



Business Environment Reform Facility

Strategic Review and Regional Dialogue Support for NECF Zimbabwe

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About Business Environment Reform Facility (BERF)

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We provide expert advice, analysis of lessons learned, policy research about what works and what doesn't and develop innovative new approaches to involving businesses and consumers in investment climate reform.

BERF has a strong emphasis on strengthening the Business Environment for women and girls, as well as for young adults more generally. It is also aiming to improve the relationship between business and the physical environment including where relevant through linkage to climate change analysis. BERF recognises the need for appropriate political economy analysis in order to underpin business environment reform processes and interventions.

About this Report

Research for this study was conducted by Gift Mugano between May and September 2018.

The views contained in this report are those of the authors and do not necessarily represent the views of any BERF consortium member or DFID.

This is a working paper shared for discussion purposes only. No reliance should be placed upon this report.



Acronyms and Abbreviations

ANAC	Annual National Agribusiness Conference
BEEP	Business Enabling Environment Programme
BERF	Business Environment Reform Facility
BMOs	Business Membership Organisations
COMESA	Common Market for East and Southern Africa
CZI	Confederation of Zimbabwe Industries
DFID	Department for International Development
FDI	Foreign Direct Investment
FTZs	Free Trade Zones
ICTs	Information Communication Technologies
ITC	International Trade Centre
LCP	Local Content Policy
MICED	Ministry of Sector, Commerce and Enterprise Development
MOFED	Ministry of Finance and Economic Development
MLAWCRR	Ministry of Lands, Agriculture, Water, Climate and Rural Resettlement
NECF	National Economic Consultative Forum
NES	National Economic Symposium
OPC	Office of the President and Cabinet
PPD	Public-Private Dialogue
SADC	Southern African Development Community
SEZs	Special Economic Zones
SWOT	Strengths, Weaknesses, Opportunities, Threats
TFTA	Tripartite Free Trade Agreement
VAT	Value Added Tax
WTO	World Trade Organisation
ZAS	Zimbabwe Agricultural Society
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZITF	Zimbabwe International Trade Fair



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1. Executive Summary

Policy Review and Analysis

Review of the 2018 National Budget Statement, Industrial Development Policy and Draft Local Content Policy demonstrates that government policy has been intent on rewarding companies which are supporting production and consumption of locally produced goods under a local content policy. Against this background, the following reforms were proposed in the 2018 National Budget Statement:

- Introduction of a local content policy framework with broad participation of government, industry and consumers.
- Introduction of an incentive framework that strengthens the backwards and forwards linkages between manufacturing and other sectors, such as agriculture.
- Introduction of a policy framework that provides incentives and guaranteed security for diaspora investments.

National Economic Consultative Forum (NECF) Strategy

The NECF SWOT analysis was updated and enhanced through working with the NECF and a range of stakeholders e.g. government, business membership organisations (BMOs), the private sector and academia, which provided a detailed analysis of the NECF's strengths, weaknesses, opportunities and threats.

Stakeholders regarded the structure of the NECF as a key strength with patronage of the President of Zimbabwe as a major benefit in that his presence adds the necessary seriousness and cohesion that the dialogue platform deserves. Respondents noted that one of the major weaknesses of NECF was its lack of visibility in the provinces and they emphasised the need to contextualise dialogues to specific regions.

With respect to opportunities, stakeholders noted that whilst it is still too early to predict how the Zimbabwean political landscape will turn out within the next 12 to 24 months, they were of the view that the new political environment presents opportunities for energised and renewed dialogues where the NECF has the capacity to play a prominent role. With respect to threats, stakeholders highlighted concerns over the lack of commitment from Heads of Ministries who normally leave events after the guest of honour has finished his/her address.

Recommendations to the NECF

The NECF strategy should focus on priority strategic sectors across all ten Zimbabwe provinces and deliver a range of services closely aligned with the primary role of supporting public-private dialogue (PPD) as the apex dialogue organisation in Zimbabwe. A number of sub-recommendations, including 1) higher visibility, 2) embracing regional radio and 3) an interactive ICT platform to reach out to its market, would help to strengthen the NECF in carrying out its primary functions.



Public-Private Dialogue

Both traditional and modern approaches have a proven record as effective tools for engaging in policy dialogue.

Recommendations to the NECF

- Include senior government representatives and the private sector in the NECF's PPD convenor structure.
- Support sectoral dialogues as an effective approach to generating interest in participating and speeding up the reform process.
- Decentralise dialogues to regions and cities to influence policy reforms. Dialogues carried out in specific regions or cities relate effectively to contexts in the region and therefore it becomes easier to build consensus around issues and implement reforms. NECF needs to budget for expansion of regional dialogues beyond Bulawayo, Masvingo, Harare, Mutare and Gweru to dialogues in all ten provinces in line with devolution – budget support from external sources (Government, private sector, donors) may be required to fund decentralisation of dialogues.
- Facilitate coalition of business associations, which brings more results than individualism – when business associations come together with a common position on policy, it is easier to convince government of the need for reforms.
- Make use of radio dialogues to successfully bring stakeholders into the policy debate. NECF will ultimately need to introduce a range of ICT tools for effective dialogues e.g. radio, interactive ICT platform, mobile enabled platform (SMS), polling, website and social media.
- Reform the NECF's tracking and impact evaluation capacity so as to foster full implementation of reforms and help Government appreciate the impact of policy reforms.

