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Zimbabwe Country Report

For the SADC-DFRC 3P



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1 Overall evaluation of Namibia's readiness for PPPs

1.1 Background

We evaluated the Member Country by looking at 6 broad categories, containing a number of sub-categories. The six ('6') broad categories include:

- Attractiveness of the member countries
- Availability of domestic capital and debt funding
- Judicial system
- Governance and decision making
- Ease of doing business in the member country
- PPP environment in the member country

The information and indicators were obtained from external sources like World Bank, World Economic Forum, IFC, Ibrahim Index of African Governance, KPMG country reports and actual visits to the member countries (with exception to three ('3') countries, namely, Democratic Republic of Congo, Swaziland and Seychelles). Where possible, KPMG utilised its in-country office to address the categories and answer questions surrounding the projects.

On the country visits we meet with the member country's Treasury/PPP unit, one or two banks and KPMG local office representatives.

Each sub-category was rated either one ('1'), two ('2'), three ('3') or four ('4') based on the indicators from various reputable sources. Where one ('1') and two ('2') refers to "Developing towards PPP readiness" and three ('3') and four ('4') indicates a "Maturing level of PPP readiness". Where no information was available, no value was given. Where there was an element of subjectivity, KPMG, based on years of experience, applied its own mind in coming up with a value. The overall broad category value is addressed in more detail below.

1.2 Attractiveness of the member countries

Attractiveness of the member country	Results	Source of information
GDP % growth for last 3 years	9.40%	World Bank
Actual GDP in numbers (size of economy), current USD\$	9 565 199 514	World Bank
Lending Interest rates	9.5 to 16%	www.tradingeconomics.com/country-list/inflation-rate
Inflation rate	2.49%	www.tradingeconomics.com/country-list/inflation-rate
Credit Rating	Not available	Moody
Political Stable and Absence of Violence (rating of 0 to 100)	16	Governance indicator, World bank

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Macro-Economic Environment (score 1 to 7)	3.77	The Global Competitiveness Report 2012-2013, World Economic Forum
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Attractiveness of Zimbabwe, overall result is a two ('2')

Following a decade of contraction from 1998 to 2008, Zimbabwe's economy recorded real growth of more than 9% per year in 2010-11, before slowing to 5% in 2012. This close-to-double-digit growth lifted GDP to USD9,565million but GDP per capita is one of the world's lowest atUSD600. The country has B1 credit rating from Moody's which is well below investment grade. The country has a low rating of 16 out of 100 for political stability and absence of violence. This analysis results in an overall value of two ('2'), Zimbabwe is thus considered "developing" in terms of this category

1.3 Availability of domestic capital and debt funding

1.3.1 Banking sector analysis

The banking sector is currently being serviced by 16 commercial banks, two merchant banks and four building societies. As at 30 June 2012, total banking sector deposits were US\$4.02 billion representing a 31.8% increase from US\$3.05 billion as at 31 December 2011. This increase was underpinned by inflows associated with tobacco sales and proceeds from sales of special drawing rights. Despite this increase, the country's deposits continue to be largely of a short term nature. The loans and advances amounted to US\$3.27 billion as at 30 June 2012, representing an increase of 18.5% from US\$2.76 billion at 31 December 2011.

The banking industry continues to face liquidity challenges due to relatively subdued long term capital inflows, policy inconsistencies, perpetual reserve inadequacy of banks with no excess funds to lend and the Central Bank's limited capacity to perform the lender of last resort function. Consequently, lending remains largely restricted to short term working capital facilities, recurrent expenditures and private consumption by service firms and individuals.

The capitalization of the banks in the country is as follows:

Table 1: Level of capitalisation in Zimbabwe banks

Bank	Level of capitalization (US\$m)
CBZ Bank Limited	111.79
Standard Chartered Bank	56.50
Stanbic Bank	45.62
BancABC	38.42
Barclays Bank	34.30
ZB Bank	32.34
Kingdom Bank	28.79
Ecobank	28.18
FBC Bank	27.97
MBCA Bank	27.14
TN Bank	26.90

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Bank	Level of capitalization (US\$m)
Central African Building Society	26.76
Tetrad	25.19
NMB Bank	25.01

Source: Reserve Bank of Zimbabwe

Significant discrepancies in deposit and lending rates have characterised the sector with large banks quoting low deposit rates ranging from 0.15% to 6% while smaller banks are quoting higher rates ranging from 8% to 16% in order to attract deposits. This is due to the varied sources of credit lines (on and off shore) for the various banks.

