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ZIMBABWE: A ROADMAP FOR ECONOMIC TRANSFORMATION

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ACRONYMS

AfDB	African Development Bank
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
EU	European Union
FDI	Foreign direct investment
GDP	Gross Domestic Product
IEEA	Indigenisation and Economic Empowerment Act
IFI	International Finance Institution
IMF	International Monetary Fund
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
SEZ	Special economic zone
UN	United Nations
UNECA	UN Economic Commission for Africa
WEF	World Economic Forum
ZANU-PF	Zimbabwe African National Union Patriotic Front
ZIM-ASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation

EXECUTIVE SUMMARY

Zimbabwe has suffered from economic decline in the recent past, with a 60% reduction in its gross domestic product over the past two decades. There have been multiple acute crises and a deep structural regression in its economy.

This has included deindustrialisation with degradation of capital stock and low capacity utilisation in the manufacturing sector. The agriculture sector has suffered from declining productivity and output. Formal employment has fallen and been replaced by informal jobs. Only the mining sector has thrived, but this is mainly because of the commodity 'super cycle' that ended in 2015.

These problems have been driven primarily by economic mismanagement. Problems include poorly executed land reform and indigenisation policies that have undermined investment, fiscal mismanagement and policies that have led to financial fragility in the banking sector.

Currently, the government's 2013–2018 economic strategy, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM-ASSET), focuses on 'command agriculture' and inward-looking import substitution. However, these policies have not been successful in other countries.

Ideally, there would be broad and deep macroeconomic reforms. But many commentators see this as unrealistic without significant political change. Instead, new strategies that are feasible in the political economy of Zimbabwe are needed to get the country's economy back on track.

This paper argues that the most viable is a 'single sector, single agent' approach – whereby transformation is focused on a single sector with high potential and led by a single reformist agent within government – and this could 'kick-start' change. There are a number of reasons for this.

First, Zimbabwe has inherent competitive advantages. These include rich natural endowments in agriculture and extractives, including gold, platinum and diamonds; proximity to key regional markets in South Africa, Zambia and other neighbouring countries; and good levels of education and business skills. These provide Zimbabwe with the potential to develop value-added, export-led manufacturing and processing of its products, with resultant and much-needed formal, higher-wage employment and fiscal revenues.

The government has already identified such opportunities in ZIM-ASSET, including in agriculture and extractives, relating to growth in exports and value chains in these sectors. The paper's analysis concurs with these choices.

However, current policy undermines the development of these sectors, including of their value chains.

In agriculture, productivity has been badly affected by land reform and the resultant return to small-scale farming with an inadequate quality and quantity of inputs. These problems could be overcome through production aggregation and by replacing the direct provision of inputs through 'command agriculture' with market-based incentives.

Similarly, in extractives, forward linkages and exports could be developed through the refinement of raw materials and skilled manufacturing of products such as jewellery and industrial products. Backward linkages could also be developed to supply inputs to mining companies. Such approaches would add to employment creation in mining, which otherwise creates a relatively low number of jobs (albeit high-skilled ones). However, current policy requires extractive companies to source supplies from domestic firms, which has stimulated imports, rather than manufacturing, of such supplies, and has sought to promote domestic processing in plants that lack the scale economies needed in the industry to be economically viable.

ZIM-ASSET also does not reflect the economic fundamentals of value chains, which require investment, economies of scale and cross-border trade in inputs and outputs. Current import policies are undermining these basics, including by restricting cross-border trade in inputs and intermediate components and seeking import substitution rather than cross-border trade and economies of scale.

Second – and more importantly – experiences in comparator countries show that, under such a strategy, there is no need for pre-existing ‘good governance’ for transformation to begin. Conditions such as a well-functioning democracy, transparency, civil society empowerment or the absence of corruption are not necessary. Indeed, there is no need for comprehensive change in institutions and power structures.

Instead, a much greater variety of institutional arrangements can succeed in delivering economic transformation – including existing ones that rank poorly in relation to ‘good governance’ – provided that they encompass incentives for ‘inclusive power’ and have a competent and professional public administration to coordinate public–private requirements and business–state relations. Such institutions are present in Zimbabwe.

This means that conditions for change are already substantially present in the country under the current political environment, and change could be initiated by a reform-minded and empowered public agency within the current administration provided it has competent civil servants, is able to navigate potential political blocks and can develop a public consensus to support its approach.

For international actors, there is a role in supporting the emergence of a consensus and starting execution of such an approach among reform-minded leaders within the ruling Zimbabwe African National Union Patriotic Front, national civil society, private investors and donors. This could include providing technical assistance and training for promising sectors and a modest renewal of international financing.

Overall, the current situation in Zimbabwe is fragile. All players are calling for urgent action. However, too often this is linked to ideal but unfeasible economy-wide strategies or broad political change. More realistic is to build a consensus to execute a more modest but realistic ‘single-sector, single-agent’ approach, such as has elsewhere provided a pathway towards greater economic recovery and transformation.

1. INTRODUCTION

Zimbabwe is facing an economic crisis. The country's economic woes have accumulated over two decades and have been characterised by a reversal in the structural transformation of its economy. This has included declines in productivity, trade and formal employment and increasing deindustrialisation and informalisation of the economy. Since 2016, these problems have deepened as a result of an on-going liquidity crisis related to the ballooning fiscal deficit. Many observers consider the situation unsustainable.

The political environment in the country has driven these events. Political power has been consolidated under the Zimbabwe African National Union Patriotic Front (ZANU-PF), led by President Mugabe. Its rule has been characterised by corruption and economic mismanagement. Formal institutional frameworks – such as legislation, regulations and the formal processes of government – are intact but there is a broad failure to execute and enforce such formal charters. Policy-making is dysfunctional, with repeated failures within the government to reach and enact rational, consensus-based, policy reform. There is also deep corruption within government and public institutions. Further, there has been a progressive hollowing-out and neutering of civil society organisations (such as trade unions and civil activists) that might otherwise have effectively opposed change and provided means of monitoring or enforcing formal frameworks. These issues are discussed further in Section 2 and in the sister papers in this collection, by Kanyenze (2017).

This paper considers what can be done to put Zimbabwe back on a path to economic renewal and transformation.

There are reasons for optimism. Zimbabwe has many inherent economic advantages. These include rich natural resources in agriculture and in terms of, platinum, gold and diamonds and proximity to major regional markets. The country has an educated and business-oriented workforce, a competent professional civil service and good formal governance structures. These could deliver the increased productivity, formal employment and trade that are the essential processes of economic transformation.

However, the more difficult issue relates to how to realise these advantages in the current political economy. As noted, the problems are essentially political rather than economic and many observers are pessimist about the likelihood of political reform.¹

The experiences of other comparator countries can provide important guidance for Zimbabwe. These indicate that a number of fundamentals are needed for change but that they are not numerous or unrealistic for Zimbabwe.

These include a need for economic transformation through the development of areas of comparative advantage and for increases in productivity and trade in these areas. The government's economic strategy, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM-ASSET), has already identified these areas but more work is needed on executing a realistic strategy grounded in economic fundamentals. There are also essential preconditions for transformational change, including stable and credible property rights, adequate infrastructure and cost competitiveness. These are currently impaired in Zimbabwe because of poor policy choices and economic mismanagement, and it is essential to address these issues. Section 3 discusses further what and how this might be done is discussed.

Second, the guidance provides a further – and arguably more important – lesson about how economic transformation comes about in less than ideal political economies: it does not need 'good governance' as a precondition and there is no need to wait for economy-wide reforms. Instead, there is a path to transformation through starting with a single sector and through a single political agent. Given the depth of Zimbabwe's economic and political problems, this may be most realistic model to consider. Section 4 discusses how these political pathways might be enacted in Zimbabwe.

¹ The full evidence base for this is set out in the SET approach paper (McMillan et al., 2017).

Finally, the role of international institutions needs to be considered. Today, many development institutions are sitting on the side-lines, with limited poverty alleviation and technical assistance programmes. If the 'single sector and single agent' path is to be successful, these need to play a more supportive and proactive role, including in financing. Section 5 discusses these issues further.

The paper concludes that economic transformation is possible – if not easy – in Zimbabwe. Long term, much will depend on domestic political leadership and reform. However, there is no need to wait for this. Instead, transformation could be kick-started by a 'single sector, single agent' strategy led by the current government with the support of the international community. Further, comparative country experience also shows that such economic progress leads, not follows, political and social progress.

Given the urgency of the economic situation, considering and executing such a programme should be a priority for all actors concerned about the people and economy of Zimbabwe.