Local Content Enhancement Programmes

A survey of local content enhancement programmes was conducted in the agro-processing sector with a specific focus on the seeds and food and beverages sectors. The population for the study was made up of seeds houses, companies in the food and beverages sectors and officials from the Ministry of Finance and Economic Development (MOFED), Ministry of Industry, Commerce and Enterprise Development (MICED), and Ministry of Lands, Agriculture, Water, Climate and Rural Resettlement. Companies in the seeds and food and beverages sectors are supporting local production through backwards and forwards linkages through the following measures:

- Provision of an extension officers, training and research and development;
- Provision of working capital and input support including cash for the payment of wages;
- Financial investment in the establishment of infrastructure and production; and



- Provision of a ready market for the final product.

These measures made significant contributions to import substitution, export capacity enhancement and job creation. But on the negative side, foreign exchange restrictions, lack of security of tenure and exchange controls were impeding competitiveness and productivity of the seeds and food and beverages sectors.

Recommendations to the Government of Zimbabwe

- Remove restrictive foreign exchange controls which require exporters to liquidate foreign exchange in two weeks;
- Finalise the introduction of 99 year leases; and
- Provide foreign exchange systematically for key inputs into backwards and forwards value chain linkages.

2. Introduction

2.1 Background

The National Economic Consultative Forum (NECF) requires a strategic repositioning in response to the emerging needs of the economy following the events of 2017, so as to strengthen economic growth and provide evidence to support the Government's legislative, regulatory and institutional plans to open up the economy to greater domestic and foreign direct investment (FDI).¹ The NECF has been weakened by being unable to work effectively outside Harare and Bulawayo with the result that its regional chapters (Mashonaland, Masvingo, Midlands, Matabeleland, Manicaland) have been neglected.

The NECF has previously been supported by the Business Enabling Environment Programme (BEEP) to become the apex organisation for high level dialogue. NECF has been transformed as a platform where policy review and policy reforms are undertaken – a move which has changed Zimbabwe's stakeholder meetings from talk shows to reform-oriented dialogues. The NECF has introduced a National Economic Symposium (NES) which is a national dialogue under the patronage of the President of Zimbabwe. Recommendations from the 2017 NES were incorporated into the 2018 National Budget. New initiatives have been proposed, such as a policy research and information portal, mechanisms to resuscitate and engage effectively with regional chapters, and a more dynamic role in implementation of business environment reforms.

2.2 Objectives

- To review and make recommendations to strengthen the NECF's capacity to develop inclusive evidence-based policies; and
- To incorporate the views of regional economic stakeholders into the national public-private dialogue (PPD) process presented by the NECF at the annual NES.

2.3 Review Approach

This report summarises findings, conclusions and recommendations from the following review stages (Appendices 1-7 attached separately record detailed findings from each stage):

- 1) Review and analysis of key policy documents;
- 2) Review and analysis of global best practice on public private dialogue;
- 3) Consultations on NECF direction and operations;
- 4) Informant interviews on LCP in the seeds and food and beverages sectors; and
- 5) Public-private dialogues using the LCP findings as a mechanism for reviving the regional NECF chapters.

¹ Office of the President and Cabinet (OPC) advised in Feb 2018 that the role of the NECF to lead dialogue with stakeholders on regulations, service delivery and other matters needs to be reviewed and reformed.



3. Document Review and Analysis²

A review of key policy documents and business membership organisations' position papers was undertaken to identify policy priorities for the NECF. The national budget statement of 2018, local content policy (LCP), and BMOs position papers and reports were reviewed.

3.1 Observations on Government Policies

Review of the 2018 National Budget Statement shows that government undertook a policy of rewarding companies which are supporting production and consumption of locally produced goods under a local content policy which government employed to address challenges of youth unemployment and enterprise development. Against this background, the following reforms were proposed in the 2018 National Budget Statement:

- Introduction of a LCP framework with broad participation of government, industry sectors and consumers through the Ministry of Industry, Commerce and Enterprise Development (MICED).
- Introduction of an incentive framework that strengthens the backwards and forwards linkages between manufacturing and other sectors, such as agriculture.
- Introduction of a policy framework that provides incentives and guaranteed security for diaspora investments.
- Amendments to sector-specific tariffs, duties, quotas and taxes.

Observations based on the 2018 National Budget Statement and policy documents from the MICED shows that government recognises that the LCP, if fully implemented, would help the country to reduce imports, build export capacity, deepen forwards and backwards linkages, and increase capacity utilisation and job creation.

The government has the political will to undertake reforms aimed at improving the business environment with a view to encouraging investments and job creation. The LCP provides opportunities for job creation through creating backwards and forwards linkages between manufacturing and other sectors, such as agriculture and mining. LCP has been used internationally as an alternative policy for broad based economic empowerment. It therefore means that if carefully crafted LCP can be an alternative policy in the mining sector where the indigenisation and empowerment policy is still relevant.

Food and beverages are prioritised sectors for the MICED under the agribusiness sector (consisting of food, beverages and tobacco; clothing and textiles; leather and leather products; wood and furniture). This prioritisation was based on the importance of the agricultural sector in Zimbabwe. Agro-industries, for example, dominate the manufacturing sector of the country in terms of both output and employment accounting for approximately 60% of manufacturing value added and about 30% of employment (MICED, 2016).

² See Appendix 1.



Seeds, including maize, wheat, soya beans, groundnuts and vegetables, in particular, provide an important link in the food chain and are the key inputs to ensuring food security and poverty eradication. Access to quality seeds provides strategic options for easing effects of food insecurity and facilitates food resource diversification and prevention of genetic erosion in rural agriculture.

