



AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DEVELOPPEMENT

COUNTRY FOCUS REPORT 2024

ZIMBABWE

Driving Zimbabwe's Transformation
The Reform of the Global Financial Architecture





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ACRONYMS AND ABBREVIATIONS

AEO	Africa Economic Outlook
AfCFTA	Africa Continental Free Trade Area
AfDB	Africa Development Bank Group
ASUT	African Supply and Use Tables
CF	Common Framework
CFR	Country Focus Report
COMESA	Common Market for Eastern and Southern Africa
DFIs	Development Financial Institutions
ESAP	Economic Structural Adjustment Programme
ETD	Economic Transformation Database
FDI	Foreign Direct Investment
GCD	Global Compensation Deed
GDP	Gross Domestic Product
GNI	Gross National Income
ICT	Information, communication, and technology
IEA	International Emergency Agency
IFIs	International Financial Institutions
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contributions
MDBs	Multilateral Development Banks
NDC	Nationally Determined Contributions
NDS	National Development Strategy
NDS1	National Development Strategy 1
NZE	Net Zero Emissions
ODA	Official Development Assistance
PI	Portfolio Investment
PPP	Public-Private Partnership
PTA	Preferential Trade Area
RBZ	Reserve Bank of Zimbabwe
SDG	Sustainable Development Goals
SDR	Special Drawings Rights
SMEs	Small and Medium Enterprises
SMP	Staff Monitored Programme
SOE	State-Owned Enterprises
SSA	Sub-Saharan Africa
TFE	Training for Enterprise
USD	United States Dollar
WDI	World Development Indicators
ZIG	Zimbabwe Gold
ZNIDP	Zimbabwe National Industrial Development Policy
ZWL	Zimbabwe dollar

EXECUTIVE SUMMARY

Zimbabwe's economy has demonstrated steady growth since 2021, despite facing challenges such as high inflation and exchange rate volatility. In 2023, the real GDP growth rate was estimated at 5.0%, largely driven by the agriculture, mining and services sectors. However, a decline to 2.0% is forecasted for 2024 owing to expected lower agricultural output resulting from the El Niño-induced drought. To sustain and boost growth, there is a critical need to diversify the economy beyond traditional sectors to mitigate dependence on agriculture and enhance resilience to climate shocks.

Zimbabwe has a multi-currency monetary policy with the Zimbabwe Gold (ZIG) and other major international currencies being used for domestic transactions in the country. Until March 2024, the United States dollar (USD) and the Zimbabwe Dollar (ZWL) were the main currencies for domestic transactions, with the USD being preferred as a store of value and accounting for over 90% of domestic transactions. The ZWL nominal exchange rate depreciated by 89.8% against the USD in 2023, reaching ZWL 6,104/USD 1 by December 2023. The ZWL experienced a sharp depreciation of about 354% between December 2023 and March 2024, resulting in a loss of confidence in the local currency. To restore trust in the country's monetary policy and stabilise the economy, the Reserve Bank of Zimbabwe (RBZ) introduced a new currency, the Zimbabwe Gold (ZIG) on 5 April 2024. Since its introduction in April through to June 2024, the ZIG exchange rate to the USD remained stable averaging ZIG 13.4 to USD 1.

Zimbabwe witnessed one of the highest inflation rates in the world in 2023, when annual inflation reached a peak of 243%. The government reacted and adopted a blended inflation measurement which combined USD and ZWL prices in an 80:20 ratio and rebased its inflation statistics. This resulted in a significant fall of inflation rates, reaching the lowest level of 17.7% in August 2023. However, owing to the steep depreciation of the local currency exchange rate, inflation climbed up to 55.5% by March 2024. Since the introduction of the ZIG, inflation rates have come down substantially and the government started publishing USD and ZIG inflation rates in addition to the blended inflation rate.. Annual USD inflation for June 2024 declined to 3.76%. Month on month inflation rates for June stood at 0.3% and 0.0% for USD and ZIG, respectively. This indicates that the introduction of the ZIG has brought about price stability in the economy. Maintaining fiscal discipline and prudent monetary policies will remain essential for sustained exchange rate stability and maintaining low levels of inflation.

Zimbabwe has seen minimal structural transformation over the past four decades, with the economy remaining heavily reliant on primary sectors such as agriculture and limited progress in transitioning to higher-value sectors such as manufacturing. Investment in technology and infrastructure is imperative to enhance productivity and support economic diversification. Low labour productivity highlights the need for significant improvements in education and skills for employability. Infrastructure deficits, particularly in power

generation and transportation, present substantial challenges that must be addressed to support economic activities and attract investment.

Substantial financial resources are required for Zimbabwe to achieve meaningful structural transformation. The AfDB estimates that Zimbabwe has an estimated annual financing gap equivalent to 13.4% of GDP (USD 3.7 billion) and 2.3% of GDP (USD 0.66 billion) to achieve the desired structural transformation by 2030 and 2063, respectively. The magnitude of these estimated financing needs and gaps casts doubt on the ability of Zimbabwe to mobilise these financial resources. This is mainly because Zimbabwe remains in a peculiar situation owing to its long outstanding, unsustainable debt.

Zimbabwe's public debt, at 96.7% of GDP, remains unsustainable and obstructs the country's ability to access external development assistance, posing a substantial challenge to economic growth. Immediate debt restructuring and clearance of arrears are crucial to creating fiscal space for infrastructure investment and attracting foreign direct investment. Effective debt management is critical to ensuring that borrowed funds are utilised efficiently, supporting economic development without exacerbating the debt burden. Addressing the significant financing gap for climate action is also crucial, given Zimbabwe's vulnerability to climate change. Leveraging various financing mechanisms, including public-private partnerships (PPPs), is necessary to mobilise resources for key projects.

Zimbabwe holds considerable potential for significant economic transformation. To realise this potential, it must effectively manage its debt, diversify its economy and invest in critical infrastructure and human capital. In addition, Zimbabwe must decisively address the high levels of informality, considered one of the highest in the world. Tackling these challenges through strategic policies and efficient resource mobilisation will be vital for achieving sustainable development and economic resilience. Drivers for accelerating structural transformation in Zimbabwe include advancing technology and infrastructure development mainly electricity power generation and distribution, transportation and water supply infrastructure. Human capital development and good governance are also essential enablers for Zimbabwe's structural transformation.

GENERAL INTRODUCTION

Over the four decades preceding COVID-19, Zimbabwe's economic performance was generally positive, with real GDP growing at an average rate of 4.0%. GDP per capita growth, though slow, was positive, averaging 4.0% between 2010–2019, surpassing regional averages for Southern Africa (1.7%) and Africa (1.6%). Zimbabwe has faced substantial economic challenges over the past decades, including hyperinflation, political instability and international sanctions, which have significantly impeded its economic development and transformation efforts. Despite these challenges, Zimbabwe's strategic location and abundant natural resources offer significant potential for growth and development.

This 2024 Country Focus Report for Zimbabwe mirrors the comprehensive analyses found in the African Economic Outlook 2024, providing a detailed examination of Zimbabwe's current economic status, its progress in structural transformation and the financial requirements for future growth.

The report is organised into three main chapters. Chapter 1 reviews Zimbabwe's recent economic performance, highlighting key macroeconomic indicators and offering a growth outlook that identifies both opportunities and risks. Chapter 2 evaluates the progress Zimbabwe has made in transforming its economy, pinpointing the main drivers and bottlenecks, and outlining opportunities for further structural transformation. Chapter 3 examines the financial landscape in Zimbabwe, exploring options for mobilising additional resources, managing debt and financing crucial initiatives such as climate action to support the country's structural transformation.

ZIMBABWE'S ECONOMIC PERFORMANCE AND OUTLOOK

1

KEY MESSAGES

- Since 2021, the Zimbabwean economy has been steadily growing despite domestic macroeconomic instability characterised by high inflation and exchange rate volatility. In 2023, real GDP growth was estimated at 5.0%, a moderation from 6.1% growth registered in 2022. This growth was mainly driven by the agriculture, mining and services sectors. The growth outlook is positive, but a substantially lower GDP growth rate is projected for 2024 at 2.0%, mainly on account of below-average agriculture output owing to drought caused by El Nino weather.
- Zimbabwe introduced a new currency, the Zimbabwe Gold (ZIG), on 5 April 2024 to replace the Zimbabwe dollar (ZWL). The introduction of the ZIG is an attempt to restore trust in the local currency. On its introduction the ZIG was backed by a USD 100 million cash reserve and a 2,522 kg gold reserve equivalent to USD 185 million. Its exchange rate is determined by the “willing-buyer-Willing-seller” market rate.
- Zimbabwe's public debt has increased by 54.7% from USD13.7 billion in 2021 to USD 21.2 billion in 2023 mainly due to the inclusion of USD3.5 billion Global Compensation Deed (GCD) for former farm owners' and RBZ liabilities assumed by the Treasury in 2015, 2021 and 2023, amounting to USD3.7 billion.
- Arrears on principal, arrears on interest and penalties account for 78% of multilateral and bilateral debt of USD 9.4 billion. Paris Club debt amounts to USD 4.1 billion, while non-Paris Club debt amounts to USD 2.1 billion. The five biggest Paris Club creditors are Germany, France, the United Kingdom, Japan and the United States, with a combined debt stock of USD 3.1 billion, accounting for 76 per cent of the total Paris Club external debt. China is the biggest non-Paris Club creditor, with a debt stock of

Zimbabwe's economic growth has been strong despite macroeconomic instability and impacts of climate change.

1.1 Growth performance

Economic growth and drivers: Since 2021, the Zimbabwean economy has continued to grow, despite domestic macroeconomic instability characterised by high inflation and exchange rate volatility. Real GDP growth was estimated at 5.0% for 2023, a moderation from the 6.1% growth registered in 2022. Real GDP growth in 2023 was mainly driven by expansion of agriculture output, favourable commodity prices in the mining sector and growth in the tourism and services sectors.

1.2 Other recent macroeconomic, institutional and social fragilities

Monetary policy: Zimbabwe has a multi-currency monetary policy that allows major international currencies to be used for domestic transactions alongside the local currency. Until March 2024, the USD and the ZWL were the main currencies for domestic transactions, with the USD being preferred as a store of value and accounting for over 90% of domestic transactions. The ZWL nominal exchange rate depreciated by 89.8% against the USD in 2023, reaching ZWL 6,104/USD 1 by December 2023. By March 2024, the ZWL exchange rate had depreciated significantly to ZWL 22,440/USD 1. On 5 April 2024, the Reserve Bank of Zimbabwe (RBZ) introduced a new currency, called the Zimbabwe Gold (ZIG), to replace the ZWL. The introduction of the ZIG was an attempt to restore trust in the local currency and the country's monetary policy. According to the RBZ, on its introduction the ZIG was backed by a USD 100 million cash reserve and 2,522 kg of gold reserve equivalent to USD 185 million. Its exchange rate is determined by a "willing-buyer-Willing-seller" market rate. Upon its introduction, the ZIG exchange rate stood at ZIG 13.5/USD 1 and has been largely unchanged until June 2024.

