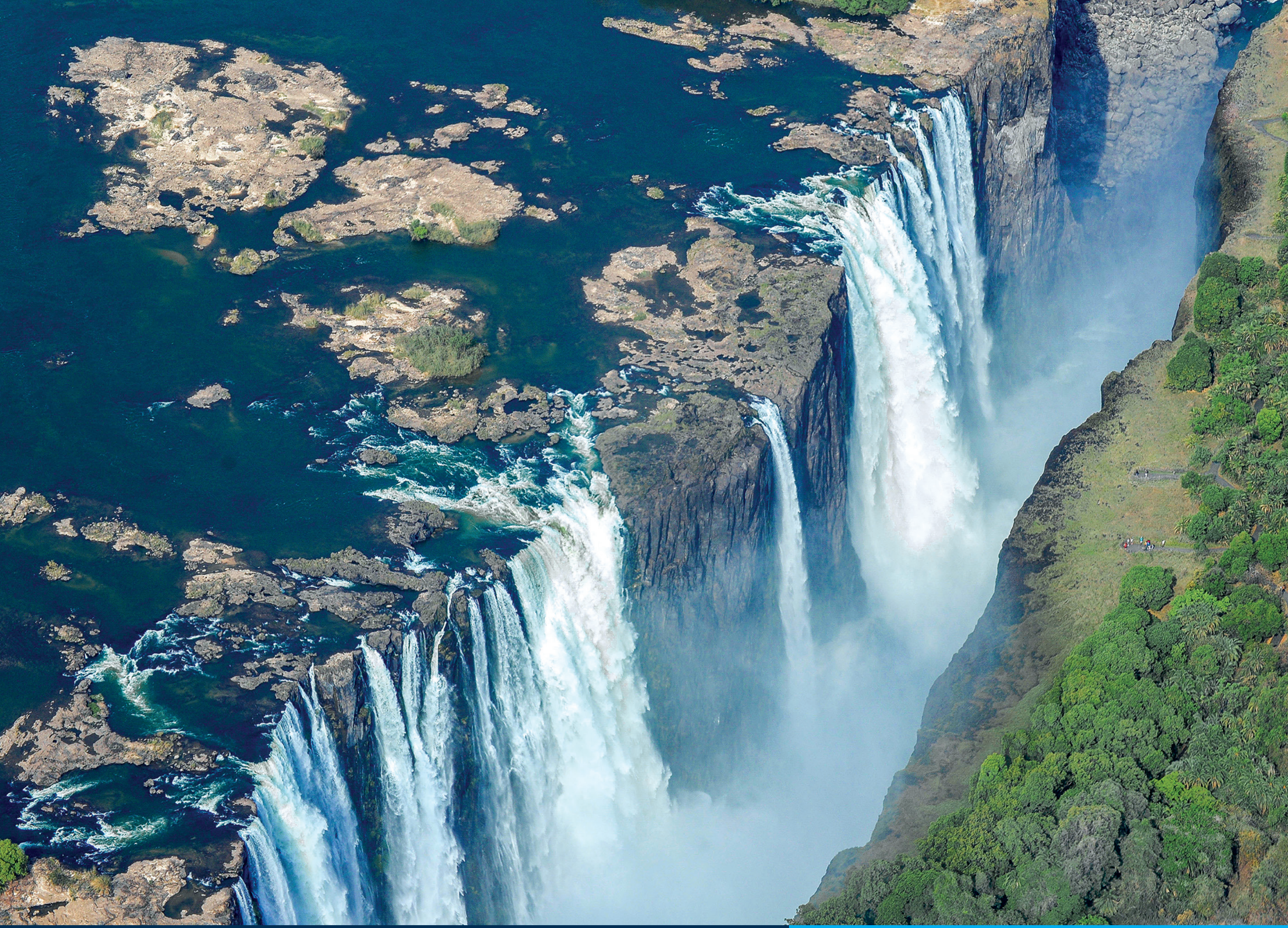

COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN ZIMBABWE

Mobilizing the private sector in support of economic transformation in Zimbabwe

Executive Summary

February 2024

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It benefited from contributions provided by Isaku Endo (Senior Financial Sector Specialist), Crispen Mawadza (Financial Sector Specialist), Carlos Caceres (Resident Representative, IMF Zimbabwe office), Stella Ilieva (Senior Economist), Marko Kwaramba (Senior Economist), Easther Chigumira (Senior Agricultural Specialist), Aymen Ahmed Osman Ali (Senior Transport Specialist), Juliet Pumpuni (Senior Energy Specialist), Simbarashe E. Mangwengwende (Energy Consultant), Martin Lokanc (Senior Mining Specialist), Boubacar Bocoum (Lead Mining Specialist), James Otto (Mining Consultant), Bryan Land (Mining Consultant), Georges Vivien Houngbonon (Economist), Shepherd Nyaruwata (Tourism Consultant), Ronald Rateiwa (Economist), and the Confederation of Zimbabwean Industries (CZI).

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EXECUTIVE SUMMARY

Zimbabwe's opportunities for economic development stand out compared to most other African countries: for decades after independence, Zimbabwe was one of the countries with the highest standards of living in Africa—buttressed by a skilled work force and infrastructure superior to that of most countries on the continent. Notwithstanding its economic decline since 1995, it continues to boast several sectors that are still competitive or could—in the short to medium term—be competitive regionally and globally.

Notably, the report finds Zimbabwe to be highly competitive in several value chains in agriculture and agribusiness industries, including sugar, cotton, horticulture, as well as meat and dairy. Furthermore, tourism and mining of energy transition minerals – including ample reserves of lithium – hold significant potential in the short term.