Recent estimates by the Ministry of Lands, Agriculture, Water, Climate and Rural Resettlements (MLAWCRR, 2017) show that demand for hybrid maize seeds rose by 50%, that is, from 25,000 metric tonnes per year to around 37,000 metric tonnes in 2017. The annual requirement of hybrid maize seeds for a minimum of 2 million hectares which is being targeted by the government's policy of Command Agriculture is 50,000 metric tonnes. The question as to whether companies in the seeds sector will meet this new demand is a time bound one.

Since the fast track land reform programme in 2000, Zimbabwe has failed to meet its national food requirement. However, out of the food basket which includes maize, wheat, soya beans, vegetables and other cereals, in 2017 the country managed to meet its national requirement for maize production. In 2017, the country imported soya beans (\$250 million) fruit and vegetables (\$203 million) and cereals (\$500 million) (International Trade Centre, 2018).

The following factors are the basis for considering the seeds and food and beverages sectors as priority sectors for studies aimed at informing the LCP:

- Both food and beverages and seeds sectors provide opportunities for poor smallholders in rural areas. Contract farming in dairy, seeds outgrower schemes and mixed farming are important local content schemes implemented by companies in the agricultural sector, and are expected to raise incomes of the rural population and ultimately reduce poverty;
- The food and beverages and seeds sectors have been mainstreaming local content enhancement measures as part of their supply chain management practices. A study of the current local content practices is aimed at showcasing practices with a view to making policy recommendations in line with the 2018 Budget Statement;
- Because companies in the food and beverages and seeds sectors have been implementing local content enhancement practices, it is relatively easy to scale up once incentivised. This is important considering the fact that both sectors are failing to cope with national demand of the final product from their respective value chains; and
- Government, business associations and the NECF have significant interest in these sectors. This interest is evidenced by government policy and NECF-led dialogue with business associations which focuses on the food and beverages and seeds sectors.

4. Global Best Practice on Public-Private Dialogue (PPD): Lessons for Zimbabwe³

The capacity of business membership organisations (BMOs) to structure and run effective dialogue sessions nationally is limited by a general lack of resources. In addition, a strengths, weaknesses, opportunities, threats (SWOT) analysis conducted for this assignment found that the government lacks the capacity to benefit from feedback and to gauge the impact that consultation has on business confidence and political/policy consensus. The SWOT analysis also found that the current consultation practice is an expensive exercise. The cost attached to consultation is a major obstacle when government budgets are constrained. Research showed that there is also a distinct lack of knowledge of innovative consultation techniques such as quick surveys, deliberative polls/televoting, focus groups, etc.

International best practice on dialogues was undertaken for this assignment to draw out lessons for NECF practice – literature was comprehensively reviewed and was complemented by key informant interviews from the business sector.

Both traditional and modern approaches have a proven record as effective tools of dialogue. The traditional approaches which are largely contact through workshops are effective in the sense that they bring in live voices to the dialogue and quick clarification can be achieved. However, the traditional approaches to dialogue have limitations in that they are expensive, time consuming and in some cases not sufficiently inclusive.

Modern approaches to dialogue which are powered by ICTs have proved to be useful in providing platforms which are inclusive, cost effective and efficient. The challenges of ICT powered dialogues are that the majority of people, especially those in rural areas, are not conversant with online consultation tools. There is the risk that such people could be excluded from dialogue. There are also security concerns with online consultations especially in countries where freedom of speech is constrained.

There is a business case for adoption of both approaches in undertaking dialogues. Both approaches, if carefully managed and applied to the right audience, are helpful to NECF in achieving its mandate.

Key recommendations for NECF which emerge from the survey of global practices on public-private dialogue are as follows:

- 1) **Inclusion of government and private sector in the structure of the PPD convener.** Co-chairing of the PPD convener by both the private sector and government, in particular, the Office of the President (OPC) or Prime Minister is effective as it provides both political will and efficiency in dealing with issues.⁴ The NECF is co-chaired by the OPC and private sector – therefore the NECF should retain this structure.

³ See Appendix 2.

⁴ The NECF hosted the President and Vice President of Zimbabwe and a number of key ministers at the Annual National Agribusiness Conference held on 29 August 2018 in Harare.



- 2) **Sectoral dialogues** which are narrowed down to specific sub-sectors as observed by the World Bank are effective in generating both interest to participate and in speeding up the reform process. The NECF should adopt this approach – the benefits have been born out by dialogues for this assignment centred on seeds and food and beverages.
- 3) **Decentralisation of dialogues to regions and cities** is key in influencing policy reforms. There is compelling evidence that dialogues carried out in specific regions or cities of a country relate very well to regional contexts, which facilitates building consensus around issues and eventually makes it easier to implement reforms. NECF intends to revitalise its regional chapters and NECF has subsequently piloted regional dialogues in Bulawayo and Mutare using LCP in the seeds and food and beverages sectors as case studies for validation.
- 4) **Coalition brings improved results over individualism** – when business associations come together with a common purpose which takes account of conflicting policy issues, it is easier to convince government of the need for reform. The NECF should build coalitions of business associations. NECF has recently brought together farming BMOs, the Confederation of Zimbabwe Industries (CZI) and other BMOs such as the leather association in a pilot of regional dialogues.
- 5) There is compelling evidence that an **advocating organisation with members** can build critical mass to push for policy reform while at the same time remaining financially sustainable. NECF at the moment has no registered members – rather, it was established with support of academia, civil society, business, trade unions and government and financed equally by government and the private sector. Subsequently, however, the private sector has declined to contribute leaving government solely responsible for funding the NECF. The NECF should consider registering members or partners who will fund its operations.⁵
- 6) **E-consultations can be efficient and cost-effective tools** for consultation. Different kinds of online deliberation tools could enhance the dialogue between Zimbabwe government and key players from civil society, academia and private sector. Both Loomio⁶ and e-Democracia⁷ are possibly the best though expensive solutions on the market. NECF should consider e-consultations as a necessary activity, given the improvement in internet connections and access in Zimbabwe.⁸
- 7) **Radio dialogues** have been successfully used in policy debates for reaching out to rural households. Radio dialogue has been piloted for the local content study.

