CAPITAL MARKETS OF ZIMBABWE

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for
Agency for International Development
Private Enterprise Bureau

December 1982

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SECTION I.A. - INTRODUCTION

Zimbabwe's capital market is unique on the African continent, and perhaps in the world. It may be the most sophisticated private financial infrastructure operating in any developing country. It is an enormously complex system, and it provides a variety of financial products and services which spans a range from the simplest rural postal savings plan to the most sophisticated leveraged lease structure.

No review of the Zimbabwean financial system based on a few weeks of intensive study can provide an adequate appreciation of its depth and flexibility. The intention here is to sketch a general schematic which provides a structural overview of the capital market framework. The general parameters of the various institutions are reviewed briefly, to identify the interaction between the various operating sectors. No attempts have been made to deal on an in-depth basis with individual institutions, nor with the many personalities responsible for forging and directing this intricate financial network.

The Zimbabwean financial system has evolved from the assumption that the city now known as Harare would provide a central financial and commercial marketplace for the extensive geopolitical unit which was the Federation of Northern and Southern Nyasaland. The enormous agricultural and mineral riches of this artificial, largely commercial creation required the availability of a sophisticated and responsive financial system capable of providing a full range of financial instruments and services. With the eventual breakup of the Federation into three separate national entities (Zambia, Malawi and Zimbabwe), the financial system which had anticipated servicing a major part of the central Africa found itself called upon to support only a single state.

The potential was not wasted, however. The early development of what is today Zimbabwe was to a significant degree the result of the capacity of its indigenous capital markets to provide the nation with the instruments of financial development which can be so pivotal in accelerating the pace of economic growth. Following UDI, the financial system faced a greater challenge. This relatively small financial community was called upon to provide the complete range of financial services commonly associated with more developed commercial markets. With limited staff, and far from inexhaustible material resources, the financial system succeeded in supporting more than a decade of development and growth in relative isolation, until the combined pressure of civil strife and dropping agricultural and manufacturing production intervened.

Today Zimbabwe faces an even greater challenge, as it struggles to survive in a world economy increasingly hostile to developing nations even as it attempts to peacefully create the new social order which years of warfare could not impose. The financial sector will be challenged again, too. A new clientele has emerged from Zimbabwe's black African majority, and these citizens must be provided with financial services if there is to be equality which stems from the raising of standards for many, rather than the decline of standards for all. At the same time, the financial system must assist the Zimbabwean economy as a whole to carve a niche for itself more secure than the one it currently occupies, which has proven perilously unstable in the face of a rapidly maturing world economic system.

Ironically, the very structure of the financial system which served Rhodesia so well may prove to be an impediment to the successful development of Zimbabwe. Any sensitive observer can identify in the system as it currently operates a number of significant deficiencies, which must be overcome for broad scale development to take place. To a significant degree, these limitations are the result of a financial structure which was intended to support the operation of a small but sophisticated economy, not the growth of a larger developing one.

Without question, the greatest assets available to Zimbabwe's in this continuing struggle to adjust and adapt are the individual men and women who operate, and in a larger sense, <u>are</u> Zimbabwe's financial marketplace. They are highly skilled, deeply committed to their homeland, and largely convinced that a role exists for them in the pursuit of Zimbabwe's goal of "Growth and Equity". If the Zimbabwe financial system has shown a high and perhaps unique degree of flexibility, it is because of the remarkable capacity of these Zimbabwean citizens to respond positively to not one but a series of difficult and disorienting modifications in the political and economic "reality" which they have previously known. The determination and general good will which marks the majority of the key players in Zimbabwe's financial markets may well prove to be the difference between success and failure for the capital market system as a whole. It does not seem overly dramatic to assume that the success of Zimbabwe's attempted economic and social transformation rests to a material degree in their hands.

SECTION I.B. RECOMMENDATIONS

Zimbabwe's financial system, and the people that make it up, face a number of pressing challenges, which must be answered if the country's movement towards social peace and economy stability is to continue. Some specific but not unique responses to these challenges suggest themselves from a review of the current capital market structure. Many of these suggestions have been discussed by members of Zimbabwe's financial community.

* The availability of commercial bank financings could be expanded by increasing the access of Zimbabwe's black African business population to real property ownership. A major impediment to this development could be overcome by providing additional skilled surveying teams capable of subdividing property in the former African townships for registration and sale.

* The U.S. "Freedom Bank" model might be used to increase the availability of commercial banking services in less densely populated areas which have not proved attractive to Zimbabwe's major commercial banking houses.

* Zimbabwe's significant potential for the generation of export earnings should be actively supported and promoted, through the development of a specialized private sector cooperative to provide market information and required financial support.

* Tax regulations regarding leasing should be modified to provide local productive enterprises with access to this flexible, cost-effective financing vehicle.

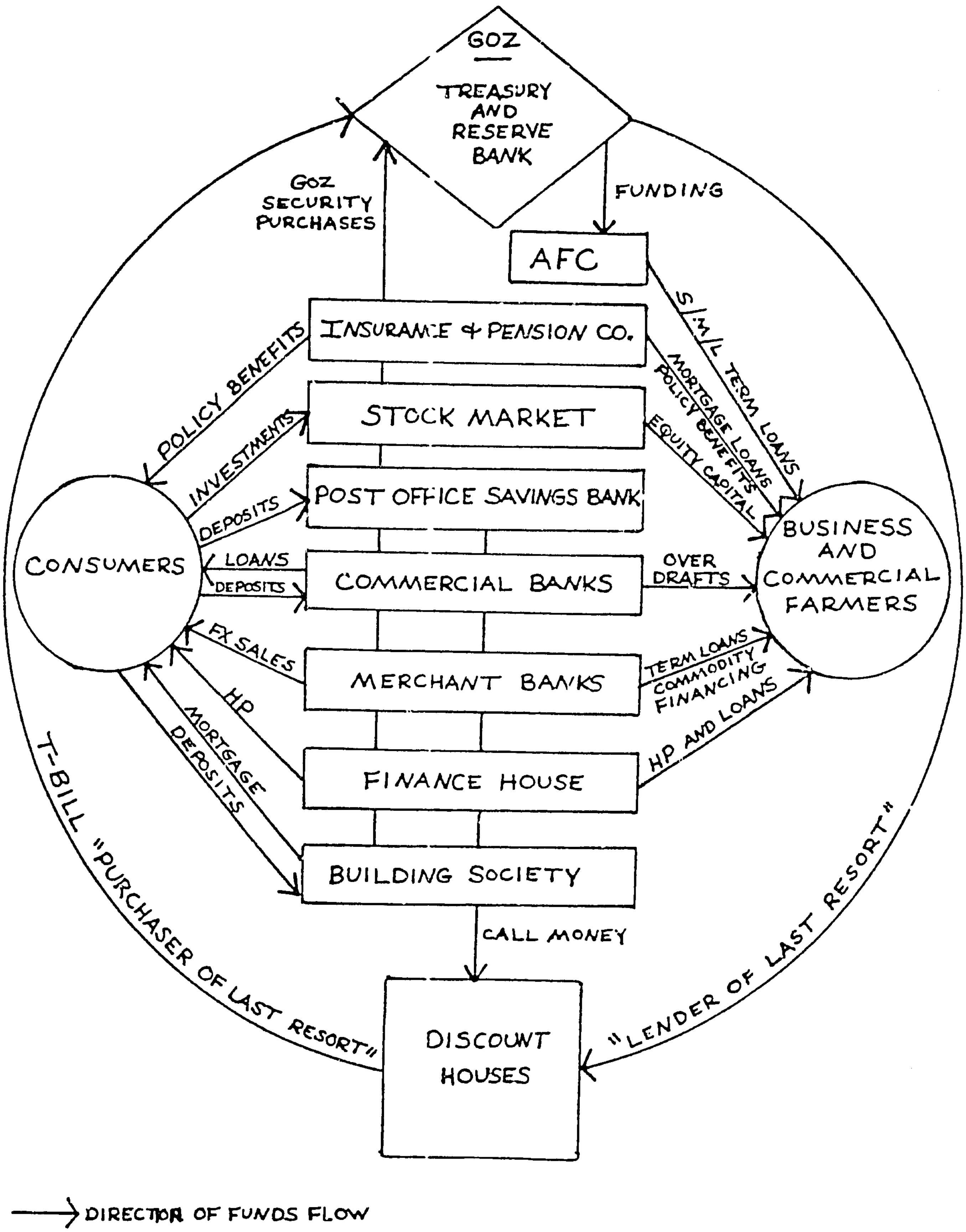
* Low income housing construction might be significantly accelerated by enabling building societies to act simultaneously as developer and financier.