Inflation: Zimbabwe witnessed one of the highest inflation rates in the world in 2023, when annual inflation peaked at 243%.

The Government reacted and adopted a blended inflation measurement which combined USD and ZWL prices in an 80:20 ratio and rebased its inflation statistics. Inflation significantly declined, reaching the lowest level of 17.7% in August 2023. As a result, the average annual inflation for 2023 stood at 29.4%. However, owing to the steep depreciation of the local currency exchange rate, inflation had climbed up to 55.5% by March 2024. Since the introduction of the ZIG, inflation rates have come down substantially and the government started publishing USD and ZIG inflation rates in addition to the blended inflation rate. Annual USD inflation for June 2024 declined to 3.76%. Month on month inflation rates for June stood at 0.3% and 0.0% for USD and ZIG, respectively. This indicates that the introduction of the ZIG has brought about stability in the economy. **Fiscal deficit:** The fiscal deficit has remained below 3% of GDP target since 2021, supported by enhanced revenue mobilisation amidst fiscal consolidation. The Government has undertaken key reforms to enhance value for money in public procurement and is implementing domestic revenue mobilisation reforms aimed at widening the tax base. The fiscal deficit was estimated at 2.0% of GDP in 2023, from 2.1% of GDP in 2022. Revenues picked up from 15.4% of GDP in 2020 to 17.2% of GDP in 2022 and 18% of GDP in 2023. The 2024 national budget estimated a further revenue growth of 18.3% of GDP and expenditures at 19.8% of GDP, with a deficit of 1.5% of GDP in 2024. The large informal sector is a missed opportunity for increased domestic resource mobilisation. Zimbabwe must enhance formalisation of the informal sector to widen the tax base.

Public debt dynamics: Zimbabwe's debt position remains unsustainable and is a major obstacle to the successful implementation of the country's National Development Strategy 1 (NDS1). Zimbabwe's public debt increased substantially in nominal terms by 54.7% in 2023. Total debt increased to 96.7% of GDP (USD 21.2 billion) in 2023 from

62.1% of GDP (USD 13.7 billion) in 2021, driven mainly by growth in domestic debt. Domestic debt increased to USD8.1 billion in 2023 from USD 5.2 billion in 2022. The increase in domestic debt in 2023 is due to the issuance of USD 2.84 billion Treasury bonds. That's USD 924 million to expunge legacy debts at the RBZ and USD 1.92 billion capitalisation loan to Mutapa Investment Fund (MIF). Zimbabwe must curb its domestic borrowing, which has been a driver of inflation in the past. This can be done through the elimination of quasi-fiscal operations of the RBZ and

limiting its expenditures to available budget resources.

The current account balance: The current account surplus increased marginally, from 1.0% of GDP in 2022 to 1.3% of GDP in 2023 on the back of increased export earnings, mainly from mineral and agricultural commodity exports. The main export commodities are minerals, including gold and platinum-group metals. As of April 2024, official reserves stood at USD 285 million in cash and mineral deposits.

Table 1 : Macroeconomic and social indicators

	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)
Real GDP growth	-6.3	-7.8	8.5	6.1	5.0	2.0	3.5
Real GDP growth per capita	-8.3	-9.9	6.4	4.1	3.2	1.2	1.5
Inflation	237.2	12.1	19.7	41.9	29.4	24.9	17.4
Overall fiscal balance, including grants (% GDP)	0.2	1.5	-2.0	-2.1	-2.0	-1.5	-1.5
Primary balance (% GDP)	0.5	1.7	-1.5	-1.5	-1.1	-0.8	-0.6
Current account (% GDP)	3.5	2.5	1.0	1.0	1.3	0.7	0.1

Source: AfDB Statistics Department, April 2024

Note: Source – Data from domestic authorities; estimates (e) and predictions (p) based on authors' calculations.

Poverty and unemployment: Poverty levels remained high, estimated at 39.8% in 2023.¹ Unemployment was estimated at 18.5% in the fourth quarter of 2023 and was higher among youth aged 15–34 years, at 26%. While unemployment estimates are comparable to the region, Zimbabwe's situation is unique because the majority of those employed are in the informal sector. In the fourth quarter of 2023, it was estimated that about 87% of total employed persons were informally employed.

Institutional and social fragilities: Zimbabwe's NDS-1, 2021–2025 and

sector-specific strategies, workplans or action plans underscore the need to strengthen resilience in the country. To invest in resilience, it is fundamental to provide a basis for understanding the underlying factors of instability and limitations to Zimbabwe's transition. Collecting data on sources and drivers of fragility aids policy decision-making and improves targeting of critical socio-economic reforms to aid social cohesion. The Government can better understand policy or institutional gaps, sources of risk and pressures, thereby improving mitigation and preparedness.

¹ United Nations Development Programme Human Development Report, 2024.

Box 1.1: Impact of tighter international financial conditions

The global economy has experienced unprecedented slow growth in recent years, mainly due to the impacts of the devastating COVID-19 pandemic, climate change, wars and political conflicts. This has prompted developed and emerging economies to focus on recovery of domestic economies, prioritising the lowering of inflation and interest rates and stabilising financial market vulnerabilities to stimulate economic growth. The world is facing the weakest medium-term growth outlook in three decades amid high debt levels, fragmented trade and high interest rates. As with all other countries, Zimbabwe has been hit hard by the tightening of the global economy; this is being felt through declining terms of trade of key minerals. Zimbabwe is also facing a funding squeeze, heightened food insecurity and high debt burdens, plus a sharp increase in debt servicing costs. Interest rates are high, with a base rate at 20%. Moreover, limited medium to long-term capital inhibits private sector investment. Public debt remains high at about 96.7% of GDP, while government revenues remain low at about 18% of GDP. The situation for Zimbabwe is exacerbated by the devastating impact of the drought caused by El Nino weather. It is estimated that the country will require over USD 2 billion in food assistance, as half of the population needs food assistance.

1.3 Outlook and risks

Growth outlook: The economic growth outlook for 2024 is positive, but a substantially lower GDP growth is projected at 2.0% mainly on account of below-average agriculture output owing to drought caused by El Nino weather. The poor performance of agriculture is also expected to have a negative knock-on effect on the manufacturing sector. Growth is therefore expected to be positively driven by mining and services sectors.

Inflation: Annual inflation is expected to ease to about 7% by end of 2024 on account of exchange rate stability following the introduction of the ZIG. However, food shortages could spike inflation as food prices rise.

Fiscal Deficit: The fiscal deficit is expected to narrow to -1.5% of GDP in 2024 on account of improved revenue mobilisation and stringent budget execution. The Government continues to implement fiscal reforms, including enhancing domestic resource mobilisation, rationalisation of travel expenses, ensuring value for money in public procurement and a recruitment freeze on non-essential services. However, the country has been hit by drought caused

by El Nino weather and food production has fallen to below average with an estimated half of the population (7.5 million people) requiring food assistance. This food shortage will exert significant pressure on government spending and the fiscal deficit target for 2024 could be difficult to attain.

Current account: The current account balance is forecasted to remain positive, but to narrow for 2024 and 2025 at 0.7% and 0.1% of GDP respectively, supported by the anticipated improved commodity export prices and an increase in remittances as the global economy regains momentum. However, international mineral prices are expected to remain subdued and pose a risk to maintaining a positive current account, as Zimbabwe depends heavily on its exports of gold and platinum group metals.

Potential risks: The downside risks remain elevated due to the country's high dependence on the agriculture sector and its vulnerability to climate shocks. The country is confronted with significant risks, including the impacts of geopolitical conflicts, climatic shocks and electricity shortages. These risks could negatively impact economic activities and inhibit economic growth.

1.4 Policy options to foster high and resilient growth

Restoring Zimbabwe's path to sustained and inclusive growth will require establishing macroeconomic stability, investing in human and physical capital, addressing structural bottlenecks to private sector investment and integrating informality into formality. The country also must strengthen resilience to fragility factors and transition to higher productivity by emphasising value addition in its key sectors of agriculture, industry and mining. In addition, Zimbabwe must address infrastructure bottlenecks, including transportation and power generation and distribution which are needed to support private sector investment. Addressing the unsustainable debt challenge is core to achieving economic transformation. This

requires the country to address other core issues, including strengthening governance.

Despite these challenges, Zimbabwe has significant potential for growing the economy and enhancing structural transformation. For example, the country has substantial non-renewable and renewable natural resources, significant arable land and dams for enhancing agricultural production, together with has significant potential for renewable energy generation. In addition, it is endowed with a diverse mineral resource base, with at least 40 minerals that have been extracted or confirmed at various times. Combined with the high levels of skilled work force, this could propel the country to the higher levels of growth that are needed for structural transformation.

TAKING STOCK OF ZIMBABWE'S STRUCTURAL TRANSFORMATION PROGRESS

KEY MESSAGES

- Zimbabwe has demonstrated remarkable resilience over the last four decades. Despite economic challenges in the last two decades, the economic performance was generally positive, with real GDP growing at an average rate of 4.0%. Growth was underpinned by the traditional sectors of services, agriculture, mining and industry. As with other countries, the country was severely affected by the COVID-19 pandemic in 2020, but since 2021 economic performance has rebounded. However, climatic shocks have become more regular and pose a major threat to the achievement of development aspirations of Vision 2030.
- The Zimbabwean economy experienced minimal economic transformation in the last decade as growth was underpinned by the traditional sectors of services, agriculture, mining and industry. Structural transformation is understood as the shift of an economy's structure from low-productivity, labour-intensive activities to higher-productivity, capital- and skill-intensive activities. In the last decade, labour shifted from industries with higher value-added, such as agriculture, industry and high-productivity services, to industries with a lower value-added, including services and wholesale and retail trade. The prerequisite for Zimbabwe's transformation is debt restructuring and clearance of arrears to create fiscal space, attract FDI and unlock access to global financing opportunities.
- The country transitioned from a low-income country to a lower-middle-income country in 2019. However, labour productivity growth has remained depressed and ranks second to last among 17 low middle-income countries (LMIC) economies in Sub-Saharan Africa (SSA)².
- Zimbabwe's vision is to become an upper-middle income country by 2030. However, economic growth in the last four decades has been below the desired levels for achieving this vision. The development results achieved have been sub-optimal and insufficient to spur the economy to expected levels of sustainable economic development owing to both exogenous and endogenous factors, including deterioration of terms of trade and impacts of climate change.
- The AfDB estimates that Zimbabwe has an annual financing gap equivalent to 13.4% of GDP (USD 3.7 billion) and 2.3% of GDP (USD 0.66 billion) to achieve desired structural transformation by 2030 and 2063 respectively. The magnitude of these estimated financing needs and gaps casts doubt on the ability of Zimbabwe to mobilise these financial resources. This is mainly because Zimbabwe remains in a peculiar situation owing to its long outstanding, unsustainable debt.
- The Africa Continental Free Trade Area Agreement (AfCFTA) offers a great opportunity to Zimbabwe, mainly because of its central location in Southern Africa. The AfCFTA could offer an opportunity to Zimbabwe to fast-track structural transformation and propel the country towards the achievement of Vision 2030. Zimbabwe is now pursuing outward-oriented policies to take advantage of the AfCFTA.