⁵ This recommendation was accepted by NECF for implementation in 2019.

⁶ <https://www.loomio.org/>.

⁷ <http://www.edemocracia.leg.br/>.

⁸ NECF will consider implementing online activities in 2019.



5. Consultations on NECF Direction and Operations⁹

5.1 SWOT Objectives

A SWOT analysis of NECF's operations was undertaken with the following objectives:

- 1) Analyse the NECF's current capacity to bridge the gap between the public and private sectors, including its mandate, institutional position, and the relationships it has with the public and private sectors, focusing on its strengths and weaknesses.
- 2) Analyse the opportunities for raising investors' confidence based on a perception survey of the role, functions and performance level that the private sector expects of the NECF.
- 3) Identify the threats that could undermine the NECF's plans to catalyse private sector investment and support for government policies.
- 4) Make recommendations on strengthening and financing the NECF with increased contributions from the private sector.
- 5) Draft a clear and feasible strategy for the NECF that takes into account current government policy for enhanced private sector engagement in the economy.

Key informant interviews were conducted with business membership organisations, private sector businesses, economic ministries and academia; and a desk study involved review of feedback forms from NECF dialogues and a SWOT analysis carried out by Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) in 2014.

5.2 SWOT Analysis

5.2.1 Strengths

Stakeholders generally regarded the structure of NECF as a key strength of the institution. The current structure of NECF encourages voluntary participation and ownership of the NECF vision rather than being compelled by the mandates of their institutions to be involved in NECF activities. Respondents were of the view that this set up encourages ownership of the dialogue process.

Stakeholders furthermore felt that the patronage of the President is a NECF strength in that it brings in the necessary seriousness and cohesion that the dialogue platform deserves.

5.2.2 Weaknesses

Stakeholders noted that NECF used to be very visible in the early years of its formation compared to the present day; and most recent dialogues have been held in Harare, with the result that issues covered by national dialogues don't necessarily appeal to regional members. Stakeholders underscored that there is a need to contextualise dialogues to specific regions.

⁹ See Appendix 3.



For example, dialogues for Bulawayo, Gweru and Masvingo should be largely centred on industrial resuscitation (Bulawayo), mining (Gweru) and agriculture (Masvingo). This view is largely informed by major economic activities taking place in each of the regions. In addressing sectoral challenges, stakeholders suggested that NECF should undertake dialogues through regional radio stations. In addition, use of ICT e.g. social media, should be used as an effective tool for reaching out to stakeholders at a reasonable cost.

Although stakeholders reported an improvement in consultations since the NECF employed the PPD guide, many suggested that more attention should be paid to inclusive agenda setting – the agenda for each dialogue is not widely consulted.

5.2.3 Opportunities

Stakeholders highlighted that multiple economic challenges in Zimbabwe (e.g. the debt overhang; liquidity crunch; high cost of doing business; widening balance of payments deficit) present NECF with an opportunity for dialogue aimed at finding viable solutions. Resolution of these multiple challenges requires broad consultations and consensus building on the possible policy interventions and the drivers/champions of the necessary reforms. The NECF as a national dialogue convener has the unique mandate of facilitating inclusive dialogue on these issues.

Stakeholders were of the view that the new political environment presents opportunities for energised and renewed dialogues – and NECF should play a prominent role.

5.2.4 Threats

Stakeholders highlighted concerns about the lack of commitment by Heads of Ministries attending conferences and events who normally leave the podium after the guest of honour has finished his/her address – this leaves junior officials, who cannot argue a ministry position, with the captains of sector. This compromises the soundness of policy recommendations, the commitment to act by policy makers and ultimately the NECF's capacity to influence government policy.

5.3 NECF Strategy

The NECF agreed on the following programmes as part of its 3 year strategic plan:

5.3.1 Provincial Dialogues

In responding to the lack of visibility of the NECF in the provinces, an observation which was noted with concern by the OPC and the majority of the stakeholders consulted, the NECF should undertake dialogues in all 10 provinces. These dialogues should *inter alia* champion devolution in line with government pronouncements and should be centred on major economic activities common in a specific province. For example, in Midlands the dialogues should be centred on mining while in Bulawayo the dialogue should focus on revival of the manufacturing sector since mining and manufacturing are the major economic activities noted in Midlands and Bulawayo.



In undertaking these dialogues, based on international best practice, the NECF should use both traditional and modern approaches to consultations. The traditional approach, getting stakeholders' views through round table discussions, is effective yet expensive and limited in geographical reach. Modern approaches powered by ICT, that is, radio programmes, social media and an interactive online platform are cost effective, inclusive and can reach out to a wider audience. NECF should combine both into a hybrid approach for its dialogues.