* The capacity of the Agricultural Finance Corporation to carry out its new mandate to reach a broad segment of Zimbabwe's farmers should be strongly supported, with seconded personnel and funds for crucially needed equipment.

* Existing export sale regulations should be reviewed on a regular basis to cull outdated requirements.

* Zimbabwe's stock exchange should be strengthened through the admission of institutional members, to broaden the base of the exchange and to preserve it from a potential structural paralysis.

* Funding support and managerial development could be provided to new enterprises at the "take off" stage through an American-style venture capital firm.



CAPITAL MARKET STRUCTURE

SECTION II.A. - ZIMBABWE'S CAPITAL MARKET

There are more than 20 major financial institutions operating in Zimbabwe, in addition to several dozen insurance companies and several hundred pension plans. These institutions provide an extremely wide range of financial services. To a significant degree, the support provided by them tends to overlap, with two or in some cases three different types of institutions providing similar financial service.

In the simplest terms, the Zimbabwean financial system consists of a number of institutions which exist principally to provide for the financial requirements of the country's commercial and corporate entities (principally the commercial banks, merchant banks, finance companies, and insurance companies), while a second group (commercial banks, pension plans, finance companies, and the Post Office Savings Bank) provide a reasonable range of financial services to private individuals. A more complete, but still greatly simplified, summary of the financial services provided by these institutions is set forth on the preceding page.

The interrelations between the financial institutions operating in Zimbabwe are somewhat foreign to a reader whose perspective is specifically American. In fact, the structure of the Zimbabwean capital market system appears to resemble the financial framework which operates in the City of London. This well-tested structure was in fact the model upon which Zimbabwe's financial structure was based. Like the City of London model, the Zimbabwean financial system is complete and self-sufficient, and within the normal realm of commercial requirements provides the full spectrum of financial services required by both individuals and corporations.

An informed observer would be quick to note, however, that the resemblance between Zimbabwe's financial system and the City of London model is largely structural, and substantive differences exist at a functional level. The most fundamental of these stems from the evolution of the Zimbabwean system within a financially and socially closed framework, isolated and indeed insulated from the pressures and opportunities of the outside world. This development pattern can be attributed to the geographic isolation within which the system operated during its early development, and international political isolation which was imposed during the years following UDI. As a result, the Zimbabwean system has not developed the degree of functional elasticity which marks the more dynamic London model. While the country's previous isolation continued, this inflexibility posed only limited disadvantages on those operating within the system. After all, the structure itself took into account virtually every major financial requirement, public, private, and commercial.

The demands of a new Zimbabwe are not so easily met. The country's economic and social systems as a whole, and the financial institutions individually, face new pressures. There are the external pressures which inevitably follow an opening of the country's economy to the impact of the larger world market, pressures which have increased cruelly in the recession-shadowed months since independence. Perhaps even more unnerving, the financial system must address internal pressures that stem from the government's attempt to open the prospects for development to all segments of Zimbabwe's society. The demand for a more even distribution of income (an "equitable" one proving likely to be subject to widely differing interpretations), and the clamor for development opportunities from every level of the black African population, from subsistence farmers to skilled professionals, inevitably impinge directly on the operation of the country's capital markets.

Although the Zimbabwean economy is still far from fully open to the impact of the international marketplace, it <u>is</u> today influenced by the world's financial currents. An examination of the prevailing interest rates in Zimbabwe over the recent past provides an indication of the extent to which the country has been insulated from external international financial and economic forces. While interest rates worldwide have fluctuated significantly since 1977, Zimbabwe has maintained an artificially by supported stability which was conducive to its independent, internal development, but inevitably limited its capacity to compete when it formally re-entered the global economy.

Table 1 - Principal Interest Rates, 1977-1981 (% p.a.)

	December 31				June	October
	1977	1978	1979	1980	1981	1981
Bank Rate	4.50	4.50	4.50	4.50	6.00	9.00
Treasury Bills	3.54	3.62	3.57	3.30	5.02	8.02
Central Government Stock						
3 years	4.85	4.85	4.85	4.85	6.40	7.00
25 years	6.50	8.75	8.75	8.75	11.00	11.00
Deposit Rates:						
Post Office Savings Bank (tax free):						
Savings Accounts	3.25	3.25	3.25	3.25	4.25	7.50
Fixed: 12 Months	4.50	4.50	4.50	4.50	5.50	8.50
Savings Deposits	3.00	3.00	3.00	3.00	4.00	7.00
Fixed: 3 and Under 6 Months	3.25	3.25	3.25	3.25	4.25	8.25
9 and Under 12 Months	3.75	3.75	3.75	3.75	4.75	8.50
15 and Under 18 Months	4.50	4.50	4.50	4.50	5.75	8.75
24 and Under 36 Months	5.00	5.00	5.00	5.00	6.25	9.25
36 Months	5.25	5.25	5.25	5.25	6.75	9.75
Building Societies:						
Savings Accounts	3.50	3.50	3.50	3.50	4.50	7.75
Lending Rates:						
Commercial Banks Overdraft (Minimum)	7.50	7.50	7.50	7.50	9.00	13.00
Building Societies:						
Houses under $12,000	7.25	7.25	7.25	7.25	8.75	12.50
Commercial, Industrial and Flats	8.50	8.50	8.50	8.50	10.25	14.75
Agricultural Finance Corporation						
Long-term	6.50	6.50	7.50	7.50	9.50	12.00
Short-term	7.00	7.00	8.00	8.00	9.00	12.00

Courtesy IBRD Staff Report on Zimbabwe Small Farm Credit, 1982

The internal pressures facing Zimbabwe's productive and financial systems are perhaps most simply evidenced by the sharp escalation in local wage requirements, often in the face of a relative (if not absolute) inability to increase final product prices. These obvious changes in the weave of Zimbabwe's productive system are in a sense only emblematic. Other even more fundamental shifts are taking place on a virtually daily basis, as the coincidence of new realities imposed by the larger world market and the social and economic restructuring demanded by Zimbabwe's black African majority test the country's economic mettle under levels of pressure never before encountered. Whether these twin pressures will forge a new productive machine or simply cripple the existing one will depend to a significant extent on the capacity of the country's financial system to grow and evolve.

There follows a generic description of the principal financial structures operating within Zimbabwe's capital markets. The activities and interactions of the various classes of institutions have been greatly simplified in order that their basic service functions and interrelationships might be more apparent. The sectoral descriptions are followed by a quantitative summary of each institution currently operating within that sector.

SECTION II.E. - COMMERCIAL BANKS

Five commercial banks serve Zimbabwe with more than 100 branches. Collectively, the commercial banks control 50% of Zimbabwe's financial resources.

