ZIMBABWE

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Key Data Points (as at end-December 2023, unless otherwise stated)	
Total population	15.2 million
National currency and exchange rate	The Zimbabwean dollar and the US dollar are widely used and legally recognised (USD1 = ZWL610.4)
GDP and growth rate	5.3%[28] growth to ZWL133.7 trillion
SME proportion of GDP	48%[29]
Annual average inflation	26.5%
Unemployment rate	20.7%
Total government debt outstanding	ZWL129.3 trillion
Public debt to GDP ratio	96.7%
Primary stock exchange	ZSE
Number of publicly listed companies	59 for all 3 stock exchanges
Equity market capitalisation (% of GDP)	18%[30]
Estimated debt market, including bank loans (% of GDP)	8.4%[31]
Number of marketable corporate debt issuers	1

[28]See: www.afdb.org/en/countries/southern-africa/zimbabwe.

[29]USD8.6 billion divided by USD18.1 billion.

[30]ZWL24.2 trillion divided by ZWL133.7 trillion.

[31]Banking sector loans and advances were ZWL11.26 trillion for 2023 (per RBZ Banking Sector Report, 2023, https://www.rbz.co.zw/documents/bank_sup/BANKING_SECTOR_QUARTERLY_INDUSTRY_REPORT/2023/Banking_Sector_Industry_Report_-_31_December_2023.pdf).

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Key Data Points (as at end-December 2023, unless otherwise stated)	
Examples of domestic private market investment firms	Takura Capital, Spear Capital, Sub-Sahara Capital, Nurture Invest, Mangwana Capital, Vakayi Capital, Lamcent Capital, Anotida Capital, DBF Capital

Sources: Zimbabwe National Statistics Agency (ZIMSTAT); Finscope (2022); Zimbabwe Public Debt Management Office (2023); World Data; Reserve Bank of Zimbabwe (RBZ).

1. Introduction and Context

The Zimbabwean economy has a pronounced demand for capital and financing. Key sectors and areas that have been identified as priorities include infrastructure development and rehabilitation, energy production, agriculture (mainly to reduce effects of climate-induced shocks), extractive industries, and related manufacturing or processing industries. Addressing these needs is essential for enhancing resilience against various economic challenges and fostering sustainable growth in the long run.

Capital markets play a central role in bringing together capital providers and capital seekers, which together constitute capital formation. In Zimbabwe, however, we believe that inconsistency in policymaking (IMF 2022), combined with sudden and marked changes in regulation, has resulted in an unstable environment and low levels of confidence expressed by market participants. A corollary effect has been for investors to focus on short-term tactics, a scenario that is not conducive to strategic development and effective functioning of capital markets.

The periods 2000–2008 and 2019–2023 were characterised by high inflation and currency volatility that had far-reaching effects. Zimbabwe is classified as in debt distress by the IMF, with "unsustainable external and longstanding arrears to external creditors" (IMF 2022). These issues have acted as barriers to capital formation and impeded investments in various industry sectors that are in dire need of capital. This chapter focuses on alleviating such barriers in order to facilitate the buildup of trust and predictability, which are necessary for sustained economic development.

2. Raising Funds in the Public Markets

Fundraising and Challenges

Zimbabwe's public markets, notably the Zimbabwe Stock Exchange (ZSE), which dates back to 1894, have evolved under the regulation of the Securities and Exchange Commission of Zimbabwe (SECZ).[32] SECZ has introduced regulations

[32]For further detail, see the SECZ web page "Capital Markets in Zimbabwe," https://seczim.co.zw/capital-markets-in-zimbabwe/.

that encourage the development of new financial products, such as ETFs and REITs (SECZ 2020).

The following are the main public fundraising markets in Zimbabwe:

- ZSE: A platform for trading shares in Zimbabwean dollars (ZWL). As of June 2023, ZSE had 44 listed companies spanning various sectors. It has expanded to include ETFs and REITs. Companies raise funds through rights issues, private placements, and bank loans.
- Victoria Falls Stock Exchange (VFEX): A subsidiary of ZSE, VFEX trades in US dollars (USD). It was established in 2020 to promote offshore services in Victoria Falls. Currently, 14 counters are listed, with around 64% migrating from ZSE for access to US dollar funding and investor incentives.
- Financial Securities Exchange (FINSEC): An alternative stock exchange created in 2016, it has experienced low activity levels, with just one listed counter.

