



**A SECTORAL APPROACH TO
ECONOMIC EMPOWERMENT &
INDIGENIZATION**

***SUPPLEMENT TO THE JULY 2011
MONETARY POLICY STATEMENT***

BY

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JULY 2011

INTRODUCTION

1. The issue of indigenization and economic empowerment has attracted a lot of national debate and interest, and with it also, some misconceptions and misrepresentations of the views of some individuals, groups and institutions, on the subject.
2. In this Supplement to the July 2011 Monetary Policy Statement, the Governor clarifies the Reserve Bank of Zimbabwe's position and advice to Government, on our modest views on the implementation of the Indigenization and Economic Empowerment Act (Chapter 14:33).
3. It has been suggested that the Reserve Bank of Zimbabwe, in particular this Governor, is against the indigenization and economic empowerment legislation.
4. This of course is absolutely nonsensical. To begin with, the Governor is not a Member of Parliament, and, therefore, has no jurisdiction or powers to reverse legislation formulated, debated and passed by the country's August House.
5. What we have spoken against before, and we still do today and tomorrow, is that any attempt to hide behind the indigenization law or any law for that matter, in order to

commit or justify acts of economic banditry, expropriation and or unfair practices that suggest that we are not a law-abiding citizenry or any attempts to parcel out pieces of the economic cake and opportunities created by this noble piece of legislation to a few connected cliques of people whilst the majority of intended beneficiaries remain with nothing, as happened in the past with respect to other Government empowerment schemes, is totally unacceptable.

6. This law must not be used to multiply pockets of inefficiency, in as far as utilization of national resources and opportunities of the country is concerned.
7. For example, where an individual has benefited from the historic Land Reform Programme, and was allocated a farm(s) which they are not making full use of, those people, in our view, should not be allowed to go and multiply that failure into other sectors such as mining, manufacturing and many others, unless that beneficiary is starting his or her own entity afresh!
8. There ought to be a deliberate bias towards or in favour of those who have not benefited from other Government programmes before, so that a broad-based empowerment model can be achieved.

9. It would be wrong to continue to concentrate new and scarce resources and opportunities on a few individuals, some of whom are even struggling to utilize what they already have to the economy's advantage.
10. This economy is littered with cases of productive farms lying idle, farms which have been turned into grasslands instead of maizelands, soyalands and so forth, yet we need to be utilizing the available resources, including and especially the land, to advance our national economic fortunes, as the land is the basis of our sustenance.
11. Our view is that it is time we became tough with economic non-performers in whatever field they are, and the Indigenization and Empowerment law provides a great opportunity to screen out opportunists and those without a track record of producing for the country. We need to embrace the ideology of hard working, productivity, law-abiding citizenry, fairness, accountability and transparency.

TENETS OF THE ECONOMIC EMPOWERMENT STRATEGY

12. The implementation of the economic empowerment strategy should be done in a manner that immediately reduce poverty for the majority of the people, and enhance societal welfare. The program should ensure the equitable re-

distribution of wealth across broad spectrum of societal groups notably, women, youth, chiefs, and physically handicapped.

13. Whatever indigenization and empowerment model we adopt must fulfill certain aspirations of the population, hence the need for it to be broad-based, touching the grassroots people, the youths, women, elderly and vulnerable, including special need groups such as the disabled, chiefs, headmen down to the village heads and communities in between.
14. The model must also respond to, and tackle, each of the eight (8) United Nations (UN) Millennium Development Goals (MDGs), namely the eradication of extreme poverty, support towards the achievement of universal primary education, promotion of gender equality and empowerment of women (and the youths), reduction of child mortality, improvement in maternal health, combating of HIV/AIDS, malaria and other diseases, ensuring and assisting environmental sustainability and assist in the development of global partnerships for development.
15. The Economic empowerment model places greater prominence on wealth creation (that is growing the cake) and value addition through broad-based participation of the

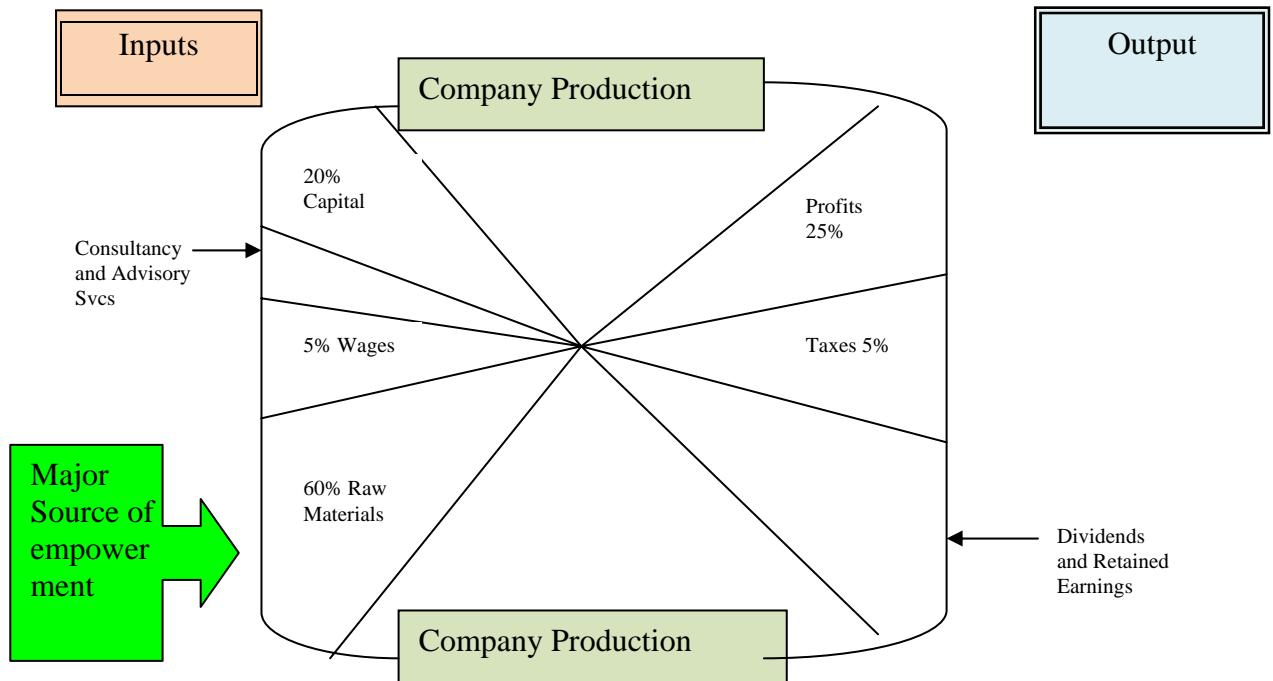
indigenous people, as opposed to a narrow view of merely redistributing the country's already existing and shrinking stock of wealth.