In the short run, NECF should consider using radio platforms in each region to engage with stakeholders. This strategy is plausible as Zimbabwe has regional radio stations in Mutare, Zvishavane, Bulawayo, Gweru and Harare. These stations run business breakfast and business discussion forums in the same regions where NECF used to have regional offices. NECF should target to work jointly with the radio stations in engaging stakeholders in these regions.

In the medium- to long-term, NECF should use an interactive ICT platform, that is, Loomio, to undertake national dialogues. Whilst the use of Loomio could present an effective platform for dialogue, the platform is very expensive to set up as it requires international IT experts and a cloud server. NECF should investigate the costs and benefits of this platform to help the organisation reach out to a wider audience in a real time and cost effective manner.

5.3.2 Main Services

In order to improve its relevance to the policy discourse, NECF should broaden and sharpen the scope of its product in the dialogue space. The NECF should use its economics directorate to carry out economic research which will inform the National Economic Symposium (NES). NECF should also commission papers, draw position papers from BMOs and pursue an agenda from all relevant sectors of the economy. In addition, since the NES is a national dialogue whose guest-of-honour is the Zimbabwe President, NECF should incorporate submissions and policy recommendations from provincial and sectoral dialogues.

As part of the product range, the NECF should produce publications on commissioned research work, economic bulletins and papers on policy evaluations and impact assessments. The publications should be disseminated through the NECF website and workshops.

5.3.3 Support Policy Implementation

The chances that the recommendations from NECF dialogues are implemented can be enhanced by bringing together to the dialogue fora the right people who can institutionalize policy. It is imperative to ensure that there is an interface among all stakeholders at the most senior administrative level on the part of the government, the private sector and other stakeholders. Stakeholders should be encouraged not to send junior staff to represent senior officials as this weakens the seriousness of the debates. NECF should also exploit the strategic position of the OPC to ensure that recommendations that it gives are implemented. More importantly, NECF should work closely with line Ministries who are the makers and enforcers of policies so that it sells recommendations for adoption by these Ministries.



5.3.4 Organisational and Operational Factors

In order to achieve its mandate, NECF should institute measures aimed at strengthening its governance and institutional structures and address financial challenges.

The NECF should strengthen its governance and institutional structure so as to boost its independence and neutrality thereby restoring stakeholder confidence in the institution. The NECF should reinforce its governance structure by making the Board of Trustees more representative of all stakeholders. Although the current structure includes government and the private sector, it omits labour unions, academia and civil society which were critical players involved at the NECF's inception.

In realigning the institution with its mandate, the NECF is working on clarifying the roles of the Board of Trustees and Steering Committee and is creating a diary for the Board of Trustees to establish the discipline of meeting more frequently to provide policy direction.

With respect to addressing financial challenges, the NECF should work on raising its visibility through the implementation of provincial dialogues and a communication strategy (developed with the support of Zimbisa). This approach is expected to raise the brand visibility of the NECF and its relevance to policy making thereby building the impetus for NECF to attract brand partners as well as sponsors of its programmes.

6. Study of Local Content Enhancement Programmes¹⁰

6.1 Rationale

According to Barclay and Esteves (2011) and McCulloch, Balchin, Mendez–Parra and Onyeka (2017), local content requirements were applied to supplier input sectors in host nations in order to encourage intermediate input industries. McCulloch et al (2017) noted that local content policies if properly implemented through backward linkages can address either the supply or the demand for intermediate products and services. Supply-side policies can target specific products and services or operate across all industries and sectors. Policies affecting the demand for goods and services aim to align existing sectors more compatibly with undeveloped sectors to reorient demand towards the domestic market e.g. domestic buy-in schemes.

These policies operate under the premise that increasing domestic content is a desirable objective. Increasing the share of domestic value added in production and exports, in this view, should entail aiming for more domestic production and employment. This view is supported by approaches that consider international trade a zero-sum gain and that the benefits of trade come from achieving and expanding a trade surplus (McCulloch, Balchin, Mendez–Parra and Onyeka, 2017). Consequently, replacing imported inputs with domestic substitutes is a means of achieving micro- and macro-economic objectives. Reducing a continual trade deficit therefore provides the rationale for Zimbabwe to adopt a local content policy.

6.2 Research Objectives and Method

The study examined local content (LC) enhancement programmes aimed at supplier development by companies in the seeds and food and beverages sectors. The objectives were to:

- Showcase existing LC enhancement programmes or activities aimed at increasing local production in the agricultural sector;
- Establish the extent to which local content initiatives can substitute for imports;
- Establish the impact of local content programmes on job creation;
- Establish how local content enhancement programmes have spurred exports; and
- Develop clear, practical responses and proposals for enhancing local production and supply chain development through:
 - Specific recommendations targeting Government of Zimbabwe and its agencies; and
 - Specific recommendations to the seeds and food and beverages sectors on how they can expand local production and supply chain development as part of their business models.

¹⁰ See Appendix 4.



The population for the study was made up of a sample of seeds houses, companies in the food and beverages sectors and officials from three ministries i.e. Ministry of Finance and Economic Development (MOFED), MICED, and MLAWCRR. The study used a sample of 15 respondents comprised of four from the seeds sector, eight from food and beverages and three from government.

Secondary data was used in the study to augment data obtained from primary sources, as well as to direct the interviews. Key reports which were used in this study include the national budget statement, monetary policy statement, report on import management produced by MICED, Zimbabwe Association of Dairy Farmers Strategic Plan and financial reports of listed companies from the seeds and food and beverages sectors. Interviews were held with key office bearers in private sector companies and in government with directors and economists.