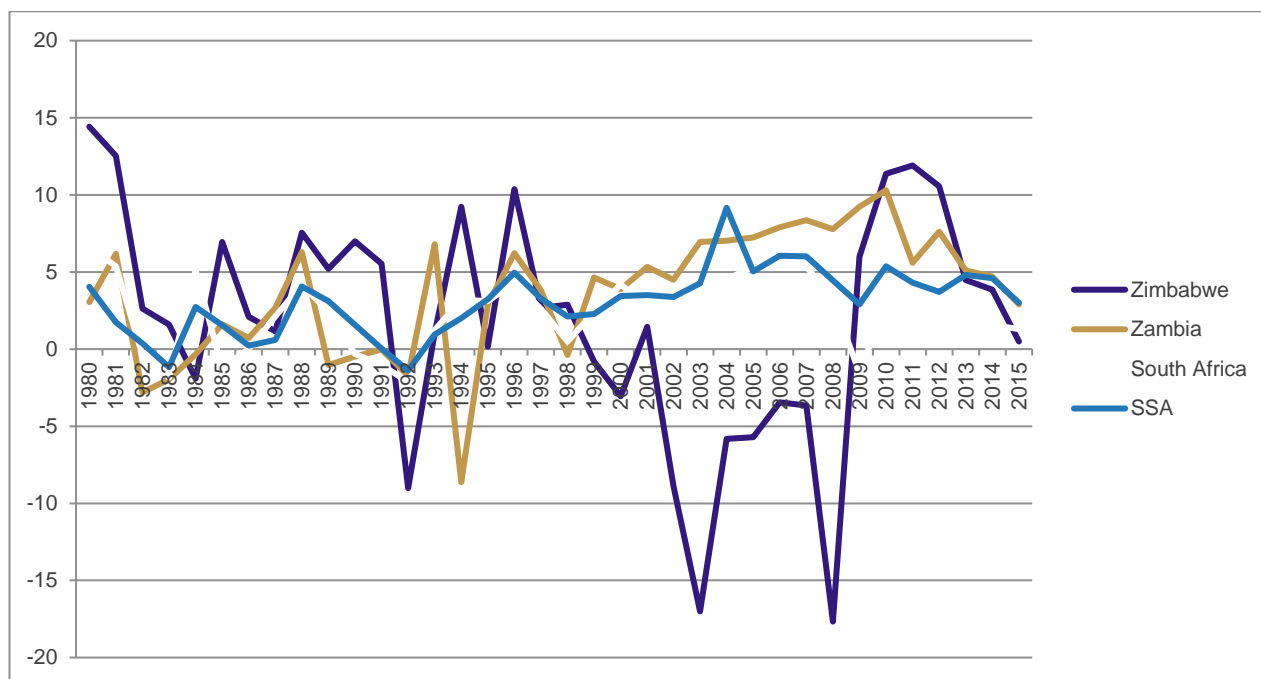
2. THE TRANSFORMATIONAL REGRESSION OF THE ECONOMY

This section paper reviews the current transformational deficits in the Zimbabwean economy. A more detailed discussion is provided in the sister papers, by Kanyenze (2017).

Overall, the economy in Zimbabwe has underperformed since the mid-1990s. This included a decade-long recession between 2000 and 2009, when the economy shrunk significantly and which ended in hyperinflation and dollarisation of the economy. Following this, there was a period of recovery between 2010 and 2012 before growth petered out as the global commodity price boom came to an end.

This underperformance can be illustrated by comparison with its near neighbours, South Africa and Zambia, as well as the region. These have all experienced more stable and positive growth trends since 1998, although they too were affected by the end of the commodity price cycle (Figure 1).

Figure 1: Real GDP growth, 1980–2014 (annual %)



Source: Kanyenze (2017).

However, the Zimbabwean economy suffered, not only a reduction in size but also a structural regression.

Productivity within the economy declined by 11.3% between 1999 and 2014, labour shifted from high- to low-productivity sectors and there was increasing informalisation, with the share of informal employment in total employment increasing from 80% in 2004 to 94.5% in 2014 (Kanyenze, 2017).

These trends were worse in agriculture, which saw a decline in productivity of 13.3% between 1999 and 2014 and a fall in value-added to gross domestic product (GDP) from 15.3% in 1991 to 12.4% in 2013. This reflected the fact that it had become more labour-intensive, with its share of employment increasing from 60.0% to 64.8% in the same period, with escalating levels of informal, small-scale farming.

In industry, there was a 9.6% decline in productivity between 1999 and 2014 and a decrease in its value-added to GDP, from 27.2% in 1991 to 13.6% in 2013. This owed primarily to deindustrialisation of the economy and decreasing productivity and capacity levels in the residual manufacturing base. By contrast, non-manufacturing industry experienced more positive trends. However, this was dominated by mining.

Services was the only sector that saw improved productivity and value-added to GDP. However, productivity increases were small, with a 1.9% increase from 1991 to 2013, and productivity gaps remain high (Table 1s and 2).

Table 1: Labour productivity levels and changes by sector

	Labour productivity levels (index, 1999=100)		Annualised growth
	1999	2013	1999–2013
Agriculture	100.0	49.1	-13.3%
Industry	100.0	60.5	-9.6%
Services	100.0	109.8	1.9%
Total	100.0	54.8	-11.3%

Source: ODI calculations using sectoral value-added and employment share data from the World Bank's World Development Indicators (<http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators>) and total employment data from ILO's Global Employment Trends 2014 (http://www.ilo.org/global/research/global-reports/global-employment-trends/2014/WCMS_234879/lang--en/index.htm). <http://set.odi.org/data-portal/>

Table 2: GDP, employment and relative productivity levels

	Value-added (% of GDP)					% of total employment	
	1991	1999	2005	2010	2013	1999	2014
Agriculture^a	15.3	19.2	18.6	14.5	12.4	60.0	64.8
Industry^b	37.4	23.7	28.7	30.7	31.3	11.8	9.3
Of which: Manufacturing	27.2	16.4	16.4	13.9	13.6	n/a	n/a
Services^c	47.3	57.1	52.7	54.8	56.3	28.1	15.3
Total	100.0	100.0	100.0	100.0	100.0	99.9	89.4

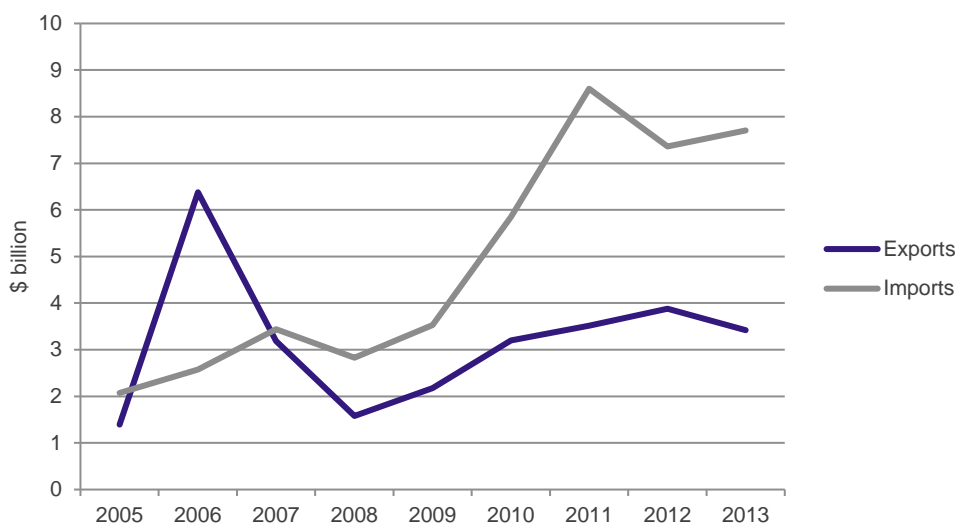
Notes: (a) Agriculture corresponds to ISIC divisions 1–5 and includes forestry, hunting and fishing, as well as cultivation of crops and livestock production. (b) Industry corresponds to ISIC divisions 10–45 and includes manufacturing (ISIC divisions 15–37). It comprises value-added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water and gas. (c) Services correspond to ISIC divisions 50–99 and includes value-added in wholesale and retail trade (including hotels and restaurants), transport and government, financial, professional and personal services such as education, health care and real estate services. Also included are imputed bank service charges, import duties and any statistical discrepancies noted by national compilers as well as discrepancies arising from rescaling. (d) Derived by calculating labour productivity levels (value added at constant prices divided by number of persons employed) and expressing the result as a ratio of total economy labour productivity. Numbers may not sum as a result of rounding. It is unclear why the sectoral shares of total employment add up to well below 100% in 2013.

Source: Authors' calculations using sectoral value-added and employment share data from the World Bank's World Development Indicators (<http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators>) and total employment data from ILO's Global Employment Trends 2014 (http://www.ilo.org/global/research/global-reports/global-employment-trends/2014/WCMS_234879/lang--en/index.htm). Unfortunately, sectoral employment share data are available only for 1999 and 2004.

Source: ODI.

Zimbabwe's trade structure also deteriorated. The value of exports declined by 17% between 2011 and 2015 (Kanyenze, 2017). Even as exports declined, imports rose, leading to a sharp increase in the trade deficit (Figure 2).

Figure 2: Total value of trade, 2005–2013



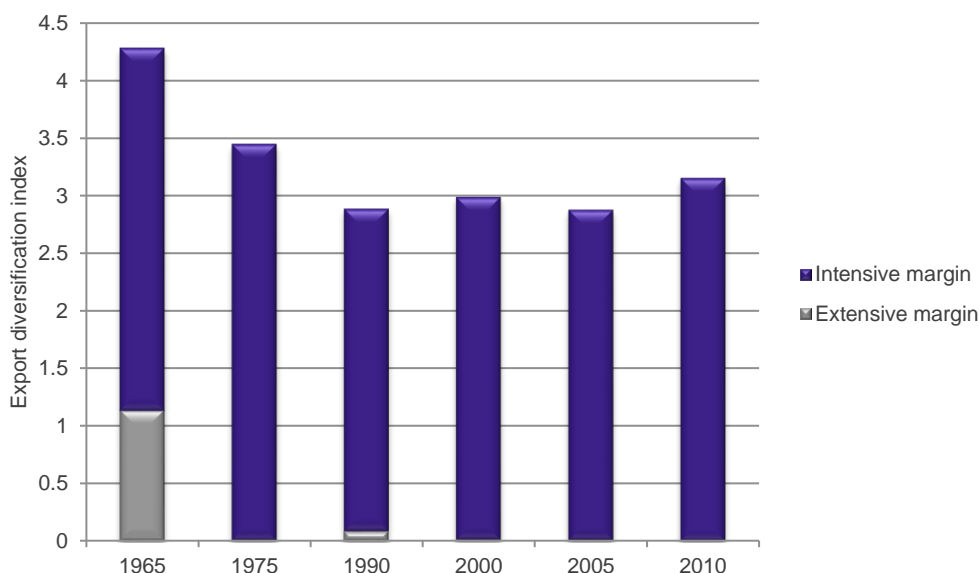
Source: UN COMTRADE database.

Problems behind these trends included lack of competitiveness in manufactured goods owing to low productivity and the US dollar’s appreciation and increasing imports of basic food stuffs because of a prolonged drought between 2011 and 2016 that necessitated food imports (Tyson, 2016; Kanyenze, 2017).