SUPPLY AND DISTRIBUTION INDIGENIZATION AND EMPOWERMENT (SADIE) MODEL

16. Recognizing the fact that that only a few can fit or benefit from the equity-ownership model being pushed under the Indigenization and Empowerment Act, the Central Bank is advocating for a Supply and Distribution Indigenization and Empowerment (SaDIE) Model, which is premised on the participation of a broad spectrum of the population, through the supply and distribution chain of the whole country's economic cake, as opposed to primarily focusing on equity holdings.
17. Under this framework, Government can ensure that indigenous people supply inputs and services into the country's production processes. This strategy effectively empowers indigenous people to control downstream industries through the supplying of raw materials, services and other inputs.

18. The model also envisages a gradual approach to attainment of the company ownership thresholds by indigenous Zimbabweans, in a manner that ensures sustainable empowerment, inflows of much-needed foreign capital and minimal disruption to economic activity.
19. Under the empowerment-led indigenization initiatives, companies will, thus, be required to source a specified proportion of their inputs, raw materials and spares from indigenous entities.
20. The supply of raw materials and other critical inputs immediately empowers Zimbabweans by smoothing the ownership of the means of production and mainstreaming previously disadvantaged indigenous people into active participation in economy building.
21. The model, thus ensures that indigenous people realize immediate benefits through receipts from guaranteed supply of goods and services to companies, as opposed to waiting for annual dividend payments, which are contingent upon the companies making profits and declaring such dividends to shareholders.

Illustration of the Empowerment Strategy Under SaDIE



22. To this end, a sectoral approach should be implemented, with particular attention being paid to the sensitivities that characterize firms in different sectors such as the financial, mining, manufacturing and agriculture.

A SECTORAL APPROACH TO ECONOMIC EMPOWERMENT

23. Indigenization and empowerment of the economically disadvantaged should not be confined to the acquisition of equity by local people, but must be extended to cover control of downstream industries.

24. Account should be taken of each sector's contribution to GDP, as shown below:

Average Sectoral Contribution to GDP (2000 – 2010)



Industry	Current Contribution to GDP (%)	Potential Contribution to GDP (%)
Agriculture, Hunting, and Fishing	17.6	20.0
Distribution, Hotels and Restaurants	11.1	10.0
Transport & Communication	7.0	5.0
Construction	1.1	2.0
Real Estate	4.2	3.0
Manufacturing	14.5	18.0
Mining and Quarrying	3.2	12.0
Finance and Insurance	8.8	5.0
Electricity and Water	2.8	3.0
Public Administration	4.5	2.0
Education	9.2	9.0
Health	1.9	2.0
Domestic Services	1.7	1.0
Other Services	12.4	8.0
Total	100.0	100.0

Source: ZIMSTATS Statistics on GDP & RBZ Estimates

25. The empowerment strategy should also take account of the fact that, in terms of ownership, the following sectors, which contribute 64% of GDP are already significantly under the control of either Government or private sector indigenous people.

Predominantly Indigenized or Under Government Control

SECTOR	SHARE IN GDP (%)
Agriculture, Hunting, and Fishing	17.6
Distribution, Hotels and Restaurants	11.1
Transport & Communication	7.0
Construction	1.1
Real Estate	4.2
Agriculture, Hunting, and Fishing	17.6
Distribution, Hotels and Restaurants	11.1
Transport & Communication	7.0
Construction	1.1
Real Estate	4.2
Public Administration	4.5
Education	9.2
Health	1.9
Domestic Services	1.7
Other Services	12.4
Public Administration	4.5
Total Already Indigenized or under Government	73.5%

26. The following sectors should, therefore, be targeted for indigenization and broad-based economic empowerment.

Sectors Targeted for Indigenization

SECTOR	SHARE IN GDP (%)
Manufacturing	14.5
Mining and Quarrying	3.2
Finance and Insurance	8.8
Total Target	26.5%