Compared to deposit rates, lending rates being quoted by banks have always been high in the multicurrency era, ranging between 5% and 35% for both individual and corporate borrowings. The weighted average lending rate has ranged between 14% and 20% during the last four months to June 2012.

The Government of Zimbabwe has also pursued the following actions in a bid to address liquidity challenges that have plagued the nation since the inception of the multi currency regime in 2009:

- The launch of Zimbabwe Accelerated Arrears Clearance, Debt And Development Strategy ('ZAADDs'), a new blueprint for the management and reduction of the country's debt, which is projected to grow to over US\$8 billion by the end of 2012. The successful implementation of ZAADDs could over time, if it works, see some improvement in the country's risk rating which in turn could result in an increase in foreign direct investment thereby addressing the liquidity challenges;
- The conversion of the outstanding statutory reserve obligations of the Reserve Bank of Zimbabwe ('RBZ'), amounting to US\$83.4 million, into stocks of 2, 3 and 4 years, at coupon rates of 2.5%, 3% and 3.5%, respectively on 1 March 2012 in a bid to improve liquidity on the market;
- The establishment of a US\$150 million lender of last resort fund; and
- The intention announced in the July 2012 Mid Term Fiscal Policy Review Statement, to issue short dated instruments. It is hoped that the issuance of Government paper will resuscitate the non-functional money market and re-activate the interbank market. However the market has generally been inactive with bonds being held to maturity despite their tradable characteristics.

1.3.2 Equity funds

There are not many equity funds in Zimbabwe. There is one that is being administered by Old Mutual Zimbabwe Limited, which funds youths as part of the economic empowerment programme for youth in business.

1.3.3 Number of pension funds

There are a number of pension funds in the country. However, we could not identify any public-available information on the pension fund statistics in the country at the time of reporting.

1.3.4 3 years history of bond issuance

There have been few bonds issued in Zimbabwe since 2009. One of the few is the Infrastructure Bonds issued by the Infrastructure Development Bank of Zimbabwe which was 60% subscribed. Most companies are raising bonds in foreign markets, such as CBZ Bank Limited and Zimplats (a mining company) due to the liquidity constraints in the country.

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1.3.5 Assessment of available capital (local) for investment

Due to the illiquid market conditions, there are no long-term funds available for investing in infrastructure projects. Currently, most funding is secured through foreign-based partners (such as Group 5 on the Plumtree-Mutare road – a project where the Government of Zimbabwe has a joint venture with Group 5) and lenders.

Availability of domestic capital and debt funding in Zimbabwe, overall result is a one ('1')

Zimbabwe has 16 commercial banks, 2 merchant banks and 4 building societies. As at 30 June 2012, total banking sector deposits were US\$4.02 billion however this based on relatively short term deposits. As a result ability to lend into long term asset type projects is constrained.

The capital and equity investment markets are almost non-existent and most funding is thus sourced through foreign investors.

This analysis results in an overall value of one ('1'), Zimbabwe is thus considered “developing” in terms of this category

1.4 Judicial system

The judiciary is headed by the Chief Justice of the Supreme Court of Zimbabwe who is appointed by the President on the advice of the Judicial Service Commission. The Constitution has a Bill of Rights containing extensive protection of human rights. The Supreme Court is the highest court of order and the final court of appeal. A five member Supreme Court, headed by the Chief-Justice has original jurisdiction over alleged violations of fundamental rights guaranteed in the constitution and appellate jurisdiction over other matters. There is a High Court consisting of general and appellate divisions. Below the High Court are regional magistrate's courts with civil jurisdiction and magistrate's courts with both civil and criminal jurisdiction over cases involving traditional law and custom.