The commercial banks provide a full range of retail banking services through head office/branch networks. The bulk of the commercial banking sector's traditional lending activity has been of a short term nature. Following [illegible] pattern, the majority of this lending [illegible] overdraft basis, usually to corporate customers, [illegible] frequently secured by real property or commercial assets. [illegible] increasingly of late, acceptance credit facilities have been made available, broadening the range of short term financial options available. Commercial banks have also begun to expand their willingness to provide medium term (1-7 year) credits, although certain institutions prefer to channel this activity through merchant banking subsidiaries.

The commercial banking system provides corporate and individual customers with both depository and demand accounts, and also makes available a range of trustee and estate administration services. The lending rates prevailing at any point in time are generally fixed between the banking institutions through the so-called Register of Cooperation, a cartel agreement among principal banks which fixes interest rates and charges, with the intent of providing the customer with a "stable" banking environment. In addition to a variety of liquidity, reserve and capital requirements, the commercial banks must maintain a minimum of 35% of their portfolio in government-approved liquid assets.

Commercial banks provide extensive trade support through their international network (all but Zimbank are foreign-owned). Corporate financial services are available from several of the commercial banks and Barclays maintains a full Bullion and Chemical Analysis Division to provide gold assay and mineral analysis.

BARCLAYS BANK (ZIMBABWE) LIMITED (Branch)

TOTAL STAFF: 19.[illegible]0

As at 11/30/82

	(000's)
Total Assets	$604,666
Fixed	$ 12,165
Current	$592,501

ZIMBABWE BANKING CORPORATION LIMITED

TOTAL STAFF: 19,500

OWNERSHIP/PRINCIPAL SHAREHOLDERS:

1. 62% Government of Zimbabwe
2. Public

Year Ended 9/30/82

	(000's)
Total Assets	$578,948
Fixed	$ 7,527
Current	$571,421
Net After Tax Income	$ 4,622

BANK OF CREDIT & COMMERCE (ZIMBABWE) LTD. (Branch)

TOTAL STAFF: 9,000

Year Ended 12/31/81

	(000's)
Total Assets	$33,656
Fixed	$ 3,954
Current	$29,702
Net After Tax Income	$ 10

STANDARD BANK (ZIMBABWE) LTD.

(Detailed Data Not Available)

GRINDLAYS BANK (ZIMBABWE) LTD.

(Detailed Data Not Available)

SECTION II.C. - MERCHANT BANKS

Zimbabwe's four merchant banks (two independent and two affiliated with commercial banks) are the "wholesale" banks in the Zimbabwe system, providing a range of short and medium term financing to Zimbabwe's principal productive sectors. All four merchant banks make a market in acceptance financing, including the handling of agricultural acceptances for the Tobacco Marketing Board (short term instruments secured by a sophisticated stop order system controlling crop sales). The banks are also active in import finance, providing short and medium term facilities for the importation of capital goods and spare parts or raw materials. Historically, Zimbabwe's merchant banks have been the principal issuing houses, bringing new stock and bond issues to the floor of the Harare and Bulawayo Exchange, although this last activity has dropped sharply in volume as exchange values have weakened.

Merchant banks in Zimbabwe also specialize in providing a wide range of corporate and financial support for mergers, acquisitions, and divestitures, as well as general economic and sectoral surveys for the country's commercial community. With the commercial banks, merchant banks are Zimbabwe's only authorized foreign currency brokers.

The merchant banks as a group control approximately 13% of Zimbabwe's commercial financial resources.

MERCHANT BANK OF CENTRAL AFRICA LTD.

OWNERSHIP/PRINCIPAL SHAREHOLDERS:

1.	Hill Samuel and Company Limited	UK
2.	N.M. Rothschild and Sons Limited	UK
3.	L'Europeenne de Banque	France
4.	Societe Financiere Pour Les Pays d'Outre-Mer (SFOM)	Paris & Geneva
	SFOM is a consortium bank whose shareholders are:	
	Banque Bruxelles Lambert SA	Belgium
	Banque Nationale de Paris SA	France
	Dresdner Bank AG	West Germany
5.	Mediobanca - Banca di Credito Finanziario	Italy
6.	Amax Inc.	USA
7.	Tanks Investments (Zimbabwe) Ltd.	Zimbabwe

Year Ended 3/31/82

	(000's)
Total Assets	\$170,391
Fixed	\$ 859
Current	\$169,532
Net After Tax Income	\$ 1,100

RAL HOLDINGS LIMITED

TOTAL STAFF: 90

OWNERSHIP/PRINCIPAL SHAREHOLDERS:

1. Anglo American Corporation
2. Old Mutual Investment Corporation Limited
3. Standard Nominees
4. Electra Investments Limited
5. Zimbabwe Railways Contributory Fund
6. RAL Nominees
7. ZESF Staff Pension Fund

	Year Ended 12/31/82
	(000's)
Total Assets	$197,457
Fixed	$ 7,409
Current	$190,048
Net After Tax Income	$ 2,346

SYFRETS MERCHANT BANK LIMITED

OWNERSHIP/PRINCIPAL SHAREHOLDERS; ZIMBANK

	Year Ended 9/30/81
	(000's)
Total Assets	$175,757
Fixed	$ 220
Current	$175,537
Net After Tax Income	$ 1,431

STANDARD MERCHANT BANK

TOTAL STAFF: 40

OWNERSHIP/PRINCIPAL SHAREHOLDERS: Standards Bank PLC

Year Ended 12/31/81

	(000's)
Total Assets	$150,206
Fixed	$ 88
Current	$150,118
Net After Tax Income	$ 660

SECTION II.D. - FINANCE HOUSES

Zimbabwe's five finance houses (also known as financial institutions or hire purchase companies) provide a range of retail and commercial term financing facilities and control 5% of the country's financial resources. Traditionally, the bulk of the companies' business has been hire purchase financing for the retail and agricultural sectors. Combines, tractors, and industrial equipment have represented the bulk of the hire purchase companies' commercial financings. Much of the remaining business written by the companies has been for the private customers, largely the financing of automobile purchases.

Over the months since independence, the finance houses have begun to shift their business from the consumer to commercial sectors. They have encountered difficulty in this regard because current Zimbabwean legislation substantially reduces the attractiveness of lease financing, which could otherwise be considered an active and practical vehicle for the financing of new industrial plant, especially given the relative difficulty of arranging term finance on a routine basis through the commercial banking sector. With the significant changes in Zimbabwe's social structure, it appears unlikely that the hire purchase companies will attempt to significantly expand their level of business activity in the consumer sector.

The hire purchase companies are also allowed to provide direct term financing, both to their traditional commercial clients and to companies that do not take advantage of their hire purchase facilities. These term loans and the rest of the companies' financial activities are funded through commercial depositors. There are no limitations on the interest rates which can be offered by the companies to seek deposits. The high level of competition between the various hire purchase companies, however, assures that both lending and deposit rates stay within tight ranges.

One avenue of business which is presently under active consideration by the hire purchase companies is factoring. Factoring facilities are currently available only on a limited scale, but significant expansion in this sector is planned by the major firms.

udc Limited

TOTAL STAFF: 160

Year Ended 3/31/82

	(000's)
Total Assets	$67,957
Current Assets	$67,322
Fixed Assets	$ 635
Tangible Net Worth	$ 4,419
Net Profit	$ 389

GRINDLAYS FINANCE LIMITED

OWNERSHIP/PRINCIPAL SHAREHOLDERS: Grindlays Bank PLC

Year Ended 10/31/81

	(000's)
Total Assets	$18,698
Fixed	$ 99
Current	$18,599
Net After Tax Income	$ 208

SCOTFIN LIMITED

OWNERSHIP/PRINCIPAL SHAREHOLDERS: ZIMBANK

Year Ended 9/30/81

	(000's)
Total Assets	$38,775
Fixed	$ 142
Current	$38,633
Net After Tax Income	$ 391

FINCOR

Year Ended 3/31/82

	(000's)
Total Assets	$3,288
Fixed	$ 51
Current	$3,237
Net After Tax Income	$ 307

STANDARD FINANCE LTD.