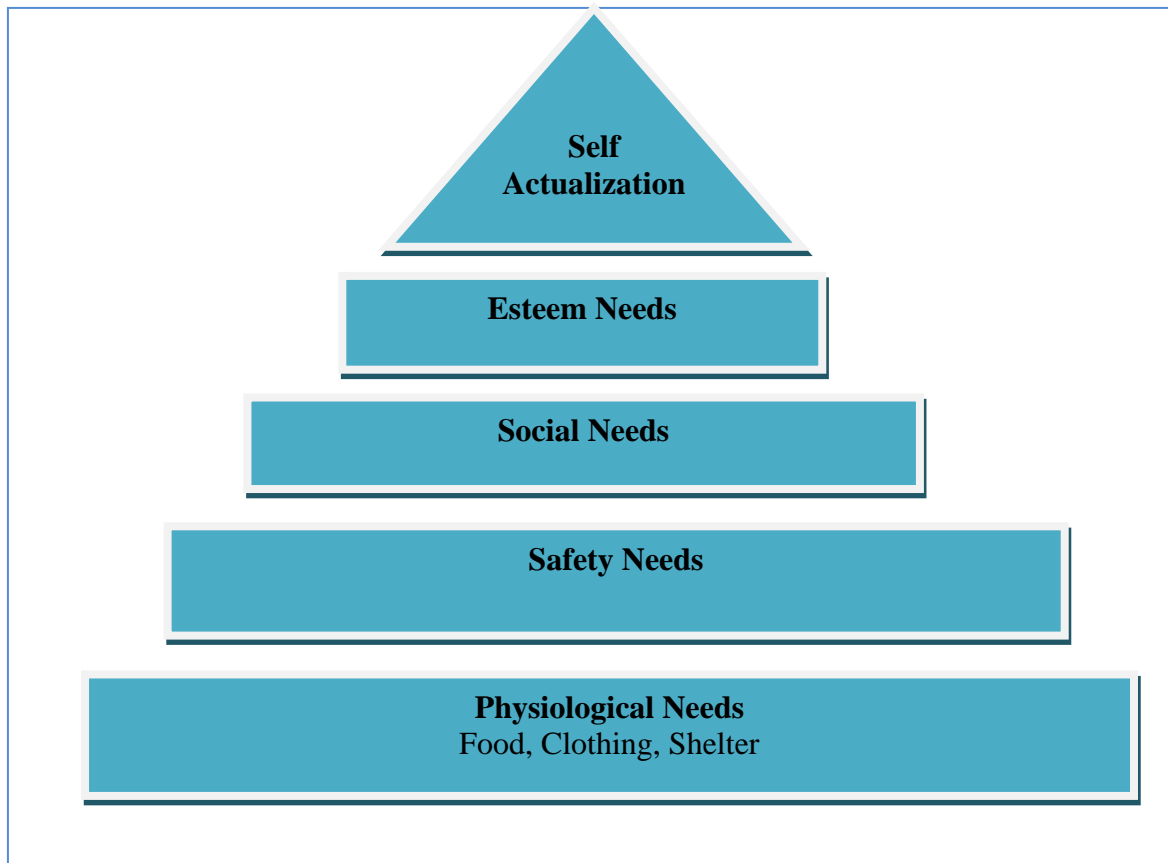
27. Some of the merits of a sector-based empowerment program are as follows:

- i. They are more focused to deliver, taking into account the peculiarities of each sector;
- ii. Time frames and targets are easier to set and monitor;
and
- iii. Thresholds are also much easier to set and monitor.

ADDRESSING IMMEDIATE BASIC NEEDS - MASLOW'S HIERARCHY OF NEEDS

28. Empowerment of indigenous people should improve their basic welfare and reduce poverty in line with the internationally recognized millennium development goals (MDGs).
29. The country's ownership and empowerment struggles must, therefore, be anchored on these absolute necessities which put differently, relate to the famous Maslow's Hierarchy of Needs (MHoN).
30. The supply of raw materials and inputs by indigenous people immediately addresses their basic, low-level physiological needs notably food, shelter and clothing.
31. Higher-level needs such as self-actualization are long term in nature and do not immediately impact on the livelihoods of the generality of the population.

MASLOW HIERARCHY OF NEEDS



32. Equity ownership resides in the realm of both “esteem and self-actualization needs”, the smallest of the five (5) components in the MHoN Pyramid, while the other three bottom segments constitute the crying needs of the majority of Zimbabweans. These segments, especially the bottom two, are the concern of the UN Millennium Development Goals.
33. Self actualization needs, such as the acquisition of equity and majority shareholding in companies, have minimal short-term benefits to the indigenous people and, should

therefore, be the medium to long-term national goals under the indigenization framework.

34. Equity or shareholder benefits also only when dividends are declared, which is normally annually, bi-annually or even at longer intervals, thus depriving indigenous people of much-needed immediate and basic requirements. The situation is worse in an environment like ours, where most companies are making losses or insignificant profit levels.
35. Under the SaDIEs model, the Bank advocates for the de-scaling of the equity-type demands model, which will benefit only a few as the MHoN model shows, and proposes the up-scaling an input supply, distribution and service provision model, which has the practical potential of ensuring regular income flows for the majority of our people, while generating popular and local stakeholder involvement.
36. This approach can also be fine-tuned to address the quota-system requirements for youths, women and special groups, and is also auditable, and transparent with a quick turnaround in terms of visible benefits that address basic needs of individuals and communities in which the economic cake is being generated such as mines.

37. The SaDIAE Model empowers indigenous people in a way that gives them dignity, improves their basic welfare and reduces poverty in line with the Millennium Development Goals (MDGs) while extending beneficial mileage to the majority of the people.
38. Higher-level needs such as self-actualization and esteem needs are also very important as long as it is understood that they are long-term in nature and do not immediately impact on the livelihoods of the generality of the population.
39. Rather than concentrate on equity-type approach on a large and non-discriminatory scale, the SaDIAE approach begins at, or with, the start of the economic cake itself, by requiring that at least 75% of industrial procurements are reserved for indigenous people or indigenous owned companies.
40. Current non-indigenous supply/distribution/marketing contracts can be negotiated over to indigenous people, without affecting or compromising price competitiveness to the company, quality specifications, delivery efficiencies and all other existing criteria required by the companies, parastatals, local authorities, Government Departments and Ministries.

41. Where there are short-comings in terms of the skills of indigenous people, mentorship programs and smart-partnerships arrangements could be put in place, in transparent ways which are auditable by Zimra or Exchequer/and which mentorship programs should observe the need for participation by locals, women, youths and special groups, while avoiding cases of duplicating beneficiaries.
42. Imported inputs to the industries also ought to be indigenized and appropriate steps taken by the companies concerned to mentor/hand-hold newcomers to the game.
43. Banks are more likely to lend to a group of people or individuals who are accredited suppliers of say, Zimplats, with the understanding that they will get paid by Stop-Order directly from the beneficiary company. This allows them to securitize that relationship, thereby obviating the need for primary security from the individual or group of individuals who do not have any collateral to give in the first place.
44. The beauty with this approach is that even loss making companies necessarily have to consume raw materials, inputs and other services monthly or periodically, thus contributing towards the day-to-day empowerment of the indigenous people, a factor that eliminates the need, under

the predominance of equity-type empowerment model, to receive dividends only once a year or so.