²Country Economic Memorandum, World Bank, 2022.

2.1 Introduction

Zimbabwe is a lower-middle-income country with a Gross National Income (GNI) per capita of USD 1,600 in 2023. Its economy is natural resource-based with agriculture, industry, mining and services contributing over 80% to GDP. In the last decade, Zimbabwe's economic performance had been generally positive, with real GDP growing at an average rate of 4.0%. GDP per capita growth, though slow, was also positive, averaging 4.0% between 2010 and 2019.

Public debt is a major obstacle to Zimbabwe's economic transformation.

This chapter analyses Zimbabwe's economic growth in the last four decades and probes the extent of structural transformation during this period. Structural transformation is generally defined as the shift of workers from activities and sectors with low average labour productivity to those with high average labour productivity, thus contributing to an increase in average labour productivity for the overall economy. The analysis in this chapter takes both a historical perspective and a forward-looking approach to structural transformation, comparing Zimbabwe's performance with that of Africa and peer countries and drawing lessons for the future. The analysis also estimates the impact of a wide array of socio-economic, financial, governance and external factors on Zimbabwe's structural transformation. The chapter also analyses

the financing needs and financing gaps, with the objective of highlighting the main pull and push factors that would guide both evidence-informed policymaking and investment opportunities.

2.2 Taking stock of economic performance and transformation in Zimbabwe.

Over the four decades preceding COVID-19, Zimbabwe's economic performance was generally positive, with real GDP growing at an average rate of 4.0%. GDP per capita growth, though slow, was positive, averaging 4.0% between 2010 and 2019, surpassing regional averages for Southern Africa (1.7%) and Africa (1.6%). Post-independence in the 1980s, Zimbabwe saw promising growth driven by agriculture and mineral exports. However, the late 1990s saw a downturn resulting in the decline of GDP growth significantly below the regional average. The early 2000s were marked by severe economic decline, with hyperinflation peaking in 2008 owing to economic challenges following the implementation of the controversial land reform programme in 2000. Dollarisation in 2009 brought brief stabilisation and recovery, but GDP growth remained below potential owing to structural issues, including electricity and transport infrastructure and climatic shocks, mainly in the form of droughts.

Figure 2.1: Zimbabwe's Real GDP growth compared to Southern Africa and Africa (percent)

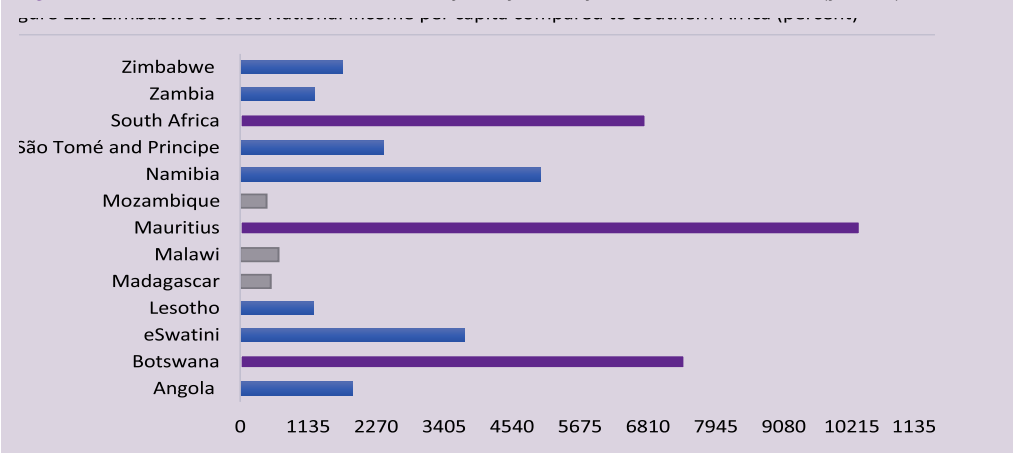


The COVID-19 pandemic in 2020 caused real GDP and per capita growth to drop by 7.8% and 9.7% respectively. Nonetheless, the country showed resilience and GDP per capita rebounded to 6.3% in 2021, before slowing down to 4.4% in 2022 and 2.4% in 2023, owing to factors such as El Niño-induced droughts, which reduced agriculture production, and the global impact of the invasion of Ukraine by the Russian Federation, which increased the prices of essential commodities.

Zimbabwe transitioned from a low-income country to a lower-middle-income country in 2019 and had a GNI per capita of USD 1,710 in 2022. Compared to its neighbours in the Southern Africa region, Zimbabwe's GNI per capita is higher than Zambia's (USD 1,240) and Mozambique's (USD 440) but lower than South Africa's (USD 6,780) and Botswana's (USD 7,430)³. Zimbabwe's aspiration of Vision 2030 is to become an

upper-middle income country. To attain upper-middle-income status by 2030, there is a need for sustained economic growth and structural transformation through political stability, good governance, economic reforms, infrastructure development, human capital development and enhanced agricultural and industrial productivity. The country has an NDS1, 2021–2025 which is underpinned by four critical issues that should propel the country to its vision. These are (i) recognition that bold and transformative measures are required to transform the country; (ii) international re-engagement is needed but, in the meantime, the country should mobilise domestic growth opportunities; (iii) the country must maximise its comparative advantages, including its vast natural resource endowments; and (iv) the country must embrace good corporate governance.

Figure 2.2: Zimbabwe's Gross National Income per capita compared to Southern Africa (percent)

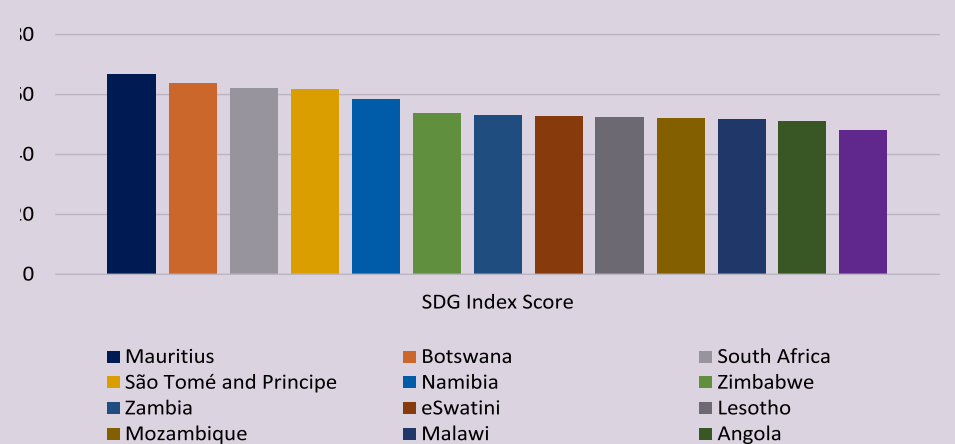


Zimbabwe has made significant progress in implementing the Sustainable Development Goals (SDGs), although the results have been mixed. The country has achieved notable advancements in climate action (SDG 13) at 78.9%, Quality Education (SDG 4) at 70.7%, and Gender Equality (SDG 5) at 67.1%. However, it still faces significant challenges in areas such as No Poverty (SDG 1) at 22.8% owing to the economic slowdown in recent years; Zero Hunger (SDG 2) at 36.1%,

as droughts and declining agricultural investment have reduced productivity and overall production; and Clean Water and Sanitation (SDG 6) at 48.9%, where population growth has strained national water resources and growing informal settlements lack adequate water supply and sanitation services, leading to prevalent waterborne diseases.⁴ Figure 2.3 below compares Zimbabwe's progress on SDGs with other countries in Southern Africa.

³ According to World Bank Group country classifications by income 2022.
⁴ Zimbabwe Progress Review report of Sustainable Development Goals, 2020.

Figure 2.3: Comparison of SDG index scores



2.3 Zimbabwe's structural transformation: Drivers, bottlenecks and opportunities

(a) Structural and economic transformation in Zimbabwe

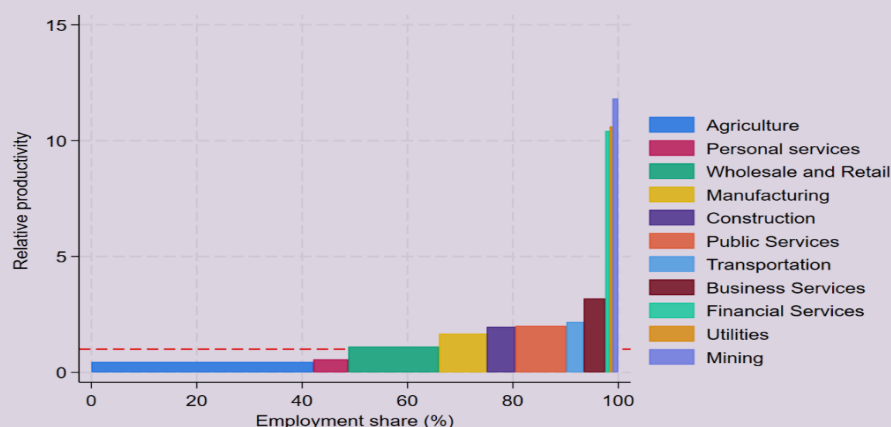
Trends in labour productivity: Zimbabwe's labour productivity growth has remained depressed and ranks second to last among 17 LMIC economies in Sub-Saharan Africa.⁵

The World Bank Country Economic Memorandum 2022 for Zimbabwe notes that the country's productivity has been weighed down by weak productivity in the agricultural sector despite significant support to the sector since the early 2000s. Despite large public support, growth of labour productivity and yields of major crops have been well below those in peer countries. Given that the agriculture sector accounts for two-thirds of the country's employment, its performance has a major

bearing on overall labour productivity. Recent gains in industry and services productivity growth have been offset by low productivity growth in the informal sector. On the one hand, productivity growth of industry and services has been significant, though it is still below its peers in SSA. Focusing on firm level data, Zimbabwe is on par with its peers in SSA in terms of manufacturing sector productivity, and productivity is even above regional peers in subsectors such as food and chemicals. On the other hand, the further expansion of informality in industry and services in recent years has offset these gains and served to pull down overall productivity. Figure 2.4 below shows relative sectoral productivity and employment shares in selected African countries. This is evidence that while the agricultural sector employs most workers in a country, its labour productivity is the lowest. This is because of the large informal agriculture sector dominated by smallholder farmers.

⁵ Country Economic Memorandum, World Bank 2022.

