

Country Focus Report 2023

ZIMBABWE

Mobilizing Private Sector Financing for Climate and Green Growth



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LIST OF ACRONYMS AND ABBREVIATIONS

AFOLU	Agriculture, Forestry, and Other Land Use
CFF	National Climate Finance Facility
CFR	Country Focus Report
DFIs	Development Financial Institutions
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GGI	Green Growth Index
GHG	Greenhouse Gases
GCF	Green Climate Fund
GoZ	Government of Zimbabwe
IDBZ	Infrastructure Bank of Zimbabwe
IPPU	Industrial processes and product use
LEDS	Low Greenhouse Emission Development Strategy
MDBs	Multilateral Development Banks
NCP	National Climate Policy
NCCF	National Climate Change Fund
NDC	Nationally Determined Contributions
NDS	National Development Strategy
RBZ	Reserve Bank of Zimbabwe
ZEPARU	Zimbabwe Policy Research Unit

ZIMBABWE

KEY MESSAGES

- Zimbabwean economic growth moderated sharply to 3.0% in 2022, down from 8.5% in 2021, largely due to exogenous and endogenous shocks. Floods and drought adversely affected the performance of the agriculture sector which contracted by 14% in 2022. Output recovery is expected in 2023 and 2024 with modest growth projections of 3.2% and 3.2%, respectively, largely anchored by agriculture, mining, and services sectors.
- In 2021, Zimbabwe has prepared revised nationally determined contributions (NDCs) to climate change which represented a fair but ambitious 7% further reduction in emissions from 33% in the first NDC to 40% in the revision. The initial NDCs covered only the energy sector, but the updated document is more comprehensive, with the additions of considering managing waste, industrial processes and product use, agriculture, forestry, and other land use sectors.
- The African Economic Outlook (AEO) 2023 estimates that the total climate finance flow to Zimbabwe from 2019 to 2020 was USD 488.5 million. The private sector accounted for USD 205.6 million (42%), and public sector sources accounted for USD 282.8 million (58%) of the total. The climate finance received from 2019 to 2020 fell short of average climate finance needs, estimated at USD 550.3 million. The current funding also falls short of required financing for the country with a financing gap estimated at USD 61.7 million or 0.24% of GDP for the period 2020-2030. The country's revised NDCs estimate that mitigation measures alone will cost an estimated USD 4.8 billion by 2030 if the country is to achieve its NDC targets.
- With the integration of numerous innovative financing tools including green bonds, carbon markets, debt-for-nature swaps and blended financing, current developments in the financial markets represent clear opportunities for Zimbabwe to improve the mobilization of the financing needed to implement actions for green, sustainable, and inclusive growth.
- Zimbabwe has been significantly dependent on global finance mechanisms to mitigate the effects of climate change as its domestic finance mechanisms have not been fully explored. To encourage greater mobilization of resources from the private sector, the country must build its own technical expertise in the financial structuring of climate projects, on the one hand, and improve the business environment by establishing and strengthening an incentive-based regulatory, institutional and governance framework, on the other. Multilateral banks and development finance institutions can support these efforts.
- Zimbabwe is well-endowed with natural resources that contribute significantly to the country's socio-economic growth. Natural capital rents for Zimbabwe have averaged 6.0% of GDP from 2018 to 2020. This is a marked improvement from 4.6% of GDP in 2015. Natural resource rents have been collected from minerals, forest, and coal. Minerals accounted for an average of 3.2% of GDP for the period 2018 to 2020 which represents a significant increase from 0.8% of GDP in 2015. Forests and coal rents have averaged 2.3% of GDP and 0.4% of GDP during the same period. The country needs to enhance natural resource rents collection to widen its domestic resource base which is critical for achieving its development priorities.

I. INTRODUCTION

1.1 This Country Focus Report (CFR) for Zimbabwe reviews the role of the private sector in the financing of climate change and green growth. It further explores the scope for harnessing natural capital to finance adaptation and mitigation to climate change and to promote green growth. It aims to replicate at the country level the analyses carried out at the continental level in the African Development Bank's main African Economic Outlook (AEO) report.

1.2 This Report is structured as follows. Section 2 reviews Zimbabwe's recent macroeconomic performance and outlook. Section 3 analyses private sector financing for climate and green growth in Zimbabwe. Section 4 discusses the role of natural capital for climate finance and green growth in Zimbabwe. Section 5 draws some policy recommendations for the Government, the donors' community, the domestic and international private sector, and developed country governments.