The quality of trade has deteriorated. Export diversification – a key factor in the resilience of exports – has declined in relation to both products and markets. In relation to products, exports have become increasingly concentrated in extractives, with falling levels of manufactured goods and stagnant exports of services (such as tourism) (Newfarmer and Pierola, 2015).

In relation to markets, exports to South Africa became increasingly dominant, with exports to other countries in the region declining and almost no exports to Europe or North America (Figures 3 and 4).

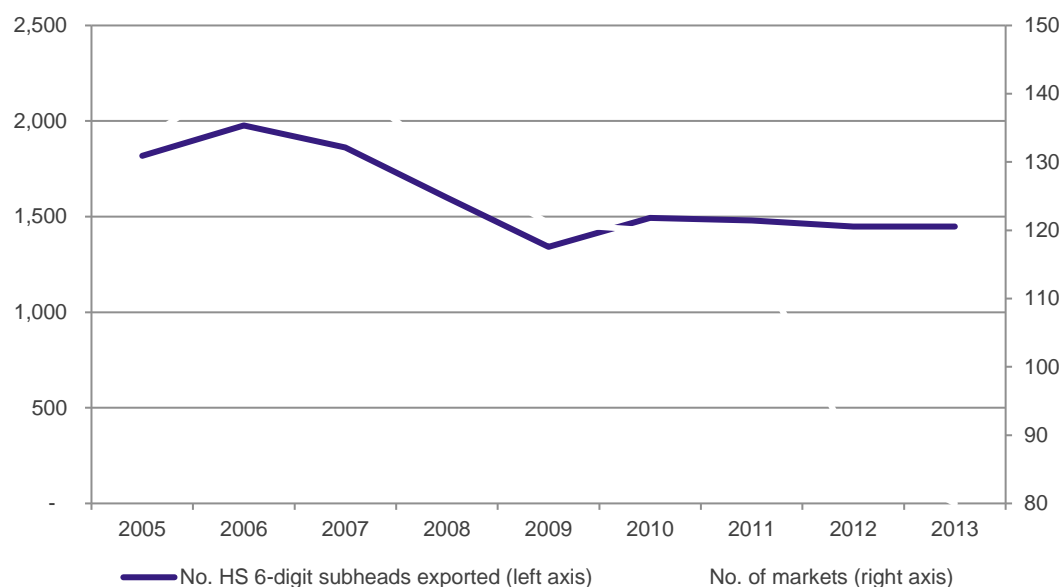
Figure 3: Export diversification index, 1965–2010



Notes: Higher values reflect lower diversification. **Extensive export diversification** reflects an increase in the number of export products or trading partners. **Intensive export diversification** considers the shares of export volumes across active products or trading partners. Thus, a country is less diversified when export revenues are driven by only a few sectors or trading partners, even though the country might be exporting many different goods or to many different trading partners. Countries with a more evenly balanced mix of exports or trading partners have a higher level of intensive diversification.

Source: DFID–IMF Diversification Toolkit (<http://www.imf.org/external/np/res/dfidimf/diversification.htm>): Export Diversification Database.

Figure 4: Number of export items and markets, 2005–2013



Note: EU countries counted individually.

Source: Authors' calculation using data from the UN's COMTRADE database

Concluding remarks

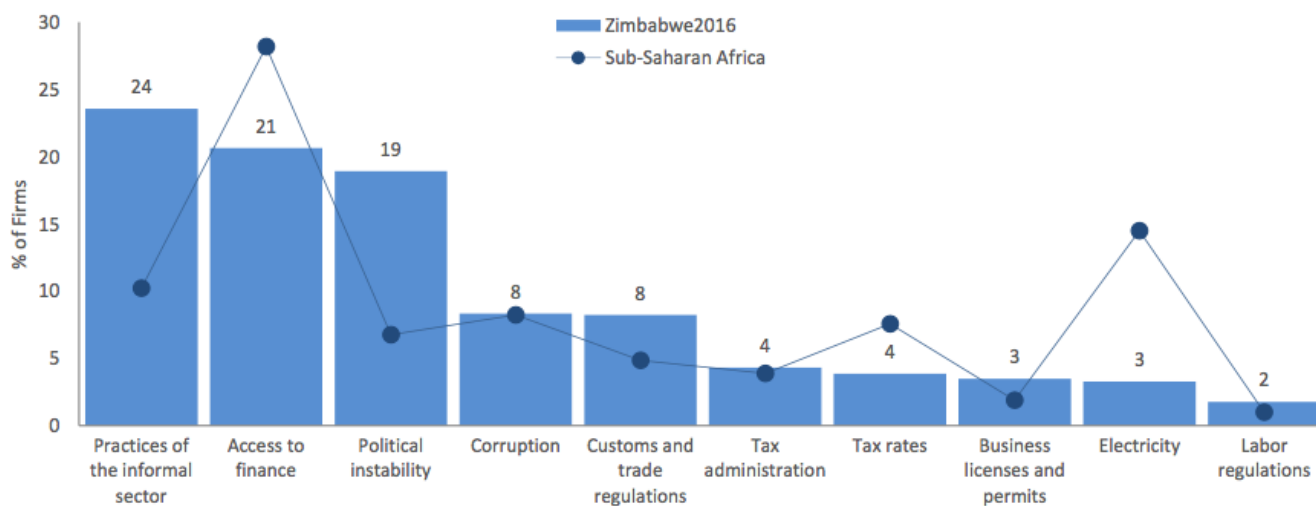
Overall economic transformation – which is characterised by shifting resources from low- to high-productivity activities and the creation of high-wage formal employment – has gone into reverse in the past two decades in Zimbabwe. This is because of, among other things:

- Falling productivity in all sectors apart from mining;
- Deindustrialisation and falling capacity utilisation in manufacturing;
- Shifts in labour into informal employment and small-scale farming; and
- Contracting value, volumes, markets and products of exports.

That poor policy is a key determinant of these trends can be seen through the unfavourable performance of Zimbabwe relative to its immediate neighbours and to the region.

These policy problems also manifest themselves in the current economic environment, with informalisation of the economy, limited access to finance and political instability representing important constraints. In particular, political instability has affected business confidence and is heightened in Zimbabwe compared with other countries in the region (Figure 5).

Figure 5: Top ten business environment constraints



Source: World Bank Enterprise Survey (2016).

The next two sections discuss in more detail the policy choices underlying this structural regression of the economy and the constraints to economic renewal.

3. ECONOMIC PATHWAYS TO TRANSFORMATION

The government of Zimbabwe is seeking to tackle the economic regression discussed in the previous section. It has formulated a national economic strategy for 2013–2018: the Zimbabwe Agenda for Sustainable Socio- Economic Transformation (ZIM-ASSET) (Government of Zimbabwe, 2013). The key pillar of this is to develop value-added goods in target sectors with increased import substitution and growth in trade. The strategy also includes establishing special economic zones (SEZs).

Critically, the high-level goals of this strategy are consistent with those of economic transformation, including employment creation and poverty alleviation.

Because sound economics are critical to success in economic transformation, this section assesses ZIM-ASSET from an economic perspective, drawing on empirical research and selected country comparatives (McMillan et al., 2017).

As will be discussed, the target sectors chosen under ZIM-ASSET are associated with Zimbabwe's areas of competitive advantage and look like sound choices. However, ZIM-ASSET also suffers from three critical weaknesses, and there is a need for improved detailed policy and execution.

First, although import substitution can be successful in protecting domestic firms to allow for growth in exports and employment, ZIM-ASSET lacks a central role for market or price incentives that can make such policy successful. More emphasis on addressing externalities in infrastructure, finance and trade is needed. Section 3.1 discusses this and makes further comment on sector choices and policy.

Second, there are certain preconditions for growth take-offs, including sound private property rights, adequate infrastructure and export cost competitiveness (McMillan et al., 2017). All three of these are currently weak in Zimbabwe and have been undermined by poor policy; they need to be addressed as a prerequisite to economic renewal. Section 3.2 discusses current policy and suggested alternatives in relation to these.

Finally, access to finance for the public and private sector is a binding constraint to economic renewal. Section 3.3 discusses this in more detail in relation to private sector financing, as does Section 5 in relation to public finance.

3.1 Optimising sector strategies

3.1.1 Sector choices

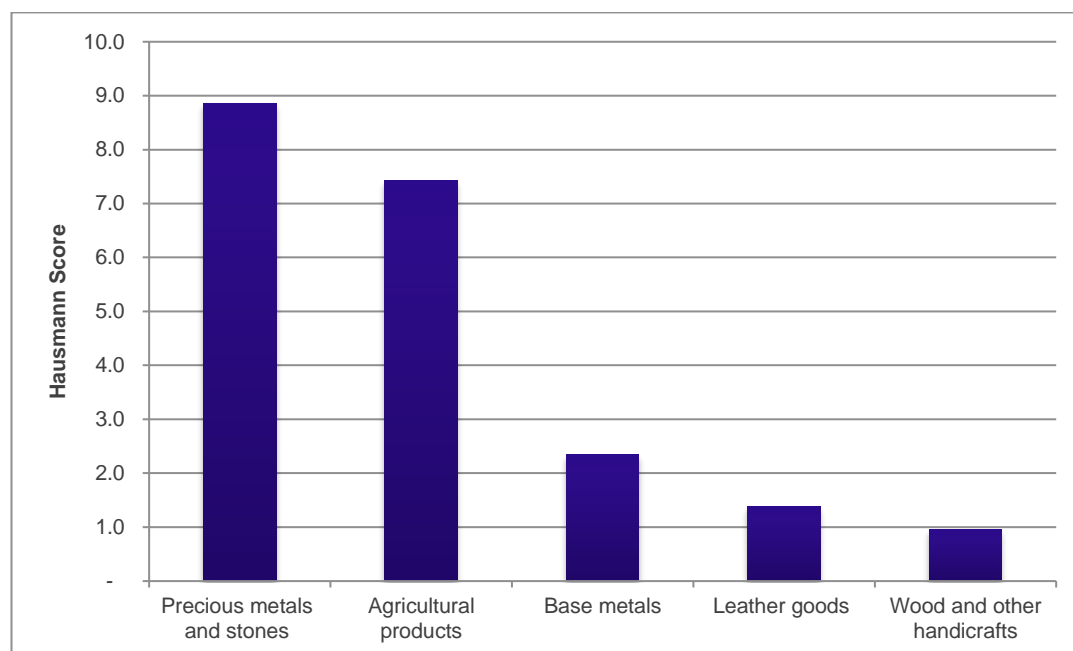
ZIM-ASSET identifies agricultural and extractives processing as key areas of competitive advantage. The strategy is to develop value-added goods in these sectors through growth in exports and value chains. This includes agricultural processing for fruits for juices and canning, vegetable for oils and skincare, livestock for meat and leather and processing of extractives, including large-scale refining of metals and diamond cutting and polishing.

