

INVESTMENT AND FUNDING IN ZIMBABWE

MEETING EVOLVING INVESTOR EXPECTATIONS

Presentation to the Institute of Chartered Accountants of Zimbabwe (ICAZ)

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Background

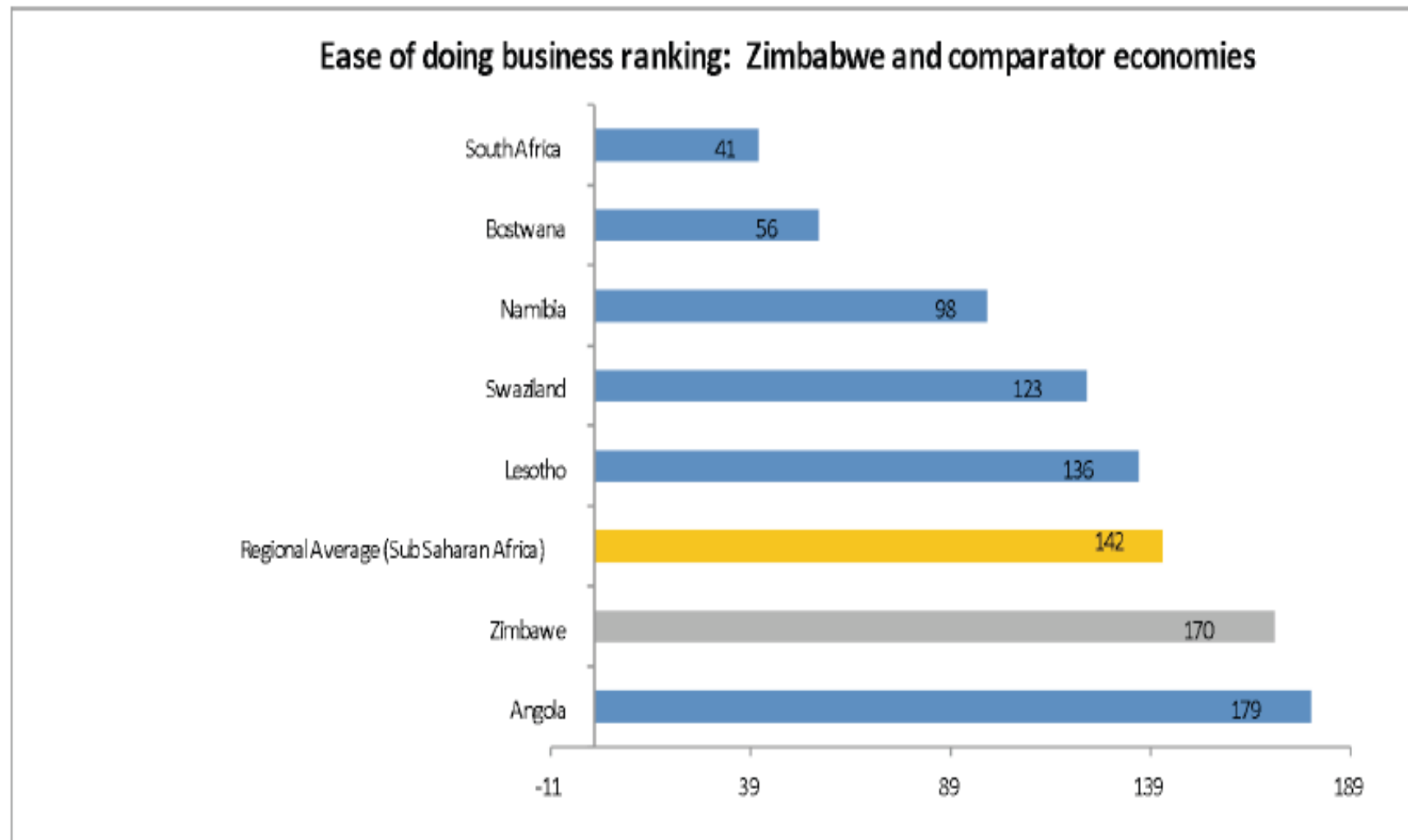
- Post-hyperinflation economy in Zim called for:
 - private investment by firms to increase capital stock, and
 - public investment in much needed infrastructure (between \$33bn-\$40bn is needed for the period until 2030 in the electricity, water, transportation and telecommunications).
- The economy is dominated by:
 - short-term debt for private sector to fund investment, and
 - budgetary constraints by the public sector to invest in infrastructure (70% of public revenue is going into recurrent expenditure).
- High cost of Capital deters investment.
- Access to Finance is the second impediment to success in Business trailing political stability.

2014 Doing Business Report & Indicators

What Investors are looking for?

Country & Indicator	2010	2011	2012	2013	2014
Zimbabwe					
Overall Ease of doing Business	156	157	171	168	170
Starting a business	141	143	144	143	150
Dealing with Construction Permits			166	170	170
Getting Electricity			167	157	157
Registering Property	81	82	85	85	93
Paying Taxes			127	134	142
Trading across Borders	119	120	172	167	167
Investor protection	81	142	122	128	128
Contract Enforcement			112	111	118
Resolving Insolvency			153	169	156
Getting Credit			126	129	109
Malawi	132	133	145	157	171
Angola	164	163	172	172	179
Zambia	84	76	84	94	83
Namibia	68	69	78	87	98
South Africa	32	34	35	39	41
Mauritius			23	19	20