6.3 Local Content Enhancement Programmes in the Seeds Sector

6.3.1 Existing local production enhancement schemes

The majority of seeds houses have contract agreements with farmers aimed at the provision of a reliable grower base or uninterrupted supply of seeds which ranges from maize, wheat, soya bean, vegetable, sorghum and sugar bean seeds. The seeds sector is supporting seeds outgrowers with an average land size of 15,000 hectares through contract farming, featuring the following local content enhancement services:

- Provision of an extension officer for every 400 hectares of land under seeds production;
- Provision of working capital for supplier credit and cash for the payment of wages during harvesting and input support;
- Financial support for the purchase or lease of centre pivots, seeds drying units, seeds graders, on farm weather stations, tractors and planters, grading sheds and silos. Since 2015, the seeds sector has invested about \$7 million in smallholder infrastructure;
- Access to a ready market for the seeds;

Overall, the seeds sector has played the role of aggregator where they provide a market for seeds whilst at the same time financing farmers who, if left alone, have no capacity to access finance from the banks since they have little or no collateral.

6.3.2 Impact of local production enhancement programmes on import substitution

The seeds sector indicated that the period of economic collapse as a result of land reform affected company operations and forced companies to import seeds from other countries e.g. in 2009, maize seed production fell to 12,000 metric tonnes against a national requirement of 35,000 metric tonnes. As a result of local content support measures, however, maize seed production increased to an average of 30,000 metric tonnes against a national demand of 37,000 per year. This indicates that the support of local production had a positive impact by reducing imports of maize seeds to 7,000 metric tonnes.



The sector emphasised that the absence of market development caused by land reform and the collapse of companies in the seeds value chain was the main cause of low seeds production.

Notwithstanding these challenges, the seeds sector sees evidence of renewed demand for seeds as a result of government policy e.g. Command Agriculture. Sub-sectors in the seeds value chain are reviving well and farmer productivity has improved, which should provide a large market for the seeds sector. Companies are working on plans to raise seeds production across all seeds varieties, which is expected to reduce the importation of vegetable seeds, maize seeds, sorghum and wheat seeds.

6.3.3 Impact of local content enhancement programmes on job creation

The seeds sector does not have the monitoring capacity to quantify total employment created through local content support programmes, but it claims a significant contribution to direct and indirect job creation in Zimbabwe. Direct job creation is through the thousands of contract farmers together with their labourers and direct employees of the seeds houses.

Indirect job creation was noted to be significant around the wider value chain of the seeds houses which includes chemical and packing suppliers, farm equipment and implement manufacturers, haulage companies, banking services and retailers.

6.3.4 Impact of local content enhancement programmes on export growth

The seeds sector has the capacity to export seeds to 18 African countries. Notwithstanding this opportunity, the sector has not been active in exporting seeds in any quantity to the region due to lack of surplus for export. For example, the current production of maize seeds of 30,000 metric tonnes is well below national demand of 35,000 metric tonnes, leaving no room for exports. To maintain a regional presence and raise foreign currency for imports, however, the sector has exported small amounts of seeds to neighbouring countries such as Mozambique, Malawi and Angola.

6.3.5 Impediments to local content enhancement programmes

From a production perspective, climate change vulnerability was noted to be a key challenge affecting the seeds sector. The sector made large losses which were caused by heavy rains which made it difficult for the farmers to undertake proper grading and sorting of seeds. The seeds sector, as a result of climate change, has seen production yields fall as a result of disease and poor pollination caused by high temperatures.

In addition, production costs in Zimbabwe are significantly higher than regional competitors mainly as a result of the high cost of money, expensive tax regime, acute shortage of foreign exchange and high cost of labour. These findings are in line with the findings of McCulloch et al (2017).

6.4 Local Content Enhancement Programmes in the Food and Beverages Sectors

6.4.1 Existing local content enhancement schemes

Food sector

The study analysed local content enhancement programmes in the dairy and milling sub-sectors. The dairy sector has devised a strategic resuscitation plan (Zimbabwe Association of Dairy Farmers' Strategic Plan 2018 to 2022), which was developed with a view to self-sufficiency in milk production. This will require mobilising \$46 million for local content support programmes which would yield 131 million litres of milk per annum by 2022. The dairy sector strategy was proposed when major dairy processors were already working on local content enhancement programmes, such as:

- Several companies devised dairy empowerment schemes where in excess of \$20 million has been invested in national herd building since 2011;
- Technical and extension support to farmers: dairy processors have invested in veterinary doctors who are assisting cattle farmers with extension services;
- Dairy processors have used their strong balance sheets to borrow money on behalf of smallholder farmers who have no capacity to do so in the absence of collateral;
- Provision of cattle farming inputs such as feed and drugs through value chain financing schemes;
- The dairy sector devised a range of supplier development schemes;
- Provision of a ready market for milk supplied by smallholders.

The main local content enhancement programmes in the milling sub-sector are largely related to the provision of a market for grains produced by farmers and funding of Command Agriculture.

Beverages sector

The beverages sector study focused on the production of water, tea, coffee, soft drinks and juice drinks. Most of the firms in the beverages sector draw their raw materials from plantation agriculture. The beverages sector has a number of local content enhancement schemes, as follows:

- Programmes to support local production and supply chain development, such as contract farming and outgrower schemes to support farmers at four functional levels i.e. inputs, production, processing and marketing;
- Provision of key inputs such as chemicals and fertilisers;
- Mechanisation of farms with vital implements such as tractors;
- Provision of outgrower extension services;



- Provision of training in production, quality control and certification aimed at meeting international standards since most of the output is exported; and
- Infrastructure support such as road maintenance in tea and coffee plantations.