Challenges in fundraising primarily revolve around currency preferences, with companies favouring US dollar capital despite its limited availability. Although Zimbabwe operates with multiple currencies, the US dollar remains scarce for investments,[33] with pension funds receiving funds in Zimbabwean dollars instead of US dollars.

Because of hyperinflation from 2000 to 2008, the value destruction in financial assets and pensions, and the US dollar cash shortages from 2017 to October 2018, some investors and potential investors now choose to store US dollars at home or on their business premises as a hedge against economic instability.

Additionally, the impending expiration of the multicurrency regime, originally set for 2025 and now extended to 2030,[34] limits long-term US dollar availability, exposing companies to short-term and costly financing. The local currency's instability, however, further complicates its use as a viable long-term funding currency.

The bond market is underdeveloped, hindering effective corporate fundraising. The government issues treasury bills, which have mainly been invested in by pension funds, financial institutions, and insurance companies because of their prescribed assets status.[35] Legislation such as the Insurance Act (Chapter 24:07)

[33]In 2019, through Statutory Instrument (SI) 142 of 2019, the government of Zimbabwe reinstated the Zimbabwean dollar as sole legal tender in Zimbabwe, thus barring the use of a basket of foreign currencies as legal tender in any transactions in Zimbabwe, which had been done since 2009. In 2022, through SI 118A of 2022, the US dollar was reintroduced as a legal tender through the duration of the National Development Strategy that ends in 2025. Therefore, Zimbabwe is currently in a multicurrency system where nationals can use other currencies, such as the US dollar, the South African rand, or the euro, as legal tender in transactions.

[34]Statutory Instrument 218 of 2023 issued on 27 October 2023 extended the multicurrency regime to 31 December 2030.

[35]Prescribed securities are stocks, bonds, or other such securities issued by the state, a statutory body, or a local authority. They include, in relation to non-life insurers and the class of insurance business carried on by them,

and the Pension and Provident Funds Act (Chapter 24:09) dictates that insurers and pension funds should invest a set percentage in prescribed assets.

Treasury bills issued as of the end of December 2022 amounted to ZWL129 billion (1% of GDP), and 90% of them mature in less than two years.[36] Total gross treasury bills issued in 2022 amounted to ZWL83.36 billion, through both private placements (55%) and auctions (45%).

Funding for Infrastructure and SMEs

Sovereign Funding

The Zimbabwean government finances large-scale infrastructure projects through annual budget allocations.[37] The government has also borrowed from development finance institutions, such as China Eximbank, to fund various state-sponsored infrastructure projects (Chingwere 2017).

DFIs and Multilateral Organisations

These entities play a major role in funding infrastructure projects in Zimbabwe through the provisions of long-term financing and technical assistance for infrastructure development initiatives. The Infrastructure Development Bank of Zimbabwe, formed to promote economic development through building infrastructure, has established a Climate Finance Facility that is set to bring in private players in funding mitigation and adaptation projects.

Private Financing

Private involvement in long-term infrastructure projects is limited because of policy uncertainty, inflation, and high risks. Most funding structures are fixed income, and private players lack long-term funding for such projects. Commercial banks, institutional investors, and private equity firms are active in funding housing and renewable energy projects.

SMEs

Small and medium-sized enterprises play an important role in the Zimbabwean economy, with an estimated annual turnover of USD14.2 billion and contributing USD8.6 billion to GDP (Finscope 2022). However, many of the SMEs (59% of which are not borrowing) have challenges in accessing funding necessary for their growth because of lack of proven and structured businesses, creating a barrier to would-be funders.

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treasury bills or similar short-term bills issued by a statutory body or local authority or investments approved by the minister from time to time in terms of the Insurance Act (Chapter 24:07).