Doing Business



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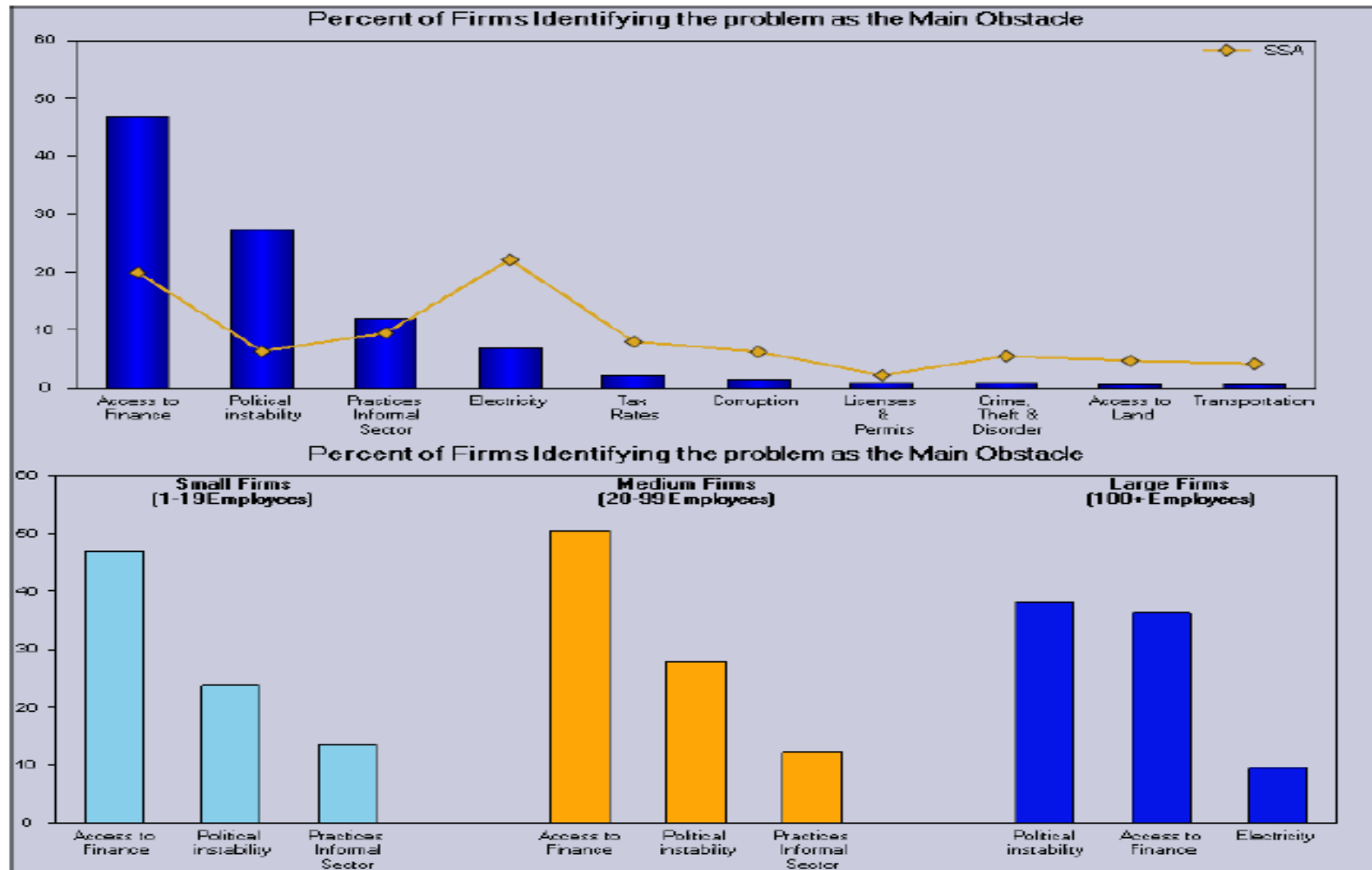
Working for a World Free of Poverty