II. ZIMBABWE'S ECONOMIC PERFORMANCE AND OUT-LOOK

2.1 RECENT MACROECONOMIC DEVELOPMENTS

Economic growth and drivers: Zimbabwean economic growth moderated to 3.0% in 2022, down from 8.5% in 2021, which was largely due to exogenous and endogenous shocks. Floods and droughts adversely affected the performance of the agriculture sector which contracted by 14% in 2022. Total output was further constrained by macroeconomic instability in 2022 arising from exchange rate depreciation and hyperinflation.

Monetary policy and inflation: The exchange rate depreciated by 521% against the US Dollar in 2022 as the Zimbabwe Dollar fell from ZW\$108 to USD1 in January 2022 to ZW\$671 to USD1 by December 2022. This led to an

escalation of the inflation rate over the course of the year. The annual inflation rate rose sharply from 60.6% in January 2022, reaching a peak at 285% in June 2022. Russia's invasion of Ukraine exerted further pressure on the economy as it triggered an increase in fuel, fertilizer, and food prices. Inflation moderated to 243.8% in December 2022 as the Government introduced measures to tame the rapid depreciation of the local currency, including the sale of gold coins and an interest rate hike from 100% to 200%.

Fiscal deficit and debt dynamics: Fiscal deficit narrowed to -0.9% of GDP in 2022 reflective of fiscal consolidation. Zimbabwe's total debt stood at USD 17.5 billion in 2022 (66% of GDP). External debt was estimated at USD 14 billion, while domestic debt stood at USD 3.5 billion as of 30 September 2022.

Table 1- Macroeconomic indicators

	2018	2019	2020	2021	2022i	2023(p)	2024(p)
Real GDP Growth	3.5	-6.1	-7.8	8.5	3.0	3.2	3.2
Real GDP Growth per Capita	1.5	-8.1	-9.9	6.4	1.0	1.1	1.1
Inflation	10.6	237.2	621.5	143.3	184.1	132.2	36.1
Overall Fiscal Balance, Including Grants (% GDP)	-6.5	0.2	1.8	-1.8	-0.9	-0.2	0.4
Current Account (% GDP)	-5.8	4.1	3.1	2.9	1.0	0.8	0.5

Source: AfDB Statistics Department, April 2023

Note: Source: Data from domestic authorities; estimates (e) and predictions (p) based on authors' calculations.

Zimbabwe has started implementing its Arrears Clearance, Debt Relief and Restructuring Strategy, with a view to resolve the long outstanding debt and external arrears with creditors. Gross international reserves were

estimated at USD540 million (0.9 months of import cover) in 2022. As of September 2022, Zimbabwe utilized a total USD 582 million of the International Monetary Fund's additional special drawing rights allocation, out of a total of USD

960 million allocated in August 2021.

The current account balance: The current account balance also narrowed to 1.0% of GDP in 2022 from 2.9% of GDP in 2021 due to increased fuel and imported commodity prices.

Poverty and unemployment: Poverty levels and inequalities are high in Zimbabwe due to deteriorating economic conditions over the years. The extreme poverty rate was estimated at 44% in 2022. The country exhibits considerable inequality, as reflected by its Gini coefficient of 50.3 in 2023. As of 27 January 2023, Zimbabwe had recorded 259,942 cases of COVID-19 infections and 5,635 deaths. A total of 12.69 million COVID-19 vaccine doses have been administered and over 31% of the population is fully vaccinated against the disease.

The economy is growing despite significant challenge.

2.2 OUTLOOK AND RISKS

Growth outlook: The economy is anticipated to experience a recovery in 2023 and 2024, with growth projections of 3.2% for each year. This recovery will be primarily driven by the agriculture, mining, and services sectors. Tight

monetary and fiscal policy is expected to result in improved macroeconomic stability in 2023.

Inflation: Annual inflation is expected to ease further to 132.2% in 2023 and 36.1% in 2024 supported by economic stability, subject to evolving global dynamics.

Fiscal Deficit: The fiscal deficit is expected to narrow to -0.2% of GDP in 2023 on account increased revenue mobilization and stringent budget execution.

Current Account: A positive current account balance is forecasted for 2023 and 2024 at 0.8% and 0.5% of GDP, respectively, supported by favourable commodity export prices and an increase in remittances.

Potential Risks: The country confronts significant risks, including an uncertain global economic outlook due to geopolitical tensions, climatic shocks, power shortages, and exchange rate volatility. These factors pose considerable challenges to the country's economic stability and growth.