[36]Nominal GDP at 2022 market prices: ZWL12.4 trillion (Zimbabwe Public Debt Management Office 2023).

[37]In the 2023 national budget, a total of ZWL1.1 trillion was allocated for infrastructure development, with funding sources such as tax revenue and loan financing.

Various stakeholders in Zimbabwe are actively working to assist SMEs in accessing capital and fostering their growth. The government is involved through such entities as the Small and Medium Enterprise Development Corporation, alongside such organisations as Zimbabwe Women's Microfinance Bank, Empower Bank (with a focus on youth-owned businesses), and the National Venture Capital Fund. Development partners, such as the Culture Fund and YouthConnekt, provide grants, loans, and skill development to support SMEs. Large corporations contribute by establishing incubation hubs that offer debt funding and technical assistance. The private sector also runs such initiatives as the Old Mutual Value Creation Challenge and CBZ's Youth Entrepreneurs Program to encourage and support SMEs in their innovative endeavours. These collaborative efforts aim to empower and facilitate the growth of SMEs in Zimbabwe by providing essential resources and support.

The Role of Foreign Direct Investments in Fundraising

Attracting foreign direct investment has been challenging because of perceived country risk and foreign exchange control issues. Blocked funds amounting to USD1.5 billion as of December 2022 highlight difficulties in repatriating proceeds.[38] Most fundraising efforts target local financial institutions, institutional investors, and high-net-worth individuals, with total investments (consisting of FDIs, domestic direct investments, and reinvestments) made in 2022 of USD2.3 billion (Zimbabwe Investment and Development Agency 2023).

3. Debt

Size of Government Debt

The total stock of public and publicly guaranteed (PPG) debt as of the end of December 2022 amounted to USD18.05 billion (ZWL12.34 trillion), representing 99.6% of GDP. This total PPG debt consists of USD12.85 billion of external debt and USD5.20 billion of domestic debt, representing 70.9% and 28.7% of GDP, respectively (Zimbabwe Public Debt Management Office 2023, p. 3). To put these figures into context, the debt-to-GDP ratios of some Southern African countries are as follows: South Africa, 71.02%; Angola, 67.05%; Botswana, 20.35%; and Mozambique, 104.52%.[39]

Composition and Formation of External Debt

Total PPG external debt as of the end of December 2022 was USD12.83 billion. Of this total, bilateral debt was USD5.89 billion (45.9% of total external PPG debt), multilateral debt was USD2.70 billion (21%), and Reserve Bank of

[38]Blocked funds are any liability that is payable in foreign currency and that was incurred before 22 February 2019 for which the foreign currency incurred as a liability could not be repatriated from Zimbabwe.

[39]IMF DataMapper: www.imf.org/external/datamapper/CG_DEBT_GDP@GDD/CHN/FRA/DEU/ITA/JPN/GBR/US. The source of the DataMapper data is Mbaye, Moreno-Badia, and Chae (2018).

Zimbabwe (RBZ) debt was USD4.24 billion (33%). RBZ debt is debt contracted by the central bank from nonresidents.

An arrears and penalties amount of USD6.67 billion (77.65% of bilateral and multilateral debt) highlights a significantly diminished capacity to service debt historically.

Composition and Formation of Domestic Debt

Total domestic debt as of the end of December 2022 was USD5.26 billion, consisting of treasury bills and bonds (USD188.57 million), blocked funds (USD1.51 billion), arrears to service providers (USD11.69 million), and compensation to former farm owners (USD3.51 billion).

Blocked funds have been reclassified as domestic debt, and their management has been transferred from the Reserve Bank of Zimbabwe to the treasury following Finance Act No.7 of 2021. Settlement of these debts is now conducted by local companies.

Debt Service Payments

The Zimbabwean treasury made total external debt service payments amounting to USD63.97 million from January to December 2022:

- USD51.17 million for active portfolios to unlock disbursements for ongoing projects
- USD12.8 million as token payments to International Financial Institutions (IFIs) and Paris Club creditors to show commitment to the engagement and re-engagement process with the international community

These amounts can be seen as token repayments to demonstrate commitment to repay foreign obligations. The repayments due in terms of interest and principal arrears total USD6.673 billion.