As we show below, the paper's analysis concurs with these choices. As well as basic comparative advantages such as good agricultural land and the presence of significant mineral reserves, these sectors offer significant opportunities to add value to basic commodities through processing, are suitable for developing backward and forward linkages in the domestic economy and could be the basis on which to build exports and value chain participation (Figure 6 and Table 3).

For example, in agriculture, Zimbabwe's basic outputs are suitable for acting as inputs for processing and in the export of higher-value goods. These include tobacco, cotton and maize. Possible products include processed foodstuffs, tobacco products and textiles and clothing.

Similarly, in extractives, forward linkages and exports could be developed through the refinement of raw materials and skilled manufacturing of products such as jewellery and industrial products. Backward linkages could also be developed in terms of supplying inputs to mining companies. Such approaches would add to employment creation in mining, which otherwise creates a relatively low number of jobs (albeit high-skilled ones).

Figure 6: Revealed average comparative advantage by product, 2010–2013



Source: ODI.

Table 3: Comparative advantages and possible value-added activities

Rank	Category (all include processing of goods)	HS product label	2010	2011	2012	2013
1	Precious metals and stones	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin thereof; imitation jewellery; coin	7.37	6.13	11.59	10.30
2	Agricultural products	Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	5.48	7.28	7.77	9.16
3	Base metals	Base metals and articles of base metal	2.72	2.42	1.80	2.44
4	Leather goods	Raw hides and skins, leather, fur skins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	1.13	1.42	1.37	1.58
5	Wood and other handicrafts	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of	0.76	1.04	1.01	1.01

straw, of esparto or of other plaiting materials; basket ware and wickerwork

Note: Where scores above 1 show competitive advantages. Share of country's exports in each HS Section in country's total exports as a ratio of share of world exports in each HS Section in world total exports. 'World' = UN COMTRADE's 'all countries' aggregate, i.e. total of however many countries have reported their data in any given year.

Source: Authors' calculations using data from the UN's COMTRADE database. Full Haussmann analysis is provided in the appendix.

3.1.2 Import substitution

As noted, ZIM-ASSET focuses on import substitution in these sectors. In this regard, there are some important weaknesses in the government's execution of policy.

This is because, although import substitution can be successful in protecting domestic firms to allow for growth in exports and employment (such as in several Asian countries), it can also result in domestic industries becoming uncompetitive and encourage rent-seeking and corruption (such as in some Latin America and in Africa). Further, when enacted through protective tariffs, it can result in increased prices for consumers.

The critical differentiating factor between successes and failures in import substitution has been the role of government, with success being associated with the government coordinating economic growth and managing externalities but growth remaining fundamentally based in private market-led incentives and comparative advantages (Lin, 2012).

In this regard, ZIM-ASSET presents concerns because the planned government role is direct control and management of firms' production with a limited role for market or price incentives. This is particularly the case in relation to agriculture, which is discussed further below.

This may produce distorted incentives and coordination failures that will be difficult to overcome. A less directive approach to firms and a greater focus on relying on market and price incentives would be more likely to succeed.

3.1.3 Agriculture

In agriculture, despite strong comparative advantages and potential opportunities, significant barriers need to be overcome to increase productivity and to develop exports and value chains.

There is a need to address productivity in basic output. As the previous section noted, the sector has suffered from sharp declines in productivity associated with land reform and the resultant small-scale farming.

To address this, innovative policy approaches are needed to achieve the government's twin goal of increasing productivity while maintaining socially desirable, small-scale production by indigenous Zimbabweans.

Possible policy choices to deliver on both goals are suggested by other countries in the region that have tried to tackle similar issues, through mechanisms for the aggregation of small farmers' production to gain the economies of scale that large-scale farming provides while maintaining traditional social structures of production. These mechanisms include cooperatives, private sector associations and government institutions. They also include public-private partnerships and joint ventures of various types.

For example, in Rwanda and Uganda, maize is produced predominantly by small-scale farmers but is consolidated through cooperatives. In Rwanda, 40% of production is now managed through them. This includes selling 30% of output to the Rwanda Grain and Cereal Corporation, which then sells it as a collective to mills and processors in Rwanda and Kenya. A processor, Minimax, was established in 2006 as a joint venture between private investors and the government and is now an important aggregator as it

buys from cooperatives, stores grain and sells on to breweries (Daly et al., 2017; South Africa Maize Forum, 2014).

Similarly, in Ethiopia, cotton production has been aggregated and sold on through the government-led Ethiopian Textile and Garment Manufacturers Association, which has negotiated and managed large-scale supply contracts for cotton with global clothing manufacturers (Bamber et al., 2014; Newman et al., 2016).

However, in both Rwanda and Uganda, such aggregation has been constrained by a lack of financing for investment in storage and milling facilities. This has resulted in a need to sell shortly after harvest at the typical lower seasonal prices and an inability to process high-quality produce, which results in maize being sold as food only in markets with lower standards, such as Democratic Republic of Congo (DRC) and Burundi, with other markets, such as Kenya, restricting sales to animal feed only (Daly et al., 2017; South Africa Maize Forum, 2014).

Zimbabwe's agriculture sector also suffers from poor productivity because of issues related to inputs, including poor-quality seed, underuse of fertilisers and pesticides and underdeveloped irrigation. There is a need to increase the volume and quality of these inputs.

Current policy focuses on the direct provision of inputs through 'command agriculture' rather than market- or price-based approaches. However, there is little independent evidence to indicate that this approach has led to increased production in Zimbabwe.

Rather, such policy typically results in distorted economic incentives rather than increased production. In addition, it can be a source of rent-seeking – a concern in Zimbabwe because of allegations that command agriculture has led to corruption and abuse of funds.

Instead, research suggests that providing complementary public goods and finance is the most effective in promoting uptake of inputs and irrigation. The former includes transportation and communication infrastructure (UNECA, 2010).

In addition, research-based innovations such as development of new seeds, fertilisers and pesticides can significantly increase yields. Financing such research is also a positive role for government and might be of importance for Zimbabwe because the key export market for processed foodstuffs, South African, has high legislative standards for food imports (UNECA, 2010).

However, it should also be noted that other countries have successfully combined direct provision of inputs with market-led incentives and financing. For example, in Rwanda, improved inputs are supplied and subsidised by the Ministry of Agriculture, which has increased their use (Daly et al., 2017). If the government in Zimbabwe wishes to pursue this policy option, further examination of how this might be achieved without creating negative economic distortions is needed.

If such improvements could create reliable and consistent agricultural outputs, then value chain processing could develop. However, this also needs to reflect the economic fundamentals of value chains. This includes that they require investment, economies of scale and cross-border trade in inputs and outputs to be commercially feasible. Elsewhere in sub-Saharan Africa, these factors have driven the development of value chains in increasing numbers of products. The typical structure is large corporations providing the capital and expertise to grow regional businesses. Economies of scale are achieved through large-scale regional centres of production accompanied by cross-border sourcing of inputs and distribution and marketing of outputs.

Such value chain development, as well as general trade, is supported by the trade communities in sub-Saharan Africa such as the East African Community, the Southern African Development Community and the Common Market for Eastern and Southern Africa. It has been estimated that such free trade zones have led to a doubling of trade, with benefits being greatest for land-locked countries such as Rwanda and Zambia (Mayer and Thoenig, 2016).

In Zimbabwe, current policy undermines the country's ability to engage in such value chains. In addition to the generic issues discussed in the next section, current import policies that restrict cross-border trade in inputs and intermediate components prevent value chains developing. They are also undermining tertiary value chain development, such as in marketing and sales, which can be significant sources of employment as well as providing consumer goods.

Further, policies of import substitution that seek to build alternative 'closed' domestic systems of production and consumption are unlikely to succeed in producing competitive goods for either national consumption or export because the domestic market lacks the size to achieve economies of scale.

While the development of value chains and forward and backward linkages as set out in the high-level strategy of ZIM-ASSET is positive, execution is needed that takes account of these economic fundamentals. This entails a need to allow input and intermediate imports and engagement in regional, not national, value chains, including through regional and international companies.

3.1.4 Extractives

In relation to extractives, Zimbabwe has exceptional reserves of gold, platinum and diamonds. However, the benefits to the economy to date have been limited primarily to fiscal revenues (although these are very significant).

This is because the sector in Zimbabwe is either formal, with capital-intensive production and with high-skill but modest volume employment, or informal, with low-skill artisan mining with limited opportunities to move up the value chain to more productive production. In addition, backward and forward linkages such as providing goods and services for mining and domestic processing and value-added production are underdeveloped.

Elsewhere in sub-Saharan Africa, tackling these limitations in the extractive sector in relation to transformation have focused on developing linkages. This has created significant job creation and economic diversification, estimated at an average of three additional indirect jobs for every one direct job (McMillan et al., 2017).

These successes have been particularly notable in Zimbabwe's neighbours in relation to backward linkages. For example, in Zambia, mining has created 100,000 jobs, of which half are indirect. These jobs are in transport, construction, security and supplying mining company inputs, including skilled manufacturing and refurbishment of specialist engineering products. These businesses have also expanded to supply not only the Zambian sector but also as exports to DRC. Similar indirect job creation has been experienced in DRC, although these jobs have typically been lower-paid because of the greater dominance of artisan mining (World Bank, 2012; Oxford Policy Management, 2013).