The legal system is based on Roman-Dutch law with South African influences. The legal system consists of English common law, Roman-Dutch civil law, and customary law. The global rankings of the judicial system are in the table below:

Table 2: Judicial system rankings for Zimbabwe

Judicial system that contributes to effective commercial dispute resolution	Results	Source of information
Enforcing Contracts (country ranking from 1 to 185)	111	Doing Business 2013 – The World Bank and IFC
Rule of Law (rating of 0 to 100)	0.9	Governance indicator, World bank

We used the key indicator 'Enforcing Contracts' from Doing Business as they focuses on how public institutions function in the case of a commercial dispute¹. Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit.

¹ Doing Business 2013, the World Bank and IFC

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Judicial system of Zimbabwe, overall result is a two ('2')

Zimbabwe ranks 111th in enforceability of contracts and scored 0.9 out of 100 in application of the Rule of Law. This analysis results in an overall value of two ('2'), Zimbabwe is thus considered “developing” in terms of this category

1.5 Governance and decision making

Governance and decision making in member country	Results	Source of information
Institutions (score 1 to 7)	3.5	The Global Competitiveness Report 2012-2013, World Economic Forum
Africa's Governance (score out of 100)	34	Ibrahim Index of African Governance
Voice and accountability (score out of 100)	8.9	Governance indicator
Government effectiveness (score out of 100)	6.2	Governance indicator
Regulatory Quality (score out of 100)	2.4	Governance indicator
Control of Corruption (score out of 100)	5.7	Governance indicator

Governance and decision making of Zimbabwe, overall result is a one ('1')

Zimbabwe was given a rating of 34 out of 100 for governance by the Ibrahim Index of African Governance and a government effectiveness rating of 6.2. This analysis results in an overall value of one ('1'), Zimbabwe is thus considered “developing” in terms of this category

1.6 Ease of doing business in the member country

Ease of doing business in the member country (ranking from 1 to 185)	Results	Source of information
Starting a business	143	Doing Business 2013 – The World Bank and IFC
Dealing with Construction permits	170	Doing Business 2013 – The World Bank and IFC
Getting electricity	157	Doing Business 2013 – The World Bank and IFC
Register property	85	Doing Business 2013 – The World Bank and IFC
Getting credit	129	Doing Business 2013 – The World Bank and IFC
Protecting investors	128	Doing Business 2013 – The World Bank and IFC
Paying taxes	134	Doing Business 2013 – The World Bank and IFC
Trading across borders	167	Doing Business 2013 – The World Bank and IFC
Resolving insolvency	169	Doing Business 2013 – The World Bank and IFC
Overall ease of doing business	172	Doing Business 2013 – The World Bank and IFC

Ease of doing business in Zimbabwe, overall score is a One ('1')

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Zimbabwe is 143rd out of 185 countries in the world in terms of ease with which to start a business and is ranked 128th for protecting investors. It is 129th in terms of access to credit and 170th for the ease of dealing with construction permits. This analysis results in an overall value of one ('1'), Zimbabwe is thus considered "developing" in terms of this category

1.7 PPP environment in Zimbabwe

1.7.1 Legal system enabling PPPs in the member country

1.7.1.1 Is there a presence/development of enabling legislation i.e. PPP Law/ regulations etc?

- Zimbabwe has no PPP-specific legislation in place.
- In the Government's Short Term Economic Recovery Program ('STERP'), the government recognises the need for PPP arrangements to finance infrastructural development. According to STERP, participating private sector partners, contributing financial resources, will be allowed special dispensations and privileges.
- STERP refers to the PPP Guidelines that were published in 2004.
- There has, however, been limited implementation because of the economic conditions between 2000 and 2009.
- The guidelines identify the following forms of PPPs:
 - a) Management Contract/Service Management
 - b) Lease
 - c) Concession

In the PPP Guidelines, concessions refer to projects under such arrangements as Build-Operate-Transfer (BOT), Build-Transfer-Operate (BTO), and Build Own-Operate (BOO), Build-Lease-Transfer (BLT), Rehabilitate-Operate-Transfer (ROT), and Rehabilitate-Own-Operate (ROO).