External Loan Disbursements

Disbursements increased from USD35.9 million in 2021 to USD194.3 million in 2022. Major disbursements came from the OPEC Fund for International Development (OFID) and China Eximbank for key projects in Zimbabwe's energy, infrastructure, and ICT sectors.

Notable projects include the Smallholder Agriculture Cluster Project, financed by concessional loans from OFID and the International Fund for Agricultural Development. The project supports smallholder farmers and aims to improve infrastructure and water facilities.

Maturity Profile of Outstanding Treasury Bills and Bonds

Around 90% (USD168.98 million) of the outstanding treasury bills and bonds mature in less than two years, indicating a high refinancing risk for the domestic debt portfolio. The maturity profile of US dollar–denominated treasury bonds issued for blocked funds ranges from 2 to 20 years. Total gross treasury bills issued for budget financing in 2022 amounted to USD122.06 million.

Interest rates increased significantly in 2022, rising fourfold because of rising inflation. Average interest rates for 270-day and 365-day treasury bills (denominated in Zimbabwean dollars) increased from 35.08% and 36.24% in Q1 to 153.58% and 153.84% by the end of Q4, respectively.

The government signed a domestic loan of USD527.10 million with PIM Nominees (Private) Limited in 2022 for the construction and rehabilitation of the 354 km Harare-Kanyemba Road.

4. Raising Funds in the Private Markets

Private capital investments in Zimbabwe by large investors, including insurance companies and pension funds, have gained traction since the late 1990s. These investments are facilitated by private equity, venture capital, and direct investments, offering "patient capital" and various forms of support to target companies.

Private capital investments usually go beyond providing financial capital; they offer valuable operational and financial expertise, access to business networks, and advisory support throughout a company's growth journey. This assistance helps businesses expand, recover from challenges, restructure, unlock value, and provide investors with attractive returns. Although private investments may be less liquid, they offer increased privacy compared with public markets. Private debt sources also provide borrowers with greater flexibility compared with traditional bank loans.

Private Investments by Insurance Companies and Pension Funds

Insurance companies and pension funds in Zimbabwe have increasingly turned to real estate as their second-favourite asset class for investment, following listed equities. This shift is primarily driven by the need to preserve value during periods of high inflation,[40] which the country experienced from 1998 to 2008 and from 2019 to 2023. The Insurance and Pensions Commission (IPEC) regulates all insurance companies and pension funds except for the National Social Security Authority (NSSA).

[40]WorldData.info, "Inflation Rates in Zimbabwe": www.worlddata.info/africa/zimbabwe/inflation-rates.php. The inflation rate was 32% in 1998 and increased to more than 24,000% in 2007 and 2008. Between 2009 and 2017, the inflation rate was less than 4%. It increased to 11% in 2018, 255% in 2019, and 557% in 2020. It fell to 99% in 2021 and rose to 105% in 2022.

As of 31 March 2022, pension funds under IPEC's regulation held a total of ZWL480.3 billion (USD3.4 billion) in investment assets.[41] Notably, 34% of these assets were directly invested in properties, making real estate the second-largest asset class after listed equities, which accounted for 50% of the portfolio. By 31 December 2022, the proportion of investments in properties had increased to 45%, surpassing all other asset classes. Investments in unquoted equities constituted 3%, while investments in fixed-income securities, excluding government securities, were a mere 0.2%.