There has been less progress in the region on developing forward linkages in relation to processing of metals and other extractives. This is because this requires a high level of capital investment, cheap and reliable power and skilled staff. In both Zambia and DRC, unreliable and expensive power and a lack of skilled staff have been constraints. In DRC, the weak business environment and political instability have also been deterrents. Instead – as for Zimbabwe currently and discussed below – raw material or partially refined materials are exported to South Africa for processing.

This suggests that similar strategies for backward linkages could be replicated in Zimbabwe. However, as for agriculture, policy needs to be adjusted. Currently policy requires extractive companies to source supplies from domestic firms. However, this has stimulated imports, rather than manufacturing, of such supplies. This is likely to create significantly less employment and add to the poor cost competitiveness of domestic production.

In relation to forward linkages, the government is seeking to require that raw material, which is currently exported to South Africa for processing, be processed domestically, including through milling and smelting. However, this would require significant capital investments as well as skilled personnel. This is unlikely to

be economic because – as well as the generic issues discussed further below – the necessary plants require scale economies that are likely to be achieved only through regional plants.

Finally, one alternative for forward linkages could be artisanal processing of gold or diamonds into consumer or industrial products. This would both be more economically viable and create employment. This could also be a good example for a possible ‘single sector’ strategy, as Section 4 discusses further.

3.1.5 Special economic zones

SEZs are included as part of sector strategies under ZIM-ASSET. This is of interest because SEZs can foster industrial clusters by concentrating private firms and public services in a limited geographical area and have been positive complements to export pushes. Such benefits could be an important part of economic transformation in Zimbabwe.

Successful SEZs increase productivity through clustering effects. These can be achieved through SEZs that combine a location that has advantageous trade and labour market access with policies offering enterprises taxation, logistical and infrastructure incentives. Such approaches have been successful in Egypt, Ethiopia, Ghana, Kenya, Mauritius, Rwanda and Senegal, including in textile and agro-processing industries (Tao et al., 2016).

This could be replicated in Zimbabwe but policy needs to focus on creating clustering effects. This would most likely be achieved by locating SEZs near key borders (such as with South Africa) and developing infrastructure (such as power, roads and customs processing) on a relatively small scale specifically for the zones.

This will require a high degree of coordination between public providers of such services in the SEZs and private firms. There needs to be a careful assessment of whether such coordination can be achieved in Zimbabwe. However, this should be promoted because SEZs offer a critical advantage for Zimbabwe in that they can provide an opportunity for small-scale innovation and development, including in manufacturing, and be a key path to transformation as part of a focused ‘single sector’ strategy, as discussed further in Section 4.

3.2 The ‘must have’ policy reforms for economic renewal

As noted in the introduction, economic transformation requires a few ‘must have’ macroeconomic prerequisites. Zimbabwe is weak on some of these prerequisites. This section discusses these issues and possible policy reforms in relation to tackling them (McMillan et al., 2017).

3.2.1 Credible and stable private property rights

A fundamental requirement for economic transformation is the states’ willingness and ability to make credible commitments to investors that their fundamental property rights in relation to assets and profits will be maintained.

This can be achieved through formal property rights or informally, such as by means of agreements between political patrons and public or private entrepreneurs.

In Zimbabwe, land reforms broke up large commercial farms and transferred user rights to smallholders. In addition, the 2010 Indigenisation and Economic Empowerment Act (IEEA) required larger businesses to transfer majority ownership to indigenous Zimbabweans. In both of these processes, there have been disputes with regard to compensation for the original owners.

Although these policies include legitimate goals, such as more equitable asset and income distribution,² employment creation and poverty alleviation through security of land tenure for small-scale farmers, they have undermined confidence in the state's commitment to private property rights.

This loss of confidence has been deepened by policy that has included unstable and inconsistent implementation, conflicting political statements and a perception of this being a veil for 'land grabs' by elites.

In the mining sector, these problems are particularly acute. Problems have included repeated changes in IEEA requirements, including alleged asset appropriation, withholding of cash funds by the Reserve Bank of Zimbabwe (RBZ) and unstable welfare demands that have not been accepted as fulfilling IEEA requirements. This has brought inward investment to a halt in an industry that is capital-intensive and vital to fiscal revival.

It has also resulted in depressed domestic and foreign investment. Investment as a percentage of GDP was 14.2% in 2016 compared with the regional average of 20.2%, and foreign direct investment (FDI) fell from an already low 3.2% of GDP in 2015 to a negligible 1.0% in 2016 (IMF, 2016; RBZ, 2017).

This situation is a serious barrier to economic transformation because resolving it will require high levels of investment from both domestic and international sources.

New policy alternatives need to be developed that combine secure and credible private property rights for investors with the delivery of inclusive policy goals. There also need to be clarity and stability in policy to rebuild investor confidence.

Alternatives to IEEA ownership transfers might include requirements relating to employment and training, social welfare (such as housing and education and contributions to community programmes) or employee share programmes.

Comparative country approaches to land reform also suggest alternatives. Successful programmes in Southern Africa suggest that basic requirements are security of tenure, clear rights to use and transfer land and an ability to use land as collateral as well as a need for public consensus as to what constitute fair reforms and process (Locke and Henley, 2014).

For example, in Rwanda, formal registration was managed by local landowners and committees, including through mechanisms for dispute resolution and appeals. Registration was based on informal histories of ownership and on natural landscape boundaries, which were then recorded on a national register. By 2013, 10.3 million land parcels and 8.4 million leases and freehold titles had been prepared. Similarly, in Mozambique a communal titling was recognised within statutory law, providing rights to those living or working on the land for 10 years in good faith and irrespective of whether the land was formally surveyed and registered. However, to strengthen security of tenure, the Community Land Initiative of 2006 also allows communities to gain formal community title (Locke and Henley, 2014).

However, other approaches to land reform have not been judged as successful. In Namibia and South Africa, 'willing seller, willing buyer' – whereby the government buys and redistributes land from farmers – was slow and, where land was redistributed, resulted in falling yields and employment on farms, as well as being expensive for the government.

In addition, in Zimbabwe, there is a need to establish security of land tenure and to reach a final determination on land reform. This would be facilitated by the establishment of a land commission to map and register land ownership, including through proposed long-term leases.

² Including restorative land reform in the post-colonial period.

3.2.2 Infrastructure

A further critical precondition for economic transformation is the provision of infrastructure and public goods that support economic development. These include public health and education for the labour force, as well as transport and power infrastructure (Kelsall, 2013; Whitfield et al., 2015).

In relation to infrastructure and public services, provision in Zimbabwe is at or above the average for sub-Saharan Africa. For example, educational enrolment is high, with over 90% of children enrolled in primary school and an adult literacy rate of 93%.³ Electricity reliability (measured by loss of sales and number of outages) and trade times and costs are better than the regional averages.⁴ Physical infrastructure is also at or above the average for the region and ranked only fifth as the ‘most problematic factors in doing business’.⁵

However, for the higher-value and labour-intensive sectors, such as manufacturing, a greater level of public goods is necessary, also in order to enable trade. In particular, there is a need to improve the cost and reliability of electricity and upgrade transport systems, including roads and railways, which have been neglected.

This has been recognised by the government, including in ZIM-ASSET, which created a dedicated cross-ministry cluster for infrastructure. However, tackling these weaknesses in infrastructure is challenging and progress has been slow.

This is because the fiscal deficit makes financing the \$14.2 billion needed (AfDB 2011 estimate) difficult with, in 2017, only \$840 million being allocated (Chinamasa, 2016) Fiscal reform and external financing will be needed to generate further finance, given the scale of the public investment needed. Both of these are unlikely. Fiscal reforms require reducing expenditure on the public wage bill, which currently uses 99% of the fiscal budget, and reorienting it towards capital spending on infrastructure. There has been repeated political opposition to this change.

In addition, progress is slow because of ‘pervasive’ weaknesses in the capacity of the institutions responsible for executing the improvements, including in state-owned enterprises, and because of corruption (Kanyenze, 2017).

Greater delivery of high-quality infrastructure is needed but barriers to this at the macroeconomic level are high because of lack of finance. Instead, and as Section 4 will discuss, a smaller-scale approach – such as infrastructure for SEZs only – may be more feasible in the immediate term in Zimbabwe.

3.2.3 Cost competitiveness in exports

As noted, ZIM-ASSET is essentially an import substitution strategy. Experiences in comparator countries show that import substitution can succeed but only in combination with export growth driven by competitive exports and favourable trade deals (Rodrik, 2004, 2014).

However, Zimbabwe’s exports are uncompetitive in relation to cost. The most important driver of this is a high real exchange rate with its key trading partners, which cannot be compensated through exchange rate devaluation because of the country’s dollarised economy (Tyson, 2016).

This problem has also worsened since 2014 because of the appreciation of the dollar – especially against the rand – which has deepened the uncompetitive cost structure of Zimbabwe’s exports (Figure 7).

³ <http://www.zw.undp.org>

⁴ World Bank Enterprise Survey 2016.

⁵ After policy instability, access to financing, corruption and inefficient government bureaucracy: <http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=ZWE> by the WEF Global Competitiveness Survey 2016.

Figure 7: Exchange rate of South African rand to US dollar, 2014–2016



Source: Tyson (2016).

How to tackle this is a difficult policy question for Zimbabwe. Dollarisation – defined as the holding by residents of assets and liabilities denominated in a foreign currency – stabilised the economy after the period of hyperinflation ending in 2009, and public confidence in relation to the national currency is dependent upon it. In addition, physical currency shortages have undermined public confidence in economic management.

However, reversing dollarisation is difficult and success is the exception rather than the rule. Comparative countries show that forced measures to de-dollarise typically result in further hyperinflation and capital flight. Further de-dollarisation is highly dependent upon re-establishing broad economic stability and rebuilding confidence in the national currency, and achieving it takes a prolonged period, even after the hyperinflation and the exchange rate depreciation that typically causes it have abated. It can continue for up to a decade and be prone to rapid reversal if confidence in the economy is lost (Tyson, 2016).