6.4.2 Impact of local content enhancement programmes on import substitution

Food sector

Zimbabwe produced 260 million litres of milk per year. Due to land reform and harsh economic conditions between 1998-2008, milk production plummeted to 39 million litres by 2009. As a result of local content enhancement programmes, Zimbabwe has experienced rising milk production to 65 million litres in 2017.

Although current output is still below the annual national demand of 120 million litres, the country has progressively reduced milk imports from South Africa by about 40%. Zimbabwe used to import 100% of Cremora but it is now locally produced, resulting in annual savings of \$2.6 million. Providing a market for local businesses supplying packaging material has had a positive impact on import substitution – companies can now source 80% of their packaging material locally. Supply chain development programmes in the dairy sector packaging sub-sector have resulted in imports falling from \$22 million per year to \$7 million.

In the milling sub-sector, one respondent indicated that they sourced 100% of wheat from abroad, but currently the company is importing only 50% of wheat as a result of local content enhancement programmes. The company is planning to import only 25% of wheat in the long-run.

Beverages sector

Because of local content enhancement programmes, Zimbabwe is self-sufficient in the production of a number of beverages, such as tea, coffee, water and cordial drinks. Rather the sub-sector is exporting to the region.

The beverages sector's robust supplier development programmes and deliberate approach to purchase from local producers has resulted in significant reduction in imports such as plastic, packaging and various raw materials.

6.4.3 Impact of Local Content Enhancement Programmes on Job Creation

Food sector

Companies in the food sector have been creating jobs at scale – one respondent created 150 permanent jobs with another 150 jobs for contract workers, and are investing in a \$6 million plant which would create more direct and indirect jobs. Increased local production has the potential to create jobs across the value chains particularly through local content enhancement programmes and investing in new manufacturing plant to substitute for imports.



Beverages sector

In the beverage sector, respondents indicated that local content enhancement programmes were having a positive effect on job creation. One respondent indicated that their agriculture division had created 4,500 jobs over the past few years while the beverage division had created over 5,000 jobs.

6.4.4 Impact of Local Content Enhancement Programmes on Export Growth

Food sector

Although companies in the food and beverages sectors are facing numerous challenges, they are still able to export. One of the respondent companies produces an annual average of 300 tonnes of macadamia and 10,100 tonnes of avocado for export and others indicated that they have the capacity to meet both national and export demand. A wide range of products is being exported to neighbouring countries such as South Africa, Zambia and Malawi. This has been attributed largely to local content enhancement programmes.

Beverages sector

As a result of local content enhancement programmes being implemented to support local production, major players in the beverages sector export products such as tea and coffee to neighbouring countries and beyond. One of the beverage respondents produces tea (75%) and coffee (93%) for export. The company can meet local demand and export surplus to the international market.

6.4.5 Impediments to Local Content Enhancement Programmes

Most of the respondents indicated that production costs in Zimbabwe are significantly higher than regional competitors mainly as a result of the high cost of money, high tax regime, acute shortage of foreign exchange and high cost of labour. As a result, some companies have chosen to invest in factories in neighbouring countries where there are lower costs of electricity, water and raw materials for goods destined for exports.

The majority of respondents reported that the pricing of maize was pegged at \$390 per metric tonne while regional countries were selling their maize at \$137 per metric tonne (Zambia) and \$150 per metric tonne (South Africa). This situation has created an uneven playing field with regional firms. The pricing of maize is negatively affecting the competitiveness of Zimbabwe products like stock feeds and other cereal products.

The Reserve Bank of Zimbabwe exchange controls which require companies to utilise foreign exchange earnings within two weeks of receipt is seen as a serious threat. This has resulted in companies spending wastefully and in a number of cases has affected normal procurement cycles; and companies which have failed to utilise their foreign exchange have had to forfeit it to the state.

Respondents in the dairy sector reported that the absence of land security is negatively affecting efforts to reduce the cost of stock feed. Ideally, stock feed should be prepared at the farm but this requires security of tenure, which for many farmers does not exist.



Firms complained about the inconsistency of tariff policy within and outside of Special Economic Zones (SEZs). Firms located in SEZs can obtain a rebate on their import duties and qualify for a five year corporate tax exemption. But companies in the SEZs sell their output in the local market thereby creating a competitive disadvantage for firms outside the SEZs which have to pay full duties on their inputs as well as corporate tax of 25.7%. This observation is consistent with the findings of McCulloch et al (2017) in Nigeria.

Rampant smuggling of goods into Zimbabwe is reported as undermining competitiveness of firms, as smuggled goods pay no tax and, as goods mainly come from South Africa which has a competitive edge over Zimbabwe, are likely to force some firms to retrench a large proportion of the workforce.

6.5 Policy Makers' Perceptions of Local Content

Government has noted that the Zimbabwe economy suffered massive losses as a result of stiff competition from the region. For example, manufacturing sector capacity utilisation has been falling since 2011, from a peak of 57.2% to 34% in 2015. Zimbabwe has also experienced large-scale company closures and retrenchments – over 700 companies were liquidated by 2013, with about 2,179 workers being retrenched in 2013 alone, while 168 companies closed in 2014 with 3,881 people being retrenched.

Government implemented a number of statutory instruments which restricted importation of specified products but this has contravened provisions of the Tripartite Free Trade Agreement signed by the SADC and Common Market for Eastern and Southern Africa (COMESA). However, government respondents noted that the restrictive measures helped the sector to increase capacity utilisation from 34% to an average of 50% and to full capacity in some sectors. There were also significant new investments into the same sectors. In addition, value added tax increased by 3% within 12 months of implementing restrictive measures.