Investment assets held by insurance companies amounted to ZWL94.1 billion (USD661 million) as of 31 March 2022, with 13% being investments in properties, 8% in unquoted equities, and 72% in listed equities. NSSA, a statutory body that administers the National Pension Scheme and the Accident Prevention and Workers' Compensation Scheme, is one of the largest investors in Zimbabwe, but as of August 2023, no published information was available on its total investment asset balance.[42]

IPEC sets the maximum allowable proportionate investment in any asset class as a percentage of the investment portfolio's total market value. Prior to 2022, pension regulations allowed up to 50% of total investments to be made in real estate, 50% in local listed securities, 45% in cash and the money market, and 10% in unquoted shares/alternative investments, among other set limits. The pension regulator amended the investment asset class limits effective January 2022 as follows: The local listed equity limit was revised upwards to 60%; property investments, downwards to 40%; unquoted shares/alternative investments, upwards to 15%; and cash and money market investments, downwards to 20%. Foreign investments were limited to 15%, whereas prior to January 2022, there was no set limit and no guidance on regulatory approvals and procedures to be followed in making foreign investments.

Some private investment projects for road construction, solar power projects, and agriculture have been conferred with prescribed asset status in the last few years, so as to attract funding from insurance companies and pension funds.

Private Capital Investment Firms and Other Private M&A Transactions

Zimbabwe has fewer than 10 known private capital investment firms—namely, Takura Capital Partners, SPEAR Capital, Sub-Sahara Capital Group, Nurture Invest, Mangwana Capital, Vakayi Capital, Lamcent Capital, Anotida Capital, and DBF Capital Partners.

[41] These balances were converted using the official exchange rate; 3% of the total pension fund assets were officially denominated in US dollars, and this percentage increased towards the end of the year. Because of hyperinflation, a significant percentage of the value of other assets, such as property investments, is linked to the US dollar, even though those assets are not officially denominated or reported in US dollars.

[42] After reaching out directly, NSSA senior management promised to provide the information on the total investment assets balance held, analysed by the broad investment asset classes. We have yet to receive this information.

Exhibit 29. Total Number of PE Acquisitions and M&A Transactions in Zimbabwe, 2017–2022

Year	Private Equity Acquisitions	Total M&A Transactions (including PE)
2017	8[a]	22
2018	1[b]	12
2019	4[c]	13
2020	8	15
2021	4	21
2022	7	20
Total	32	103

Sources: For the 2017–2022 deal numbers: Responses by three private capital investment firms to a questionnaire provided by the authors, alongside British International Investment, *Takura II*, at www.bii.co.uk/en/our-impact/fund-header/takura-ii/, and additional sources as noted for some years. For the total M&A transactions: Competition and Tariff Commission (2018–2023), *Annual Report and Audited Financial Statements for the Period Ended 31 December*.

[a]Source for 2017 deal numbers:

- Vast Resources (2018), *Report & Accounts 2017–2018*. www.vastplc.com/wp-content/uploads/2019/03/annual-report-account-28.09.18-.pdf (Accessed: 1 August 2023).
- Oliver Kazunga (2017), "Vast Resources' Disposal of Zim Gold Assets Approved," *Chronicle* (6 June). www.chronicle.co.zw/vast-resources-disposal-of-zim-gold-assets-approved/ (Accessed: 1 August 2023).
- Vakayi Capital press release (2017), "Vakayi Capital Makes First Investment in Zimbabwe." vakayi.com/updates/vakayi-capital-makes-first-investment-in-zimbabwe (Accessed: 1 August 2023).
- Lamcent Capital website, http://lamcentcapital.com/ (Accessed: 1 August 2023).

[b]Source for 2018 deal numbers:

- Lamcent Capital website, http://lamcentcapital.com/ (Accessed: 1 August 2023).

[c]Source for 2019 deal numbers:

- Sunday News (2019), "Eight Mergers of Firms in Third Quarter of 2019." www.sundaynews.co.zw/eight-mergers-of-firms-in-third-quarter-of-2019/ (Accessed: 1 August 2023).
- Fastjet (2020), *Annual Report and Financial Statements 2020*. www.fastjet.com/app/uploads/2022/11/fastjet-Annual-Report-and-Financial-Statements-2020.pdf (Accessed: 1 August 2023).

A review of the Competition and Tariffs Commission's annual reports and responses from private equity (PE) firms to our survey[43] shows that the total number of acquisitions by private equity firms in Zimbabwe from 2017 to 2022 was 32 (see **Exhibit 29**), while M&A transactions, including non-PE acquirers, totalled 103 during the same period. Data collection challenges in private markets complicate accurate reporting.