(Detailed Data Not Available)

SECTION II.E. - POST OFFICE SAVINGS BANK

The Post Office Savings Bank commenced operations in January of 1905, but its growth to real prominence has taken place in recent years as the Zimbabwean government has attempted to broaden the outreach of the financial network to areas outside of major commercial centers. The Post Office Savings Bank handles deposits equal to approximately 6% of Zimbabwe's commercial financial market and provides basic savings account and fixed deposit services through 150 offices nationwide, serving more than half a million depositors. In addition to the attraction of its wide national net, Post Office Savings Bank offers tax free interest on its deposit accounts.

	FY 1981
Total Assets	$342,300,000
Net Reserves	$ 47,037,000
Gross Income	$ 22,212,000
Net Surplus	$ 8,496,000

SECTION II.F. - BUILDING SOCIETIES

The three building societies in Zimbabwe manage approximately 13% of the country's total financial assets. Their principal role here, as elsewhere in British-style systems, is to provide support for development of residential properties. In addition, the building societies have in recent years shown an interest in commercial development, largely because of a marginally higher interest rate allowed for this type of property and some weakness in the upper income housing markets they had previously supported.

Mortgage terms can vary up to 15 years. The sector's default rate has been remarkably low historically, but arrearages have increased as interest rates have climbed over the last 24 months. It is interesting to note that there has been no significant change in delinquency rate or losses incurred as a result of the rapid increases in mortgages held by middle and lower income black Zimbabweans. All repayment difficulties seem to correlate exclusively to the prevailing rate of interest.

The building societies also accept fixed and savings deposits under a wide variety of programs. The dominant force in the market, Central Africa Building Society, provides more than 90 branches nationwide to service its network of residential and commercial borrowers. Its two competitors, Beverley and Founders, are considerably smaller.

SECTION II.G. - DISCOUNT HOUSES

Zimbabwe's two discount houses are the center of the country's short term money market. They were originally structured on the lines of the London model, but have broadened their activities considerably in recent years in order to provide adequate liquidity to the commercial financial system. In fact, Zimbabwe's discount houses originated from the conviction of a former "City of London" banker who became Goveror of the Reserve Bank in the 1950's that this aspect of the London model would provide increased financial flexibility to support and accelerate the growth of the country's financial marketplace. The principal function of the discount houses is to assist in the maintenance of an adequate level of liquidity in the banking sector. In this manner, they play what would be thought of as a quasi-governmental role in the U.S., intervening between the Reserve Bank and commercial financial institutions. The relationship between discount houses and the Reserve Bank is close, and discount house staff members are the first to admit that they are sensitive to the interests and concerns expressed by the Reserve Bank, even as they attempt to maintain the independence necessary to continue operating profitably.

Discount houses are sometimes referred to as "the banker's banker". Commercial banking institutions, merchant banks, the Post Office Savings Bank, building societies, and hire purchase firms (plus selected mining houses) are allowed to place short term investments "at call" with the discount houses. This so-called "call money" is the only available investment option for institutions having excess funds available for extremely short periods of time, possibly over only a single night.

In order to maintain an adequate level of security for the funds which ebb and flow on such a short term cycle, discount houses invest only in the strongest local financial vehicles: Treasury bills, discountable Agricultural Marketing Authority bills, bankers acceptances, negotiable certificates of deposit (NCD's) and short term public sector issues. The discount houses' principal interaction with policymaking in the Zimbabwe financial system stems from their role as the principal buyers for the weekly T-bill auctions initiated by the Zimbabwean Treasury to fund its debt requirements. These bills, which have a tenor of 91 days in most cases, are presently offered in auctions of approximately Z$16,000,000 dollars each week. Each discount house tenders for one-half of the total auction, bidding on a discounted basis at a rate determined by it after examination of likely market trends. Other institutions, and even individuals, are permitted to purchase treasury bills. Thus the discount houses have the option of attempting to price themselves out of the market on a given issue, although they remain the "buyers of last resort".

In support of this position, and in return for their call money services rendered to the banking sector, the Reserve Bank acts in turn as a "lender of last resort" to the discount houses. Through this mechanism, the ability of the discount houses to fund their call money requirements and to act as initial purchaser and later resale channel of government securities is guaranteed.

The longer term Agricultural Marketing Authority bills (usually Tobacco Authority bills) are currently discountable for 120 days, while NCD's provide an additional longer term instrument, in which there is now an active secondary market managed by the discount houses.

BARD DISCOUNT HOUSE LIMITED

TOTAL STAFF: 60

OWNERSHIP/PRINCIPAL SHAREHOLDERS:

1. Barclays Bank (Zimbabwe)
2. Grindlays PLC
3. Zimbabwe Banking Corporation
4. The Standard Bank PLC
5. Smith St. Aubyn & Company (Holdings) PLC
6. The Prudential African Life Assurance Society
7. Anglo American Corporation Zimbabwe Limited
8. Tanks Investments (Zimbabwe) Limited

Year Ended 8/31/82

	(000's)
Total Assets	$61,115
Tangible Net Worth	$61,115
Net After Tax Income	$ 331

THE DISCOUNT COMPANY OF ZIMBABWE

TOTAL STAFF: 50

Year Ended 2/28/82

	(000's)
Total Assets	$46,601
Tangible Net Worth	$46,601
Net After Tax Income	$ 300

SECTION II.H. - INSURANCE COMPANIES

Zimbabwe has more than 70 currently active life and non-life insurance companies, representing many of the world's major insurance firms as well as indigenous institutions. Insurance institutions provide the complete range of personal and commercial insurance to an increasingly wide segment of the Zimbabwean population. The insurance industry in Zimbabwe controls approximately 16% of the country's total financial resources.

As is befitting institutions with heavy fiduciary responsibility, Zimbabwe's insurance companies invest their portfolios in a highly conservative manner. Fifty percent of all assets must be lodged in "gilt-edge" securities. "Gilts" include direct government obligations, municipal obligations, Electricy Supply Commission bonds, and the financial obligations of Air Zimbabwe and other parastatal organizations on a case-by-case basis. The current level of investment requirement represents a relatively recent increase in the volume of funds to be committed to government financing. Prior to independence, the gilt investment requirement was only 35%.

The balance of the company's portfolio is held in direct investments, today principally commercial property. A typical Zimbabwean insurance portfolio would have government obligations of 50-55%, plus 40% in a variety of private investments, roughly equally divided in most cases between property, equity, corporate debentures (mortgages), and money market funds, with the residual amount in direct industrial term loans. In recent years, the softening of the Zimbabwean stock market has pushed increasing levels of investment to commercial (and occasionally large residential or industrial) properties, principally in major urban centers.

Zimbabwe's insurance companies have undertaken a massive effort to service the newly independent black African population in the country. In the recent past, 70% of the insurance companies' outstanding policies were issued to white Zimbabweans. In the years since independence, the ratio has almost exactly reversed, with roughly 70% of all policies in force being issued to black Zimbabwean citizens. All companies recognize that future growth will take place in the black African market, and most are struggling to identify the most effective means of developing a satisfactory general insurance portfolio built around black African policy-holders.

SECTION II.I. - AGRICULTURAL FINANCE CORPORATION

The first organization to finance small scale farm requirements on a seasonal basis appeared in the 1930's to support the development of irrigation in dry land areas. Over the years, this program was expanded to the financing of commercial planting, and general support for small scale producers was provided through the establishment of the Agricultural Loan Fund (ALF) in 1964. A private agency known as the African Loan and Development Company (ALDC), which was established in 1961, provided specialized support for small scale white and black farmers. With the expansion of the African Purchase Lands in the late 1960's, the ALDC's activities likewise expanded. In an effort to centralize available finance for the agricultural sector, the Agricultural Finance Corporation (AFC) was established in 1971, incorporating the ALF and the successor to the ALDC.