Doing Business Environment

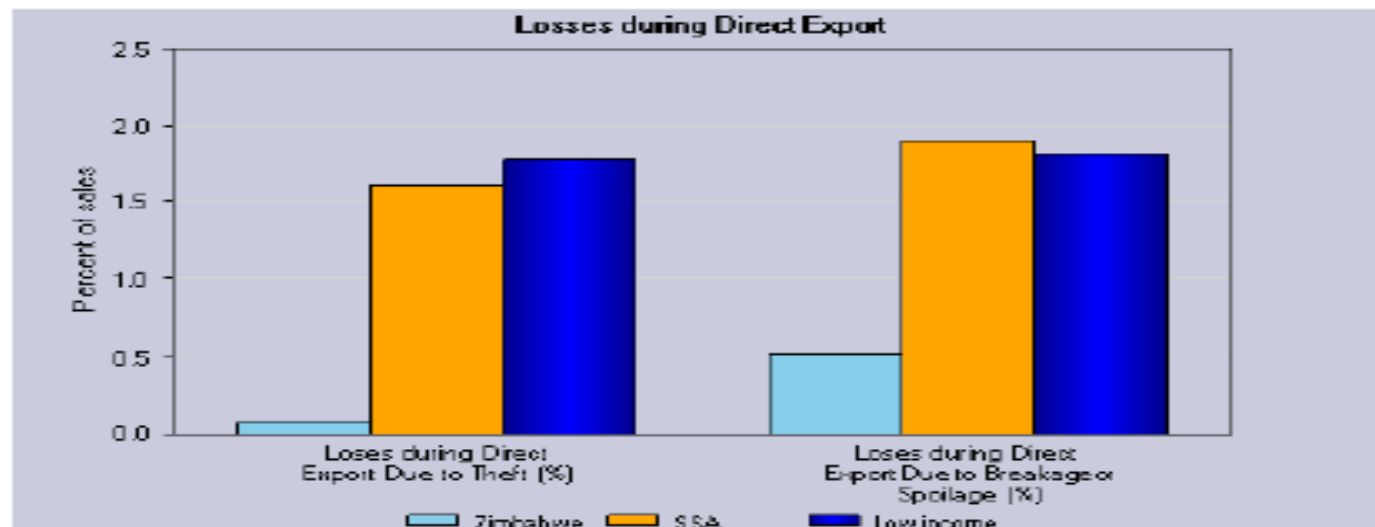
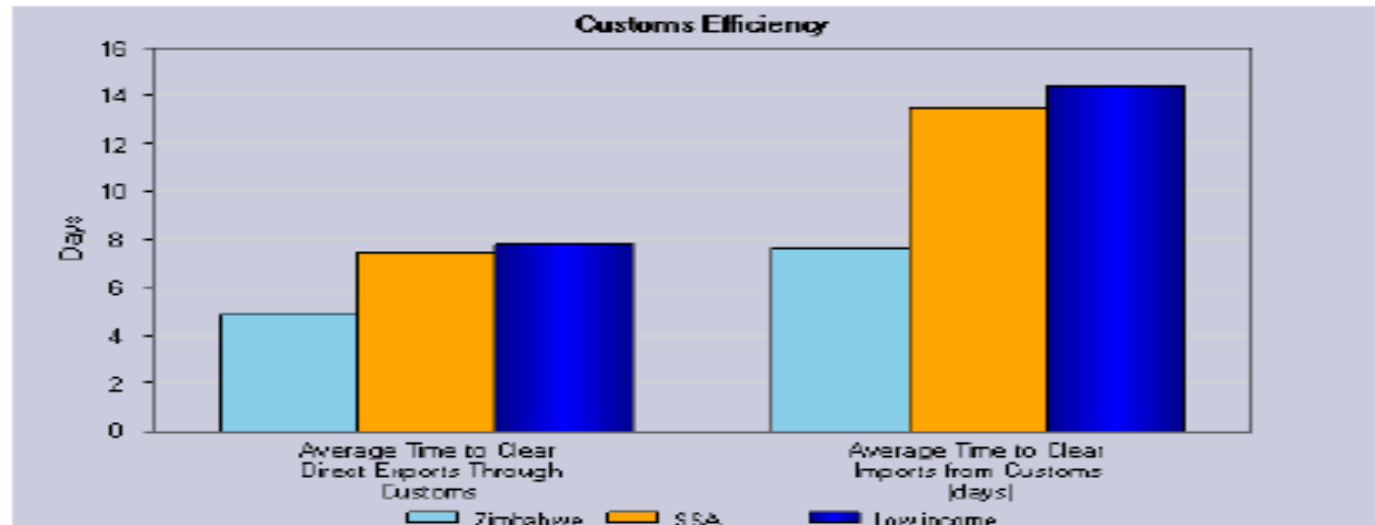
- An accommodating business environment is one that encourages firms to operate efficiently.
- Some conditions strengthen incentives for firms to innovate, increase productivity and capital stock – key factors for sustainable development.
- A productive private sector expands employment & contributes to taxes necessary for public sector investment.
- Contrastingly a poor business environment increase obstacles thus curtail prospect for reaching full potential in terms of employment, production and welfare.