RBZ has considered policy options. In 2016, it introduced ‘bond notes’, an alternative physical currency backed by a guarantee from the African Export-Import Bank. These are now being widely used in daily transactions and have eased the liquidity crisis. However, they trade at a discount on the black market and are not accepted for larger transactions or for many imported goods. Overall, although they have been successful in easing the shortages of physical currency, they have not addressed wider issues arising from dollarisation.

Another policy considered is to replace the US dollar with the rand. Officially, the national currency is a multi-currency basket, with other hard currencies being legal tender including the rand, although 95% of transactions are in US dollars. However, political objections and the depreciation and volatility of the rand have made this option problematic.

One alternative is for Zimbabwe to consider de-dollarisation by using prudential measures. These can be effective by making transacting in US dollars less commercially attractive than in the preferred currency for banking institutions. However, this effort needs to be carefully designed and monitored to ensure it does not cause disintermediation, allow for regulatory arbitrage or increase capital flight, which is estimated at \$700 million annually (Tyson, 2016).

Poor trade policy has compounded these exchange rate problems in relation to cost competitiveness. This includes high taxes and tariffs that increase the cost of imported inputs and make exported goods more

expensive in their export markets⁶ (Newfarmer and Pierola, 2015). Further damaging policies include restrictions on imported inputs for manufacturing and services and foreign exchange controls imposed from 2016 as a response to the currency liquidity crisis. Reform of these tariff and non-tariff barriers to trade would provide a partial answer to addressing the cost structure of Zimbabwe's exports (ibid.).

If this is not done, experiences in comparator countries show, such poor cost competitiveness of domestic production and import substitution policies will simply result in increased domestic prices for consumers, weak exports and lack of participation in regional value chains. In addition, they are associated with corruption and rent-seeking, which are already pervasive problems in Zimbabwe.

3.3 Financing transformation

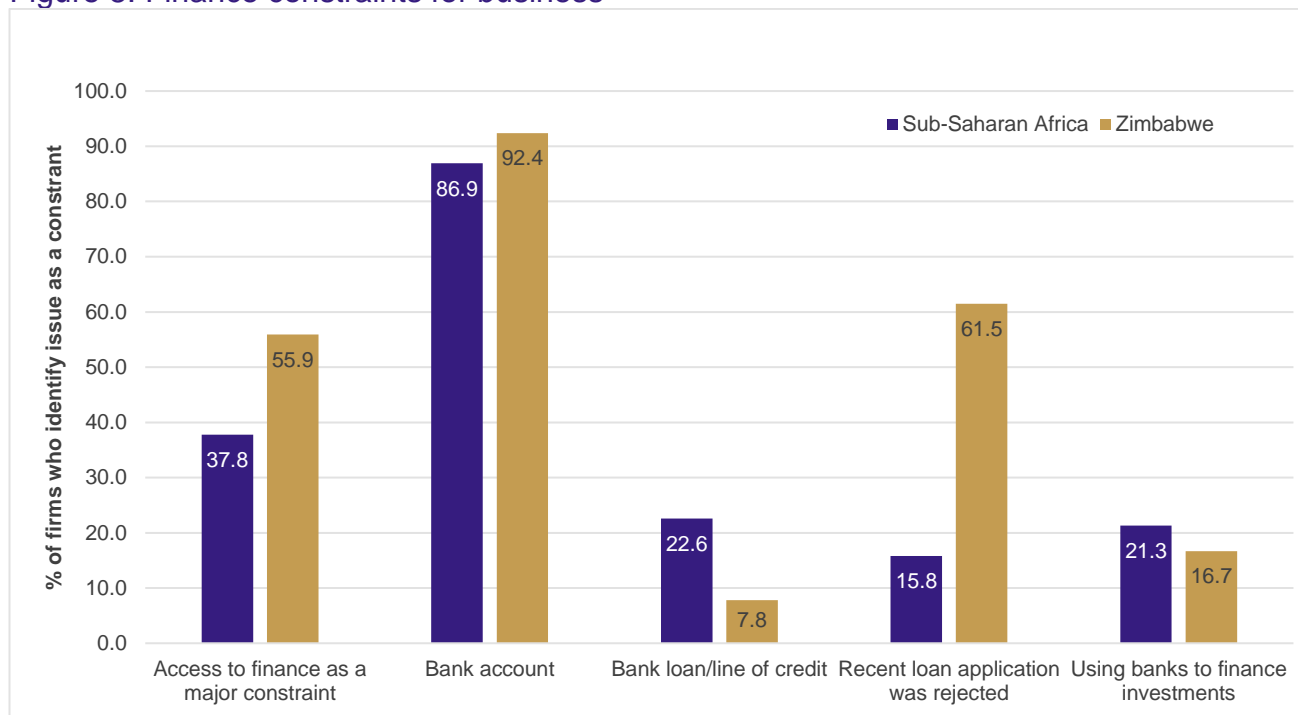
A key enabler of economic transformation is access to finance for investment – both public investment, such as for infrastructure, as discussed in Section 3.2.2, and private investment for enterprise. In relation to the latter, there is a lack of access to finance for firms. As highlighted in the World Bank's 2016 Enterprise Survey, 92.4% of firms have bank accounts – higher than the 86.9% regional average.

However, banks are not actually providing finance to their corporate clients. This can be seen in the fact that only 7.8% of firms have a bank loan or line of credit, or approximately a third of the regional average of 22.6%; that 61.5% of firms have had a recent loan application rejected, nearly four times the regional average of 15.8%; and that only 16.7% of firms use finance for investment, compared with 21.3% for the region. In addition, collateral requirements where credit has been granted have been higher than for elsewhere in the region.

Overall, 55.9% of firms reported that access to finance was a 'major constraint' to their business – one and a half times the regional average. The survey also reported that these problems were especially acute for smaller firms (Figure 8).

⁶ Zimbabwe is a member of the World Trade Organization, the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and an interim Economic Partnership Agreement with the EU, as well as bilateral trade agreements with Botswana, Mozambique, Namibia and South Africa. Zimbabwe therefore operates multiple tariff schedules: a standard most-favoured nation rate extended to all non-preferential partners; and tariff rates under preferential trade agreements such as the COMESA free trade area, the SADC trade protocol and bilateral trade agreements with Botswana, Mozambique, Namibia and South Africa. Overall, these trade deals are neutral (Newfarmer and Pierola, 2015).

Figure 8: Finance constraints for business

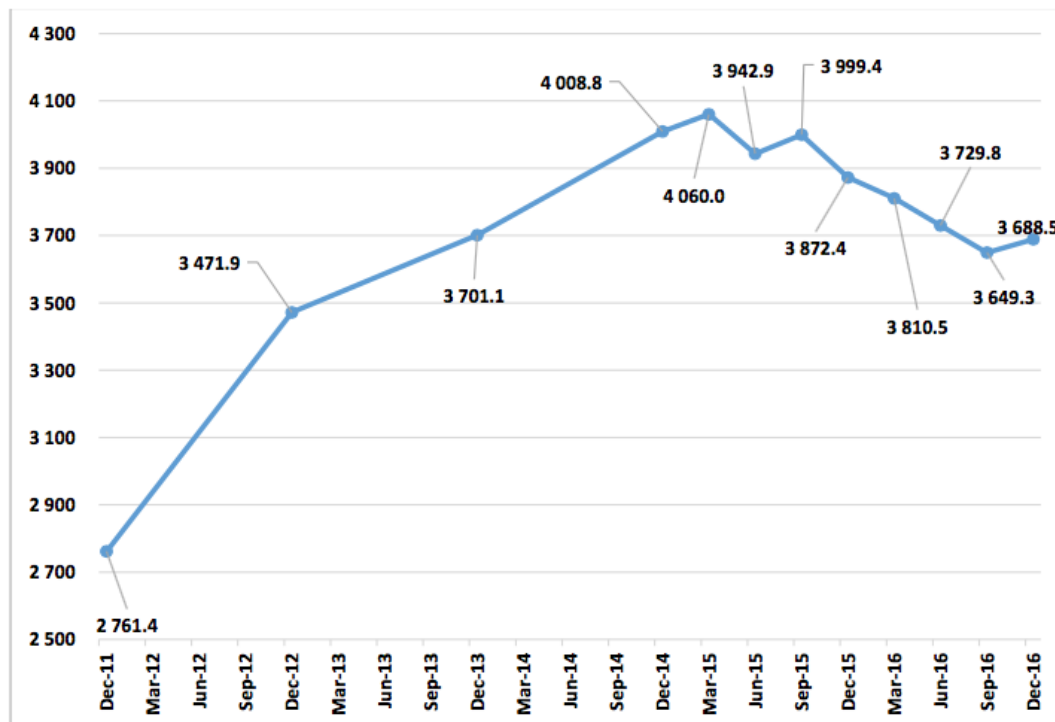


Source: World Bank Enterprise Survey 2016.

Unlike in other countries in the region, these financing constraints are not the result of underdevelopment of the financial system. Indeed, Zimbabwe has a relatively well-developed banking sector and capital markets, including a stock exchange and bond markets, and high levels of financial access for both firms and households in relation to account ownership.

Instead, since early 2015, banks have become increasingly risk-averse because of the economic environment, and have responded by reducing the value and term of loans and increasing capital and liquidity levels (RBZ, 2017) (Figure 9).

Figure 9: Banking sector loans to private firms (USD billions)



Source: RBZ (2017).

This ‘credit crunch’ has been driven by risk aversion in the banking sector as a response to the economic crisis and is the driver behind firms’ difficulties in accessing finance. This contraction in private sector lending is then creating a ‘vicious circle’ of contraction in the real economy.

The ‘credit crunch’ has also been deepened by the government seeking to finance its fiscal deficit and manage the physical cash liquidity crisis by increasing central bank reserves, and through the high level of issuance of treasury bills. By March 2017, treasury bills outstanding had reached \$3.3 billion. As most of these are held by domestic banking institutions, an estimated 35-40% of all banking assets are treasury bills (RBZ, 2017).