III. PRIVATE SECTOR FINANCING FOR CLIMATE AND GREEN GROWTH IN ZIMBABWE

3.1 THE IMPERATIVE FOR GREEN GROWTH AND THE ROLE OF PRIVATE SECTOR FINANCING

3.1.1 Zimbabwe's commitment to green growth and climate action

Zimbabwe is highly vulnerable to climate variability and change. In fact, the country ranks amongst the top three countries in the world most affected by climate change (Germanwatch, 2021). Climate change has increased the frequency of extreme weather conditions such as drought, floods, storms, and heat waves. In recent years, rainy seasons have been characterized by very heavy rains, hailstorms, and floods. In January 2022, tropical cyclone Ana affected over 1,400 people and caused wide-scale destruction to infrastructure including houses, schools, and roads. Similarly in 2019, tropical Cyclone Idai caused damage worth an estimated USD 622 million (3.0% of GDP) to infrastructure, properties, crops, and livestock. Studies from the Meteorological Services Department of Zimbabwe estimate that minimum temperatures have risen by 2.6°C over the past century. Meanwhile, annual rainfall has declined by 5% across the country over the same period.

In recent years Zimbabwe has developed a number of framework policy approaches to respond to the climate change agenda which include: the Climate Response Strategy, the National Climate Policy, the National Determined Contributions, the National Adaptation Plan

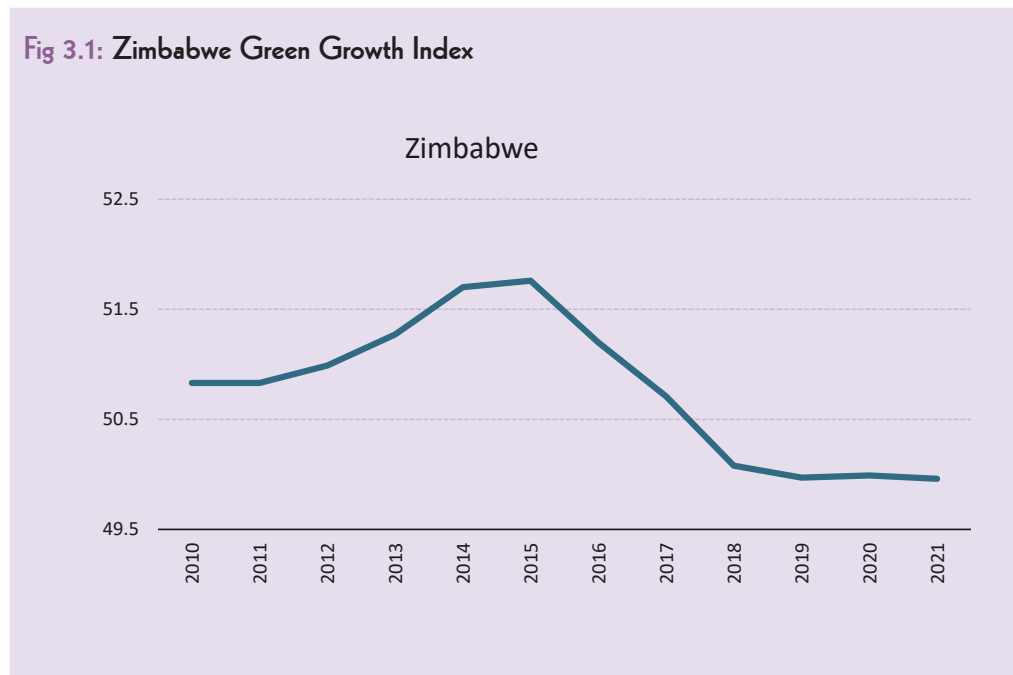
Process, Devolution and Decentralization Policy, and the National Agricultural Policy Framework. Zimbabwe has developed strategies and plans to curb the escalation of greenhouse gas (GHG) emissions. The Climate Change Response Strategy and the National Climate Change Response Strategy were developed to provide a framework for a comprehensive and strategic approach on aspects of adaptation, mitigation, technology, financing, public education and awareness.

The vision of Zimbabwe's Climate Change Response Strategy is to create a nation resilient to climate change while ensuring sustainable development and a climate-proofed economy through recognizing the vulnerable nature of Zimbabwe's natural resources and society. The goal of the Response Strategy is to mainstream climate change adaptation and mitigation strategies into economic and social development at national and sectoral levels through multi-stakeholder engagement.