Enterprise Surveys (ES)-2011...Business Environment

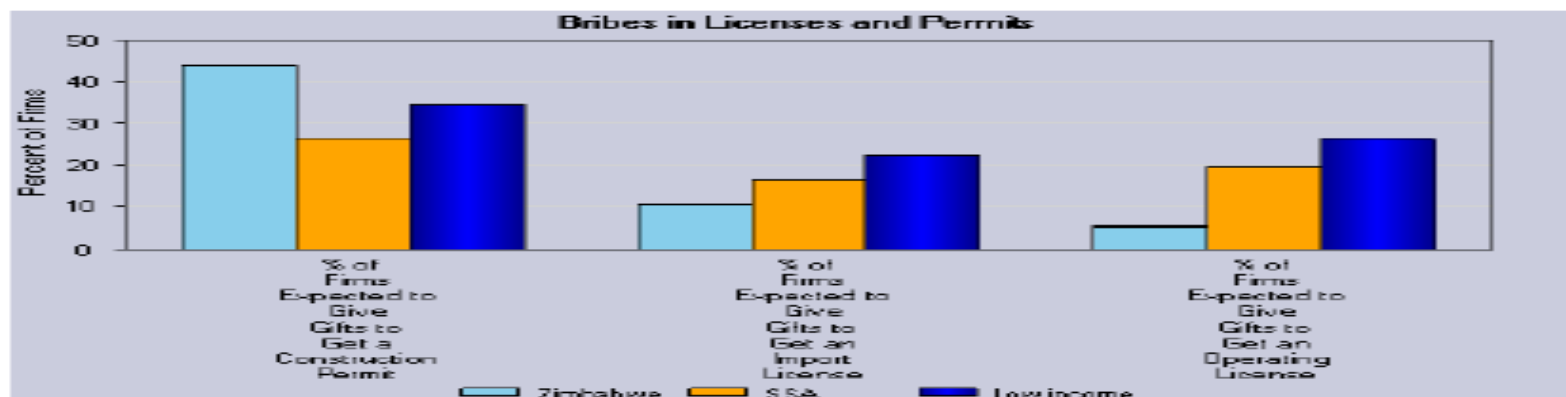
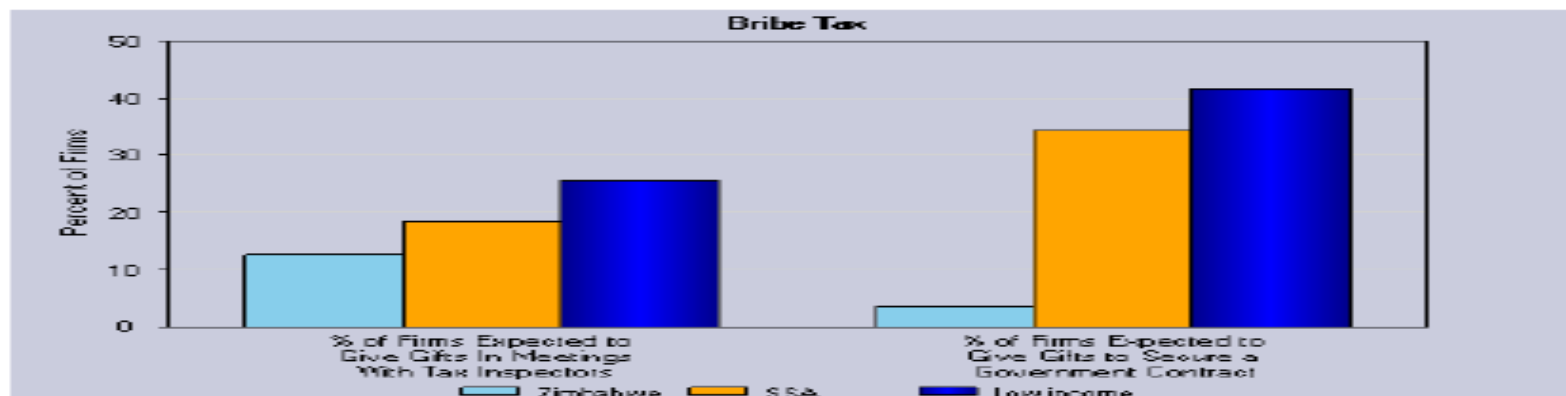
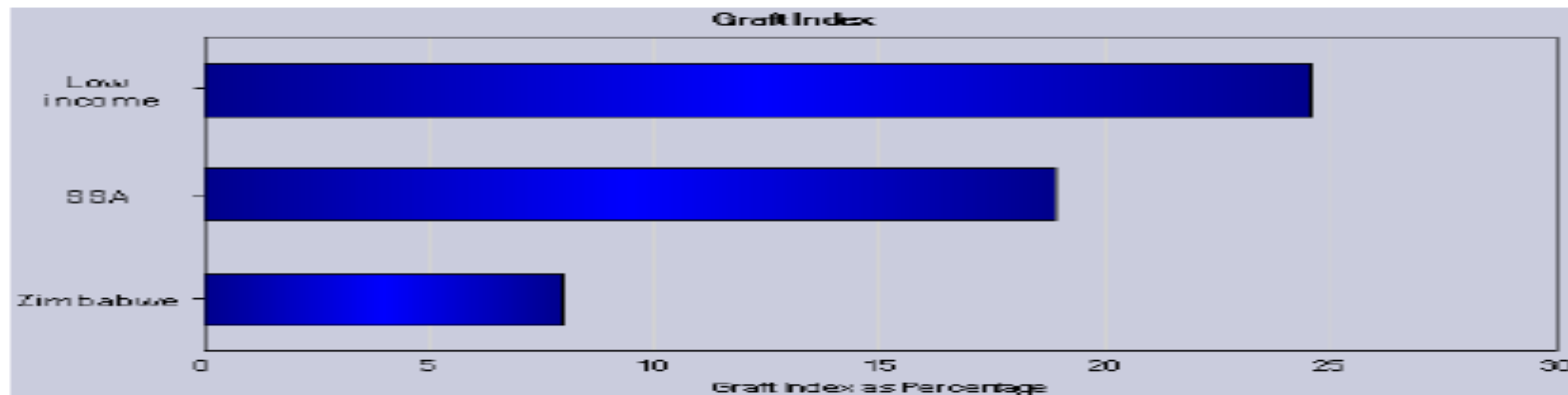