As well as crowding out private sector lending – reflected in the declining level of private sector loans in Figure 9 – this represents a key financial stability risk as the government’s creditworthiness is poor.⁷ This creates high levels of contagion risks between government debt and the banking sector, adding to fragility in the financial sector.

Concluding remarks

As this section has discussed, ZIM-ASSET’s fundamental policy goals – employment creation and export growth – and its selection of sectors of comparative advantage are sound.

However, policy needs significantly more development to increase the strategy’s chances of success. This includes import substitution policies in the chosen sectors that are based in market and price incentives, as well as policy reforms in relation to property rights, infrastructure, cost-competitiveness and access to finance.

Such reforms would be challenging to execute in any political economic environment; in Zimbabwe, the environment is especially difficult. Challenges include lack of consensus in government relating to needed policy reforms, as well as political barriers to broader supportive change. To date, policy reform has been

⁷ Most credit agencies do not rate Zimbabwe.

'long on planning and short on implementation', with repeated changes, inconsistency and reversals in policy rendering policies ineffective or actively damaging (Newfarmer and Pierola, 2015; Kanyenze, 2017).

In addition, many of the reforms that are needed are interconnected. For example, problems in the financial sector are related to the fiscal deficit, weak cost-competitiveness to dollarisation. This means there is also a need for strong coordination of reforms across multiple aspects of the macro-economy. Again, in Zimbabwe currently, the institutional and political structures that could coordinate such a complex task are weak (Kanyenze, 2017).

This situation – of complex and deep reforms and an economic and political environment that is unsupportive of such a challenging agenda – has led to pessimism about finding a way forward. However, given the deepening crisis in the country's economy, a path needs to be found.

The next section suggests that the most realistic strategy in this regard is a small-scale, focused approach rather than macro-economy-wide reforms. Both Section 4 and Section 5 discuss the reasons for this strategy – termed the 'single sector, single agent' approach.

4. POLITICAL PATHWAYS TO TRANSFORMATION

As discussed, there is an urgent need for change in Zimbabwe, but barriers to change are significant. There is major political opposition to required policy reforms and limited ability to ensure strong coordination across public and private agents in the economy. It is also very difficult to access the large-scale financing needed through either fiscal reform or resumption of FDI and international financing from the International Monetary Fund (IMF) and the World Bank. And there is little willingness to tackle pervasive corruption and rebuild investor confidence.

Ideally, there would be broad-reaching macroeconomic and political reform. However, political barriers to reform make this unlikely. This section draws on the literature on economic transformation to suggest an alternative.

Such literature shows that it is neither necessary nor realistic to address all constraints in starting economic transformation. Instead, a more modest 'single sector, single agent' approach can be effective in 'kick-starting' transformational change.

This is suggested as a viable option for Zimbabwe because the literature also shows that such approaches can be successful without 'best practice' governance as a precondition, and that such small starts can have important catalytic effects for broader transformation.

The literature also shows that many of the political economic factors that support such successes may be present in Zimbabwe already. These include a single politically empowered agent to lead change and a competent civil service.

This lends optimism to the possibility for change in Zimbabwe and highlights a feasible path for kick-starting change in the country without the need for unachievable prerequisites or for attempts to put in place broad macroeconomic reforms.

We discuss the relevant findings of the literature and its application to Zimbabwe below. For interested readers, McMillan et al. (2017) present the basis for these discussions in more detail.

4.1 Good governance is not a prerequisite

There has been a prevalent view for the past few decades that 'good governance' is a prerequisite for economic transformation. However, there is now a significant amount of research that does not support this perspective.

For example, there are examples in Asia of spectacular development successes in regimes that score low on conventional rankings for governance quality. In addition, cross-country analysis shows, at best, an ambivalent relationship between democracy, accountability, anti-corruption and citizen empowerment devices and economic growth.

Also of importance is the finding that it is not in fact necessary for institutions and power structures to change comprehensively for transformative change to take place. Indeed, most political regimes since the 19th century that have presided over major economic breakthroughs for their country have not been reformed in advance of economic transformation.

This is of importance for Zimbabwe because, although there are good grounds for linking its transformation deficits to its political economy, there is little evidence to suggest there is a need for comprehensive governance reforms as a prerequisite for economic transformation.

4.2 A ‘single agent, single sector’ approach

The countries that have achieved the fastest economic transformation in the absence of ‘good governance’ have done so by focusing efforts in a single sector under a single public agency. However, success in such approaches has key features:

1. The public agency was **politically empowered**, with autonomy, budgetary control and political authorisation to override interdepartmental coordination problems and to engage in a practical way with credible private sector organisations.
2. The single sector approach provided **rapid demonstration effects** by concentrating on one or two promising sectors where the economic benefits and potential profitability of new, high-productivity, activities could be shown. These factors built broader support and consensus that made it possible to overcome political opposition and vested interests or to bring them on board as partners in a new economic model.
3. The public agent included a **well-motivated and competent public service** to deliver and coordinate investment and policy based on a detailed knowledge and understanding of the economic sector. This typically requires a close relationship of such civil servants with, or ‘embeddedness in’, groups of entrepreneurs.

However, these principles are based primarily in the experiences of Asian and Latin American countries and have incorporated country-specific institutional arrangements that have supported success.

There are relatively fewer examples in Africa, but some have emerged in recent years.⁸ These also demonstrate that transformational change is possible even under ‘weak governance’ and in the absence of well-functioning democracies. They include manufacturing in Ethiopia and Rwanda and agricultural processing, such as in cocoa in Ghana and dairy in Uganda (Kelsall, 2013; Whitfield et al., 2015).

4.3 ‘Learning by doing’

Also important for Zimbabwe is that other countries that have been successful in economic transformation have not been ‘long on planning and short on implementation’ but the opposite, in what could be paraphrased as ‘short on planning and long on implementation’!

What this means is that change often emerges from a period of economic experimentation to find what works and what does not in a specific country context using an adaptive trial-and-error approach with ‘small bets’ and rapid adjustments until a workable solution is found.

In this context, a key role for policy is the facilitation of ‘learning’ – about new technologies, new ways of doing business, new ways of managing the economy and ways of dealing with new opportunities (Rodrik, 2007; McMillan et al., 2017).

Concluding remarks

As discussed, the political economy in Zimbabwe and the complexity and inter-connectivity of the needed economic reforms suggest that macro-economy-wide reforms and transformation are unlikely to succeed without a radical change in the political environment.

However, the economic literature suggests an alternative – a ‘single sector, single agent’ approach with a process of thoughtful experimentation leading to ‘learning by doing. Seeking a path to such change in the context of Zimbabwe needs to be considered.

For example, this could be executed for a single, narrowly focused value chain in one of the areas of competitive advantage discussed in Section 3, such as a selected agricultural value chain, or by building

⁸ As well as the immediate post-colonial period in many parts of Africa.

backward and forward linkages to the mining sector. It could also be supported through the establishment of SEZs.

Success in such an approach would also be likely to promote broader transformation through demonstration effects and represent a pathway to more comprehensive transformational change.

There are a sufficient number of supporting conditions present in Zimbabwe that might further encourage the success of this approach. These include a competent civil service as well as sectors of comparative advantage. There is also the potential for this to be led by existing reform-minded senior members of ZANU-PF. Consideration of who might be a consensus candidate in the current government is needed.

Section 5 discusses further the implications of this for donors and others.

5. HOW MIGHT INTERNATIONAL AGENCIES HELP?

In Zimbabwe, many international development agencies have restricted programmes that are limited to technical assistance and poverty alleviation. They are also concentrated in the agriculture sector, given its importance for low-income household livelihoods.

These programme characteristics arise from restrictions relating to problematic international relations, to Zimbabwe having arrears with the international finance institutions (IFIs) (IMF and World Bank) and to the perceived difficulty of programme management given the country's political economy.

However, this creates a 'Catch 22' situation for Zimbabwe, as lack of international assistance means progress in terms of economic reform and transformation is undermined. For example, lack of finance – as well as failure to enact fiscal reform – represents a barrier in addressing infrastructure deficits.

If a 'single sector, single agent' approach is adopted, this will offer an opportunity for international agencies to reconsider their programming, because initial assistance could be small in scale and allow for the assessment of success before further commitments are made.

This would allow international agencies to support reform more proactively than currently, while also continuing with an appropriately cautious approach.

Such support would also benefit from cross-agency coordination to increase the chances of success, to harmonise programmes, pool expertise and minimise overlap. This is particularly the case in relation to capacity-building partnerships with the Ministry of Finance and Economic Development and agriculture sector programmes, where overlap has been reported (interviews).

We now discuss further specific aspects of what might international agencies might do to support a 'single sector, single agent' strategy.

5.1 Supporting a national 'single agent' for reform

Currently, international agency programmes in Zimbabwe are heavily concentrated in technical assistance related to 'good governance' (interviews). However, in difficult political environments such as Zimbabwe, such programmes are often ineffective (Booth, 2016). Indeed, to date in Zimbabwe, their impact in terms of wide-reaching reform has been muted. Because of this, donors should consider alternatives.

A more effective approach elsewhere has been to support country nationals to lead reform efforts because this is more likely to enable the effective tackling of political obstacles to reforms (Booth, 2016).

In Zimbabwe, technical assistance and other programmes could be reoriented to support a consensus candidate to lead a 'single sector, single agency' strategy. Such support could be provided across a broad range of areas. Based on the discussion in Section 3, the key aspects of this might be as follows:

- **Reforming import substitution policies** to replace direct controls with market- and price-based incentives for the private sector;
- Analysing and tackling **blockages in value chains**. For example, if an agricultural value chain were chosen then technical assistance could focus on improving yields and quality for inputs for manufacturing;
- Supporting **trade reform for the chosen sector, including establishing SEZs and building cost competitiveness**. For example, this could include the planning and development of roads, 'one-stop' border posts, automated customs and excise processes and regional standards for trade.