The main constraint to unlocking the private sector potential as an engine of economic growth in the country is chronic macroeconomic instability, historically caused by loose monetary and fiscal policy, foreign exchange rationing, and structural challenges—all of which culminated in two major recessions and hyperinflation in 2000–08 and 2019–20. Growth averaged only 1.1 percent between 2018 and 2022, compared to 4.0 percent in Cambodia, 5.4 percent in in Côte d'Ivoire, 6.4 percent in Ethiopia, and 4.6 percent in Kenya – Zimbabwe's structural peers. While the country was one of the fastest growing economies in the South African Development Community (SADC) in 2022 and 2023, with economic growth of 6.5 percent in 2022 and 4.5 percent in 2023, sustaining this growth will require Zimbabwe to tackle its macroeconomic and structural challenges.

Continuous efforts by the government of Zimbabwe to tighten fiscal policy and to rein in local-currency liquidity have helped create better conditions for macroeconomic stability in the future. The new Structured Dialogue Platform between the government and development partners outlines an important set of reforms and pathways to address Zimbabwe's pressing external debt arrears problems to unlock access to affordable external credit lines and stimulate much needed public and private sector investment to boost economic growth. However, these efforts are taking place against the backdrop of a complicated global environment characterized by depressed global growth, the volatile global commodity prices, and the predicted erratic and below-average rainfall caused by the El Niño weather pattern. With limited fiscal space, lack of foreign direct investment (FDI), and a pressing challenge to reduce growing extreme poverty, Zimbabwe needs to find new ways to harness its comparative advantages and to capitalize on existing and emerging opportunities for the private sector to drive economic growth in the country.