- d) De-monopolisation and new entry
- The following are identified as sectors for PPPs in the Guidelines:
 - Water, including irrigation facilities, dams, canals, piping, storage and distribution facilities, and sewage waste
 - Land reclamation, dredging and other related development facilities and sewage waste
 - Transport, including air, water, railways, roads, expressways, other roads, bridges, interchanges tunnels and related transport facilities
 - Telecommunications, including fixed network, terrestrial and satellite facilities
 - Social Services Infrastructure, including education and health infrastructure, housing and sanitation
 - Government buildings, construction and maintenance
 - Energy, including power generation, transmission, distribution and related facilities
 - Industrial and tourism estates
 - Markets, industrial shells, slaughterhouses, storage and processing and related facilities
 - Warehouses and post-harvest facilities
 - Environmental and solid waste management

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- Other PPP enabling frameworks are in various statutes such as the Public Finance Management Act (which speaks to BOT, BOOT arrangements), Income Tax Act (on BOT, BOOT arrangements).
- There is no institutionalization of PPPs to give them the necessary legal force.

1.7.2 Does a policy for private participation in the member country exist?

Yes – refer to 1.7.1 above.

1.7.3 Public sector appetite/capacity and experience relating to PPPs in the member country

1.7.3.1 Is there Political support for PPPs?

Yes. The government accepts that to develop and implement most of the infrastructure in the country requires private sector participation through PPPs or similar arrangements.

1.7.3.2 Is there a PPP focal point/ Unit in the member country?

- There is no PPP unit or focal point *per se*
- Each ministry is required to develop a project and recommend that it is procured under the PPP Guidelines to and Inter-Ministerial Committee on PPPs ('ICPPP'). Value for money would have been considered when the parent ministry calculates a pseudo public sector comparator, which calculates the cost for the government of constructing the project
- The relevant line ministry completes the initial technical appraisal and submits the project to the ICPPP' for economic, financial, social and environmental impact appraisal
- If approved, the ICPPP will, in turn, submit the proposal to the Cabinet Committee on Investment and Development ('CCID'), through its working party, which is chaired by the Minister of Finance
- The CCID will recommend the proposal or block of projects to cabinet, through its chairperson
- If approved by cabinet, the project will be submitted for public tender by the responsible line ministry or local authority in accordance with the State Procurement Board procedures.

It was noted in the 2004 guidelines that the functions of the ICPPP will be transferred to a fully fledged PPP Unit when the legal, institutional and regulatory frameworks are established through an over arching PPP legal frame work.

- It was noted that the PPPs that have been concluded in Zimbabwe thus far were based on unsolicited bids.
- Open procurement processes were cited as not being suitable to Zimbabwe's current economic and political dispensation.

1.7.3.3 Does an existing PPP track record in the member country exist?

Yes. There have been some PPPs concluded in the transport (road, rail) sector e.g.:

- Plumtree-Mutare road
- Bulawayo-Beitbridge Railway
- The Newlands Development Project
- The New Limpopo Bridge.

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1.7.3.4 Private sector capacity, capability and appetite

Are multiple firms active in the PPP market?

There are a few companies implementing PPP projects; however, most of these are foreign-based due to low capacity locally.

Does capacity exist in the private sector?

There is low local capacity due to the liquidity constraints and human capital in the private sector.

PPP environment in the Zimbabwe, overall score is a three ('3')

Although there is no PPP specific legislation there are PPP Guidelines and the Government's Short Term Economic Recovery Program ('STERP'), the government recognises the need for PPP arrangements to finance infrastructural development. A variety of sectors are identified in the STERP as priorities for PPPs and the political support necessary for their implementation appears to be there.

A limited number of PPP-type contacts have been concluded in the road a rail sectors, although all were in the form of unsolicited proposals. This analysis results in an overall value of three ('3'), Zimbabwe is thus considered "maturing" in terms of this category

1.8 Conclusion

While the country has a stable economy and there is political will to implement PPPs; there is no PPP legislation in place. We believe that in the medium to long-term, PPPs will be more easily implemented after the elections and when the respective legislation is instituted.

Overall Zimbabwe is thus considered "developing" in terms of this assessment.

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