SECTORAL EMPOWERMENT OPPORTUNITIES UNDER SADIE

45. Lucrative empowerment opportunities are abound in the key sectors of the Zimbabwean economy notably, manufacturing, mining, construction, tourism, retail, distribution, transport, telecommunications, financial and the public sectors.

Potential Volume of Business for Indigenous People (2011)

Sector	Contribution	Sectoral GDP	Share of Inputs	Potential
	To GDP	US\$M	In Total Costs	Value of Business (US\$M)
Mining	12%	1035.2	53%	548.7
Manufacturing	18%	1552.9	57%	878.9
Construction	2%	172.5	79%	136.3
Distribution and Hotels	10%	862.7	36%	310.6
Transport & Comm	5%	431.4	69%	297.6
Other	53%	4572.3		
Total	100	8627.0		2172.1

46. Based on the 2011 potential GDP of US\$8,627 million, immense empowerment opportunities, amounting to over US\$2 billion, can be exploited by the indigenous people through securing contracts to supply of inputs and services to the country's industries.

Manufacturing Sector

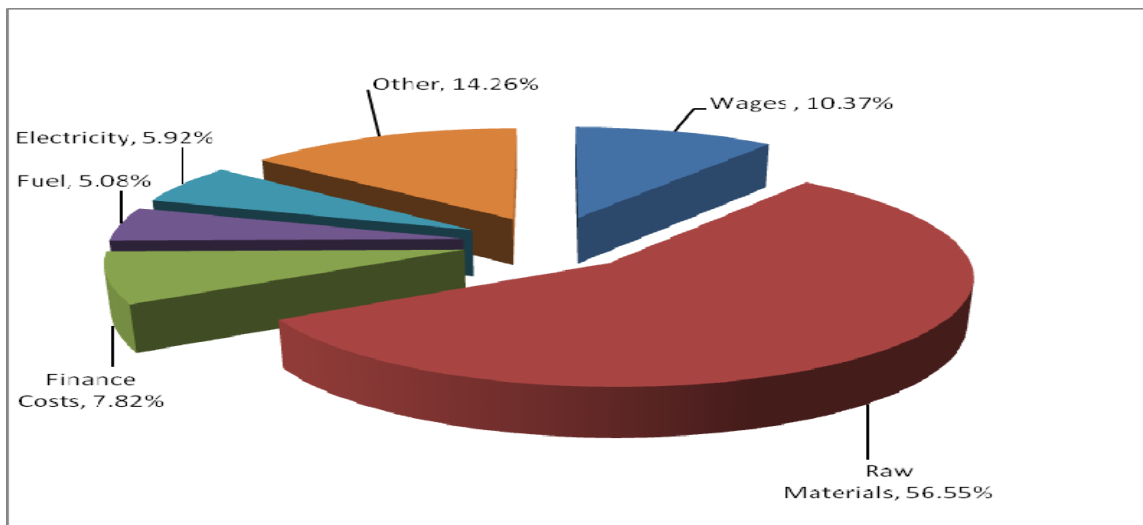
47. Indigenous people can be empowered to the tune of US\$878.9 million per annum, through supply of inputs and services to the manufacturing sector.
48. Manufacturing sector contributes about 18% to GDP and is the second largest sector after agriculture in terms of contribution to GDP. The sector is well diversified and possesses strong linkages with other productive sectors of the economy.
49. The sector is made up of various sub-sectors such as foodstuffs, tobacco and beverages, clothing and textiles, wood and furniture, paper printing and publishing, chemical and petroleum products.

Manufacturing sub-Sectors

Manufacturing	Contribution to Total Manufacturing (%)	Contribution to Total Manufacturing Output in 2010 (US\$ Millions)
Foodstuffs including stockfeeds	14	203.4
Drinks, Tobacco & Beverages	20	290.6
Textiles Incl Ginning	11	159.8
Chemical & Petroleum Products	12	174.4
Non metallic mineral products	2	29.1
Other	41	595.8
Total	100	1453.14

50. The major cost drivers in the sector are electricity, labour, raw materials, inputs and maintenance.

Manufacturing Sector Cost Drivers



51. A deliberate policy can be put in place to support indigenous people in the procurement of raw materials and inputs to the manufacturing industry.
52. Under this policy, companies will be required to ensure that at least 75% of their raw materials and certain goods and services are supplied by locals. This measure should be accompanied by procurement guidelines to ensure that indigenous-owned firms meet acceptable minimum quality standards required by the different sub-sectors.

Mining Sector

53. The mining sector contributes about 12% to GDP. The sector is capital intensive and requires huge initial capital outlay. The initial capital is required for prospecting and exploration, resource definition and actual mining development.
54. In the mining sector, business opportunities estimated at US\$548.7 million per annum, can be reserved for the indigenous people to supply the required inputs and services.