ES.1. COUNTRY CONTEXT

The government of Zimbabwe aims to reverse the period of stagnation and decline and transform Zimbabwe into an upper-middle-income country by 2030. To meet this objective, as outlined under the National Development Strategy-1, 2021–2025 (NDS1), the government aims to create 760,000 formal jobs, for which the role of the private sector is crucial. Achieving this objective will require both finding practical solutions to a range of bottlenecks that constrain growth and taking full advantage of the country's comparative strengths, including the following:

- **Relatively strong human capital** with a young, well-educated labor force and strong entrepreneurial culture. Zimbabwe is on a par with its aspirational peers on the World Bank's Human Capital Index (HCI), and the level of skills among Zimbabwe's current workforce is higher than the average for Sub-Saharan Africa.
- **Abundant mineral and natural resources** that are yet to be exploited, including gold, platinum group metals (PGM), chrome, coal, diamonds, and lithium. In fact, Zimbabwe boasts one of the largest deposits of lithium—critical to the production of batteries in electric cars—in the world.
- **Infrastructure** that despite many years of economic decline is still on a par with the country's structural peers, such as Kenya, and superior to countries like Côte d'Ivoire and Ethiopia. At the same time, the level of infrastructure is inferior to the level of aspirational peers and is in need of significant investment.
- **Recent efforts by the government** to accelerate reforms to improve public finances and public financial management by implementing fiscal consolidation centered on revenue enhancement and austerity measures, creating the Zimbabwe Investment and Development Agency (ZIDA) with a strong private sector orientation, and launching some reforms to improve the business environment.
- **Relatively high productivity in select economic sectors**, such as cotton, tobacco, and mining. These sectors continue to operate on the production frontier and are globally competitive, despite multiple bottlenecks and an unfavorable business environment. With a more conducive environment, these sectors could show rapid growth.

Yet, despite these areas of comparative advantage, Zimbabwe's economic performance has been weak, as reflected in entrenched macroeconomic instability, low investment, and limited structural transformation.

Macroeconomic instability

Limited access to external financing and poor revenue mobilization, coupled with quasi-fiscal operations of the Reserve Bank of Zimbabwe to service foreign loans and legacy debt and support loss-making state-owned enterprises led to a monetary overhang, a rapidly depreciating exchange rate, and subsequently high inflation. Since 2000, the government of Zimbabwe has stopped servicing debt to international financial institutions (IFIs) and has accumulated arrears on external debt, which shot up from 26 percent to 52 percent of GDP between 2018 and 2022. Arrears to IFIs have limited access to concessional financing and increased the cost of private sector borrowing.

Meanwhile, price and exchange rate volatility, and large export surrender requirements have pushed many companies into the informal sector, limiting their ability to obtain financing from the banking system and further reducing the tax base. Also, many foreign exchange transactions take place in the informal sector, further intensifying pressure on the parallel market exchange rate. Inflation has been consistently high (three digits in recent years) and reached more than 314 percent in 2023, with the local currency weakening at a fast pace.

Zimbabwe's concentration in three export commodities—gold, platinum, and tobacco—known for their price instability has increased the unpredictability of export earnings and fiscal revenues and complicated macroeconomic management. In addition, recent increases in the global prices of food, energy, and fertilizers due to Russia's invasion of Ukraine have significantly reduced the purchasing power of households and elevated the costs of production.

Low investment

Continuous macroeconomic challenges, and, as a result, a lack of a predictable, transparent, and nondiscriminatory business climate; high levels of uncertainty; and lack of long-term finance have resulted in limited investment in the county. Zimbabwe is lagging its aspirational peers, such as the Arab Republic of Egypt, Indonesia, and Türkiye on FDI. After picking up in 2018 to $718 million—largely reflecting one-off investments in the mining sector—FDI inflows Zimbabwe dropped to $341 million in 2022.[1]