In order to protect the gains from restrictive trade measures and at the same time instituting international best practice on protecting local sectors, Zimbabwe is working out a local content policy. Once the policy is approved, the next step will be to enact a local content policy law which will see the development of regulations on local content and institutions which will monitor the implementation of policy.

6.6 Areas for Government Reforms

6.6.1 Fiscal policy measures

Respondents in the seeds and food and beverages sectors argued for the following tax measures:

- Double tax deductibility for all local content supporting programme expenses, for example, interest accrued, extension services costs;
- Lower tax rates for companies investing in milk supply. This tax incentive should be a tax rebate for companies outside Special Economic Zones (SEZs) and can be employed as an instrument for levelling the playing field with firms inside the SEZs; and



- Waivers of customs duties and VAT on imported capital goods in order to encourage domestic production of goods and services. Supportive policies can be instrumental in facilitating the emergence of local and regional players.

6.6.2 Monetary measures

Foreign exchange restrictions, lack of security of tenure and exchange controls are impeding competitiveness and productivity of the seeds and food and beverages sectors. Respondents proposed the following measures to address these constraints:

- Infrastructure support for road maintenance in tea and coffee plantations;
- Removal of restrictive foreign exchange controls which require exporters to liquidate foreign exchange in two weeks;
- Finalisation of restrictive issues around 99 year leases;
- Prioritisation of foreign exchange for importation of heifers and certain drugs and support to local ice-cream manufacturers; and
- Provision of import substitution incentives similar to export incentives.

6.6.3 Other policy measures

These policy measures address the competitiveness of the economy:

- Price controls on maize, soya beans and wheat, for example, were inhibiting and discouraging companies from making investments in contract farming. Government should operationalise the commodity exchange which among other things will provide a free market for trading of commodities whilst at the same time unlocking funding for agriculture through warehouse receipts;
- Stakeholders in the dairy sector want government to provide land for cattle breeding and farm stock feed production, which is expected to reduce the cost of stock feed;
- Stakeholders in the dairy sector recommend the extension of policy on duty free powder importation linked to raw milk intake which should continue for another five years;
- Government procurement should be prioritised on locally manufactured food and beverages;
- Guarantee of Government tenders on Command Agriculture and Presidential inputs schemes; and
- Stakeholders in the seeds sector raised concerns over lack of land for growing parent seeds.

7. Public-Private Dialogues¹¹

7.1 Influence of Three Dialogues

The study of global best practice on public-private dialogues, the review of government policies and the study of local content enhancement programmes have combined to inform the dialogue process whilst at the same time strengthening the visibility of the NECF in dialogues.

The first dialogue was held on 29 August 2018 as part of the Zimbabwe Agriculture Show. The theme of the conference was to consolidate, broaden and deepen value chains, while highlighting the inseparable linkages between sustained agricultural productivity, sector resuscitation and increased capacity utilisation, and the resultant economic growth. For the first time the guest of honour was the President of Zimbabwe, who raised the profile of the dialogue and the visibility of the NECF.

NECF also undertook two regional dialogues in Bulawayo (19 September 2018) and Mutare (25 September 2018). These dialogues were attended by farmer organisations, Confederation of Zimbabwe Industries (CZI), government officials, the private sector and civil society. The objectives of these dialogues were to validate the local content study whilst at the same time to solicit views of stakeholders on the local content enhancement programmes being undertaken by companies and suggested policy incentives. The Harare and Bulawayo stakeholders endorsed the study with minor modifications.

7.2 Summary of Achievements

7.2.1 Engagement by Zimbabwe Government

In order to address criticisms raised by stakeholders about the lack of commitment by top government officials and to implement recommendations on good practice on public-private dialogue, the NECF brought the President and Vice President and various ministers to the Annual National Agribusiness Conference (ANAC) dialogue held on 29 August 2018. The ANAC is a high-level dialogue platform that discusses policy issues on the agricultural sector with a view to increasing its contribution to the national economy. The conference, which is a partnership of the NECF and the Zimbabwe Agricultural Society (ZAS) started in 2013. Of relevance is the fact that the Vice President arrived at 8.30 a.m. and stayed the whole day; the President arrived at 12.00 p.m. and stayed until 4.00 p.m. The level of interest and attention was so high that the plenary session ended at 4.00 p.m. instead of the advertised 1.00 p.m.

7.2.2 Financing the ANAC dialogue

The NECF's inclusive agenda together with the presence of the President incentivised key stakeholders to finance the event. The ANAC dialogue, to which the LCP evidence was considered a valuable addition, was attended by around 1000 paying delegates, which has helped the NECF to raise funding for its operations.

¹¹ See Appendices 5, 6, 7.

7.2.3 Sectoral dialogues

The NECF undertook sectoral dialogues in Harare, Bulawayo and Mutare on the food and beverages and seeds sectors which were informed by LCP research – something the NECF has not done before. Overall the dialogues were well received by delegates who expressed the view that regional exposure for the NECF had raised the organisation’s visibility and its credibility as the apex Zimbabwe dialogue body. The NECF plans to follow up the dialogues to push for an enlightened LCP policy.

7.2.4 Radio dissemination

The NECF briefed local radio stations on the dialogues and dialogue news was featured in same-day business programme broadcasts. This was the first time that NECF managed to engage wider stakeholders via radio programmes.

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