Subsectors in the Mining Sector

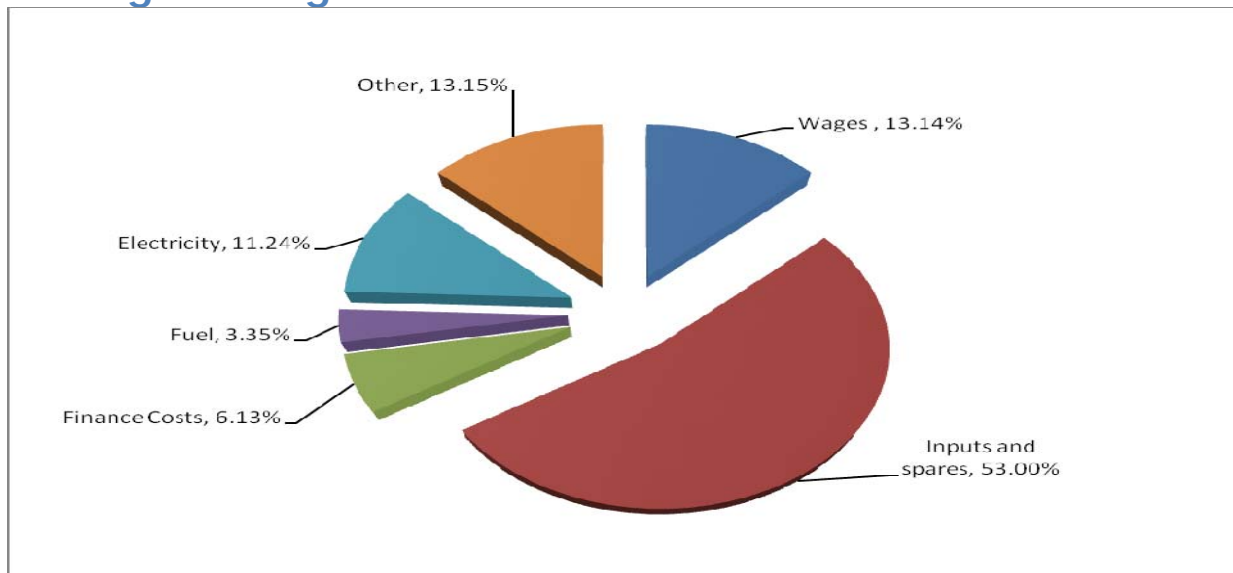
Mining	Contribution to Total Mining (%)	Contribution to Total Mining Output in 2010 (US\$ Millions)
Gold (kgs)	26.9	260.6
Asbestos (tons)	0.2	1.9
Coal (tons)	7.7	74.6
Nickel (tons)	9.5	92.0
Platinum (kgs)	35.6	344.9
Chrome ore (tons)	4.3	41.7
Black Granite (tons)	1.4	13.6
Palladium (kgs)	7.3	70.7
Diamonds (carats)	7.2	69.8
Total	100	968.8

55. It takes about 15 years for the mine to recover all the sunk costs used for mining development. While mines make huge operating profits, the profits would not be used as dividends

as the money is usually used to offset the huge initial capital outlay.

56. The following diagram shows the major cost drivers in the mining sector.

Average Mining Sector Cost Drivers



57. The input and spares category contributes about 53% of the cost into mining production, and this proportion can be targeted to empower local people through the supply of inputs, spares, additives and chemicals, and other consumables into the mining companies.

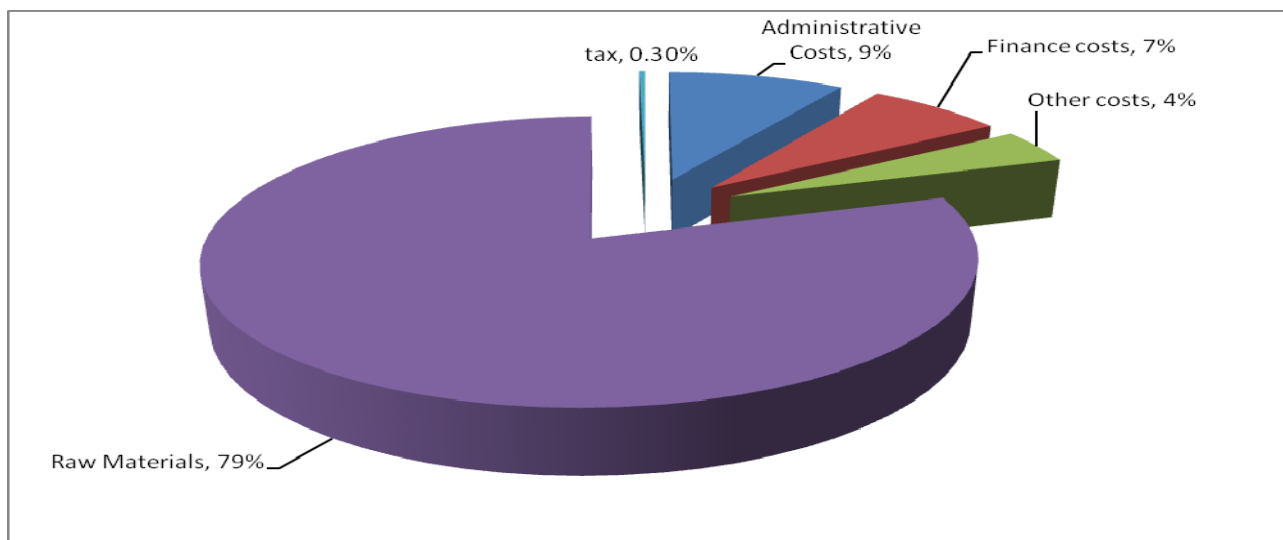
58. Under this framework, mine operators will be required to source inputs and maintenance spares from indigenous suppliers, up to a minimum of 75% of total requirements.

59. Mechanisms will be put in place to ensure that indigenous suppliers adhere to strict quality assurances, and that in exceptional cases where locals are unable to immediately supply specific requirements by miners, a window for limited importation of such inputs and spares is allowed.

Construction Sector

60. The construction industry contributes about 2.4% to Gross Domestic Product (GDP). The industry consists of Architects, Quantity Surveyors, Real Estate Agents, Project Managers, Engineers and Contractors. The largest construction companies in Zimbabwe include Costain and Murray & Roberts.