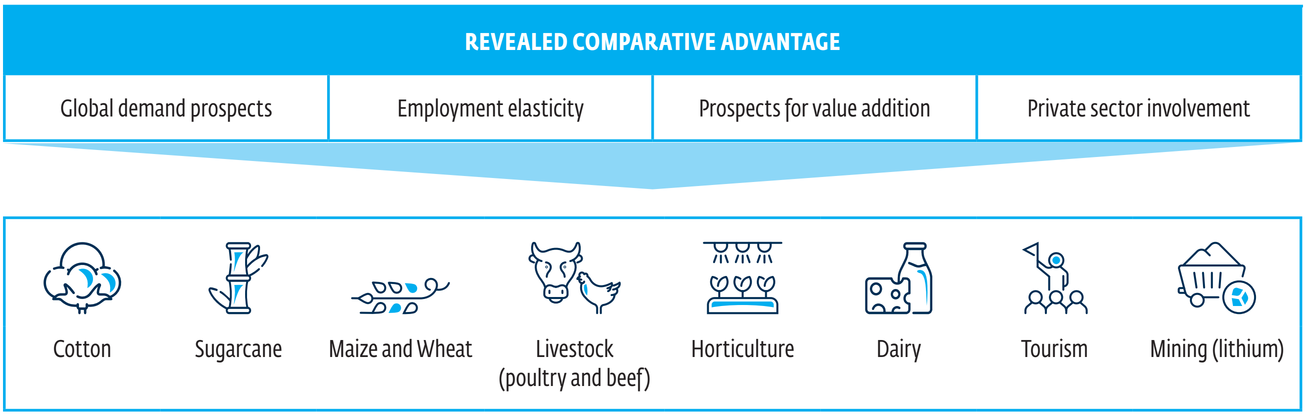
Limited structural transformation

The economy remains highly concentrated on a few products, with a small number of export products—mostly minerals and tobacco—generating the bulk of foreign exchange revenues. The agricultural sector continues to retain a sizeable share of production and employment in the economy and the bulk of lending, with significant government support and intervention. However, the level of productivity in the sector is the lowest across the economy, especially for food crops, with only tobacco and cotton demonstrating relatively high productivity. At the same time, higher value-added sectors, such as manufacturing and high-productivity services, employ a smaller share of workers and have a lower share of lending.

ES.2. PRIVATE SECTOR OPPORTUNITIES

To identify sectors for diversification and value addition with high growth potential, this Country Private Sector Diagnostic (CPSD) uses five criteria: (a) revealed comparative advantage (RCA); (b) evolution of global demand; (c) employment elasticity of the sector; (d) prospects for greater domestic value addition, such as through diversification into related manufacturing sectors; and (e) private sector track record and interest. Using these criteria (figure ES.1), agriculture and agro-processing, tourism, and mining were identified as sectors with high growth potential.

FIGURE ES.1 POTENTIAL GROWTH-DRIVING SECTORS IN ZIMBABWE



Source: WBG staff.

The RCA analysis suggests that Zimbabwe is competitive in several value chains in agriculture and agro-processing, tourism, and mining. The commodities in which the country is highly ranked at the global level in terms of export performance, including tobacco, sugar, and cotton, have high RCA scores. Historical global demand growth shows considerable potential for commodities such as citrus, edible vegetables, cereals, meat, and dairy products.

Zimbabwe is a mineral-rich and highly mining-dependent country. This dependence reflects the presence of high-quality and high-value mineral resources. The country boasts the second-largest platinum deposit in the world, as well as high-grade chromium ores, with approximately 2.8 billion tons of PGMs and 10 billion tons of chromium ore. Zimbabwe also holds one of Africa's largest lithium reserves—in its Bikita Mine in the province of Masvingo—with deposits of the metal at around 11 million tons. Demand projections associated with net zero pledges have improved the long-term prospects of Zimbabwe's store of energy transition minerals (ETMs), notably lithium, nickel, and copper, which are required to support renewable energy supplies, and PGMs needed for the emerging hydrogen economy.

Tourism in Zimbabwe is a key service sector and has the potential to play a significant role in the country's economic recovery. Post-pandemic tourism trends indicate that travelers, both regional and international, will be seeking longer stays (given fewer regular opportunities to travel) in more immersive, authentic, and nature-based environments, often with a focus on sustainability and regeneration. Zimbabwe is well-placed to leverage this trend given its overall destination profile, including tourism offerings associated with nature-based accommodation and safaris.