3.1.2 Political commitment to green growth and climate action in Zimbabwe

The country is working on activities to address the challenges of global climate change and transition to green growth. Through its National Development Strategy (2021-2025), the Government has prioritized the mainstreaming of climate change and related financing in all national programmes; strengthened early warning systems; promoted climate smart innovations and technology transfer;

Fig 3.1: Zimbabwe Green Growth Index



Source: *African Economic Outlook 2023*

Zimbabwe targets a further 7% emissions reduction.

strengthened capacity-building and raising awareness on climate change adaptation and mitigation. Zimbabwe has actively participated in international negotiations on climate change from as far back as 1992. It was among the first countries to sign and ratify the United Nations Framework Convention on Climate Change in 1992 and acceded to the Kyoto Protocol in 2009. Zimbabwe has developed a Low Greenhouse Emission Development Strategy (LEDS). The Strategy was approved in 2019 and covers agriculture, forestry and other land use (AFOLU). The LEDS Strategy is consistent with the 2020 - 2025 National Development Strategy 1 (NDS).

According to the country's Nationally Determined Contributions 2021, Zimbabwe strongly supports the objectives of the Paris Agreement to limit global warming to below 2°C whilst pursuing efforts towards further reduction to 1.5°C above pre-industrial levels. Zimbabwe has strengthened its mitigation contribution to represent a 40% reduction in per capita GHG emissions below the projected 'business as usual' scenario, a significant 7% increase from the 33% reduction in per capita emissions targeted for the INDC. Achieving this increased target will require considerable support from

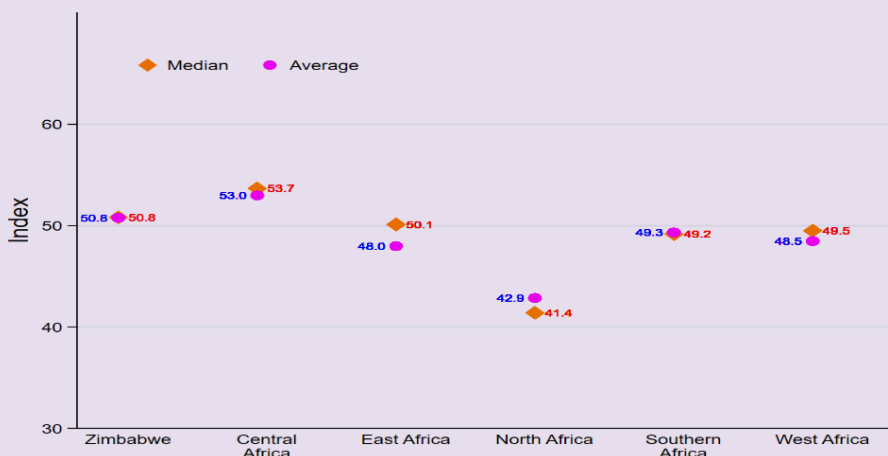
the international community. The 40% per capita emissions reduction target is therefore conditional on such support being forthcoming in a timely manner. Whilst the INDC only covered energy-related emissions, Zimbabwe's revised baseline and mitigation target has been expanded to include emissions from all sectors, including industrial processes and product use (IPPU), AFOLU, and waste. This is a significant increase in ambition from the INDC.

3.1.3 How has Zimbabwe performed in relation to green growth?

Zimbabwe's mean Green Growth Index score (GGI) has been stable over the past 12 years, increasing from 47.6 in 2010 to 48.6 in 2021. Based on GGI the country was one of the highest-performing countries between 2015 and 2021, with a mean index of 48.6. According to the analysis carried out to inform the NDC update, in 2017, Zimbabwe's net GHG emissions were estimated at 35.84 MtCO₂ eq. The energy sector and AFOLU contributed most of the emissions in 2017 (33% and 54%, respectively), followed by IPPU, and waste.

