenditures therefore still constrained by lack of resources:

# Developments in 2009

## Financial Sector Developments

- Zimbabwe Stock Exchange - Market capitalisation has increased from 0% on 19 February 2009 to about 400% by September 2009.
- National Payments System in place
- Ongoing Central Bank Reforms
- Growth of Banking sector Deposits to around \$1 billion.

# Developments in 2009

- Reengagement with the International Community.
  - Normalisation of working relations with the IMF, ADB and the World Bank;
  - Formal Resumption of Zimbabwe – EU Dialogue
  - Pledged resources by cooperating partners mainly for humanitarian assistance;
  - **Zimbabwe now requires developmental support in the form of direct investment, lines of credit and support for infrastructure development.**

# CURRENT KEY CHALLENGES

- Low Savings and Investment
- Low Capacity Utilisation
- Delivery of Public Services
- Resource Constraints
- Liquidity Constraints
- Infrastructure Rehabilitation and Development
- High External Debt (at above US\$5.7 billion, of which Arrears account for US\$3.7 billion).

# ADDRESSING THE CHALLENGES

- Resolving all outstanding and disempowering political issues:
  - Resolving all outstanding issues on the GPA
  - Concluding the Constitutional Reforms
  - General Rule of Law Issues
- Consolidating STERP

# ADDRESSING THE CHALLENGES

- Massive Foreign Direct Investment Drive:
  - For Infrastructure and in Productive Sectors
  - Promotion of PPPs
- Information and Communications Technology
- Regional Integration

# INVESTMENT ENVIRONMENT

- PEACE and SECURITY in the Country following the formation of the Inclusive Government;
- Skilled Human Resource Base;
- Relatively Low Production Costs
- High Returns from Investment even at the height of the crisis
- Abundant Natural Resources e.g.
  - Minerals Resources.
  - Agricultural land,
  - wildlife and Forestry,
  - Water bodies for irrigation etc,

# INVESTMENT ENVIRONMENT

- Consistent, and Predictable Economic Policies in the country under STERP.
- Conducive Stable Macroeconomic Environment following recent Reforms under STERP;
- Sound Financial Services Sector
- Supportive Institutional and Regulatory Framework
  - Zimbabwe Investment Authority ([www.zia.org](http://www.zia.org));

# INVESTMENT ENVIRONMENT

## Legal Framework

Zimbabwe a signatory to:

- SADC Finance and Investment Protocol
- Multilateral Investment Guarantee Agency;
- Overseas Private Investment Corporation (OPIC);
- International Convention on Settlement of Investment Disputes (ICSID);
- New York Convention on the Enforcement of Foreign Arbitral Awards;
- United Nations Convention on International Trade Law (UNCITRAL)

# INVESTMENT ENVIRONMENT (Cont.)

- **Supportive Infrastructure:**
  - Zimbabwe has a fairly strong infrastructural base e.g. an extensive and modern road and rail network, power generation and distribution network, 100% coverage of piped water in urban areas, banking facilities, telecommunications;

# INVESTMENT OPPORTUNITIES

## Sector Opportunities:

### Agriculture

- Sugar
- Horticulture
- Timber
- Contract Farming in Tobacco, Cotton, Tea, Coffee,

# INVESTMENT OPPORTUNITIES

## Sector Opportunities

### Manufacturing

Agro-processing; Textiles, Pharmaceuticals and Medicals Drugs, Agricultural Equipment & Implements, Fertilizers; Chemicals and Petroleum Products etc

### Mining

– Gold, Platinum, Chromite, Nickel, Coal, Diamonds, Iron Ore, Copper, Coal-bed Methane etc

# INVESTMENT OPPORTUNITIES

## Tourism

- Accommodation, Transport, safaris, Tour Operations etc
- Construction

## Infrastructure & Transportation:

- Road dualisation, railways, cargo and passenger air services, power generation, solar, coal-bed methane extraction,

# INVESTMENT OPPORTUNITIES (Cont.)

## Financial Sector

- Investment opportunities in Banking Services etc

## Fiscal Incentives

- Relaxed exchange control regulations eg
  - 100% free remittance and repatriation dividends
  - 100% remittance of capital de-investment proceeds,
  - Zero duties on capital imports
  - Effective mining taxation at 8%
  - Fundamental Review of Taxation Framework underway.
- Other details on ZIA website

# CONCLUSION

Allow me to give a few quotes from some Prominent Persons on Case for Re-engagement of Zimbabwe with the international Community:

**Donald Steinberg, Deputy President, International Crisis Group**

*“The combination of an Inclusive Government, a re-emerging and vibrant civil society, an educated population and workforce, a once-rich manufacturing, agricultural and mining sector waiting for recovery; and the goodwill of countries in its region and beyond can open the door to a post-conflict recovery that would benefit both its long-suffering people and the broader southern African region.*”

# CONCLUSION

*But for the hopeful possibilities inherent in this situation, a “wait-and-see” attitude from the international community, including the United States, risks creating a self-fulfilling prophecy of a return to conflict and repression.”*

*“A prosperous Zimbabwe could be an engine of growth for the region, providing key links to regional communications, transport and electricity grids. Zimbabwe has long been considered a potential breadbasket for the region, based on what used to be efficient agriculture, albeit needing serious and responsible land reform”*

# CONCLUSION

Let me conclude by saying that:

- Despite its political challenges, Zimbabwe has gotten out of the blocks sprinting.
- With the economy projected to grow at an average of 6% for the next 5 years and average returns on investment of more than 15 %, it offers a safe and exciting investment venue.

I THANK YOU FOR  
YOUR KIND  
ATTENTION.