ES.3. CROSS-CUTTING CONSTRAINTS

For identification and prioritization of cross-cutting constraints, the report contains a comparative analysis of the business environment in Zimbabwe and its aspirational peers.[2] The analysis highlights critical cross-cutting constraints to private sector development in Zimbabwe in the following six areas: (a) macroeconomic stability, (b) business environment, (c) access to finance, (d) transport and logistics; (e) access to electricity, and (f) digital connectivity. These cross-cutting constraints and gaps, significantly impair the ability of Zimbabwe to realize areas of comparative advantage (table ES.1).

TABLE ES.1. SUMMARY OF KEY CROSS-CUTTING CONSTRAINTS FOR PRIVATE SECTOR DEVELOPMENT IN ZIMBABWE

GAP	CONSTRAINTS	IMPACT ON THE PRIVATE SECTOR
Macroeconomic environment	Macroeconomic imbalances and distortions, including strict FX surrender and uncontrolled inflation, constrain private sector development in Zimbabwe.	• Access to FX to import inputs, dual currency system, and volatile exchange rates are constraining firms' growth. • High and sustained inflation affects both input and output markets and makes it difficult to undertake long-term planning/ investments. • Restrictions on FX retention (export surrender requirements) both significantly limit productive investments by firms in their ability to scale up and discourage exports and formalization, reducing the revenue base.
Business environment	Disincentives to formalization include a cumbersome and costly regulatory framework to start and operate a business, including outdated licensing legislation.	• The large informal sector reduces overall productivity of the economy and creates unfair competition for formal firms. • Inconsistency of business environment policies, cumbersome licensing and taxation systems, and overlapping requirements at national and local levels significantly increase the cost of compliance for firms, thus perpetuating informality. • Sector-specific policies and regulations are inconsistent, especially in mining and agriculture, and often include discretionary provisions, thus increasing uncertainty and reducing attractiveness of sectors for FDI.
Access to finance	The financial sector is shallow: measured by domestic credit to the private sector as a percentage of GDP, Zimbabwe is among the least developed compared to eer countries.	• Lack of access to medium- and long-term financing and constrained international payment services limit the ability of firms to expand. • Extremely high rates for lending in domestic currency (200 percent per annum) renders it unprofitable for firms to borrow.
Transport and logistics	Deteriorating road and railway networks, lack of investment in public and logistical infrastructure, and insufficient air connectivity are among the most pressing constraints.	• Underdeveloped logistics and trade infrastructure such as cold chain facilities impair the ability of firms to participate in regional and global trade. • Deteriorating railway and road infrastructure and high transportation costs hamper the competitiveness of the country's exports and undermine Zimbabwe's high RCA in key sectors, such as mining. • An underdeveloped aviation industry remains a key challenge to development of the tourism sector.

GAP	CONSTRAINTS	IMPACT ON THE PRIVATE SECTOR
Access to electricity	Inadequate access to electricity is due to underinvestment and lack of maintenance. Access to reliable and affordable energy remains a major challenge to firms in Zimbabwe.	• Lack of adequate energy supply directly affects firms' productivity and reduces margins. • The cost of self-generated electricity is far higher than the cost of grid electricity, making firms uncompetitive. • Disruption of essential services at hotels, resorts, and tourist attraction sites (electricity, water) due to energy shortages/lack of reliable energy sources reduces the tourism sector's attractiveness for FDI.
Digital connectivity	While Zimbabwe's international connectivity infrastructure is relatively well developed, the national fixed-line infrastructure is limited, and mobile networks remain the primary means of communication and data transfer.	• Digital connectivity is concentrated in major cities and urban areas. Large gaps remain in rural areas, thus limiting access for firms outside major urban hubs, where agricultural production is based. • Limited access to and lack of affordability of digital connectivity hinders acceleration of the digitization of firms in key sectors, thus reducing their productivity and access to information and markets. • Lack of reliable digital connectivity undermines utilization of digital financial services.