Figure 2.4: Relative sectoral productivity and employment shares in selected African countries, 2018⁶



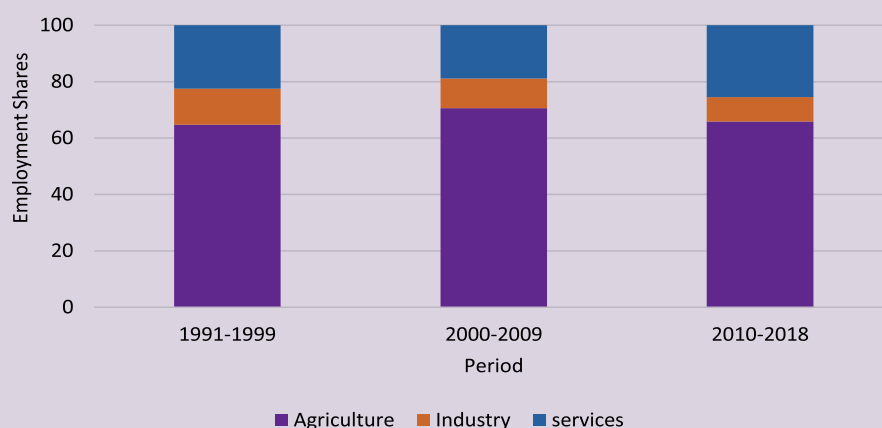
Note: Figure shows the unweighted average of 21 African countries in the Economic Transformation Database (ETD): Botswana, Burkina Faso, Cameroon, Ethiopia, Egypt, Ghana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Morocco, Namibia, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Tunisia, Uganda and Zambia. Source: Authors' illustration using ETD (Kruse et al., 2023).

The Zimbabwean economy experienced minimal economic transformation in the last decade, as growth was underpinned by the traditional sectors of services, agriculture, mining and industry.

Structural transformation is understood as the shift of an economy's structure from low-productivity, labour-intensive activities to higher-productivity, capital- and skill-intensive activities. In the last decade, labour shifted from industries with higher value-added, such as agriculture, industry and high-productivity services, to industries with a lower value-added, including services and wholesale and retail trade. Industry also faced difficulty in upgrading or retooling

firms owing to the high cost of capital and inputs. The services sector remained the major contributor to GDP, averaging over 50% since 2010. The share of the services sector has been growing in recent years, averaging 55% since 2018. In addition, the persistent socio-economic pressures led to human capital flight of an estimated 3 million (mostly skilled Zimbabweans). Figure 2.5 below shows sectoral employment shares in Zimbabwe. The agricultural sector dominates in terms of employment, accounting for 50% to 60% of employment in most African countries. Zimbabwe is no exception, as the agriculture sector employs about 60% of the labour force.

Figure 2.5: Sectoral employment share in Zimbabwe, 1990-2018



⁶In this graph the Economic Transformation Database (ETB) is used for a more detailed breakdown, but it only covers 21 African countries, excluding Zimbabwe.

(b) Unpacking the country's structural transformation through labour productivity decomposition.

Several policies and strategies have been implemented in Zimbabwe since independence in 1980. Zimbabwe's economic development over the past four decades has been hampered by macroeconomic instability, shocks and structural challenges in the economy. In the 1990s and early 2000, the manufacturing sector was the leading sector in the economy in terms of contribution to GDP, formal employment and foreign exchange earnings through exports. However, in the subsequent two decades, several challenges resulted in massive de-industrialisation which left the economy highly dependent on the mining sector and only a few agricultural commodities. The implementation of the land reform programme in 2000 was a major blow to Zimbabwe's drive to economic transformation. The country's industrial base had collapsed by 2008. The unfavourable business environment which prevailed during the two decades was characterised by high production costs, mainly owing to foreign exchange shortages, high utility costs and limited funding for new investments. Weak State-Owned Enterprises (SOEs) have also contributed to slow transformation.

In 2019, the Government started the implementation of fiscal adjustment policies accompanied by a series of monetary and foreign exchange reforms that helped reduce price and exchange rate volatility. Also in 2019 the Government adopted the National Industrial Development Policy (ZNIDP) (2019–2023). The policy was aligned to the Vision 2030 to transform Zimbabwe into an upper-middle-income economy by 2030 and to respond to regional, continental, and global

developments with regards to the thrust on industrial development.

(c) Rapid growth in income and jobs embodied in services export: new evidence

The AfCFTA has provided an opportunity to African countries to boost their economies and expand market size. The AfCFTA offers an opportunity to Zimbabwe and the African continent in general to fast-track structural transformation. Zimbabwe is now pursuing outward-oriented policies to take advantage of the AfCFTA. The aim is to benefit from regional and global markets. Zimbabwe is generally open to international trade and has ratified various protocols that support a liberal economy. Zimbabwe is the 12th highest ranking country amongst African countries on the free movement of people ranking on the 2023 Africa Regional Integration Index, with a value of 0.40 coming 3rd in Africa. It is a member of the Southern African Development Community (SADC), the Preferential Trade Area of Eastern and Southern Africa and the Common Market for Eastern and Southern Africa, which are the main regional bodies that promote regional integration.

Mensah and de Vries (2024) used the newly released database of national input-output tables and supply-use tables for African countries (Africa Supply and Use Tables (ASUT) Database) to calculate the domestic value-added and jobs embodied in exports using the hypothetical extraction method introduced by Los et al. (2016). This method considers the ratio of value-added to gross output and the ratio of employment to gross output to compute the value-added and jobs embodied in exports respectively. Although Zimbabwe was not one of the 11 countries analysed, Figure 2.6 and Table 2.1 show striking changes in employment and value-added contributions by sector over time. This analysis shows that the

share of domestic value-added embodied in exports is decreasing in agriculture, remaining relatively stable in mining, slightly decreasing in manufacturing and increasing in services. The results are consistent with the broad patterns of structural changes

documented above, where services are the driving force behind recent structural changes in African countries. As earlier indicated, the services sector in Zimbabwe has become dominant, contributing over 50% to GDP annually.

Figure 2.6: Sectoral domestic value-added embodied in exports (percentage of GDP), 1990, 2007 and 2019



Table 2.1: Number of jobs embodied in exports

Sector	Jobs induced by foreign demand (thousands)			Share (Percentage of total employment)		
	1990	2007	2019	1990	2007	2019
Agriculture	6,406	10,430	7,858	6.3	6.6	3.2
Mining	1,895	2,715	2,392	1.9	1.7	1.0
Manufacturing	4,077	7,746	8,643	4.0	4.9	3.5
Business and financial services	106	425	1,106	0.1	0.3	0.4
Other services	1,146	3,027	6,545	1.1	1.9	2.6
Total	13,628	24,343	26,544	13.3	15.5	10.7

Source: Reproduced from Mensah and de Vries (2024). The value-added and jobs embodied in exports are computed using the newly released ASUT Database. The figure and table show unweighted average of the 11 African countries covered in the database: Cameroon, Ethiopia, Ghana, Kenya, Mauritius, Nigeria, Rwanda, Senegal, Tanzania, South Africa and Zambia.

(d) Drivers to accelerate structural transformation.

The African Economic Outlook 2024 emphasised the critical role of structural transformation in fuelling Africa's economic growth. Evidence from analysis of data from 1990 to 2019 suggests that

structural transformation – both labour reallocation and within-sector productivity growth – had the most significant positive impact on Africa's growth in the 1990s, a decade characterised by subdued growth rates. The evidence also showed that structural transformation has significantly contributed to a reduction of extreme poverty and inequality on the

continent. Hence, accelerated structural transformation is critical for aiding countries to attain socio-economic development much more quickly.

Drivers for accelerating structural transformation in Zimbabwe include advancing technology, infrastructure development, mainly electricity power generation and distribution, transportation infrastructure and water supply. According to the 2019 AfDB infrastructure report, Zimbabwe requires USD 34 billion for the next ten years to build robust infrastructure and attain the level of regional counterparts. Human capital development and good governance are also essential enablers for Zimbabwe's structural transformation. The country has made strides in all these areas, as discussed below.

Zimbabwe has made strides in the uptake and use of information, communication and technology (ICT) over the years but more must be done, especially to improve regulations and allow healthy competition in the ICT sector. According to the Africa Infrastructure Development Index, Zimbabwe's ICT Composite Index score improved from 0.08/100 in 2010 to 16.13/100 in 2022. However, the cost of telecommunications services is relatively high compared to other countries in the region. This is largely attributed to the lack of strong competition in the sector. The country has a substantial, but inadequate stock of public infrastructure and a major gap has grown between required infrastructure and current capacity.

Power production and distribution is constrained in Zimbabwe, resulting in low access to electricity. The 2022 national population and housing census estimated that 62% of households have access to electricity; of those, 33.7% accessed grid electricity while 28% access

off-grid sources. The Africa Energy Portal showed access to electricity at 41.1% at the national level, 85.4% in urban and 20.1% in rural areas in 2019, hence the recent estimates indicate a significant improvement in terms of access to electricity. This can be attributed to increased power generation from the Hwange Thermal Power Station and the rehabilitation of some sub-stations and distribution networks. However, ageing infrastructure and a lack of adequate investment pose a major constraint to increased access to electricity, as approximately 70% of the generation, transmission, and distribution network infrastructure is older than 50 years. Several projects of significant importance to the region are in the pipeline and would contribute to increased access to electricity for Zimbabwe and the region. These include the ZIZABONA Power Interconnection Project⁷, the Kariba and the Batoka projects.

Zimbabwe's transport infrastructure is robust but lacks investment for rehabilitation. Zimbabwe's Africa Infrastructure Development Index ranking on transport was estimated at 12.09/100 in 2022, slightly up from 11.3 in 2019 mainly on account of road rehabilitations. Road maintenance remains a challenge owing to limited financial resources for rehabilitation. The country also has a robust railway network of 3,100 km, but it also needs significant investment for rehabilitation.

Water and sanitation infrastructure remain underdeveloped and access to clean water has deteriorated in recent years. The Africa Infrastructure Development Index for water and sanitation put Zimbabwe at 67.3 in 2022, a marginal decline from 67.46 in 2017. Again, limited investment coupled with ageing infrastructure and poor maintenance are the main contributing factors to the current state.

⁷Zimbabwe, Zambia, Botswana, and Namibia.

Having an educated and skilled workforce is a critical driver for structural transformation. While Zimbabwe has a high gross enrolment rate at primary school (97%), enrolment at secondary and tertiary levels is substantially lower, at 52.4% and 9.7%, respectively. The Government is making efforts to raise enrolment at tertiary levels through a skills training programme implemented through a network of 43 vocational training centres and 15 satellite centres across the country under the Training for Enterprise flagship and Community Skills Outreach programmes. Additional investments in higher education and technical and vocational education and training are critical for facilitating structural transformation.

Good governance of SOEs is also a key driver for structural transformation.