It is noteworthy that data from the African Private Equity and Venture Capital Association indicate that a total of seven private capital investment deals were made in Zimbabwe from 2017 to 2022, which is different from the 32 that we collated. This disparity reflects the difficulties in collating data relating to private markets.

[43]Because of the difficulties in obtaining private deal information, we directly contacted the known private capital investors. We received responses stating the number of investments made in each year from SPEAR Capital, Mangwana Capital, and Nurture Invest. For Takura Capital, our source is www.bii.co.uk. We also searched for and reviewed press articles and respective firms' websites for deals made by Vakayi Capital, Lamcent Capital, Anotida Capital, and Sub-Sahara Capital.

Private capital investment firms in Zimbabwe obtain their deals through direct outreach, referrals, and traditional networking. Digital platforms for deal sourcing in Africa have begun developing, and they include the AfDB Africa Investment Forum platform;[44] an online platform called Private Deal Network,[45] catering to a wide range of investors and capital seekers; and the Zimbabwe Investment and Development Agency's Mining Claims Matchmaking Platform.[46] The volume and value of deals sourced from these Africa-focused platforms are currently considerably lower than the volume and value of deals originated from similar platforms on other continents because of less developed networks and limited knowledge of the services offered by these investment banking platforms. Privately held businesses, especially SMEs, and the prospective financiers or investors can leverage these platforms to drive and improve capital formation in Africa.

Private Debt Investments

Investors have largely shied away from using private debt investing strategies because of high inflation and government pronouncements indicating that the multicurrency regime will end in 2025.[47] The government pronouncements have resulted in limited debt instruments, with tenures beyond the year 2025 being issued in a stable foreign currency. Because of high inflation, investors would rather not invest in Zimbabwean dollar–denominated debt securities.

5. The Challenges to Capital Market Formation

Fragmented Markets

Africa consists of numerous countries with different laws, government policies, and currencies, resulting in different economic challenges and trade regimes. This situation causes fragmented trade and financial markets, which may make it difficult to achieve considerable scale and achieve the benefits of being able to tackle developmental gaps at a bigger scale for most of the African countries in need.

Capital Outflow Restrictions and Foreign Exchange Shortages

Foreign exchange (FX) restrictions and a shortage of foreign currency in the formal foreign currency market have made it difficult for companies to import capital expenditure items for reinvestment in their businesses, for buying raw materials, and for repatriation of returns and repayment of foreign lenders that

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[44]www.africainvestmentforum.com/en/about-us.

[45]www.private-deal-network.com/how-it-works.

[46]https://zidainvest.com/.

[47]See Statutory Instrument 118A of 2022: www.veritaszim.net/sites/veritas_d/files/SI%202022-118A%20Presidential%20Powers%20%28Temporary%20Measures%29%20%28Amendment%20of%20Exchange%20Control%20Act%29%20Regulations%2C%202022.pdf.

extend finance to local industry (IMF 2022). These conditions have decelerated capital formation in the local market.

The formal FX market has not been efficient in meeting the needs of industry timely and efficiently as a result of the government being the main source of foreign currency and private players preferring to hold onto their hard currency rather than be exposed to the weak and rapidly depreciating local currency, which experienced triple-digit inflation in 2019, 2020, and 2022. Those with hard currency prefer selling on the parallel (illegal) market at significant premiums to the rates obtained on the formal FX market.

To satisfy its own foreign-currency demand, the government mandates exporters to surrender a portion of foreign-currency earnings in exchange for local currency at the formal, depressed exchange rate. Government policies necessitating the payment of local taxes and other service fees in foreign currency further exacerbate foreign-currency shortages. Although policy directives issued in June 2023 require local currency payment for 50% of previously foreign-currency-required taxes, some portion of taxes must still be paid in foreign currency without an option to pay the local-currency equivalent.