Construction Sector Cost Structure

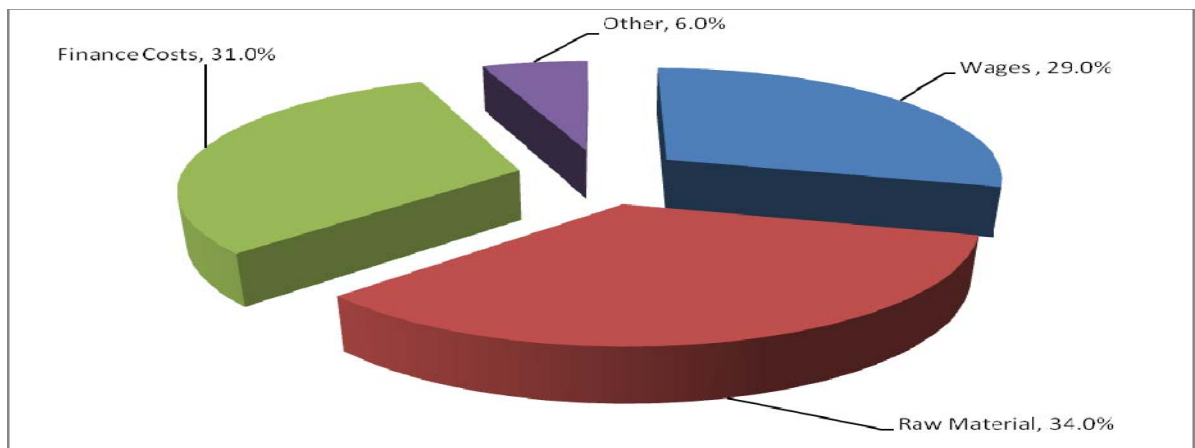


61. The major cost drivers of the construction sector are raw materials (79%), which comprise of cement, bricks, steel and equipment.
62. Indigenous companies can, therefore, be capacitated to provide these critical raw materials to the construction sector.

Tourism Sector

63. The main cost drivers in the tourism sector are raw materials and finance costs.

Tourism Cost Structure

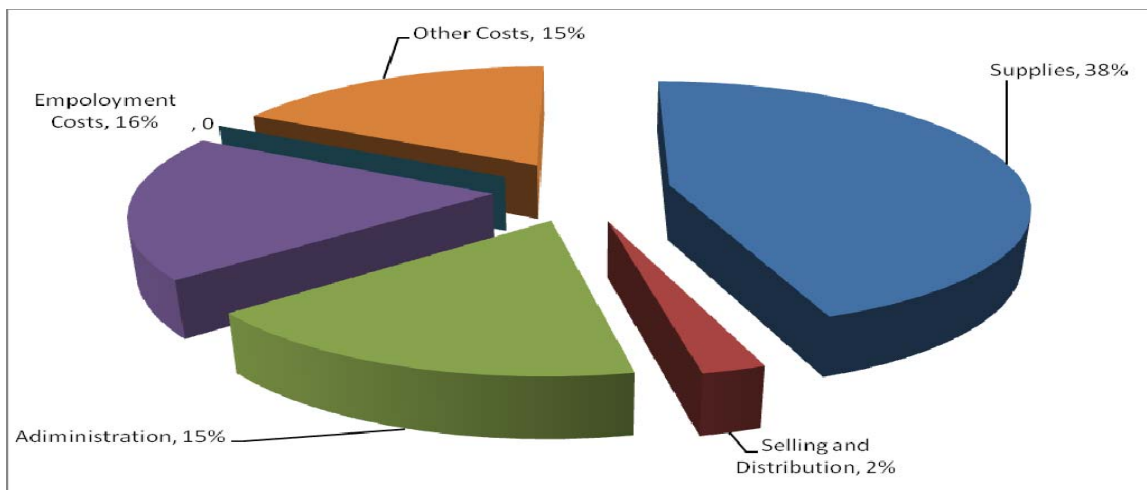


64. Small to medium indigenous enterprises (SMEs) could, therefore, be capacitated to provide raw materials to the sector.

Distribution Sector

65. The distribution sector is characterized by a complex set of economic activities which link producers and buyers of goods and services. The sector includes retail and wholesale traders.

Cost Structure of a Retail Firm



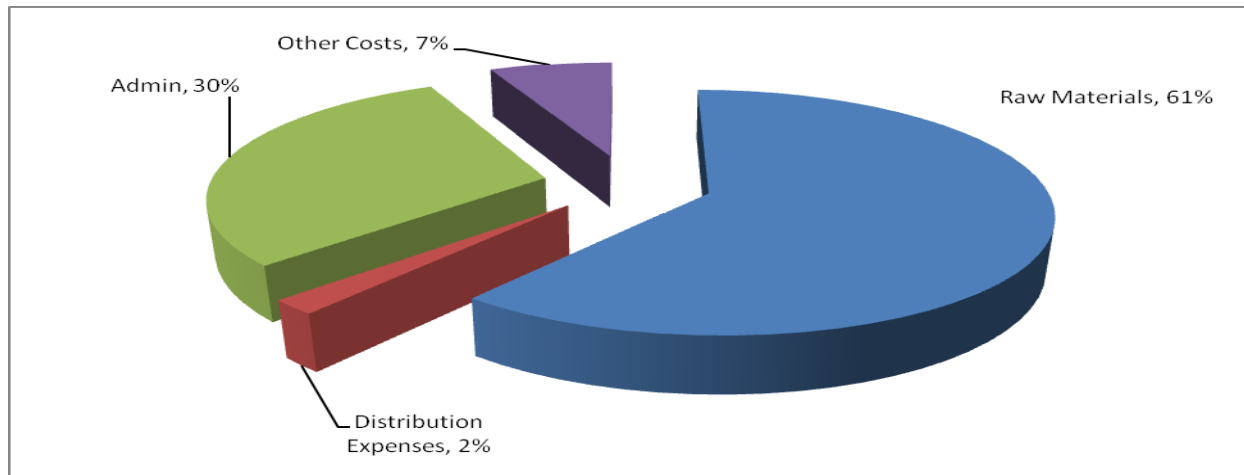
66. Such a cost structure presents numerous opportunities for indigenous firms to participate as the key suppliers of goods and services, transport, marketing and logistical services.