However, in the last two decades, the country has struggled with SOE governance. In 2017 SOEs contributed about 14% of the country's GDP, with commercial SOEs accounting for about 7.5%, far below their potential of at least 40%. Weak corporate governance and oversight including corruption, poor financial and operational performance, coupled with ineffective monitoring and evaluation, have limited their potential to deliver services. Many unprofitable, commercial SOEs have had an adverse impact on public finances. In recent years, Zimbabwe's extensive commercial SOEs have required considerable fiscal support, estimated around 11% of GDP, between 2011 and 2018. Several major SOEs are insolvent, while others are suffering from severe liquidity issues. Therefore, most SOEs are in arrears: unable to adequately fulfil debt and payment obligations or deliver goods and services. The Government has prepared an SOE reform programme, but the pandemic, together with a lack of capacity and resources, has limited progress in SOE restructuring.

Most recently, in 2023, the Government established the Mutapa Investment Fund and placed 29 SOEs under this fund. This is an attempt to implement turnaround strategies aimed at resuscitating SOEs.

(e) Key bottlenecks to fast-paced structural transformation

The country has an estimated population of 15.7 million, with a median age of 18.4 years and a growth rate of 1.5%, indicating that the population is youthful. About 38.6% of the population is in urban areas while 61.4% is in rural areas. A study by the United Nations Fund for Population Activities in 2019 revealed that Zimbabwe's age-sex population structure is projected to change in the next two decades, with the share of working age population set to rise from 55% in 2012 to 64% by 2032. The study emphasised that to reap the demographic dividend key, investments are required in education and enhanced skills development especially for girls; ensuring that young people live healthy lifestyles with access to health and information services; creating employment and eliminating barriers to active participation of young people in nation-building. The economic challenges in Zimbabwe over the last two decades have led directly to large mixed migration flows into the region, in particular South Africa and Botswana, but also beyond. Research shows that economic hardship and unemployment are the main push drivers of migration to South Africa.

Climate change has a major impact on Zimbabwe's quest for structural transformation, as it affects the productivity of the agriculture sector and has a knock-on effect on industry.

The country is highly vulnerable to climate variability and change. In fact, it ranks amongst the top three countries in the world most affected by climate change (Germanwatch, 2021). Climate change

has increased the frequency of extreme weather conditions such as drought, floods, storms and heat waves. In recent years, rainy seasons have been characterised by very heavy rains, hailstorms, floods and droughts. During the 2023/24 agriculture season, the country has been hit hard by drought caused by El Nino weather, resulting in below-average food production. The high level of informality remains a major threat to the achievement of structural transformation in Zimbabwe. It is estimated that about 87% of those employed in non-agriculture sectors were informally employed in the fourth quarter of 2023. The significantly large informal employment is attributed to economic challenges that led to de-industrialisation in the last two decades. The Government

has started implementing reforms to encourage formalisation of the informal sector, but this needs careful navigation.

The private sector environment in Zimbabwe has been challenging for many reasons, but absence of long-term capital and limitations to international financing ranks high. Investment has been low and credit to the private sector was estimated at 8.8% in 2022, an improvement from 6.79% of GDP in 2021 and 5.9% of GDP in 2019. According to World Development Indicators, FDI net inflow was estimated at 1.2% of GDP in 2022, down from 0.7% of GDP in 2020. For instance, domestic pricing for USD loans from local banks ranges from 16-18% and with tenors of about 1 year.

Box 2.2: Potential and existing opportunities for structural transformation

Zimbabwe has significant opportunities for accelerating structural transformation. The country has large non-renewable and renewable natural resources, significant arable land and dams for enhancing agricultural production plus significant potential for renewable energy generation. Zimbabwe is endowed with a diverse mineral resource base, with at least 133 minerals that have been extracted or confirmed at various times. They include about 75 gemstone varieties, 28 metal minerals, 27 types of industrial minerals and three energy minerals. Zimbabwe's mineral resource base is diverse and rich, especially with respect to minerals such as platinum, chromium, diamonds, gold, black granite, asbestos, coal and tantalite. Mining is currently one of the key economic sectors in the country, contributing about 8.6% to the country's GDP, responsible for more than 60% of exports.

In terms of renewable natural resources, Zimbabwe has a total land area of 386,000 square kilometres, of which 48% is agricultural, 5% of which is irrigated. The country also has forest and woodland area estimated at 17,547,000 ha and water resources estimated at 12.26 km³/year, of which 11.26 km³ are surface water resources and 6.00 km³ are groundwater resources. It also has vast opportunities for development of renewable energy sources. The NDS1's objective is to ensure improved energy supply from the current installed capacity of 2317MW to 3467 MW by 2025 and construction of additional 280km of transmission and distribution network by 2025.

Section 3 - Finance to fast-track Zimbabwe's structural transformation: How much is at stake? Country's commitments to structural change

(a). Identify structural change strategy in the national development plan

Zimbabwe's NDS1 recognises that the country had implemented several economic blueprints aimed at promoting sustainable economic growth, employment and new wealth creation, national development and poverty alleviation. However, the development results achieved have been sub-optimal

and insufficient to spur the economy to expected levels of sustainable economic development owing to both exogenous and endogenous factors. Vision 2030, adopted in September 2018, reflects the country's aspiration to become an upper-middle-income society by 2030, for an empowered and prosperous Zimbabwe.

To achieve Vision 2030, Zimbabwe identified several necessary actions. These include achieving macroeconomic stability; increasing production and productivity in key anchor sectors of agriculture, mining, manufacturing and tourism; and increasing investment in enabler infrastructure including transport, energy, water and ICT. The country also envisaged the need for addressing policy and regulatory bottlenecks, investing in human capital and innovation.

The NDS1 recognise that the attainment of the country's transformative aspiration, the country would require pursuing various financing options. These include enhanced domestic revenues mobilisation, loans, grants, public entities' resources and private sector own resources, FDI, PPPs and diaspora investments.

(B) Financing needs and financing gap

AfDB estimates show that there is a financing gap of USD 3.76 billion annually by 2030 in relation to fast-tracking Zimbabwe's structural transformation and being on a par with high-performing developing countries from other regions. As earlier discussed, better access to finance is one of the key "pull" factors of structural transformations for Zimbabwe, similar to most countries in Africa. This implies that Zimbabwe must

urgently mobilise significant resources to fast-track the process of structural transformation and sustain the momentum of development. This report uses a benchmark approach linked to the SDGs to compute the estimated financing needs and resulting gap for Zimbabwe's structural transformation. The interconnectedness and synergy among different SDGs mean that they all contribute directly or indirectly to structural transformation. Some goals are, however, more directly relevant to the achievement of structural transformation and require more substantial financial investments than others. Goals 4 (Quality education), 7 (Energy), 8 (Productivity), and 9 (Infrastructure) are more directly relevant to the achievement of structural transformation.

Using this analysis, the AfDB estimates that Zimbabwe has a financing need of USD 5.0 billion annually to fast-track structural transformation by 2030 and USD0.87 billion to achieve the same by 2063, a target for the African Union Agenda 63. The analysis also reveals that Zimbabwe has a financing gap of USD 3.76 billion annually by 2030 and USD 0.65 billion annually to reach the same target by 2063 (Figure 2.7). Put differently, Zimbabwe's annual financing gap is estimated at 13.4% of GDP and 2.4% of GDP to achieve structural transformation by 2030 and 2063 respectively. The estimated financing needs and associated gap in the critical sectors reflect Zimbabwe's underperformance in key SDGs directly linked to structural transformation. The significant need and gap are particularly evident in infrastructure, and this reflects Zimbabwe's decades of lack of investment in key infrastructure such as transport and ICT.

The chart displays projected spending in billion US\$ for four categories: Education (dark blue), Energy (orange), Productivity (green), and Infrastructure (purple). The data is presented for two target years, 2030 and 2063, under two different scenarios. The y-axis ranges from 0 to 6 billion US\$.

Target Year	Education	Energy	Productivity	Infrastructure
2030 (Scenario 1)	1.0	0.5	0.3	3.2
2063 (Scenario 1)	0.1	0.1	0.1	0.6
2030 (Scenario 2)	0.6	0.4	0.0	2.8
2063 (Scenario 2)	0.1	0.1	0.0	0.4

Figure 1 consists of two donut charts illustrating the projected distribution of the world population in 2063 and 2030. The charts are color-coded by region: East Africa (orange), North Africa (red), Sub-Saharan Africa (purple), and West Africa (blue). The 2063 chart shows a more fragmented distribution with many small countries, while the 2030 chart shows a more consolidated distribution with fewer, larger countries.