Some agricultural loans are, of course, provided by Zimbabwe's commercial financial sector. Seasonal loans are made to larger commercial farmers by commercial banks. Crop finance is provided for the larger export producers (especially of tobacco) by Zimbabwe's merchant banking sector. The commercial hire purchase companies also provide financing for agricultural equipment purchases. All of these activities focus principally on the larger scale commercial producers, however, and only the AFC has significant support for small scale farmers, whether white or, in recent years, black.

The AFC's emphasis on providing support for small scale farmers, while relatively recent, is being taken extremely seriously. In 1981, the AFC provided assistance to over 18,000 communal farmers. In 1982, that total was increased 57% to more than 28,000, and the Corporation's programs called for the total number of farmers served to more than double over the next 3 years to 65,000, with the volume of loans increasing more than 5 times.

The AFC provides short, medium and long term loans at a fixed rate of interest. Short term facilities are granted for the purchase of crop inputs during the production season, and are normally repayable over terms up to 18 months. These loans are secured by stop orders on crop sales which are registered with the various agricultural marketing agencies. Medium term loans for development of irrigation facilities, or other small scale farm expansion or improvement, are normally secured with liens over assets, as with routine hire purchase facilities. Long term loans are available for the development and purchase of land and the construction of large scale production facilities or residential housing units. Such facilities are normally secured by a direct mortgage on the underlying property assets of the farmer in question.

	As at 3/31/82
Total Assets	$174,350,000
Total Net Worth	$ 24,970,000
Gross Income	$ 17,982,000
Net Surplus	$ 4,026,000
Loans Granted - '82	34,053
Loan Value - '82	$113,477,000
Total Staff	520

SECTION II.J. - RESERVE BANK

The Reserve Bank of Zimbabwe (RBZ) is the country's central bank and the controlling force behind all direct government intervention in the financial sector. The Bank's statutory authority stems from the 1964 Reserve Bank Act which provides the institution with the traditional controls common to developing nation central banks, including the issue of currency, and the administration of government loans and treasury bills. The RBZ is responsible for the management and sale of Zimbabwe's gold production and, through the discount houses, regulates and supports the commercial financial sector. RBZ is also the principal banker to the government and to parastatals. Perhaps the most important single role undertaken by the Reserve Bank in the post-independence period has been as the allocator of foreign exchange funds. The Bank maintains an intricate and sophisticated allocation system which involves the private sector as well as government ministries in determining the appropriate levels of FX availability both by sector and by individual operating enterprise. RBZ allocation procedures are described in detail in Appendix 1.

Like any central bank, the Reserve Bank sets liquidity and reserve requirements for financial institutions, and, through its influence on the pricesetting at the weekly Treasury Bill Auction (in part effected through its relationship with the discount houses), it intervenes directly in the market to impact the level of interest rates. The RBZ also has principal responsibility for the raising and repayment of direct government loan issues, and is the formal custodian of Zimbabwe's foreign reserves.

Interestingly, the RBZ has succeeded in exercising the bulk of its control in the financial sector solely through indirect intervention and persuasion. The relatively small size of Zimbabwe's financial marketplace (at least in terms of the number of individuals involved) has increased the RBZ's ability to bring its proposals to fruition without drastic structural changes imposed on the financial institutions from "on high". The Bank's ability to continue this minimum

SECTION II.K. - STOCK EXCHANGE

The Zimbabwe Stock Exchange is the oldest and most sophisticated in black Africa. There are 64 companies currently listed on the local exchange, 8 of them mining companies, with the rest involved in manufacturing and general industry. There is also an existing pool of foreign exchange held by local residents, and within that pool owners are allowed to purchase and sell shares on international stock exchanges. All profits on the shares are subject to standard exchange control regulations, however.

The Stock Exchange Act, which became law in January of 1974, was developed to regulate a system of exchanges operating in Bulawayo and Harare since 1946. The Act has performed with a high degree of success. The structure was developed after more than 5 years of study of stock exchanges worldwide.

The Exchange, operating via telephone trading without a formal exchange floor, shepherded some impressive growth in industrial equities in the months following independence. In 1981, however, a 20% tax on dividends was imposed. This, combined with an increase in domestic interest rates and the general decline in investor confidence, has pushed the Exchange indices (one for mining companies and one for general manufacturing) to the lowest point in real terms in 25 years.

This trend is of course mirrored in stock exchanges worldwide, and is in part the result of the weakened global economy. There appears little doubt, however, that the combination of recession-produced financial weakness and increased skepticism on the part of the private sector concerning government's intentions towards private investors, has had a significant and continuing negative impact. Although a number of rights issues were marketed following independence, the general consensus is that no new issues could be successfully introduced at this time.

Perhaps the greatest current threat to the continued existence of the Zimbabwe Stock Exchange, however, is the weakness of the brokerage community itself. Although some significant turnaround in the fortunes of local firms could be expected following a recovery in the West, the continuing weakness of the exchange has resulted in a steady decline in the number of active exchange members, and firms trading in the exchange. In 1980 there were 6 firms operating in Zimbabwe. Only 5 remained in 1981, 1 of these departed in the first quarter of '82, and at the present time, there remain only 2 firms in Harare and a single 1 member firm operating in Bulawayo. A decision by any of these three institutions to close would call into question the effectiveness of the market mechanism, as normal trading and the maintenance of an orderly market would be virtually impossible.

SECTION III.A. - OVERVIEW & PROPOSALS

It is axiomatic that no financial system provides perfectly for the needs of all customers it serves, and this axiom applies in Zimbabwe. Moreover, Zimbabwe's capital markets are operating under considerable internal and external pressure. Major efforts have been undertaken to provide financial support for the transition, both social and economic, which Zimbabwe is undertaking, and considerable success has been recorded, but significant challenges remain. A number of specific challenges have come to light during the development of this schematic view of Zimbabwe's capital markets, and in each case, concrete palliative options suggest themselves.

The brief list which follows is certainly not all-inclusive. The overriding challenges of full employment, social transformation, and redistribution of income are the fundamental hurdles which Zimbabwe must clear. These are not the sole province of the financial system, however, and as a result they are not treated here. The proposals suggested here address a few specific smaller scale hurdles, but they are not exclusive; a number of other approaches might serve equally well in each case. The options set out in Sections II.B.-G. are simply exemplar responses to the challenges observed, and they may be indicative of the alternative avenues of development available.

These proposals are intended to address the problems of easing the availability of commercial bank credit, while expanding the reach of banking services; of increasing the availability of low income housing, and expanding the role of the Agricultural Finance Corporation; of easing the restrictions facing Zimbabwe's exporters, and supporting their export sales; of providing new venture capital resources for enterprise development. Every step which Zimbabwe's capital markets take to meet these priority challenges will bring the country's financial system, and indeed the nation itself, a step closer to a stable economy and a peaceful society.

SECTION III.B. - IMPROVE AVAILABILITY OF REAL COLLATERAL FOR LOCAL BORROWINGS

The British commercial banking system, developing as it did to respond to the requirements of the landed gentry who stimulated much of the growth in the U.K.'s Industrial Revolution, looks to the holding of real property as basic security for almost all lending decisions. The commercial banks operating in Zimbabwe, while considerably more progressive than their early English ancestors, nevertheless place strong emphasis on the availability of real collateral to support financings provided, especially under that standard of the British banking system, the overdraft.

As Zimbabwe's commercial banks consider providing support for the emerging black entrepreneur, they continue to seek the same kind of security to which they are traditionally accustomed. Unfortunately, some 90% of the 50-60,000 black African businessmen in Zimbabwe are unable to borrow on this basis because they have not earned title to the property their commercial enterprises occupy. Traditionally, Rhodesian policies of discrimination prohibited the ownership of land by blacks, except in specified Tribal Trust Lands. With the coming of independence in 1980, this restriction no longer applied, at least theoretically. And yet, only the most limited inroads have been accomplished by the typical black businessman in the realm of real property ownership.