Transport Sector

67. The current investment laws in Zimbabwe allow for a maximum of 35% foreign ownership in the transport sector. The passenger and freight sub-sectors are dominated by

indigenous players as they do not require large capital outlays, compared to sectors such as mining and manufacturing.

Transport Cost Structure



68. Indigenous firms can provide key raw materials in the transport sub-sector, as well as maintenance and other services.

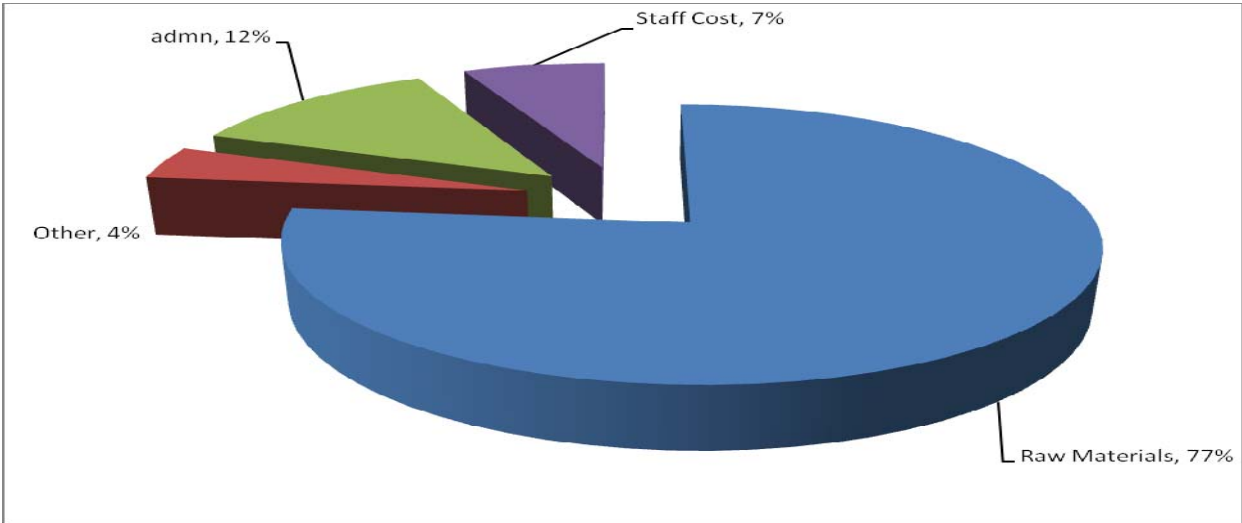
Telecommunication Sector

69. The telecommunications industry in Zimbabwe is regulated by the Post and Telecommunications Authority of Zimbabwe (POTRAZ) which is mandated to issue licences in the postal and telecommunications sector, and to set the terms and conditions for activities in the sector.

70. The telecommunication industry is capital intensive and this presents a barrier to entry for many would-be indigenous participants.

71. Raw materials, inputs and spares, however, constitute 77% of total cost of production.

Telecommunications Cost Structure

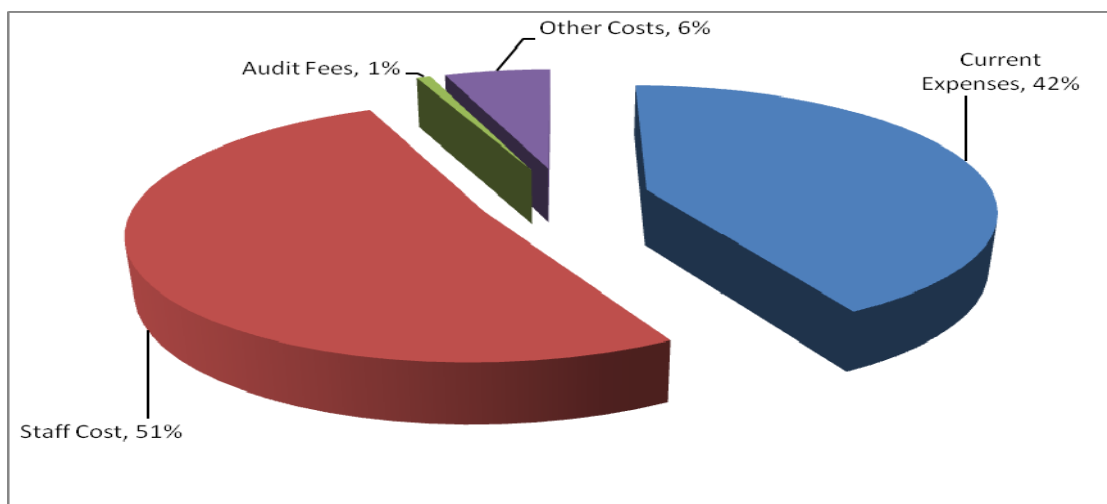


72. There are opportunities for local companies to specialize in repair and maintenance of telecommunications equipment, supply corporate wear, offer transport & courier services and other non-core activities.

Financial Sector

73. The major cost driver in the financial sector besides staff costs are operational expenses which contribute about 42% and include stationery, ICT, uniforms, staff transportation, marketing and consultancy, advertising materials, among goods and services requirements.