Note: FDI = foreign direct investment; FX = foreign exchange; GDP = gross domestic product; RCA = revealed comparative advantage.

It will be essential for Zimbabwe to address these bottlenecks as a priority if the country is to fully harness the potential of its private sector and steer it toward better development outcomes. Of particular importance is the current foreign exchange (FX) system, which is the root cause of sustained high inflation, macroeconomic instability, and shallow financial intermediation. In its current form, the FX system prevents investments in exports and productivity-enhancing equipment, perpetuating the stagnation of Zimbabwe's economy.

According to IMF (2022 Article IV consultation), liberalization of the foreign exchange market, abolition of foreign exchange surrender requirements, and reform of the Reserve Bank of Zimbabwe's (RBZ's) quasi-fiscal operations are the most urgent measures to reestablish macroeconomic equilibrium. Without such measures, efforts to tighten monetary and fiscal policy will not be effective. In addition, RBZ needs to adopt effective procedures for sterilization of inflows.

ES.4. RECOMMENDATIONS

Tables ES.2 and ES.3 summarize recommended priority interventions to address sector-specific and cross-cutting constraints, respectively, that will increase the role of the private sector in the Zimbabwean economy. The full set of recommendations is presented in more detail under the individual sections on the agricultural, mining, and tourism sectors in chapter 4, as well as on the cross-cutting constraints in chapter 5.

TABLE ES.2 SUMMARY OF SECTOR-SPECIFIC RECOMMENDATIONS

CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON AND PRIORITY LEVEL HIGH, MEDIUM
Agricultural and agribusiness sector		
Inconsistent and unpredictable policy and regulations	• Review licensing and permitting frameworks to identify opportunities for streamlining and reducing overlaps between AMA and other regulatory agencies in the sector and local authorities.	Short-term
Outdated market infrastructure	• Develop regulatory and financing instruments (PPPs) to attract private investments in developing cold storage infrastructure in agriculture producing regions.	Short-term
Land tenure insecurity	• Improve tenure arrangements for commercial agricultural land, review and streamline the procedure for the issuance of 99-year leases, to improve land transferability and bankability features.	Short-term
High cost of inputs	• Review and rationalize government programs on subsidizing inputs to ensure a more targeted and transparent approach that focuses on private sector engagement and further liberalize inputs market.	Medium-term
Limited access to medium- and long-term financing and agri-insurance	• Facilitate partial credit guarantee plans to improve lending to broad classes of predefined target borrowers (for example, farmers and agribusiness SMEs) and input vouchers programs. Strengthen capacity of regulator and financial institutions to diversify agri-insurance products.	Medium-term
Limited competitiveness	• Develop and implement a systematic approach and strategies to promote hub-and-spoke model for agricultural services.	Medium-term
Mining (lithium) sector		
Inconsistent and unpredictable policy and regulations	• Improve sector governance and regulatory environment by clarifying fiscal policies and reducing discretionary setting of royalty and tax rates and restrictive state interventions. • Develop a national battery minerals strategy and action plan, including a forward-looking fiscal framework incentivizing production and value addition for battery minerals, geoscientific mapping to increase exploration activity and resource discovery, and required infrastructure development.	Short-term Medium-term
Outdated infrastructure	• Develop a comprehensive action plan and financing instruments (PPP/IPP to strengthen mine-related infrastructure, including energy supply and renewable power generation, road network enhancements on trunk routes and at border crossings, and restoration of rail system network and reliability.	Medium- to long-term
Weak supply chain and linkages	• Facilitate relevant supply-chain development, including restoration of a reliable supplier base for equipment, manufactures, and spares.	Medium-term

Note: AMA = Agriculture Marketing Authority; IPP = independent power producer; PPPs = public-private partnerships; SMEs = small and medium enterprises.

CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON AND PRIORITY LEVEL HIGH, MEDIUM
Tourism sector		
Inconsistent and unpredictable policy and regulations	• Streamline tourism sector licensing by establishing a single information and application portal to fully automate the licensing process; introduce revenue-based licenses fees to accommodate small players.	Short-term
Outdated infrastructure	• Develop a comprehensive program to repair and resurface key tourism access highway corridors and improve public utility services along these corridors. • Introduce incentivization packages for airlines to improve internal connectivity.	Medium-term
Limited competitiveness	• Strengthen ZTA capabilities on marketing in source markets to address persistent negative image. • Diversify tourism offering for different segments through engagement with international tourism brands. • Develop and implement hospitality skills-enhancement programs to meet the growing needs of the sector.	Short-term Medium-term Medium-term

Note: ZTA = Zimbabwe Tourism Authority.

TABLE ES.3 SUMMARY OF RECOMMENDATIONS TO ADDRESS CROSS-CUTTING CONSTRAINTS

DESIRED OUTCOME	CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON AND PRIORITY LEVEL HIGH, MEDIUM
Macroeconomic stability			
Increased export competitiveness	Export surrender requirements impose a significant tax on export.	• Remove export surrender requirements.	Short-term
Enhanced monetary policy	Effective sterilization prevented due to lack of instruments. Significant local-currency liquidity injections by the RBZ pay for its quasi-fiscal operations.	• Adopt effective sterilization instruments. • Address the RBZ's quasi-fiscal operations.	Short-term Medium-term
Market-based foreign exchange rate system.	Existing exchange controls and FX market distortions prevent a market-based price discovery.	• Remove restrictions on the exchange rate at which banks, authorized dealers, and businesses can transact.	Short-term

Note: FX = foreign exchange; RBZ = Reserve Bank of Zimbabwe.

DESIRED OUTCOME	CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON AND PRIORITY LEVEL HIGH, MEDIUM
Business environment			
Effective entry and operation of businesses	Complicated and cumbersome procedures, overlapping mandates hinder key sectors.	• Review and rationalize overlapping mandates, responsibilities, and requirements of public agencies, regulating different aspects of business operations (both at national and local levels).	Medium-term
		• Map existing digital systems, services, and data assets of relevant public agencies to identify opportunities for interoperability, interconnectivity, and data and resource sharing.	Short-term
	Cumbersome licensing framework hinders all sectors.	• Prepare an inventory of business license requirements, initiate revision, including introduction of risk-based regulation principles and tools.	Short-term
Market-based competition	Informal sector competition practices affect competitiveness of productive firms.	• Consolidate the online business registration process at the Registrar of Companies, including public access to information on all requirements to start operations and processing timelines.	Short-term
	Prevalence of loss-making SOEs in key enabling sectors (energy, telecom, transport) and agriculture disincentivizes private investments.	• Accelerate implementation of SOE reform program, including financial analysis and assessment of SOEs in sectors in which a strong role of the public sector may not be required.	Medium-term
Access to finance			
Effective financial regulatory environment	Domestic commercial banks have low rates of lending to the private sector.	• Increase coordination of multiple financial sector policies by developing overarching financial sector development strategy.	Short-term
Strong financial intermediation	Lending concentrated in shorter-term trade related loans, medium- and long-term financing are unavailable.	• Strengthen credit infrastructure and the collateral registry.	Medium-term
		• Facilitate credit guarantee schemes for MSMEs.	Short-term
Effective digital financial services	Financial inclusion is limited.	• Facilitate innovation in financial services by strengthening the enabling environment for fintech.	Medium -term

Note: MSMEs = micro, small, and medium enterprises; PPP = public-private partnership; RBZ = Reserve Bank of Zimbabwe; SOEs = state-owned enterprises.