In most cases (roughly 90-95%) the black entrepreneur is a local distributor with a turnover of between $12,000-30,000 annually. In spite of his presence in and near existing black communities, he records only 30% of the total sales to the black population. Many would appear likely candidates for expansion of their business activity, but the commercial banking sector, with its reliance on the real estate-secured overdraft, has limited ability to evaluate, undertake, and monitor the type of project lending required to successfully support the development of entrepreneurs who have not yet established their property ownership. And while other financing programs are being proposed to assist the black entrepreneur, Zimbabwe's commercial banks still control almost one-third of the country's financial resources.

There are a number of structural limitations that appear to have slowed the process of purchase of properties by indigenous entrepreneurs, not the least of which is the reluctance of established property owners to give up their long term rental income prospects in exchange for a single sale price. Nevertheless, there is a significant brake on the efforts of well meaning parties to speed the sale of properties to "emerging" businessmen, and it stems from the relative scarcity of qualified surveyors. It seems that the former African townships in which the majority of black entrepreneurs have located their distribution operations have not traditionally been formally marked or surveyed in any fashion. With the heavy demand for surveyors in the countryside in support of resettlement efforts and divesture sales continuing, there are frequently too few qualified surveyors available to carry on the partitioning effort in the black communities.

It would appear that this deficiency could be partially remedied relatively promptly by "seconding" a number of surveying teams from outside of Zimbabwe to undertake a comprehensive survey of some of the more populous African townships. Such a project would be likely to attract funding and manpower support from one or more of the international development and aid agencies. While land title in itself will not ensure commercial bank support, it should allow a significantly larger percentage of Zimbabwe's black entrepreneurs to qualify for consideration, and perhaps thereby accelerate the rate at which they enter the financial mainstream.

III.C. - BROADEN ACCESS TO COMMERCIAL BANKING SERVICES

Recognizing the importance of commercial banking services to the development of a broader distribution of wealth within the nation as a whole, the government of Zimbabwe has continued to encourage the expansion of the current commercial banking network. Specifically, government has expressed an interest in a wider branch network, with small branches scattered across the rural areas of the country, bringing the benefits of the commercial financial system to a larger percentage of the total population.

Such a proposal is of limited attractiveness to most of the country's commercial banks, however. The difficulty of maintaining security over a widely spread branch net, and the problems of maintaining acceptable levels of staff quality and financial controls in such a system are very real, and render this type of expansion a questionable investment for the nation's privately owned commercial banks. The banks' counter proposal for a jointly bank/government-owned "Peoples Bank" has apparently generated relatively little enthusiasm in government circles, where the point is made that the existence of five commercial banks in such a small system should prove more than adequate.

Another, perhaps preferable, alternative might be the expansion and development of existing Post Office Savings Bank along the lines of the successful "Freedom Banks" which developed in a number of disadvantaged urban areas in the United States over the last decade. These cooperative institutions, which drew upon existing commercial expertise and local staffing wherever available, have in several cases proved highly successful in providing the neighborhood services to those areas where local operations by existing commercial banks where not considered financially attractive. The relatively broad reach of the Post Office Savings Bank with its many existing small branches, might form a useful basis for expansion. Structuring the expanded new branches as government-supported cooperatives might bridge the gap between the normally private "Freedom Banks" and the Post Office Savings Bank.

SECTION III.D. - SUPPORT AND PROMOTE ZIMBABWE EXPORT POTENTIAL

In response to the urgent challenge posed by Zimbabwe's continuing current account deficits, every solid prospect for development of export income must be pursued. Previous examination of the Zimbabwe economy by international agencies and domestic producer groups has confirmed the high likelihood that Zimbabwe can substantially increase its export of manufactured and processed products. Historically, the manufacturing sector of the Zimbabwe economy has made significant contributions to total foreign exchange earnings, traditionally out-earning the strong export mining sector by one-third, and normally producing more than 40% of total export income.

A 1982 survey by the Confederation of Zimbabwe Industry (CZI) estimates that the Zimbabwe manufacturing/processing sector could contribute more than $350,000,000 to the Zimbabwean economy utilizing less than $90,000,000 in raw material imports, for a net foreign exchange balance of almost a quarter of a billion dollars (this amount does not net out certain additional requirements for capital improvements). Perhaps most importantly, these earnings could be produced within a matter of 12-18 months, as they are based upon productive capacity already existing in the Zimbabwe manufacturing sector.

This potential for adding almost 25% to Zimbabwe's current export receipt generation represents a significant prospect for early improvement of Zimbabwe's current foreign exchange limitations. The government concurs. Minister of Finance Chidzero has recently pledged to "take measures which will promote exports in a highly competitive world". However, a series of specific impediments face the Zimbabwe manufacturing/processing sector. In order for the export sector to produce, it is dependent on adequate access to raw material inputs and necessary spare parts. It also requires the continued availability of capital equipment and processing capacity. The mere existence of equipment may not be satisfactory. Antiquated or uncompetitive manufacturing systems are of no use to productive firms which are forced into open competition in the world marketplace.

Following successful manufacturing, the productive enterprise requires the support of effective sales and marketing systems, including transport systems, to assure that its products reach the targeted markets on a timely basis. In order to then motivate potential buyers to purchase Zimbabwean products, manufacturers in Zimbabwe must also be capable of providing competitive financing terms for customer receivables. Finally, Zimbabwean manufacturers must be able to draw upon a pool of sufficiently skilled manpower to provide the required labor to staff the manufacturing processes. Fortunately, although emigration rates remain a concern, most exporting companies do not feel available skilled manpower is the critical constraint on production at present, according to the recent CZI survey. The same review suggests that the first four of the considerations mentioned above have been significant problems for Zimbabwean exporters in the recent past, however, and that all four have been roughly equally inhibiting to the manufacturing sector's success in increasing its international sales. (N.B. The availability of adequate working capital financing from local sources is assumed in this instance because of the strength of Zimbabwe's indigenous banking sector.)

One potential strategy to provide the help needed for Zimbabwe's export manufacturing/processing sector would be the establishment of an export promotion and support company. This firm, which has been given the working title of the Zimbabwe Export Promotion Cooperative ZEPCO? (ZEDCO), would attempt to help bridge the gap between the requirements of Zimbabwean exporters for the principal inputs noted above, and the available support from domestic sources and international agencies. (IBRD is currently negotiating a $75,000,000 package of financial support targeted specifically at funding the purchase of raw materials for exporting companies, while the U.S. government is giving active consideration to directing increased portions of its future funding towards the supply of capital equipment crucial for export production.)

As currently envisioned, ZEDCO would be owned by its clients, Zimbabwe's exporting companies. Any firm with majority Zimbabwean ownership would be eligible for membership. (Based upon discussions held to date, it is anticipated that while Zimbabwean government-controlled companies might seek membership in ZEDCO, the government itself appears to have no interest in an early direct investment in the Cooperative.) The Cooperative would be intended to assist in the sales and marketing of export products from Zimbabwean manufacturers into the regional markets of Africa, and to the wider international markets of the EEC, North America, and Asia. The company would provide financing for the importation of necessary raw materials where required, and would also have the capacity, either directly or through affiliated financial institutions, to lease specialized equipment for export production. In addition, ZEDCO would support Zimbabwean manufacturers by providing market advice, demand analysis and product information, as well as technical training and assistance, export documentation, and representation services. After a successful sale, ZEDCO would be capable of financing export credit on competitive terms, up to a limit to be determined, but for at least 180 days for sales of manufactured goods.