Snapshot of the Business Environment in Zimbabwe



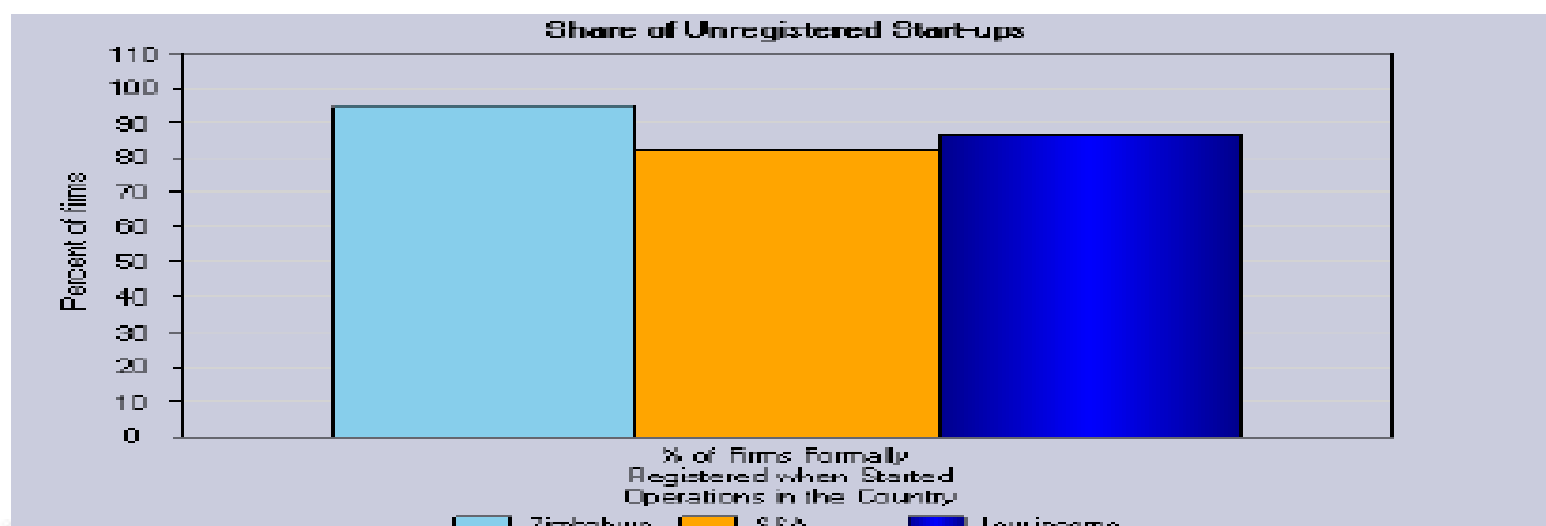
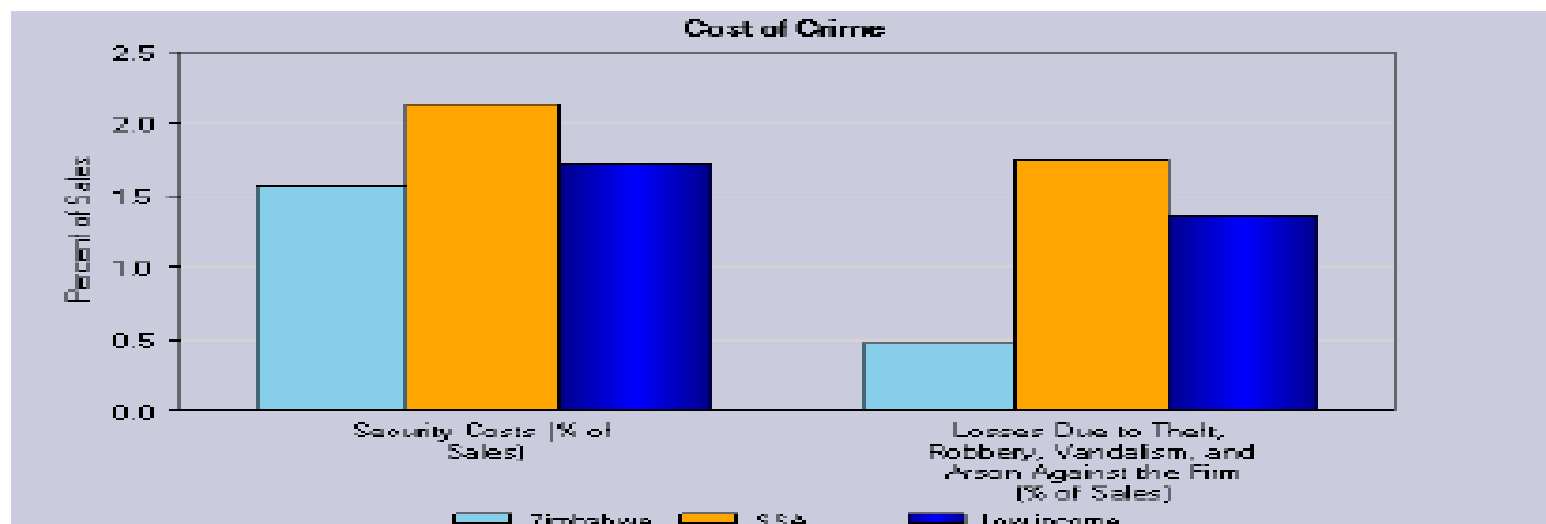
ES.... Trade