2063 Population Distribution (Approximate):

- East Africa: 27.8
- North Africa: 19.9
- Sub-Saharan Africa: 14.5
- West Africa: 15.9
- Other regions: 1.1, 1.3, 1.6, 1.8, 2.1, 2.3, 2.5, 2.7, 2.9, 3.1, 3.3, 3.5, 3.7, 3.9, 4.1, 4.3, 4.5, 4.7, 4.9, 5.1, 5.3, 5.5, 5.7, 5.9, 6.1, 6.3, 6.5, 6.7, 6.9, 7.1, 7.3, 7.5, 7.7, 7.9, 8.1, 8.3, 8.5, 8.7, 8.9, 9.1, 9.3, 9.5, 9.7, 9.9, 10.1, 10.3, 10.5, 10.7, 10.9, 11.1, 11.3, 11.5, 11.7, 11.9, 12.1, 12.3, 12.5, 12.7, 12.9, 13.1, 13.3, 13.5, 13.7, 13.9, 14.1, 14.3, 14.5, 14.7, 14.9, 15.1, 15.3, 15.5, 15.7, 15.9, 16.1, 16.3, 16.5, 16.7, 16.9, 17.1, 17.3, 17.5, 17.7, 17.9, 18.1, 18.3, 18.5, 18.7, 18.9, 19.1, 19.3, 19.5, 19.7, 19.9, 20.1, 20.3, 20.5, 20.7, 20.9, 21.1, 21.3, 21.5, 21.7, 21.9, 22.1, 22.3, 22.5, 22.7, 22.9, 23.1, 23.3, 23.5, 23.7, 23.9, 24.1, 24.3, 24.5, 24.7, 24.9, 25.1, 25.3, 25.5, 25.7, 25.9, 26.1, 26.3, 26.5, 26.7, 26.9, 27.1, 27.3, 27.5, 27.7, 27.9, 28.1, 28.3, 28.5, 28.7, 28.9, 29.1, 29.3, 29.5, 29.7, 29.9, 30.1, 30.3, 30.5, 30.7, 30.9, 31.1, 31.3, 31.5, 31.7, 31.9, 32.1, 32.3, 32.5, 32.7, 32.9, 33.1, 33.3, 33.5, 33.7, 33.9, 34.1, 34.3, 34.5, 34.7, 34.9, 35.1, 35.3, 35.5, 35.7, 35.9, 36.1, 36.3, 36.5, 36.7, 36.9, 37.1, 37.3, 37.5, 37.7, 37.9, 38.1, 38.3, 38.5, 38.7, 38.9, 39.1, 39.3, 39.5, 39.7, 39.9, 40.1, 40.3, 40.5, 40.7, 40.9, 41.1, 41.3, 41.5, 41.7, 41.9, 42.1, 42.3, 42.5, 42.7, 42.9, 43.1, 43.3, 43.5, 43.7, 43.9, 44.1, 44.3, 44.5, 44.7, 44.9, 45.1, 45.3, 45.5, 45.7, 45.9, 46.1, 46.3, 46.5, 46.7, 46.9, 47.1, 47.3, 47.5, 47.7, 47.9, 48.1, 48.3, 48.5, 48.7, 48.9, 49.1, 49.3, 49.5, 49.7, 49.9, 50.1, 50.3, 50.5, 50.7, 50.9, 51.1, 51.3, 51.5, 51.7, 51.9, 52.1, 52.3, 52.5, 52.7, 52.9, 53.1, 53.3, 53.5, 53.7, 53.9, 54.1, 54.3, 54.5, 54.7, 54.9, 55.1, 55.3, 55.5, 55.7, 55.9, 56.1, 56.3, 56.5, 56.7, 56.9, 57.1, 57.3, 57.5, 57.7, 57.9, 58.1, 58.3, 58.5, 58.7, 58.9, 59.1, 59.3, 59.5, 59.7, 59.9, 60.1, 60.3, 60.5, 60.7, 60.9, 61.1, 61.3, 61.5, 61.7, 61.9, 62.1, 62.3, 62.5, 62.7, 62.9, 63.1, 63.3, 63.5, 63.7, 63.9, 64.1, 64.3, 64.5, 64.7, 64.9, 65.1, 65.3, 65.5, 65.7, 65.9, 66.1, 66.3, 66.5, 66.7, 66.9, 67.1, 67.3, 67.5, 67.7, 67.9, 68.1, 68.3, 68.5, 68.7, 68.9, 69.1, 69.3, 69.5, 69.7, 69.9, 70.1, 70.3, 70.5, 70.7, 70.9, 71.1, 71.3, 71.5, 71.7, 71.9, 72.1, 72.3, 72.5, 72.7, 72.9, 73.1, 73.3, 73.5, 73.7, 73.9, 74.1, 74.3, 74.5, 74.7, 74.9, 75.1, 75.3, 75.5, 75.7, 75.9, 76.1, 76.3, 76.5, 76.7, 76.9, 77.1, 77.3, 77.5, 77.7, 77.9, 78.1, 78.3, 78.5, 78.7, 78.9, 79.1, 79.3, 79.5, 79.7, 79.9, 80.1, 80.3, 80.5, 80.7, 80.9, 81.1, 81.3, 81.5, 81.7, 81.9, 82.1, 82.3, 82.5, 82.7, 82.9, 83.1, 83.3, 83.5, 83.7, 83.9, 84.1, 84.3, 84.5, 84.7, 84.9, 85.1, 85.3, 85.5, 85.7, 85.9, 86.1, 86.3, 86.5, 86.7, 86.9, 87.1, 87.3, 87.5, 87.7, 87.9, 88.1, 88.3, 88.5, 88.7, 88.9, 89.1, 89.3, 89.5, 89.7, 89.9, 90.1, 90.3, 90.5, 90.7, 90.9, 91.1, 91.3, 91.5, 91.7, 91.9, 92.1, 92.3, 92.5, 92.7, 92.9, 93.1, 93.3, 93.5, 93.7, 93.9, 94.1, 94.3, 94.5, 94.7, 94.9, 95.1, 95.3, 95.5, 95.7, 95.9, 96.1, 96.3, 96.5, 96.7, 96.9, 97.1, 97.3, 97.5, 97.7, 97.9, 98.1, 98.3, 98.5, 98.7, 98.9, 99.1, 99.3, 99.5, 99.7, 99.9, 100.1, 100.3, 100.5, 100.7, 100.9, 101.1, 101.3, 101.5, 101.7, 101.9, 102.1, 102.3, 102.5, 102.7, 102.9, 103.1, 103.3, 103.5, 103.7, 103.9, 104.1, 104.3, 104.5, 104.7, 104.9, 105.1, 105.3, 105.5, 105.7, 105.9, 106.1, 106.3, 106.5, 106.7, 106.9, 107.1, 107.3, 107.5, 107.7, 107.9, 108.1, 108.3, 108.5, 108.7, 108.9, 109.1, 109.3, 109.5, 109.7, 109.9, 110.1, 110.3, 110.5, 110.7, 110.9, 111.1, 111.3, 111.5, 111.7, 111.9, 112.1, 112.3, 112.5, 112.7, 112.9, 113.1, 113.3, 113.5, 113.7, 113.9, 114.1, 114.3, 114.5, 114.7, 114.9, 115.1, 115.3, 115.5, 115.7, 115.9, 116.1, 116.3, 116.5, 116.7, 116.9, 117.1, 117.3, 117.5, 117.7, 117.9, 118.1, 118.3, 118.5, 118.7, 118.9, 119.1, 119.3, 119.5, 119.7, 119.9, 120.1, 120.3, 120.5, 120.7, 120.9, 121.1, 121.3, 121.5, 121.7, 121.9, 122.1, 122.3, 122.5, 122.7, 122.9, 123.1, 123.3, 123.5, 123.7, 123.9, 124.1, 124.3, 124.5, 124.7, 124.9, 125.1, 125.3,

The magnitude of these estimated financing needs and gaps casts doubt on the ability of Zimbabwe to mobilise these financial resources. This is mainly because Zimbabwe remains in a peculiar situation owing to its long outstanding, unsustainable debt. In addition, Zimbabwe is in arrears to multilateral development banks (MDBs), the AfDB, the World Bank and the European Investment Bank,

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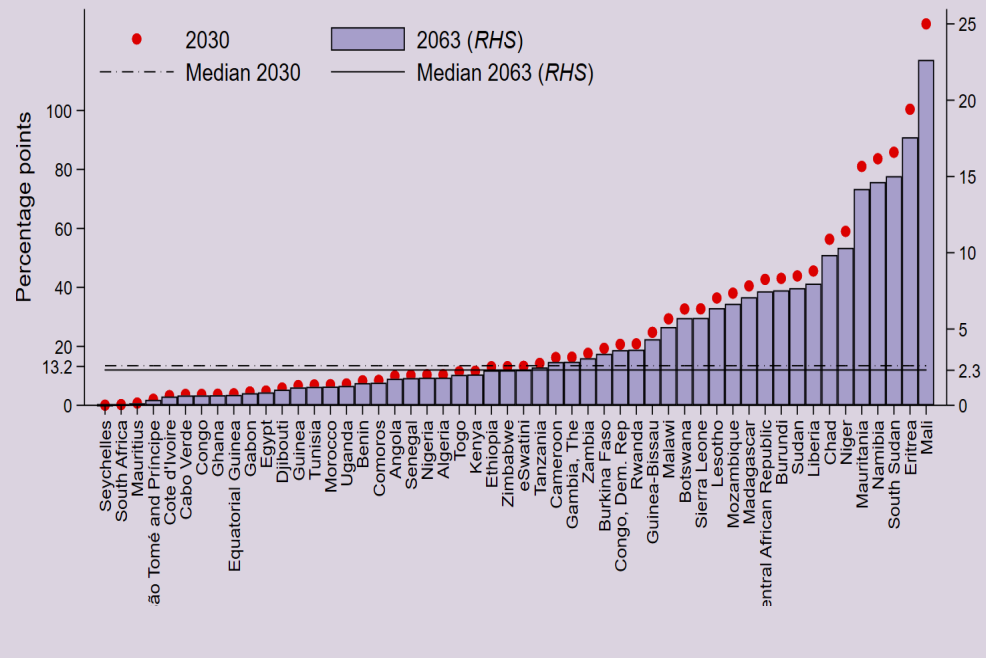
controversial land programme are core to the country's debt situation. Hence, political commitment to addressing governance, land tenure reforms and compensation of former commercial farmers is essential to achieving arrears clearance and debt resolution for Zimbabwe. Since 2022, the AfDB has been championing Zimbabwe's arrears clearance and debt resolution process aimed at finding solutions to the country's long outstanding debt challenges.

(C) Closing the financing gap through domestic resource mobilisation

Zimbabwe bears the primary responsibility to finance its structural transformation agenda. The NDS1 macroeconomic framework is premised on the adoption and swift implementation of bold policies and programmes aimed at achieving economic transformation. This

will be done by creating a thriving, private sector-led, open and competitive economy, with sound macroeconomic policies anchored on fiscal discipline, monetary and financial sector stability and a business-friendly environment which promotes both foreign and domestic investment. Closing the estimated financing gap will thus require boosting government tax revenues and enhancing public spending efficiency, as well as strong political will. The African Economic Outlook (AEO) 2024 estimates that Zimbabwe will need to increase its tax-to-GDP ratio by 13.1% annually to close the financing gap by 2030, or 2.3% annually to close the financing gap by 2063. Figure 2.9 below shows the tax-to-GDP ratio required to close financing gaps in African countries. The median range for African countries is 13.2% and 2.3% annually for a target of 2030 and 2063 respectively. Zimbabwe is approximately in the median range.

Figure 2.9: Required increase in tax-to-GDP ratio to close the estimated annual financing gap in Africa.



To assess whether such tax efforts could be reasonably made by African countries, Figure 2.9 compares each country's estimated level of tax-to-GDP ratio compatible with the need to fast-track structural transformation, that is, the tax-to-GDP ratio that allows for closing the financing gap – to each country's tax capacity – defined as the predicted value of the potential tax-to-GDP ratio. Tax capacity provides a benchmark for the maximum amount of tax revenue that could be collected given a country's socio-economic and institutional factors. Negative values means that a country's estimated level of tax-to-GDP ratio deemed necessary to close its financing gap surpasses its maximum achievable level given its macroeconomic, demographic and institutional characteristics. Zimbabwe is just above the cut off level which suggests that the country has some potential to increase its tax-to-GDP ratio to achieve its transformation targets both for 2030 and 2063. Its recent tax performance is reason for optimism and is highly consistent with these AEO estimates. The country's revenues have been improving since the end of the COVID-19 pandemic. Revenues revived from 15.4% of GDP in 2020 to 17.2% of GDP in 2022 and 18% of GDP in 2023. The 2024 national budget estimates revenues to further increase to 18.3% of GDP in 2024.