DESIRED OUTCOME	CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON AND PRIORITY LEVEL HIGH, MEDIUM
Transport and logistics			
Conducive regulatory environment	Lack of an adequate PPP framework and limited capacity of the public agencies to implement it hamper private investments.	• Conduct a detailed and comprehensive assessment of the legal, regulatory, and institutional set up of the PPP environment, followed by a carefully designed action plan and program.	Short-term
Market-based competition	Inefficient SOEs present in the sector (including National Railways of Zimbabwe and the Airports Company of Zimbabwe).	• Conduct a comprehensive assessment of existing sectoral SOEs to determine where reforms or enhancement of institutional capacities are needed, followed by a structured reform program implementation.	Medium-term
Strong logistics sector	A coordinated policy framework is lacking.	• Develop a comprehensive logistics sector support action plan	Medium-term
Access to electricity			
Conducive regulatory environment	Slow and inconsistent implementation of the National Energy Policy (2012) and the National Renewable Energy Policy (2019) disincentivizes private investment.	• Initiate a comprehensive review and update of the National Energy Policy of 2012. • Accelerate implementation of National Renewable Energy Policy.	Short-term
Improved institutional capacity to accelerate reforms	Ministry of Energy, ZESA, ZERA, and ZETDC lack institutional capacity.	• Implement a comprehensive capacity-building program for respective agencies to ensure higher-quality planning, implementation efficiency, monitoring, and evaluation. • Strengthen the mechanism for consistent enforcement of licensing obligations. • Cancel conditional licenses issued to investors when licensees cannot fulfill the conditions.	Short- to medium-term
Market-based competition	Intra-agency coordination and an updated regulatory framework to facilitate small-scale energy investments such as mini-grids are lacking.	• Establish and publish clear product and service standards for operators. • Review the framework for light-handed regulation applicable to small-scale energy investments. • Strengthen coordination between ZERA, ZIDA, and EMA to ensure consistency of regulations applied to small-scale energy investments.	Short-term Short-term Medium-term

Note: EMA = Environmental Management Agency; PPP = public-private partnership; RBZ = Reserve Bank of Zimbabwe; SOEs = state-owned enterprises; ZERA = Zimbabwe Energy Regulatory Authority; ZESA = Zimbabwe Electricity Supply Authority; ZETDC = Zimbabwe Electricity Transmission and Distribution; ZIDA = Zimbabwe Investment and Development Agency.

DESIRED OUTCOME	CONSTRAINTS	PRIORITY INTERVENTIONS	TIME HORIZON AND PRIORITY LEVEL HIGH, MEDIUM
Digital connectivity			
Conducive regulatory environment	The inability of telecom operators to peg their price on a stable currency or pass on hyperinflation limits their incentives to invest.	• Introduce a flexible approach to price regulation by allowing telecom operators to pass on inflation within a predefined range.	Medium-term
Market-based competition	The structure of telecom license fees penalizes the growth of small operators.	• Facilitate frequency spectrum acquisition by smaller operators through asymmetric license fees or by using a progressive rate.	Short-term
	Regulation of foreign ownership prevents the attraction of private investment.	• Adjust requirements on the minimum stake of local investors to support the liberalization of the sector and enable the entry of specialized infrastructure operators.	Short-term
Affordable digital connectivity	Costs are prohibitive for digital connectivity due to the high level of market concentration and absence of specialized infrastructure operators.	• Introduce a guarantee program for first-time smartphone buyers, under a pay-as-you-go business model, to enable users to pay a fraction of the cost upfront and the balance over a certain period.	Medium-term

NOTES

1 United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2022: International Tax Reforms and Sustainable Investment* (New York: United Nations, 2022).

2 Structural and aspirational peers were identified using the composition of exports, economy, and per capita income. Structural peers include Côte d'Ivoire, Ethiopia, and Kenya, and aspirational peers include Arab Republic of Egypt, Cambodia, Indonesia, South Africa, and Türkiye. See box 2.1.

IFC
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.

CONTACTS

Sophia Muradyan
smuradyan@worldbank.org

Volker Treichel
vtreichel@ifc.org

Tewodros Asmamaw Dessie
tdessie@ifc.org

ifc.org

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