5.2 Private sector management training

High-quality management practices are strongly correlated with productivity gains. Management training and business education is an effective tool to increase firm-level productivity (Bloom et al., 2013)

Such management training could be provided to private sector firms and entrepreneurs investing in the chosen sector. For example, sector-specific training could assist with upgrading to new technologies and developing trade and marketing practices, as well as addresses basic operations management such as inventory and quality control. Training could be delivered by establishing a specialist business school or via consultants; the former would make a more meaningful long-term commitment to building business skills in Zimbabwe.

5.3 Financing of the ‘single sector’

As noted, one of the key barriers to economic renewal is access to financing – and economy-wide improvements will need large-scale finance. However, given the ‘credit crunch’ in the domestic financial system and the fact that significant resumption of international financing is contingent upon both the repayment of arrears to the IFIs and a credible economic reform plan, this is unlikely to emerge in the near term.

In the case of the adoption of a ‘single sector, single agent’ approach, finance would be a key enabler, for investment both in private firms’ working capital and in infrastructure.

However, the scale of financing would be much smaller and easier to manage under this approach. For example, to establish an SEZ, financing of infrastructure and firms would be much more limited in scale and a tailored and monitored governance programme would be possible.

International agencies should consider such a financing programme. Such financing has already been provided as part of bilateral programmes in the agriculture sector. For example, Japan has financed irrigation development, and this programme has been reasonably successful.

Financing could also include direct financing to private firms, including those establishing themselves in an SEZ. This could take several forms. For example, it might include microfinance programmes for small and medium-sized firms; financing from development finance institutions such as CDC Group and the International Finance Corporation; and trade finance. It could also include risk mitigation and risk-sharing financing with private sector investors, including sovereign risk guarantees.

Concluding remarks

Support from international agencies would materially enhance the likelihood of success of a ‘single sector, single agent’ approach led by a national reformer.

For the strategy to be successful, as well as technical expertise and training, finance is needed. Realistically, the only source of this will be international agencies. These agencies need to consider the conditions under which they could provide such finance for a ‘single sector, single agent’ approach. These could be related to scale, recipient (such as only private sector agents, not government) or oversight of its use.

6. CONCLUSION

Despite Zimbabwe's significant advantages and inherent opportunities, broad economic transformation and renewal required significant reforms, and the reality is that the barriers to this are high and highly dependent upon domestic political leadership and reform.

Because of this, there is significant pessimism about the potential for progress. This has led to inertia and a lack of movement in relation to tackling the country's deepening economic crisis.

The situation is also not seen as stable or sustainable. There are concerns that, without economic improvements, the 'worse case' is that Zimbabwe will move either towards a government that is authoritarian, with an increase in the human rights abuses and state-sponsored violence that have already occurred in the country, or towards failed state status, with rising civil conflict.

A way out of this needs to be found. One realistic option is to start the process of economic renewal and transformation through a 'single sector, single agent' strategy led by a national consensus candidate with the support of the international community.

This is because experience from comparator countries shows that this can be successful even in political economies where governance is poor, and that such economic progress can lead, not follow, broader political and social progress.

This offers a realistic – if not ideal – option for Zimbabwe that may be its best strategy to start change towards economic renewal and political stability and avoid the 'worse case' scenario. This is particularly so if it is supported by international agencies.

Given the urgency of the economic situation in the country, considering this should be a priority for all actors concerned about the Zimbabwean people and economy.

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APPENDIX

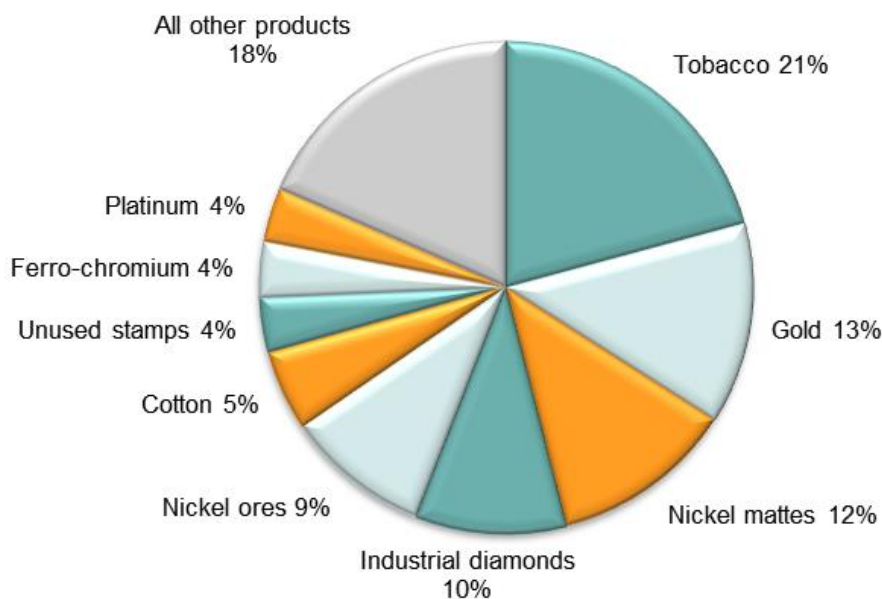
Table A1: Full analysis of revealed comparative advantage by HS Section, Zimbabwe

HS Sect.	Product label	2005	2006	2007	2008	2009	2010	2011	2012	2013
	Total in HS 1–97	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
1	Live animals; animal products	0.47	0.25	0.64	0.30	0.17	0.13	0.15	0.18	0.14
2	Vegetable products	3.04	10.27	5.45	7.23	5.96	0.59	0.68	0.41	0.59
3	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	0.44	0.10	0.11	0.09	0.06	0.19	0.08	0.26	0.17
4	Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	7.35	2.11	3.47	4.16	4.84	5.48	7.28	7.77	9.16
5	Mineral products	1.07	2.67	0.63	0.65	0.81	0.71	0.67	0.62	0.65
6	Products of the chemical or allied industries	0.18	0.51	0.14	0.19	0.07	0.05	0.06	0.03	0.05
7	Plastics and articles thereof; rubber and articles thereof	0.05	0.03	0.05	0.08	0.08	0.06	0.07	0.09	0.09
8	Raw hides and skins, leather, fur skins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	1.07	0.37	0.74	1.39	0.93	1.13	1.42	1.37	1.58
9	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basket ware and wickerwork	0.25	0.49	0.96	2.49	1.54	0.76	1.04	1.01	1.01
10	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	3.77	1.26	6.43	2.67	10.31	9.75	6.69	0.20	0.24
11	Textiles and textile articles	1.05	0.54	1.42	3.00	1.31	1.25	1.84	1.51	0.85
12	Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	0.52	0.11	0.18	0.16	0.07	0.15	0.12	0.16	0.16
13	Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	0.27	0.12	0.14	0.33	0.12	0.07	0.13	0.08	0.10
14	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin thereof; imitation jewellery; coin	9.81	1.49	2.25	0.72	2.37	7.37	6.13	11.59	10.30
15	Base metals and articles of base metal	2.37	1.11	2.74	1.69	1.85	2.72	2.42	1.80	2.44
16	Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	0.05	0.04	0.07	0.18	0.09	0.03	0.04	0.03	0.03
17	Vehicles, aircraft, vessels and associated transport equipment	0.05	0.20	0.75	0.52	0.04	0.05	0.04	0.07	0.06
18	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	0.02	0.25	0.06	1.48	0.00	0.04	0.00	0.01	0.01

19	Arms and ammunition; parts and accessories thereof	0.94	0.03	0.06	4.60	0.07	0.01	0.01	0.00	0.00
20	Miscellaneous manufactured articles	0.57	1.97	2.05	0.61	0.36	0.22	0.19	0.16	0.20
21	Works of art, collectors' pieces and antiques	3.13	3.13	8.27	22.27	5.97	3.78	3.36	3.47	5.42

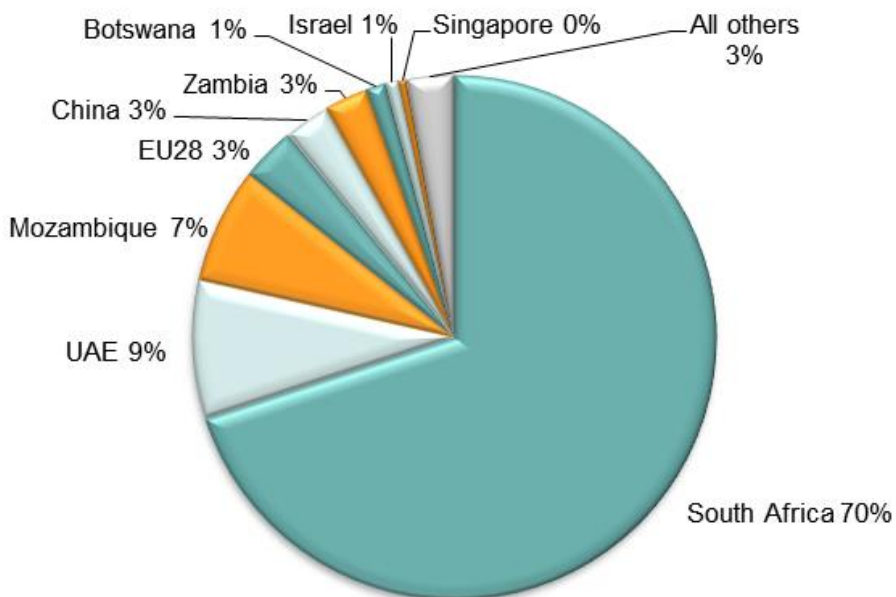
Note: Share of country's exports in each HS Section in country's total exports as a ratio of share of world exports in each HS Section in world total exports. 'World' = UN COMTRADE's 'all countries' aggregate, i.e. total of however many countries have reported data in any given year. Source: Authors' calculations using data from the UN's COMTRADE database.

Figure A1: Top export products, Zimbabwe, average 2011–2013



Note: At Harmonised System 6-digit level. Source: Authors' calculations using data from UN COMTRADE database.

Figure A2: Top export markets, Zimbabwe, average 2011–2013



Source: Authors' calculations using data from UN COMTRADE database.