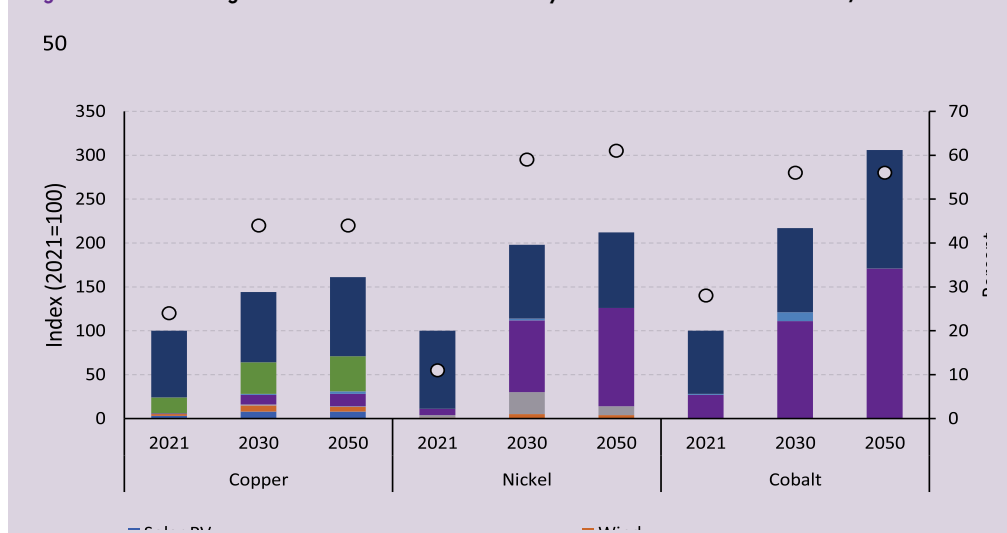
(D). Leveraging natural mineral resources

Zimbabwe is well endowed with mineral resources and mining is a key sector, contributing about 10% to GDP in the last three years despite minimal value addition. The country has about 40 minerals and hosts the world's second-largest chrome reserves, estimated at around 10 billion tonnes (behind South

Africa), with significant reserves of copper, lithium, nickel, and gold. Zimbabwe's lithium deposits are the largest in Africa, and the country is expected to become one of the world's largest lithium exporters owing to growing world demand for rechargeable batteries. The Government estimates that the country will meet 20 percent of the world's total demand for lithium if fully exploited. Preliminary results from ongoing explorations at Muzarabani suggest that the country has huge deposits of oil and gas. Zimbabwe also has huge iron ore deposits that have attracted USD 1 billion in investment from the Chinese company Dinson Iron and Steel company, which is expected to make Zimbabwe the largest steel exporter in Africa.

The AEO 2024 noted that demand for critical minerals for clean energy technologies is projected to increase rapidly in all scenarios. Projections by the International Energy Agency indicate that, under the 2050 Net Zero Emissions (NZE) scenario, demand for critical minerals would grow by three and a half times to 2030 compared to their 2021 levels, reaching over 30 million tonnes (Figure 2.10). electric vehicles and battery storage will be the main drivers of demand growth, in addition to major contributions from low-emissions power generation and electricity networks. Under the 2050 NZE scenario, global revenues from the production of just four key minerals—copper, nickel, cobalt, and lithium—are estimated to amount USD 16 trillion over the next 25 years (in 2023-dollar terms), with Africa expected to reap over 10% of these cumulated revenues —nearly USD 2 trillion in 2023-dollar terms. As earlier indicated, Zimbabwe has huge deposits of nickel, cobalt and lithium. This puts Zimbabwe in a strong position to reap benefits from its vast resources of these minerals.

Figure 2.10: Trends in global demand for selected minerals by end use in the Net Zero Scenario, 2021–2050



2.4. Concluding remarks and policy recommendations

2.4.1 Concluding remarks

Zimbabwe has experienced minimal economic transformation in the last decade. Several policies and strategies have been implemented since independence in 1980, but economic transformation has been hampered by macroeconomic instability, climatic shocks and structural weaknesses in the economy. In the last two decades, Zimbabwe has also been severely impacted by the accumulation of unsustainable debt, compounded by economic sanctions.

Despite these challenges, Zimbabwe progressed to lower-middle-income country in 2019 and the Government's aspiration is to become an upper-middle-income country by 2030. However, to achieve this target, economic transformation must happen more quickly. The NDS1 2021–2025 recognises that several actions are needed and should be pursued to facilitate economic transformation. These include (i) strengthening international re-engagement to address the huge debt and arrears burden; (ii) strengthening the

mobilisation of domestic and external financing needed for the implementation of its development agenda; (iii) maximising and leveraging its vast natural resource endowments; and (iv) embracing good corporate governance.

The high level of informality remains a major threat to the achievement of structural transformation in Zimbabwe. In addition, climate change has a major impact on Zimbabwe quest for structural transformation, as it affects the productivity of the agriculture sector and has a knock-on effect on industry. Drivers for accelerating structural transformation in Zimbabwe include advancing technology; infrastructure development' mainly electricity power generation and distribution, transportation infrastructure; and water supply. Human capital development and good governance are also essential enablers for Zimbabwe's structural transformation.

Zimbabwe's annual financing gap is estimated at 13.4% of GDP and 2.4% of GDP to achieve structural transformation by 2030 and 2063 respectively. The significant needs and gap are particularly evident in infrastructure. This reflects Zimbabwe's

decades of lack of investment in key infrastructure such as transport, energy and ICT. The magnitude of these estimated financing needs and gaps casts doubt on the ability of Zimbabwe to mobilise these financial resources, especially because the country is yet to unlock its debt and arrears situation.

The huge mineral resources could provide the much-needed financing to spur economic transformation. The large deposits of chrome, cobalt, copper, lithium, nickel, and gold could strengthen the country's domestic resources.

2.4.2 Policy recommendations

In the short term

- Zimbabwe should decisively and urgently address its acute debt and arrears situation. This will be critical in opening access to international financing that would be important in complementing domestic resources for the implementation of key development projects to implement structural transformation. Investments in key infrastructure such as roads, electricity and water could be fast-tracked if the country is able to tap into international financial resources.
- Recognising Zimbabwe's current situation on re-engagement, it is recommended that a more reasonable target and combination of financing options be pursued to allow for a gradual but steady structural transformation process over a longer period, to ensure the mobilisation of both domestic and/or external resources without jeopardising or worsening the country's already unsustainable debt position. This means that the target of achieving upper-middle-income by 2030 would be too ambitious. The AfDB estimates that Zimbabwe has a financing need of

USD 5.0 billion annually to fast-track structural transformation by 2030. When the target is extended to the Agenda 2063 deadline, the annual financing gap falls significantly to USD 0.65 billion annually and would be more realistic.

- Zimbabwe can leverage its huge natural resources and the AfCFTA to address its debt burden. The country has about 40 minerals and hosts the world's second-largest chrome reserves, estimated at around 10 billion tonnes (behind South Africa), with significant reserves of copper, lithium, nickel and gold. It is also strategically located in the Southern African region with good international connectivity to other countries, including South Africa, Mozambique, Zambia and Namibia. Thus, the AfCFTA offers a significant opportunity for Zimbabwean firms to integrate into regional value chains.
- The adoption and implementation of bold private sector-driven policies and programmes is a prerequisite for achieving economic transformation. This should be achieved through the creation of a thriving private sector-led, open and competitive economy, with sound macroeconomic policies anchored on fiscal discipline, monetary and financial sector stability, a business-friendly environment which promotes both foreign and domestic investment.

In the medium term

- Zimbabwe must build strong, effective, responsive, and inclusive institutions for faster structural transformation. Strong institutions are essential for good governance, as they provide a framework for effective decision-making, ensure accountability and promote transparency. This will require strong political will coupled

with sufficient financial and technical resources. In addition, policy and regulatory reforms must be implemented.

- Zimbabwe must progressively tackle and reduce the significantly high levels of informality in the economy. This is a major threat to the achievement of structural transformation as it has an impact on domestic resource

mobilisation, lowers labour productivity and suffocates the formal sector through unfair competition.

- The country should take advantage of the growing demand for critical minerals for clean energy technologies such as cobalt, lithium and nickel, which is projected to increase in the coming years.

FINANCING STRUCTURAL TRANSFORMATION IN ZIMBABWE

3

REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

KEY MESSAGES

- The unsustainable public debt situation in Zimbabwe is a major impediment to the country's ability to access external development assistance. Zimbabwe has attempted to clear its debt and arrears burden in the past, but these efforts have not materialised for both political and economic reasons. Nonetheless, since 2022, there has been a new impetus to reach debt resolution after over 23 years of impasse. The country commenced the arrears clearance and debt resolution process supported by the AfDB in a bid to clear debt arrears and restructure its debt.
- Zimbabwe has very limited fiscal space to respond to shocks.. The country has been hit hard by drought caused by El Nino weather and nearly half of its population will need food assistance in 2024. Zimbabwe needs help quickly to respond to the current food shortage crisis.
- Zimbabwe has shown a strong commitment to addressing climate change challenges. The country has developed key policy and strategic instruments on green growth and climate change, notably the Climate Change Response Strategy that provides a framework for a comprehensive and strategic approach on aspects of adaptation, mitigation, technology, financing, public education and awareness. However, access to finance for climate change and green growth action has been limited.
- Zimbabwe must quickly tackle and reduce the significantly high levels of informality in the economy. This is a major threat to the achievement of structural transformation in the country, as it has an impact on domestic resource mobilisation, lowers labour productivity and suffocates the formal sector through unfair competition.

3.0 Introduction

This chapter discusses Zimbabwe's need and how it can benefit from the reform of the international financial architecture. It also considers how Zimbabwe can mobilise external financing required to fast-track its structural transformation, considering its arrears and debt challenges. The chapter examines in some detail Zimbabwe's debt dynamics and explores measures being taken to address the country's debt arrears. It also reviews the country's climate action and the need for its financing. Finally, it provides a summary of policy recommendations.

Debt and arrears clearance is key for unlocking Zimbabwe's full potential

3.1 Zimbabwe's stance on the need to reform the international financial architecture

Over the years, Zimbabwe has shown that it has very limited fiscal and monetary policy space to respond to shocks and is often highly dependent on IFIs. During the peak of COVID-19 in 2020, Zimbabwe received SDR 655.6 million (USD 960 million, about 4% of GDP in 2020) from the IMF in response to the pandemic. During the 2023/24 agricultural season, the country has been hit hard by drought caused by El Nino weather and it is estimated that the country will require food assistance of about USD 2 billion. Climate change continues to significantly impact Zimbabwe, as with other countries in the region. Therefore, the country needs additional financing mechanisms to meet this growing demand.

Zimbabwe's unsustainable debt and arrears have worsened the country's creditworthiness. Its international financial risk profile has escalated and it is unable to access concessional financing from multilateral financial institutions. This has pushed the country to expensive external loans. The combined effect of the arrears situation and economic

challenges has resulted in Zimbabwean companies finding it extremely difficult to access offshore lending, thus crippling their operations. Zimbabwean importers are asked to pay cash up front, resulting in a significant squeeze on private sector cash flows. The negative perception that has come with economic sanctions has negatively impacted FDI inflows as investors tend to shy away from economies that are perceived as risky. The sustained decline in long-term capital inflows has had ripple effects on the country's employment levels and its ability to provide basic goods and services to its people, ultimately leading to a decline in the standards of living.

Zimbabwe benefitted from the IMF's SDR allocation in response to the COVID-19 pandemic. This demonstrated the significance of additional resources to address emerging emergencies. Zimbabwe supports the channelling of some SDRs through the AfDB to meet specific country needs. In August 2021, Zimbabwe received USD 960 million (SDR 655.6 million) from the IMF. At the time, this allocation amounted to about 4% of GDP and 133% of gross international reserves. It helped Zimbabwe to address liquidity and foreign currency shortages, which were exacerbated by the COVID-19 pandemic and the arrears situation. The Government was also able to use some these resources to enhance COVID-19 prevention and mitigation, increase investment in productive and social sectors, improve infrastructure and build reserves.