ZEDCO would be a self-sufficient profit-making venture providing support for its members, and channeling earnings both from membership fees and from commissions charged on its sales support services to the expansion of its capabilities. The company might be capitalized at a nominal $5,000,000 level, with indigenous equity stock ownership of U.S. $2,500,000 and a subordinated debenture from the AID's Private Enterprise Bureau of an additional $2,500,000, with the debentures to be retired over a 12 year term. Additional financial support for the company's foreign currency requirements should be available from borrowings in the international marketplace, with local borrowings and capital supporting Zimbabwe dollar needs. Management could be drawn generally from the local financial community, or might be contracted to a single local institution with an existing export support capacity (the Export Credit Insurance Corporation and the merchant banks should be good prospects).

In order to maximize both the generation of export income for Zimbabwe and the generation of fee income for ZEDCO, it is anticipated that the Cooperative would serve members and non-members alike, including foreign controlled multinational corporations. To promote membership among indigenous firms, it might prove appropriate to provide non-member firms with order procurement and market research support only, reserving raw materials/receivables financing and capital equipment leasing exclusively for members of the Cooperative.

It is anticipated that ZEDCO would operate in conjunction with programs currently offered by the Export Credit Insurance Corporation of Zimbabwe (see Appendix 2) and the Trade Promotion section of the Ministry of Trade and Commerce. In a like manner, ZEDCO should be capable of supporting and complementing the activities of state trading companies which are currently under consideration by the Zimbabwean government.

ZEDCO's near namesake, SEDCO, the anticipated Small Enterprise Development Corporation, has its own crucial role, discussed in Section III.J., in supporting the growth of indigenous productive enterprises. For the potential exporter, however, ZEDCO would pick up where SEDCO leaves off.

ZEDCO as currently conceived would represent an additional source of funds for both raw material purchases and the carrying of customer receivables. All funds flowing through ZEDCO would remain under the control of Reserve Bank allocation. The additional funds made available through the utilization of ZEDCO's own resources, and any external financing arranged through it, would represent a deepened flow through the existing Exchange Control channels, rather than a parallel currency allocation network. Thus, the current foreign exchange allocation system, which is perhaps the most sophisticated in Black Africa, would be given additional resources specifically earmarked to meet the requirements of the nation's exporting companies.

From a mechanical point of view, certain funds outflows, such as payments made under dollar denominated leases, might be controlled via a direct allocation of export income proceeds, but the commitment by the Reserve Bank to make funds available as required to service foreign currency leases is an equally acceptable alternative (and perhaps a simpler one). The utilization of existing Reserve Bank FX control mechanisms would also allow the Reserve Bank to realign exporters to domestic production of essential materials, should local shortages be encountered. Such a determination would remain in the hands of the Reserve Bank and Minister officials.

The proposal for a new multifaceted enterprise such as ZEDCO requires careful consideration. Nevertheless, the strong potential contribution which Zimbabwe's export industries appear capable of making to the country's current account inflows, and the substantial foreign exchange requirements currently going unmet in Zimbabwe, argue for the most expeditious development of the concept prudently possible. As a first step, it would appear appropriate to fund and promptly execute a full-scale feasibility study and preliminary business plan. This document would focus on four central questions. First, are there substantial markets in which Zimbabwean exports could be competitively and effectively marketed, and if so, where? Secondly, does excess productive capacity currently exist among Zimbabwean exporters, or are there productive sectors whose capacity could be readily increased which might successfully market products in the areas identified? Thirdly, what are the material internal and external constraints which face Zimbabwe's export sector? Finally, what can be done within the constraints of a private sector organization such as ZEDCO to alleviate these problems?

Early estimates place the approximate cost for such a survey at U.S. $100-150,000. It is suggested that preliminary pledges of equity be secured from local sources (potential ZEDCO members, principally) to cover one-half of this cost. AID, through the Private Enterprise Bureau, is prepared to consider providing matching funding for such a review. The positive reaction to this preliminary proposal which has been received to date from representatives of the Ministry of Finance and the Ministry of Trade and Commerce, as well as the local Zimbabwe business community, argues for its early examination and consideration.

SECTION III.E. - REVISE CURRENT LEASING LAWS TO ENCOURAGE THE FINANCING OF NEW PRODUCTIVE PLANT

The U.S. concept of leasing did not begin to develop fully in Europe until the 1960's. Thus, it is not surprising that the Zimbabwean legal system, based as it is on the traditional English Common and Roman-Dutch legal systems, should have no provision for leasing *per se*. The Hire Purchase Act, which currently controls leasing and all other commercial activities of the finance houses, is a highly consumer oriented document with limited relevance to the concept of commercial leasing as practiced today.

Nevertheless, Zimbabwe's finance houses developed an active leasing business as early as 1965. Since the mid-70's, however, changes in the tax code have made the utilization of the lease vehicle increasingly uncompetitive with traditional hire purchase arrangements. Specifically, sales tax regulations now require tax to be charged on the interest component of each lease payment, as well as on the principal value. The Act also requires that sales tax be paid by a purchaser of a lease asset at the termination of the lease, even though taxes have already been collected during the lease term.

Along with its limited capital requirements, the flexibility which leasing provides would appear to render it an ideal method for financing much of the injection of capital goods required to rebuild Zimbabwe's productive physical plant. In spite of its attraction as a means of acquiring the productive value of equipment rather than its title, however, these restrictions have sharply reduced the writing of leases by Zimbabwe's finance houses.

Relatively minor modifications of the Sales Tax Act would be required to re-establish leasing as a viable means of financing the acquisition of new productive capacity. Specific proposals for modifying the existing legislation are included in Appendix 3, the intent of which is simply to return the tax burden facing a leasing company to its pre-1970 competitive position.

Removing the sales tax on interest charges within a lease payment, and eliminating the sales tax payable on disposal of a leased asset, would appear on cursory examination to have only a limited negative impact on the collection of revenues under the Act, but would materially improve the climate for lease financing to Zimbabwe's productive enterprises.

SECTION III.F. - INCREASE THE AVAILABILITY OF AND FINANCING FOR LOW INCOME HOUSING

The concern of every developing nation is to broaden the availability of housing for the less affluent segments of the population. In the case of Zimbabwe, in addition to the large scale rural resettlement programs underway, there is a major effort to create new low income housing projects to provide homes for the rapidly increasing population at major and minor urban centers. A number of trial projects are underway, including an AID-funded effort supported by Beverly Building Society. The outcome of these efforts is not yet clear, but the requirement is. Zimbabwe must successfully produce large numbers of moderately prices houses over the course of the next decade if the government is to meet the expectations of the population.

One approach under consideration by the building societies would be expansion of their own level of involvement in the development of low income housing. This arrangement is common in South Africa, and in a number of other developing nations, but is not allowed under the current regulations controlling the activity of Zimbabwe's building societies. The building societies appeared convinced that it would be possible for them to develop low income housing projects directly, and then finance these developments. As a result of the income earned from this financing, the building societies expect to develop the housing projects with little or no direct profit, which should theoretically reduce the overall cost of the project. In addition, however, the building societies' expertise in evaluating low income housing projects should increase their ability to produce a housing unit which is acceptable to the local population in question.

From their own point of view, this form of development would provide the building societies with a new source of income. This is of some importance to them, as expansion in their principal previous market, the white middle class professional, will clearly be limited in the next few years. The societies' continued efforts to successfully penetrate the black African marketplace have meet with some limited success thus far, but these building society-initiated developments would appear likely to significantly increase their level of market penetration, while providing more new units than current programs.

SECTION III.G. - SUPPORT EXPANSION OF AFC'S LENDING ROLE

The asymttic expansion which the Agricultural Finance Corporation is currently attempting has already placed significant strains on its operations and administration staff. The continued rapid growth which they project will no doubt aggravate the existing personnel and systems limitations.