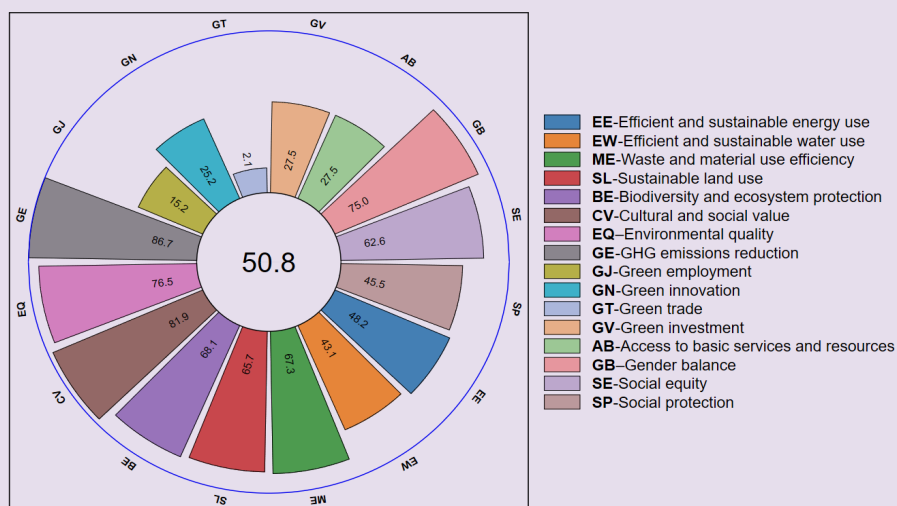
3.1.4 Why private sector finance and why now?

Figure 3.2: Zimbabwe's GGI Performance relative to other countries in Africa



Source: African Economic Outlook 2023

Figure 3.3: Components of Zimbabwe GGI



Source: African Economic Outlook 2023

Despite the strong political commitment, government resources, and particularly public finance alone will not be enough for a successful implementation of Zimbabwe's NDC, and achievement of its targets will be out of reach. The Government recognizes that the private sector is a key partner, particularly in low emissions development and building resilience. It will need to play an important role in financing and implementing the NDC, provided

an enabling environment and appropriate incentives are established by the Government. Zimbabwe recognizes the need to crowd in the private sector through blended finance and results-based approaches to de-risk markets, scale up impact investments and increase participation in implementing climate actions. The private sector in Zimbabwe operates in all economic sectors including industry, mining, agriculture, water, manufacturing, finance,

and the financial sector. Engagement with Government has been focused on issues such as sustainability, standards, energy efficiency and water use efficiency audits. Investment opportunities abound in technological development and innovation, research, and development, sustainability reporting, and energy and water audits.

A 2021 study by MDPI and ACS Style¹ noted that Zimbabwe has been significantly dependent on global finance mechanisms to mitigate the effects of climate change and its domestic finance mechanisms have not been fully explored. Climate change adaptation in Zimbabwe lacks a key financing policy framework to fully operationalize it, even though progress has been made in formulating the climate change strategy. The architecture supporting climate adaptation projects lacks a policy direction or instruments sufficient to allow the partners and private sector to invest with confidence. In Zimbabwe, practical solutions to the climate adaptation challenge will need a harmonized relationship between the private and public sector, which is so far absent.

3.2 PRIVATE SECTOR FINANCE FLOWS, GAPS AND THE NEEDS FOR GREEN GROWTH AND CLIMATE ACTION IN ZIMBABWE.

Zimbabwe's updated NDCs note that Zimbabwe is highly vulnerable to the impacts of climate change and its priority is therefore to enhance climate resilience. Furthermore, Zimbabwe's contributions to global emissions are almost negligible, contributing only 0.07% of global emissions in 2017. Despite this, Zimbabwe remains committed to ensuring a fair contribution to the Paris Agreement by demonstrating its enhanced ambition through expanding its contribution to climate mitigation. Zimbabwe's climate action agenda contained in the NDS1 highlights several key actions including prioritizing the mainstreaming of climate change and related financing in

all national programmes; promoting climate smart innovations and technology transfer; strengthening capacity-building and awareness on climate change adaptation and mitigation; promoting low emissions development pathways; and reducing greenhouse gases and finding alternative energy solutions. The NDS1 recognizes that public funds are insufficient to finance climate-related initiatives and projects, hence the need to leverage support from the private sector.

3.2.1 Current flows of finance

The AEO 2023 estimates that the total climate finance flow to Zimbabwe from 2019 to 2020 was USD 488.5 million. Private sector funding accounted for USD 205.6 million (42%), and public sector sources accounted for USD 282.8 million (58%) of the total climate finance flow to Zimbabwe. Climate finance received from 2019 to 2020 falls short of the average climate finance needs, estimated at USD 550.3 million. The total financing gap was therefore estimated at USD 61.7 million or 0.24% of GDP for the period 2020-2030. The required annual growth rate of private climate flows to close the residual financing needs at each percent contribution of the private sector for Zimbabwe is estimated to be 2.4%. The Climate Policy Initiative database estimates that the bulk of public sector financing came through state-owned enterprises, which accounted for 21%, followed by government-owned financial resources which accounted for 16%. Multilateral development financial institutions accounted for 14% of public financing. About 71% of these resources went to the energy sector. In terms of use, 73% was allocated to mitigation and 21% to adaptation.