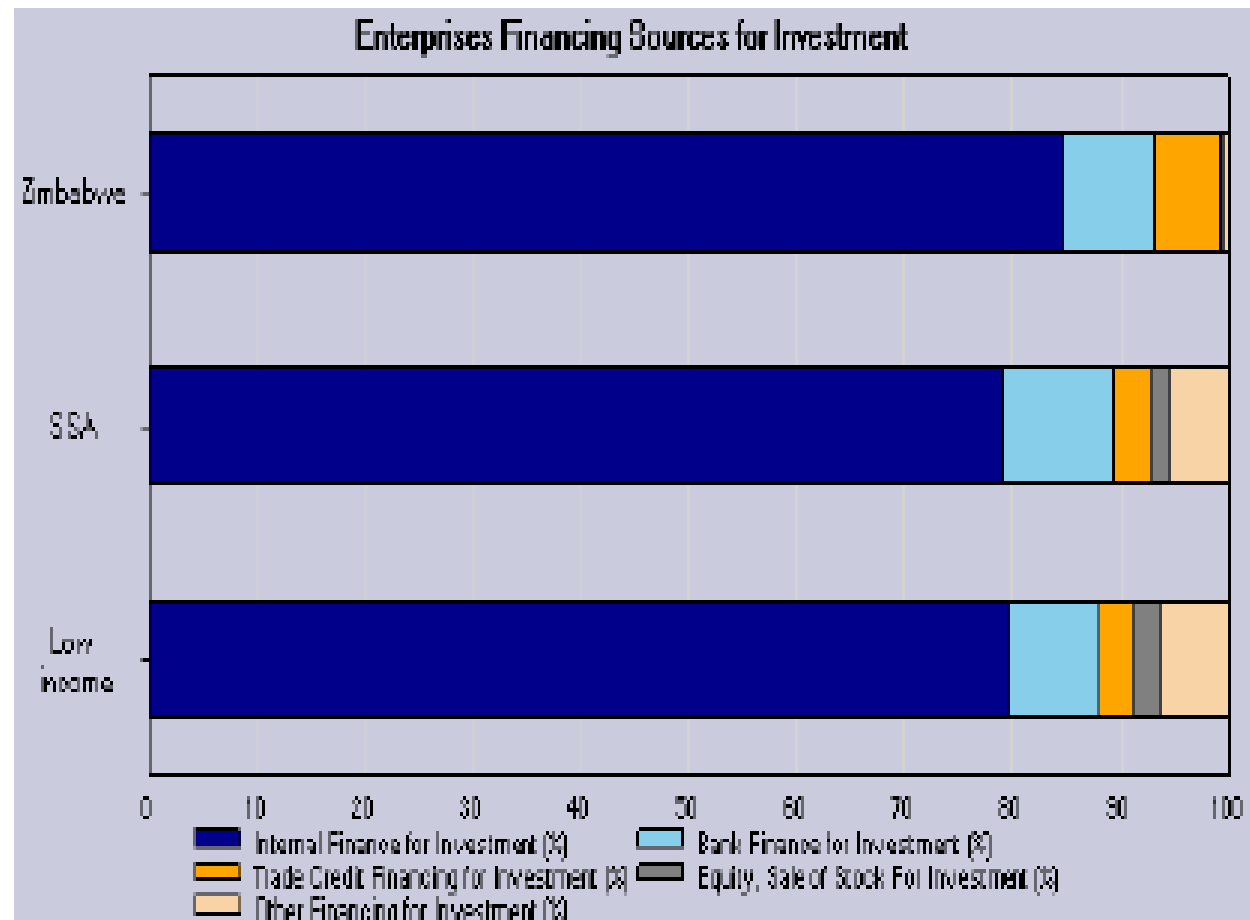
ES....Corruption



ES....Crime and Informality



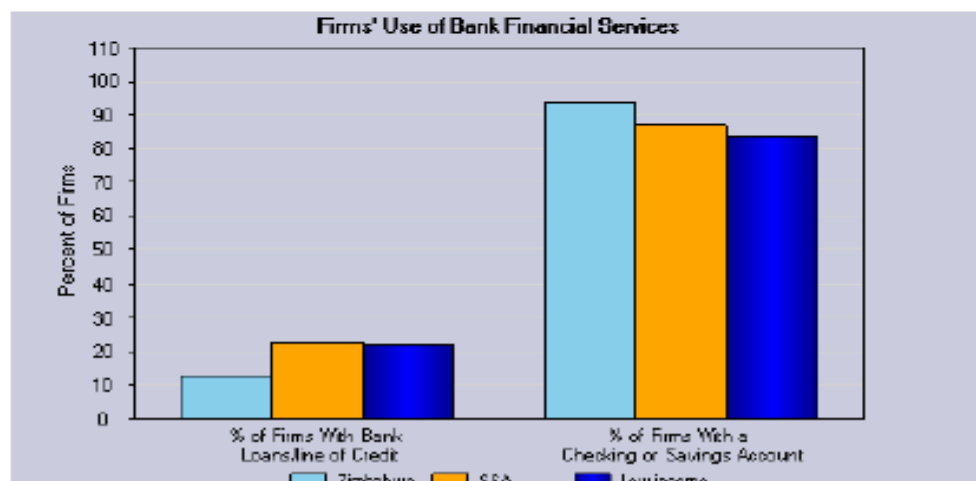
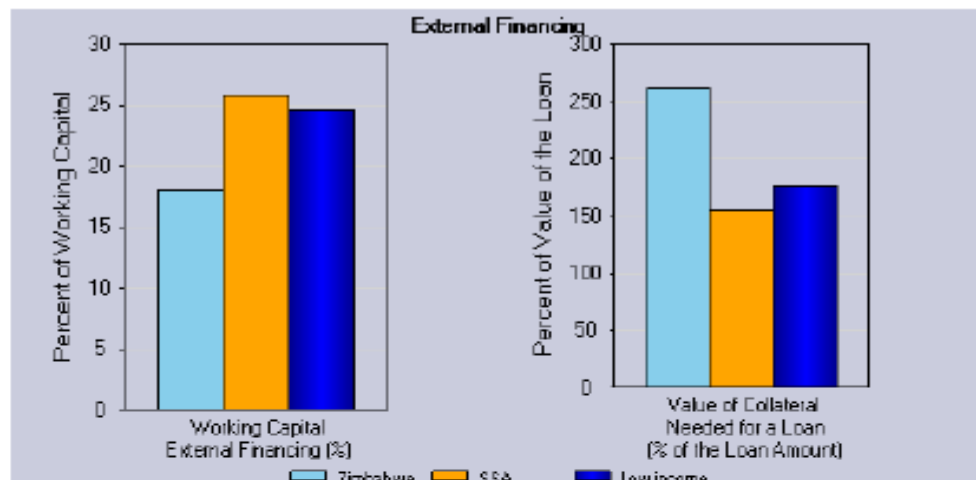
ES...Finance

