

# AFRICAN DEVELOPMENT BANK GROUP



## **Anchoring Confidence – Moving to the Next Level**

Statement at the  
*Euromoney* Zimbabwe Investor Conference

by

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Greetings and protocols observed.

Good morning ladies and gentlemen. It is a great pleasure and a privilege for me to join you to deliberate on the Zimbabwean economy and its prospects for attracting more investment. I thank the organisers, Euromoney and the Government for the invitation.

The first point I would like to make, is to observe, like all in this hall, what enormous progress has been made and how far this country has come in only two years.

I have been to Zimbabwe on two occasions, before the Global Political Agreement and since then. The road travelled by this country commands respect. I take the opportunity to commend all who have made this possible. For the first time in a decade, Zimbabwe, has not only reversed the decline, but is moving forward economically.

Since the Government of National Unity was established in February 2009, hyperinflation has been tamed and fiscal discipline restored. After successive years of economic decline and contraction, economic growth has rebounded by some 8 percent. This is an impressive achievement. It underscores Zimbabwe's potential, the resilience of its people, and it shows just how far the country can go if conditions are in place.

With the restoration of macroeconomic stability, most economic indicators have moved from red to yellow. Economic prospects are brighter. Key sectors like mining and agriculture are responding. Exports have increased, while the balance of payments improved significantly in 2010.

Ladies and gentlemen, like I said, Zimbabwe's economic indicators have moved from red to yellow. They must now move from yellow to green, and this is my second point. We all agree the country's potential, previously the second engine of growth in the Southern African Development Committee (SADC) region is vastly higher.

While Zimbabwe has made considerable progress in restoring macroeconomic stability, it must now consolidate these achievements and translate them into a better livelihood for its people. The Zimbabwe's economy, which holds so much promise, can and must operate at its previous potential and even higher.

Naturally, we all fully understand Zimbabwe and Zimbabweans must determine their future. Zimbabweans will always know more than any partner or potential investor.

Most people here today fully understand the complex nature of the issues the Government of National Unity has to tackle. But please allow me the privilege, as one of the country's friends and partners, to say the following: There are certain elements that investors—Zimbabwean or foreign—will be looking for, and that is continued political and economic stability, policy predictability, clarity with property rights, visible efforts to reduce uncertainty and the cost of doing business. If these elements are there, I assure you, investors will respond positively.

You know, as I do, that foreign investors will look for these things, everywhere, not just in Zimbabwe. And since we are in competition—as Africa, and as Zimbabwe—we must seek at all times to do better.

Let me add a third point, which is all too familiar. We are here to promote investment in Zimbabwe. The point at which we must begin is to look at and improve the conditions of the local investor—Zimbabweans and non-Zimbabweans. In other words, those who are already here and who have put their risk capital in the economy. We can be sure that any external investor will first look carefully at how those who are already here are faring.

There are issues which often do not cost money, and which only Zimbabweans can resolve.

Ladies and gentlemen, despite the progress being made at number 157 out of 183 countries in the world, the cost of doing business in Zimbabwe remains quite high. In attempting to reverse that situation, rehabilitation of key infrastructure must be a primary goal.

The current state of Zimbabwe's infrastructure is one of the most important constraints. In the early 1990s, the coverage and quality of basic infrastructure in the country was among the best in the region.

Over the past decade, however, there has been minimal investment and maintenance, whether in transport, power, water or telecommunications. That task is now urgent.

In January 2010, the Zimbabwean Government asked the African Development Bank to prepare an assessment of the state of infrastructure in the country. We were pleased to accede to its request. That report provides a detailed assessment of the state of infrastructure and services in all key areas—transport, power, information technology, as well as water and sanitation.

This conference presents a timely opportunity to launch the flagship report, “Infrastructure and Growth in Zimbabwe” and AfDB officials here today will do so.

Let me however highlight a few of the report’s findings:

- Of the country’s total road network of nearly 90,000 kilometres, the proportion in fair to good condition has declined from 73 percent in 1995 to only 60 percent. An additional 12,800 kilometres was reclassified to ‘*poor condition*’, requiring complete rehabilitation at a cost of about \$1.1 billion.
- By 2009, the amount of freight carried on Zimbabwe’s railways had declined to 2.7 million tons – barely 15 percent of the original network capacity. The available locomotive and rolling stock capacity is now well below what is required to meet demand.
- Third, Zimbabwe’s service coverage for water and sanitation has declined. In the eight years since 2000, access to improved sanitation fell from 68 percent to 41 percent of the population.
- Fourth, Zimbabwe now has less power generation capacity than it did at any time in the last thirty years. I am told that today the country’s energy availability is around 1000 megawatts of electricity, less than half of previous capacity.
- Fifth, Zimbabwe has fallen behind its regional counterparts in terms of information communication technology (ICT) service and broadband penetration.