Financial Sector Cost Drivers



74. There is potential for indigenous people to participate in 42% of the business in the financial sector through the supply of consumables and accessories.
75. In this vein, procurement programs can be designed to assist indigenous SMEs in tendering for financial service

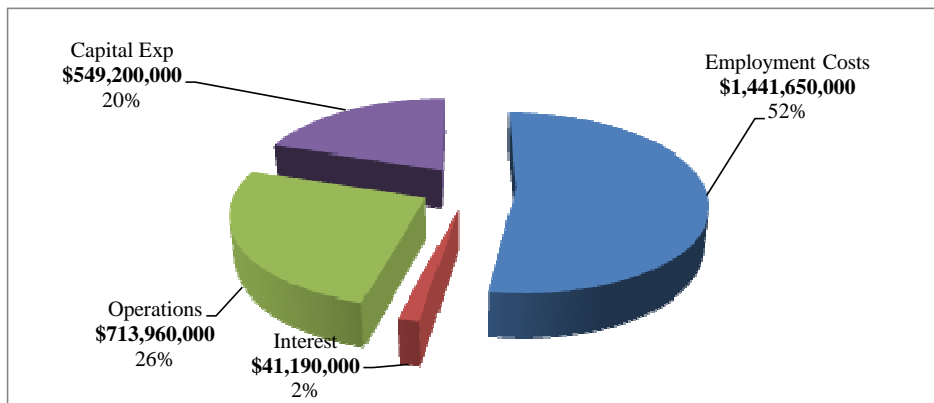
business. This can also be achieved by reserving certain areas of procurement for indigenous people.

Supply of Goods and Services to Government

- 76. Through the Annual National Budget Statements, Government could ensure that it deliberately targets indigenous people and companies in the procurement of goods and services for Government operations.

- 77. This measure would create a niche market for the indigenous people, while at the same time empowering them to participate in mainstream economic activity.

2011 National Budget Expenditures



78. A significant quota should be reserved for the indigenous people in the area of service provision, under the 26% slice for Government operations. This requires that Government minimizes outsourcing of service provision to foreign-owned businesses and prioritize competent indigenous providers.
79. In cases where indigenous companies do not have capacity to procure, Government should encourage strategic partnerships between existing foreign owned and indigenous companies, so as to strengthen local expertise and ability.
80. Government should set a time line for capacitating indigenous companies to meet all procurement standards.

Parastatals and Local Authorities

81. The country's Public Enterprises and Local Authorities provide a range of services, which heavily rely on intermediate inputs. There is, therefore, great scope to empower the indigenous people by reserving the supply of water treatment chemicals, computer consumables and other requirements needed in the day to day running of the Local Authorities.

82. Similarly, provision of a range of services to the Public Enterprises by indigenous companies also presents additional empowerment opportunities for locals.

OTHER DESIRABLES

Women Empowerment

83. In the Zimbabwean context, women continue to play the indispensable role of primary care giving. As such, the empowerment of women cascades to vulnerable groups in society such as children and the elderly.
84. Empowering women starts with economic empowerment, providing women with tools so that they are economically independent. This should be done in order to ensure that women can be bread-winners of the family.
85. If women are provided with economic power, they can build their economic standing and help build and support their families. Women can be empowered through the following:
- At least 30% of supplier companies should be controlled by women;
 - Cross border women should be exempted from paying duty;

- Promote investment and partnerships between men and women;
- At least 15% of Zimbabwean business should be sold to women;
- Some sectors should be reserved for women such as clothing, food, and hair dressing;
- International and local Non Governmental Organizations should be encouraged and even required to prioritize Women Groups in the consultancy services requirements, supply of goods and services, maintenance of their vehicle fleets, equipment and machinery, as well as in their intervention programmes and projects.

Fiscal Rebates

86. To further enhance the proposed empowerment programmes, Government could introduce tax rebates to benefit companies that source input supplies from indigenous people and firms. The tax rebates would incentivize foreign owned entities to seriously consider engaging the local communities in the supply of their inputs.
87. Such fiscal rebates will achieve the twin objectives of empowering the indigenous people while at the same time

enhancing the viability of foreign enterprises through special tax exemptions.

Securitization

88. Financial constraints may severely undermine the capacity of the indigenous people's ability to supply inputs to foreign owned companies. In such cases, securitization arrangements can be established to enable the mobilization of financial resources by local people.
89. In this regard, foreign owned companies can provide guarantees on behalf of the indigenous supplier who furnishes financial institutions with the requisite suppliers' contract. Under this arrangement, the indigenous supplier will borrow from a bank on the strength of the guarantee provided by the foreign entity, acquire and supply inputs, then service debt obligations accordingly.

Capacitating the Indigenous Firms

90. The indigenous people should be capacitated to adhere to proper business practices, to ensure efficient and timely delivery of high quality inputs.

91. Lack of reliability and timely delivery of inputs will delay production processes and result in the loss of lucrative contracts secured by foreign owned entities.
92. Against this background, the empowerment of the indigenous people should be accompanied by orientation programs geared at capacitating the local people to efficiently supply goods and services.
93. Capacity development programs should focus on mentorship, training, management, marketing as well as tender and procurement procedures.

Community Development Fund

94. Rural communities hosting mining concerns can also be empowered through the establishment of a Community Development Fund (CFD). The Fund will be financed by royalty payments made by the respective mining houses. Against this background, there is need to review current royalty levels of 4.5% to around 10-15%, so as to create the Fund.

95. Resources mobilized from additional royalty payments will then be deployed to the development of the communities in which the mining concerns operate.
96. This will not only empower rural communities, but would also enhance their standards of living, and ensure that the communities benefit from the country's natural resources located in their neighbourhoods.

CONCLUSION

97. The indigenous people should be empowered in a way that preserves and grows the stock of already existing wealth, while at the same time increasing their participation in the various economic sectors.
98. This can only be achieved by ensuring that they take an active part in the supply of goods and services to Government departments, public enterprises, local authorities and private entities.
99. A cautious approach is, however, required in sensitive sectors such as the banking sector, where confidence should be retained at all cost.

100. To give fruitation to these suggestions, industry specific indigenous empowerment charters should be developed to recognize the peculiarities of the different sectors and industries.

101. When the empowerment drive has been achieved, Government could then move a gear up or accelerate ownership of companies by indigenous Zimbabweans, through a carefully planned indigenization implementation framework.

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RESERVE BANK OF ZIMBABWE

JULY 2011