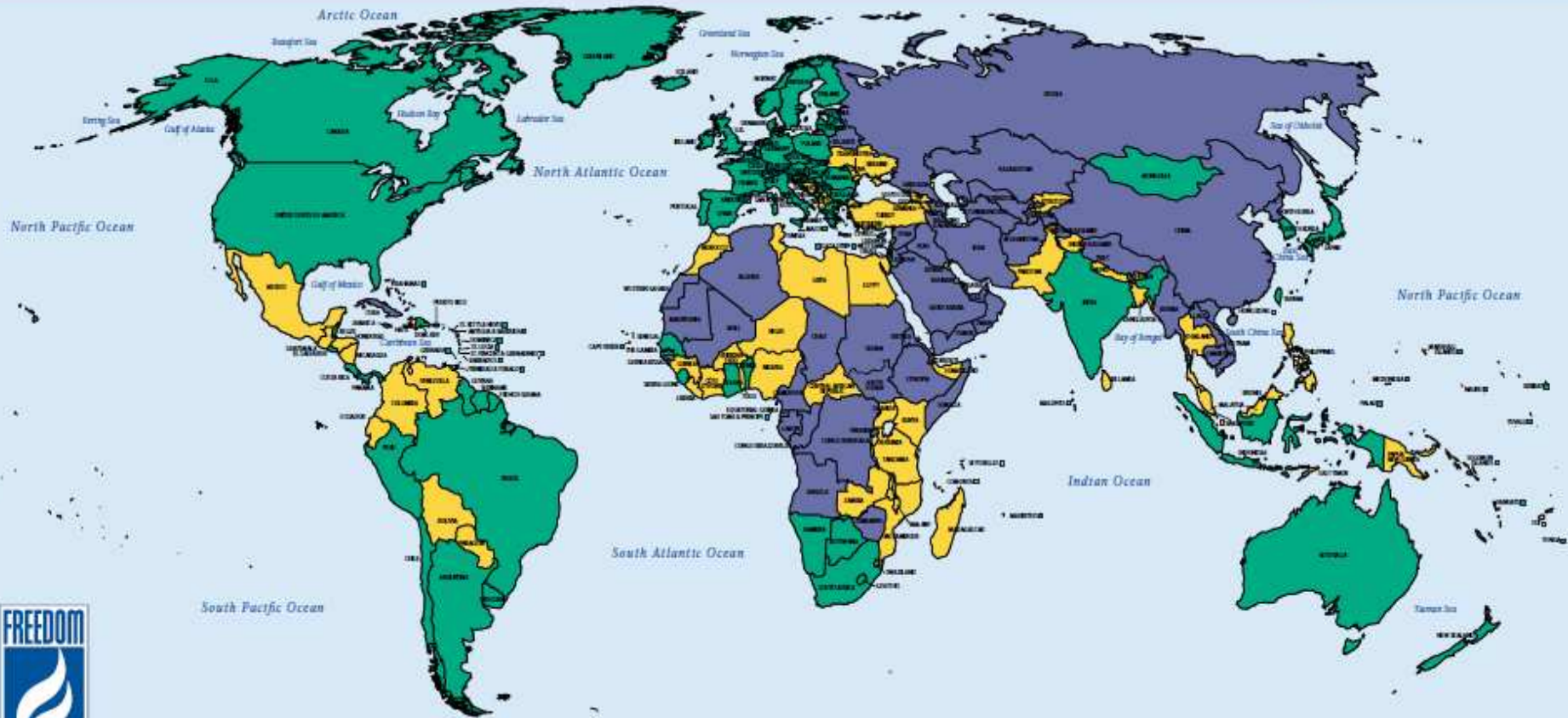


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ES....Finance





Survey Findings

Freedom Status	Country Count	Population (Millions)
Free	52 (27%)	1,096,133,000 (17%)
Partly Free	38 (20%)	1,871,848,000 (27%)
Not Free	50 (27%)	2,132,212,000 (34%)
TOTAL	140	7,000,193,000

The Map of Freedom reflects the findings of Freedom House Freedom in the World 2013 survey, which rates the level of political rights and civil liberties in 140 countries and 14 island and disputed territories during 2012. Based on these ratings, countries are divided into three categories: Free, Partly Free, and Not Free.

A Free country is one where there is broad scope

for open political competition, a climate of respect for civil liberties, significant independent civil life, and independent media.

Partly Free countries are characterized by some restrictions on political rights and civil liberties, often in a context of corruption, weak rule of law, ethnic strife, or civil war.

A Not Free country is one where basic political

rights are absent, and basic civil liberties are widely and systematically denied.

Freedom House is an independent nongovernmental organization that supports the expansion of freedom worldwide.

www.freedomhouse.org



Millennium Challenge Corporation Indicators

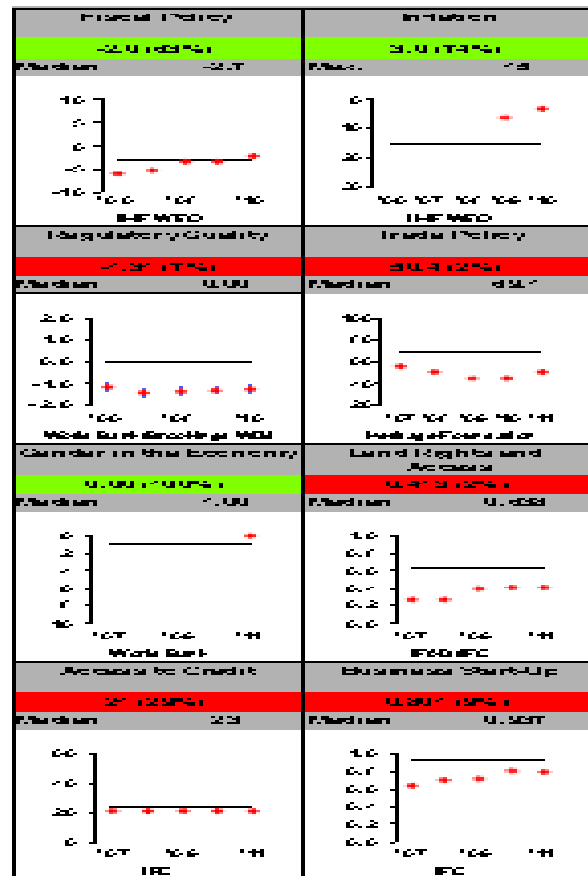
Zimbabwe FY12

Population: 12,084,000
 GNI/Cap: \$460 (LIC)

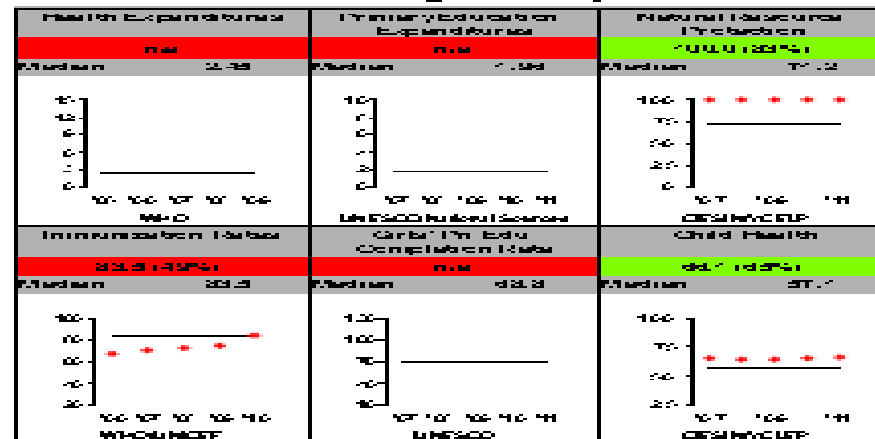
Control of Corruption
 Democratic Rights
 Pass Half Overall