The AFC has made a qualitative shift in the direction of its lending policy in the years since independence. It remains the only large scale entity operating in Zimbabwe with the capacity of providing the required financial support for significant numbers of the nation's smaller commercial farmers. The AFC has identified a number of support requirements which it believes would enable it to more successfully complete its new lending mission. These requirements include:

1) Additional external financial support for AFC's short term (seasonal) and medium term (infrastructural) lending programs;

2) Assistance for AFC acquisition of new field staff transport equipment, and expanded computer hardware/software systems for recordkeeping and accounting; and,

3) Funding for expanded staff training and technical assistance support programs.

In view of the critical nature of its efforts, and its unique position in the overall Zimbabwean financial marketplace, its success in this venture is of the greatest importance to the country's future prospects. Continued support for AFC from the world's development agencies will increase the likelihood that the corporation will be successful in its crucial undertaking.

SECTION III.H. - EASE EXPORT SALES RESTRICTIONS

Zimbabwe's Reserve Bank has developed a uniquely sophisticated method to allocate scarce foreign exchange resources. Its efforts in this regard have done much to keep Zimbabwe's productive sectors moving forward in an era of limited foreign currency resources.

The foreign exchange allocation system (see Appendix 1) has been designed to provide a responsive, flexible framework for the allocation process. Nevertheless, there remain structural rigidities inevitable in any formal system, which may inhibit the achievement of the very goal of flexibility sought by the Reserve Bank program. An ongoing review of Reserve Bank regulations and requirements would seem likely to occasionally identify areas for modification or modernization. Although such a process undoubtedly takes place periodically, the manpower limitations of the Reserve Bank, and the press of current events, may reduce the priority of such a review exercise.

One particular element of the current system which appears to inhibit the success of Zimbabwean exporters is the Reserve Bank limitation on sales terms to foreign countries. In order to remain within Reserve Bank exchange control guidelines, orders from any of 58 countries must be supported by an externally confirmed letter of credit. This list, which may predate the current government, limits export sales to a number of countries with known weak payments records. The rationale here is presumably to assure that productive resources are not squandered through sales to buyers or countries unwilling or unable to make timely hard currency payment. A review of the current list would suggest, however, that a number of the countries included cannot be considered significantly high risk in the current world financial environment (one thinks of Cameroon and Korea, for example). Perhaps a formal evaluation of this list undertaken on a regular (and apolitical) basis would increase the likelihood of maximizing export sales while minimizing the prospects that a previously approved country with a currently deteriorating payments position would be overlooked.

Legislation to approve this modification to the current Exchange Act should be given serious consideration at the earliest opportunity. Hopefully, a positive decision might also demonstrate the recognition by the Zimbabwean government that the stock market represents an important and attractive vehicle for broadening rather than concentrating the distribution of wealth within the Zimbabwean economy. Should this channel be lost, or if its functions are modified to the point where it ceases to operate effectively, Zimbabwe will have tossed aside one major tool now at its disposal to accelerate and sustain the growth of corporate ventures, while evening the distribution of newly created wealth across the country's individual and institutional investors.

SECTION III.I. - BROADEN BASE OF STOCK EXCHANGE MEMBERSHIP

The rapid drop in the number of brokerage houses, and brokers, active in the Zimbabwe Stock Exchange is perhaps the greatest near term threat to the continued existence of this oldest of black African exchanges. This continuing decline is of particular concern as it nears the point where the actual functioning of the market will be impaired. This stage has now been effectively reached with the departure of one of Harare's larger firms during 1982. At the present time, a single additional firm closing its doors would effectively cripple the market-setting mechanism of the Exchange.

There is no question that the attractiveness of exchange membership from a financial point of view has faded. Individuals cannot be expected to invest the personal effort and financial resources required to establish themselves in this sector, until a resurgence of investor confidence once again enlivens the market. Under current regulations, it is only possible for a natural person to hold exchange membership. Serious discussions have already taken place, however, to broaden the definition to allow ownership of seats on the exchange by corporate "persons" as well. It appears likely that merchant banks, among others, would be prepared to undertake the investment required to maintain positions in the Exchange.

With the introduction of corporate membership to the exchange, the structural pressure on the system, and on the individual brokers who remain active in it, would be largely eliminated. It should be possible for corporate members to carry the ongoing operating costs of their exchange seat with relatively little effort, even in periods when the exchange itself is operating at depressed levels. Such an arrangement also insures that the departure of individual brokers (a number of the brokers from the firm which closed in 1982 have left the country) will not endanger the functioning of the exchange itself. The increased stability which institutional ownership would bring to the exchange may even act in some small way to reduce the level of investor uncertainty in the stock market itself.

SECTION III.J. - PROVIDE VENTURE CAPITAL SUPPORT FOR NEW PRODUCTIVE ENTERPRISES

The traditional sources for generating equity capital for start-up operations in developed countries are personal savings, venture capital firms, and the so-called "penny" stock market. The first of these avenues is rarely available to any significant degree to black African entrepreneurs, whose operations traditionally hover too close to the subsistence level to enable massive amounts of capital savings. The penny stock system requires an active involvement by the relatively broad pool of high risk investors. There is no current evidence that such a system would be attractive either to the Zimbabwean government or to the general population, especially in view of the decline in investor confidence in the commercial community as measured by the price indices on the existing exchange.

A venture capital firm has the capacity to direct a pool of funds available to it (from either private or public investors) to specific target sectors and to individual opportunities that appear to have the highest prospects for success. In the U.S. context, venture capital firms also provide missing management ingredients, as well as critical equity support. Firms which have a partially formed management team, but are deficient in some particular area, are often supported by venture capital organizations with the "injection" of skilled personnel to complement the inflow of capital funds.

In a sense, this is the effort which has been undertaken from time to time by the country's existing development organizations. Ipcorn, Anglo-American, Industrial Development Corporation, and Development Finance Corporation have all contributed to the development of productive enterprises in Zimbabwe in the past. The present moment finds few organizations specifically focusing on the capital requirements of start-up ventures, however.

The proposed Small Enterprise Development Company appears likely (correctly in our opinion) to focus at the bottom end of the entrepreneurial scale. Upon "graduation" from the support which SEDCO can provide, enterprises could still be expected to lack the full set of management skills necessary to expand into the broader competitive marketplace, even as they are likely to be short of the necessary funds to launch that step. What would appear to be required is a large scale venture capital firm which would bring to bear the expertise and resources of Zimbabwe's existing financial and commercial communities to administer a specialized pool of funds in support of ventures at this crucial stage. Such a capital support organization would draw upon these communities' wide range of practical expertise, in addition to that of its own professional staff.

Funds would be made available to such a firm under a general pool arrangement, perhaps provided by Zimbabwe's insurance and pension plans. In discussions with leading managers in these two industries, interest was shown in establishing a pool which might equal 1-2% of the organizatons' total assets, or some $30,000,000, to be administered by such a investment <u>cum</u> management firm.

It is suggested that the choice of organizations to support would rest entirely with the management of the venture capital company, as would the determination of the level of commitment and the mix of cash and manpower resources made available to each individual enterprise. Given the high return on equity which can be anticipated in most successful start-up ventures, a success rate of between 10% and 20% of the ventures supported would provide an adequate dividend flow to maintain the investment pool at its original level. Over time, and assuming careful management by the venture capital firm itself, the ongoing dividend income which would be received from successful projects could be expected to provide some nominal increase in the funds available for investment, or to subsidize a broader, further-reaching capital support effort.

Undoubtedly, the involvement of expert management in these new enterprises would increase the responsiveness of Zimbabwe's existing financial community to provide support for otherwise untried ventures. As the interactive American model of venture capital investment would appear the most appropriate for this style of small scale enterprise development, consideration could be given to providing an indigenous organization with technical training or managerial initiatives from established American venture capital firms.