Reduced Capacity of the Banking Sector to Support Growth

Banks' lending capacity has been hindered by an erosion of real asset values (because of high inflation), negative real lending rates, and an increase in excess reserves at the RBZ. Conversion of banks' assets and liabilities to Zimbabwean dollars at an exchange rate of 1:1 relative to the US dollar in February 2019, after reintroducing the Zimbabwean local currency, also caused a sharp shrinkage in banking sector assets and bank deposits. This situation negatively affects banks' ability to maintain credit lines with foreign banks, to meet the private sector's needs for capital, and to fund the government (IMF 2020).

Policy Inconsistency and Currency Changes

The government's policy direction regarding the currency was uncertain, with a statutory instrument issued in June 2022 indicating the multicurrency system will be in place until 2025, leaving the future of currency pronouncements uncertain. The Zimbabwean dollar, which had been the country's currency, was demonetised following a period of hyperinflation up to the end of 2008, and the multicurrency regime was formally adopted by the Zimbabwean government in February 2009. The economy effectively dollarized thereafter, as companies adopted the US dollar as their functional currency and the default currency for corporate and individual bank accounts. However, there have been significant policy inconsistencies that make business difficult. A timeline of some examples of the policy inconsistencies regarding currency are as follows:

- Zimbabwean dollar "bond notes" were introduced in 2016 at a rate of 1:1 relative to the US dollar. The Zimbabwean dollar bond note could be deposited in the same account as the US dollar, and Real Time Gross

Settlement (RTGS) electronic currency balances were also at par with the US dollar. Exchange premiums between the RTGS balances and US dollar hard currency started emerging in the parallel market.

- In October 2018, the RBZ issued a directive on separation of existing bank accounts into two: (1) the RTGS foreign currency account (FCA) or Zimbabwean dollar account (consisting of RTGS balances, mobile money balances, bond notes, and coins) and (2) the Nostro FCA. This separation was based on the source of funds, but officially, the USD/ZWL rate remained at 1:1 even though the exchange premiums continued to widen on the parallel market.
- Zimbabwe redefined its local currency in February 2019, comprising RTGS, bond notes, and coins issued by the RBZ. Upon its introduction, this composite currency began trading at a rate of 1:2.5 against the US dollar, marking a notable devaluation from the 1:1 peg. Subsequently, in March 2019, the government legislated the exclusive use of this redefined Zimbabwean dollar to settle all domestic transactions.
- With inflation creeping up, continued preference for the US dollar by the public, and the onset of COVID-19, the government brought back the multicurrency system and adopted an unsustainable fixed exchange rate system.
- In June 2022, the government issued a statutory instrument stating that the multicurrency system will be in place until 2025.[48]

Representative Inflation Rates

The government issued the Census and Statistics (General) Notice, Statutory Instrument 27 of 2023 mandating the National Statistics Office to publish a blended rate of inflation only—the general increase in price levels of goods and services measured as a weighted average based on the use of Zimbabwean dollars and US dollars over a given period. This change has made assessing the performance of companies and investment portfolios difficult because each transaction or balance is quoted in a specific currency and with an inflation rate specific to each respective currency.

High Inflation

Hyperinflation and the resulting volatile economic environment have eroded savings, eroded confidence in the financial markets, and made it difficult to achieve positive real returns.

[48]See Statutory Instrument 118A of 2022: www.veritaszim.net/sites/veritas_d/files/SI%202022-118A%20Presidential%20Powers%20%28Temporary%20Measures%29%20%28Amendment%20of%20Exchange%20Control%20Act%29%20Regulations%2C%202022.pdf.

High Interest Rates

High interest rates[49] have discouraged long-term borrowing by companies and individuals for capital investments and mortgages, thus restricting capital formation.