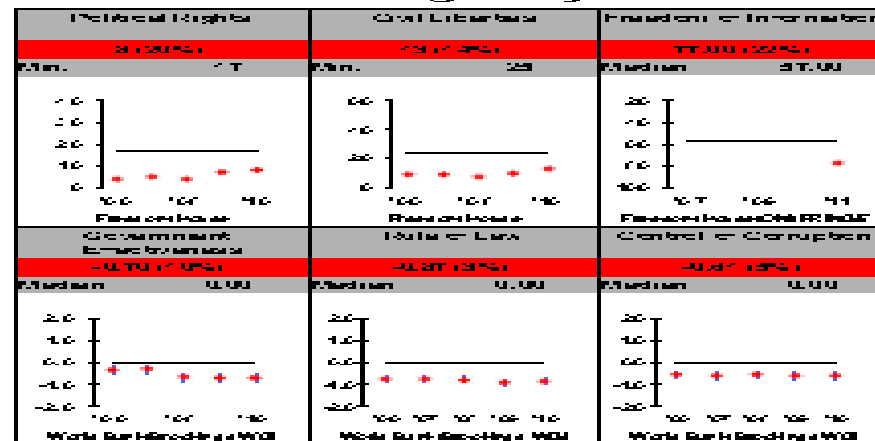
Economic Freedom



Investing in People



Ruling Justly



For more information regarding the Hillary Foundation's Economic Sanctions Program, please contact the MCC at info@hcfoundation.org



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MCC Indicators

<i>Ruling Justly</i>	<i>Investing in People</i>	<i>Economic Freedom</i>
civil liberties	immunization rates	natural resource
political rights	public expenditure on	management
voice and accountability	health	business start-up
government	girls' primary education	inflation
effectiveness	completion rate	trade policy
rule of law	public expenditure on	fiscal policy
control of corruption	primary education	land rights and access



Structural Determinants of Investment

- Cost of capital
- Growth rate of capital
- Money supply
- Asset prices
- Frictions to investment activity due idiosyncratic risk & uncertainty - Capital is timid
 - Such friction finds root in:
 - Legal framework governing contract enforcement
 - Ability/Inability of the financial sector to intermediate savings
 - Business climate and political-institutional environment.

FDI Trends: UNCTAD

USUS\$M	2005	2006	2007	2008	2009	2010	2011	2012
Botswana	279	486	495	528	579	559	587	612
Malawi	52	72	92	92	60	58	56	60
Namibia	348	387	733	720	516	712	900	850
Mozambique	108	154	427	592	893	989	2093	5200
Zambia	357	616	1324	939	695	1729	1982	2100
Zimbabwe	103	40	69	52	105	166	387	400



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UNCTAD.. Major Investing Countries

	2010	2011	2012
United States	327.9	419.3	351.4
EU	509.2	558.3	418.0
Of which			
UK	39.5	106.7	71.8
Belgium	43.9	82.6	85.3
France	76.9	90.2	62.2
Germany	121.5	52.2	66.8
Japan			
BRIC's	126.0	105	105
Of which			
China	60.1	43.0	62.4
Russia	41.1	48.6	31.0



Universal Prerequisites for attracting Investments

- Ease of remitting profits from host economy
- Currency stability –
- Stock Market Activity -ZSE is currently the most attractive in the region/continent because it is denominated in \$US – (Cap. \$6.07bn as at 13.11.2013)
 - Challenge: IPOs are not so frequent anymore – last IPO was TN Holdings in 2010
 - Demerger Padenga coming out of Innscor
 - Merger –Zimplot and Tractive Power Holdings
- Zim firms are faced with a dearth in bank credit plus not much option on the capital markets.
- Returns on investment – investors tend to follow high returns even when the other factors are not as attractive.
- National Debt Level – investors are wary of highly indebted poor country.
- Current Account deficit
- Foreign Reserves – the higher the reserves the more attractive it is to invest in that economy

Domestic Capital

- Domestic Capital is required to marry international capital – investors take a cue from local investors
- Domestic savings attract foreign capital
- China's +1000 parastatals' savings form a huge reserve for further investments and a trigger to international capital.
- Size of GDP – a growing GDP attracts more investment
 - e.g Zambia's growing GDP is attracting more investment than Zimbabwe. The 2 economies had almost the same GDP in 2010 but now Zambia is now at \$20bn and Zimbabwe has lagged behind.

PPPs & Other Instruments

- Public Private Partnerships (PPPs) are a way of raising funding for public services/infrastructure projects.
 - The World Bank did a Rapid Needs Assessment in 2012 and came up with a list of fundable projects in Zimbabwe.
- International Bonds – Zambia’s \$750m infrastructure bond was oversubscribed.
- Africa is becoming attractive for bonds because of high returns.
- Treasury Bills – in Zimbabwe they received a lukewarm response in the recent past.
 - \$40m TB to NSSA & Old Mutual to fund Referendum
 - Undersubscribed \$30m TB in Nov 2012

Investor Expectations: Market Size

- Big countries with a vast market attract investors (compare Nigeria to Swaziland)
 - The Zimbabwean Pharmaceutical industry collapsed because the biggest customer, GoZ, was no longer buying from them. They were now receiving donations.
- Purchasing Power of consumers in destination economy.
 - Disposable income
- Access to regional markets – e.g SADC, SACU, COMESA

Financial Superstructure vs Economic Infrastructure

- Chicken and egg relationship between the two.
- A strong financial superstructure trigger economic growth and hence economic infrastructure.
- Investors expect to see a strong financial sector with international banks to handle large transactions.
- Challenge: financial sector, which is expected to fund economic infrastructure is attracted to an economy with well developed infrastructure.
- What comes first, the chicken or the egg?????

Safeguarding Investment

- World Bank Groups Multilateral Investment Guarantee Agency (MIGA)
- Insuring
 - Political Risk – arises when developments affect value or repatriation of foreign investment & repayment of cross boarder debt.
 - Country Risk – exposure to loss from actions of borrowing country
 - Credit Risk -
- BIPAs/EPAs

Conclusion

- Investors are expecting a clement business environment
- High return on investment
- Safeguards
- A2F
- Infrastructure



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