The report sets out an action plan combining policy reforms and capital investments. We hope that it provides, among other things, a platform for dialogue between the Government, and the business community. The challenge will be immense but not insurmountable.

We estimate that during the decade ahead, about \$14.2 billion—at 2009 constant prices—will be needed to rehabilitate the existing infrastructure and add new capacity to meet growing demand.

The problem should be turned into an opportunity. There is a unique chance for independent power producers provided the regulatory framework is in place.

The report discusses financing options. How does one raise the \$14.2 billion required to bridge the yawning infrastructure gap, given the limited fiscal space available to Government? There is no doubt that a combination of sources will be needed, and there is opportunity here for the private sector.

### Constrained Policy Choices

An important issue that is currently standing in the way of Zimbabwe's ability to raise the necessary finance and investments is \$7 billion of debt overhang and distress. There is agreement that Zimbabwe's external debt is unsustainable and it continues to grow.

I know this to be an issue the Government is battling with. Resolution has to be a priority.

We stand ready, and indeed we are working with the authorities and other parties on this matter. We have, in the context of our new soft window replenishment cycle, set aside resources and look forward to an overall agreement reached with all creditors—multinational, bilateral and commercial.

The AfDB has significant experience in this domain and I look forward to bringing that experience to bear as we help Zimbabwe tackle its debt.

### *What the AfDB has done in Zimbabwe recently*

The AfDB scaled up its re-engagement in Zimbabwe since the inception of the Government of National Unity. We have reopened our office in Harare. As we work with the authorities on external debt arrears to the institution, which will pave for a full engagement, we have been able to take some interim measures to contribute to some of the immediate challenges faced by Zimbabwe. These have included:

- helping to restore water and sanitation system in a number of municipalities
- the recovery of agriculture,
- providing technical support, and capacity, in public finance, external debt management and statistics

The international community has entrusted us with the management of the Multi Donor Trust Fund for Zimbabwe, otherwise known as the ZIM FUND. This is a demonstration of confidence in the AfDB and clearly reflects the

quality of our relationship. The Multi Donor Trust Fund is currently focusing on providing initial critical investments for the power and water sectors.

Let me, before concluding, share with you the AfDB's catalytic role in crowding-in private sector investment in Africa.

Over the last five years, the Bank through its private sector window, has scaled up its private sector lending to around \$2 billion per year, using a variety of instruments. This includes direct lending, equity participation, guarantees, and lines of credit to financial institutions, especially in the SADC region. Our interest is quite wide but we have focused primarily on infrastructure investment, in particular energy, and in providing support to the financial sector.

As Africa's premier financial institution, we understand Africa and how best to mitigate the risks of doing business while maximizing our leveraging capacity.

During the recent global financial crisis, the AfDB played a significant countercyclical role, ensuring the availability of liquidity, trade finance, and providing sponsors with essential longer tenors, which were unavailable from capital markets and required to help projects reach financial close.

We shall continue to provide these types of interventions and financial support, as we believe that trade and investment in this new global era are important channels through which Africa can realize her potential. Count on us as your partner.

### *Conclusion*

Your Excellency, Ladies and Gentlemen,

In the last ten years, Africa has witnessed an economic momentum unseen for fifty years. This momentum has been carried forward on the back of a strong record of economic reforms, which built buffers to withstand external shocks.

But for Zimbabwe, this has been precisely the tumultuous decade during which the country has missed out on those opportunities.

The recent financial crisis was a setback but only a temporary one. Thanks to policy resilience, the continent is today in much better shape and now poised to move on.

Many countries are now back on the growth path. It is our desire and yours that Zimbabwe should now catch up and be there among the front runners. Sound macroeconomic policy is a very good beginning, but only a beginning.

Zimbabwe can do so by carefully examining the policy landscape on the issues of concern to investors, Zimbabweans and foreigners. It can do so by providing clean signals of long term intentions, in particular with regard to the rule of law and property rights.

I am pleased that all these pertinent issues will be discussed during this conference. They are all important—the macroeconomic situation, the financial sector, agriculture, the legal and regulatory environment—and should be discussed thoroughly.

Ladies and Gentlemen, the Global Political Agreement has served to inspire trust and confidence of Zimbabweans, its friends and of course investors. It is now time for Zimbabwe to anchor that confidence into opportunities and move to the next level, taking advantage of opportunities in the global economy with credible implementation of measures that need to be taken. It is important to address all outstanding issues that could impact negatively on investor's perception of the country.

Zimbabwe is in a unique position to capitalise on its highly skilled, hard working people, and of course the achievements of the Global Political Agreement. On the other hand, for a promising country such as this, we must always take the long term view. A mining venture, a commitment to independent power production is a long-term one. I urge everyone here to take that long-term view.

Let me again thank the organisers, the Government of National Unity. I wish you successful deliberations.