Financing Tenure Mismatch

The combination of high inflation, high interest rates, and policy inconsistencies has resulted in a shortage of long-term financing facilities, especially from banks. This shortage not only impacts companies' capital investments but also affects the mortgage market. Property buyers increasingly opt for cash or short-term payments, with many sellers accepting only US dollar payments and rejecting payments in local currency.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

Dealing with Fragmented Markets

There is a need to bring together various local capital markets in Africa to create regional platforms that attract bigger pools of finance to solve some of the common major developmental problems in African countries. Members of CFA Institute are well placed to play a leading role in the setup or integration of financial markets in Africa and to effectively deal with various financial market instruments that foster domestic and foreign investment. Commendable efforts have come from the African Union member states to set up the African Continental Free Trade Area (AfCFTA), creating a single market for goods and services of almost 1.3 billion people across the continent and deepening the economic integration of Africa. AfCFTA is set to become the world's largest free trade area, and it needs to be supported by strong capital markets and financial products across public, debt, and private capital markets.

Patient Capital Required to Invest in Developing Economies amid Capital Outflow Restrictions

Investors need to take a long-term view when investing in African countries that are still developing economically. For countries with restrictions in capital outflows, usually risk premiums are higher and a significant number of assets are relatively cheaper investment opportunities for potential investors. However, an easing of the restrictions may correspond with lower risk premiums and higher asset values. Patient capital, which includes but is not limited to private

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[49]The weighted average lending rates were 110% for year-end 2022, 38% for year-end 2021, 27% for year-end 2020, and 18% for year-end 2019 (www.rbz.co.zw/index.php/research/markets/interest-rates). However, the depreciation in the local currency and increase in US dollar deposits resulted in banks stopping advances of local-currency-denominated loans in 2022, and US dollar–denominated loans increased.

equity investing strategies, is required for investing in such an economy where there are temporary restrictions on capital flows. It is also important to engage regulators when bringing in capital and to negotiate arrangements to repatriate any returns from investment. Note that under the AfCFTA agreement, any restrictive measures imposed by a member state to remedy balance-of-payments difficulties should be equitable, nondiscriminatory, in good faith, and of limited duration.[50]

Necessary Government Policy Reform

The government needs to embark on key reforms that will ultimately result in an efficient FX market and removal of capital restrictions. This will promote efficient access to foreign currency for companies importing capital expenditure items and raw materials for reinvestment, as well as facilitate foreign direct investment (FDI), which includes the repatriation of returns and repayment of foreign lenders financing local industry. As stated by the IMF (2022), the central bank needs to cease its quasi-fiscal operations and align the exchange rate to its fundamentals, supported by tightening monetary policy to stem existing inflationary pressures, eliminating exchange restrictions, and increasing the efficiency of the foreign exchange market.

We believe measures to mop up excess Zimbabwean dollars and increase demand for the local currency—by requiring payments to government, government agencies, and parastatals to be made in Zimbabwean dollars—have been very effective. They have propped up the local currency, reduced demand pressure for the US dollar on the FX market, stabilised the USD/ZWL exchange rate, and reduced inflationary pressures from mid-June 2023 to the time of this writing in August 2023. It is important, however, for the government to ensure that all major economic fundamentals are aligned; that there is long-term policy consistency, especially regarding the currency; and that reserves are built up to support the local currency. Long-term policy consistency that is entrenched in law will facilitate long-term planning by businesses and improve capital formation.

Increasing Access to Finance by SMEs

There is a need for market participants to increase awareness and promote the use of capital raising platforms targeted at SMEs, such as the Mining Claims Matchmaking Platform and the Private Deal Network, which connects a wide range of private investors to businesses seeking capital and other strategic partnerships. These platforms have a potential to break down barriers to finance, bring down the cost of capital, promote access to better strategic partnerships, and increase capital formation. The Private Deal Network also needs to promote use of its deal sharing platform that caters to financiers or investors who seek to find other financiers or investors for syndication or

[50]AfCFTA Agreement, Article 28(1) of the protocol of trade in goods and Articles 14(1) and 14(2) of the protocol of trade in services.

sharing deals as co-investors on larger projects. The AfDB Africa Investment Forum's deal platform can also be used for projects requiring larger capital outlays, generally more than USD30 million, and/or projects with a wider impact. Public markets should also give incentives for larger privately held businesses to list on public markets, gain access to a larger pool of public market investors, and improve growth prospects.

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