3.2 Mobilising additional resources for Zimbabwe's structural transformation

Zimbabwe's NDS1 (2021–2025) aims to move the country to an “upper-middle-income society by 2030”. Central to this strategy is enhancing value chains, mineral beneficiation, and linking small

and medium-sized enterprises with large corporations.⁸ To achieve this, it is crucial to create an environment that fosters innovation and entrepreneurship. However, national budgets tend to focus on the formal sector, overlooking the informal economy where most citizens earn their livelihoods. To boost labour productivity and sustain long-term growth, substantial investments in infrastructure, human capital and technology are needed.

As discussed in Chapter 2, policy constraints and structural rigidities, including an inadequate policy and regulatory environment, have pushed firms and businesses from the formal to the informal sector in Zimbabwe. Given the substantial financing gap (see Chapter 2), Zimbabwe's path to structural transformation critically depends on its ability to mobilise additional resources through comprehensive policy and regulatory reforms. External resources have significantly contributed to Zimbabwe's economic development, but challenges remain in their mobilisation and utilisation. While the country has seen inflows of remittances, Official Development Assistance (ODA), FDI,

and Portfolio Investment, these have not been sufficient to bridge the financing gap needed for structural transformation. For instance, remittances, which accounted for 11.3% of GDP in 2022, play a crucial role in supporting household consumption but are insufficient for large-scale infrastructure projects or industrial growth.

ODA has been crucial for humanitarian aid and development projects, but it often comes with restrictions and lacks the flexibility for broader economic development. Moreover, ODA has been declining, from USD 1.04 billion in 2020 to USD 788.75 million in 2022.⁹ FDI inflows have been inconsistent due to policy unpredictability, and property rights concerns. To attract more FDI, Zimbabwe must ensure a stable and transparent investment climate, protect investor rights, and offer suitable incentives. Portfolio investments remain limited due to high perceived risks in Zimbabwe's economic environment. Strengthening financial markets and improving regulatory frameworks could attract more portfolio investors.

Box 3.1: AfDB champions Zimbabwe debt arrears clearance

Zimbabwe has attempted to clear its debt and arrears burden in the past, but these efforts have not materialized for both political and economic reasons. However, since 2022, there has been a new impetus to reach debt resolution after over 23 years of impasse. Zimbabwean President Dr. Emmerson Mnangagwa has on several occasions reiterated his Government's commitment to finding solutions to the long outstanding debt problem and amidst the need for development assistance and access to international financing.

In December 2022, the country commenced the arrears clearance and debt resolution process championed by AfDB President, Dr. Akinwumi Adesina, and facilitated by the former Mozambican President Joachim Chisano. The Government agreed with development partners and its creditors to implement economic, governance and land reforms and to compensate former farm owners whose land was taken by Government during the 2000 land reform programme. As part of the process, Zimbabwe is also expected to adopt a Staff Monitored Programme (SMP) of the IMF in the second half of 2024. The SMP is seen as a key vehicle for implementing economic growth and the stability reforms that are needed for enhancing private sector investment.

⁸Zimbabwe National Development Strategy 1

⁹ Ibid.

Successful implementation of the SMP, together with progress on governance, land tenure reforms and compensation of farmers, should lead to considerations by creditors on debt and arrears resolution. To date, the process has been properly institutionalized with structured dialogue platform meetings and functioning sector working group meetings involving all stakeholders including Government, development partners, the private sector, and civil society organizations.

Some of the key determinants for a successful arrears clearance process are maintaining momentum of the process, adherence to implementation of agreed reforms and benchmarks, continued commitment by development partners and creditors and availability of incentives for rewarding success. Building confidence and trust amongst all stakeholders is essential. In addition, identifying a lead donor to facilitate bridge financing for multilateral debt will be particularly important.

3.3 Dealing with Zimbabwe's debt problem

The need for the reform of international financial architecture can be underscored when considering the unique case of Zimbabwe – a country that has received minimal external financing in the last decade. Firstly, it is important to understand the historical perspective that partly explains the Zimbabwe case.

At independence in 1980, Zimbabwe inherited USD 700 million of external debt from the Rhodesian government with the expectation of getting help of USD 2 billion from Western countries for reconstruction and development. Such aid did not materialise. In the 1980s, Zimbabwe's borrowings were mainly for reconstruction after the destruction occasioned by the war. By the end of the 1980s, Zimbabwe was spending a quarter of government revenue on debt repayment. By 1990, Zimbabwe was repaying debt using loans from the International Monetary Fund (IMF) when it adopted the Economic Structural Adjustment Programme (ESAP). The ESAP did not yield the expected positive results. Instead, the country accumulated huge external debt.

In 2000, the country implemented a land reform programme and took back land from foreign commercial farmers

for redistribution. This action prompted economic sanctions on the country by Western countries and resulted in economic challenges, capital and labour flight and collapse of the then strong industry and agriculture sectors. Between 2000 and 2010 Zimbabwe was in default and could not meet its debt obligations. Owing to these outstanding arrears and unpaid external debt obligations, Zimbabwe cannot access international development assistance from multilateral and Western bilateral creditors (Paris Club creditors). This led to the drying up of traditional sources of external finance from the International Financial Institutions (IFIs). Consequently, the country's external arrears have significantly increased. As of April 2024, external debt stood at USD 12.7 billion (58.3% of GDP) of which the bulk of this are penalties and arrears.

3.4 Financing climate action

Zimbabwe is highly vulnerable to climate variability and change. In fact, the country ranks amongst the top three countries in the world most affected by climate change (Germanwatch, 2021). Climate change has increased the frequency of extreme weather conditions such as drought, floods, storms and heat waves. In recent years, rainy seasons have been characterised by very heavy rains, hailstorms and floods. During the 2023/24

agricultural season, the country has been hit hard by drought caused by El Niño weather. The Government estimates that about half of the population will require food assistance in 2024. In January 2022, Tropical Storm Ana affected over 1,400 people and caused large-scale destruction of infrastructure including houses, schools and roads. Similarly in 2019, Tropical Cyclone Idai caused damage worth an estimated USD 622 million (3.0% of GDP) to infrastructure, properties, crops and livestock. Studies from the Meteorological Services Department of Zimbabwe estimate that minimum temperatures have risen by 2.6°C over the past century. Meanwhile, annual rainfall has declined by 5% across the country over the same period.

Zimbabwe has developed several frameworks to respond to the climate change agenda. They include the Climate Change Response Strategy, the National Climate Policy, and the National Determined Contributions (NDC). The vision of Zimbabwe's Climate Change Response Strategy is to create a nation resilient against climate change while ensuring sustainable development and a climate-proofed economy through recognising the vulnerable nature of Zimbabwe's natural resources and society. The Climate Change Response Strategy and the National Climate Change Response Strategy were developed to provide a framework for a comprehensive and strategic approach on aspects of adaptation, mitigation, technology, financing, public education and awareness.

According to the country's NDC 2021, Zimbabwe strongly supports the objectives of the Paris Agreement to limit global warming to below 2°C while pursuing efforts towards further reduction to 1.5°C above pre-industrial levels. Zimbabwe has strengthened its mitigation contribution to represent a 40% reduction in per capita

greenhouse gas emissions below the projected "business as usual" scenario, a significant 7% increase from the 33% reduction in per capita emissions targeted for the Intended Nationally Determined Contributions. Establishing a framework to harness Zimbabwe's debt swap potential for climate actions is, therefore, critical and beneficial in achieving global climate action objectives.

Despite the strong political commitment, Government resources, particularly public finance alone, will not be enough for a successful implementation of Zimbabwe's NDC and achievement of its targets will be out of reach.

The Government recognises that the private sector is a key partner, particularly in low emissions development and building resilience. It will need to play an important role in financing and implementing the NDC, provided an enabling environment and appropriate incentives are established by the Government. Zimbabwe recognises the need to crowd-in the private sector through blended finance and results-based approaches to de-risk markets, scale up impact investments and increase participation in implementing climate actions.

Mobilising external financing for climate action is necessary if Zimbabwe is to meet its NDC targets.

As with most countries, inadequate financing is one of the major obstacles to climate change action. MDBs and Development Financial Institutions (DFIs) play a critical role in enhancing access to finance and in strengthening the capacity of stakeholders in climate response, including governments and the private sector.

The AfDB AEO 2023 estimated that the total climate finance flow to Zimbabwe from 2019 to 2020 was

USD 488.5 million. Private sector funding accounted for USD 205.6 million (42%) and public sector sources accounted for USD 282.8 million (58%) of the total climate finance flow to Zimbabwe. Climate finance received from 2019 to 2020 falls short of the average climate finance needs, estimated at USD 550.3 million. The total financing gap was therefore estimated at USD 61.7 million, or 0.24% of GDP, for the period 2020–2030. The required annual growth rate of private climate flows to close the residual financing needs at each percent contribution of the private sector for Zimbabwe is estimated to be 2.4%. The Climate Policy Initiative database estimates that the bulk of public sector financing came through SOEs, which accounted for 21%, followed by Government-owned financial resources, which accounted for 16%. Multilateral DFIs accounted for 14% of public financing. About 71% of these resources went to the energy sector. In terms of use, 73% was allocated to mitigation and 21% to adaptation.

3.5 Policy recommendations

In the short term

- **It is essential to identify a lead bilateral donor to mobilise bridge financing for debt relief.** The country should be ready to develop a comprehensive road map, with agreed benchmarks and targets. The debt relief experiences of Somalia, Sudan, and Myanmar highlight the importance of identifying champion donor/s that would push the agenda at the Paris Club and in the boards of multilateral institutions and provide bridge financing for arrears clearance to multilateral creditors. All cases also point to the importance of dialogue and establishing a process with well-defined targets, as well as addressing the political conditions attached to

debt relief.

- MDBs and DFIs should therefore offer less risk-averse finance to Zimbabwe and direct this finance to all sectors that are most important for green growth. This in turn will help unlock further private sector financing. Currently Zimbabwe does not have access to concessional and long-term financing, which creates another obstacle to delivering on its goals. In addition, short-term financing is very expensive.
- Zimbabwe should enhance its domestic revenue base to increase available resources needed for economic development and structural transformation. This can be done by strengthening tax administrations, especially by expanding the use of digital technology, combating illicit financial flows and reforming tax policies to enhance domestic resource mobilisation.

In the medium term

- At global level, there is a need for reforming the existing debt resolution and initiatives, such as the G20's Common Framework and Heavily Indebted Poor Countries initiatives as these are deemed slow and cumbersome and must be reconfigured to streamline debt resolution processes. Such actions could help address the current debt challenges for Zimbabwe. Reforms at the global level could see the G20 propose legislation to facilitate, streamline and accelerate debt restructuring and resolution while facilitating the participation of private creditors.
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