3.2.2 Private sector finance needs for the future

Zimbabwe recognizes that it will require both domestic and international financial support to implement the mitigation and adaptation measures identified in its revised NDC.

Mobilizing external financing is critical for Zimbabwe.

A minimum of US\$4.8 billion is needed annually to meet NDC targets.

¹ Chirisa, Innocent, Trynos Gumbo, Veronica N. Gundu-Jakarasi, Washington Zhakata, Thomas Karakadzai, Romeo Dipura, and Thembanani Moyo. 2021. "Interrogating Climate Adaptation Financing in Zimbabwe: Proposed Direction" Sustainability 13, no. 12: 6517. <https://doi.org/10.3390/su13126517>

The mitigation measures alone will cost an estimated USD 4.8 billion, while adaptation measures are yet to be estimated. The revised NDC also notes that a mix of public and private sources of finance will be required to finance adaptation and mitigation measures. The private sector will play an important role in financing and implementing the NDC, provided there is an enabling environment and appropriate incentives in place. Climate finance will be critical to unlock other sources of investment, including foreign and domestic sources of private finance and investment.

3.3 OPPORTUNITIES AND BARRIERS FOR MOBILIZING PRIVATE SECTOR FINANCE FOR GREEN GROWTH AND CLIMATE ACTION.

3.3.1 Opportunities for private sector investments

Zimbabwe's climate change agenda has made advances in mitigation and adaptation. The country is prioritizing investments that can steer economic growth while decreasing emissions and building resilience at the same time. Zimbabwe's revised NDC has taken a broad economy-wide approach, hence creating opportunities for investments across all sectors including renewable energy, transport, agriculture, innovation, skills, and technology. These sectors also offer useful opportunities and benefits to the private sector. In recent years, Zimbabwe's private sector with support from international development organizations, is increasingly engaged in climate action. For example, the Confederation of Zimbabwe Industries and the Business Council for Sustainable Development are supported by the United Nations Development Programme and the International Labour Organization to increase awareness of climate change and promote the adoption of clean technologies. The BCSD supports its members to conduct baseline energy and water efficiency audits to inform cost-effective investments.

In transitioning to a low carbon and climate resilient economy, the Government through the Infrastructure Bank of Zimbabwe (IDBZ) is establishing a National Climate Finance Facility (CFF) which provides a platform to crowd in various climate finance sources and private sector investment for green infrastructure projects. The CFF is co-funded by the Government of Zimbabwe through the proceeds of climate-related taxes for green infrastructure development. It draws capital from various financing sources including multilateral and bilateral financiers and the private sector and will deploy financing through diverse financial instruments including grants, loans, equity and guarantees.

In May 2023, the Government of Zimbabwe announced that it will regulate voluntary carbon offset trading in a bid to curb greenwashing and ensure benefits for local communities. The country would take advantage of the USD 2 billion voluntary carbon offset market that involves companies buying credits from emission-reducing projects such as renewable energy or planting trees to offset their own emissions. It was noted that entities operating carbon credit projects in the country were largely unregulated, hence it proved difficult to determine the size of Zimbabwe's carbon market. The Government wants all carbon projects to be registered with the authorities and plans to take 50% of all revenue from carbon projects, with foreign investors limited to 30% and the balance of 20% going to local communities. This could yield benefits in increased conservation efforts by local communities.

3.3.2 Barriers to private sector investments

Zimbabwe faces multiple barriers to private sector financing for climate change in Zimbabwe. The country has long outstanding debt and debt arrears that have implications for its access to international and multilateral finance. Concessional debt financing from multilateral development partners is not available and the

country's risk ratings are high, making foreign financing very expensive. Therefore, its main source of financing is from grants and often emergency grants. The country also faces a challenging domestic environment with very limited or no access to long-term financing. Short-term financing is very expensive which limits the scope of foreign financing that would be available to the private sector.

The Green Climate Fund (GCF) Country Programme for Zimbabwe noted several capacity constraints in financing and implementing climate finance investments in the country. These included the generally low capacity to develop bankable project proposals in key sectors of energy, industry, and transport that could be used to mobilize climate financing. There is, therefore, a need to develop the capacity of the private sector to prepare bankable project proposals. There is generally weak collaboration between key stakeholders including the government and the private sector to prepare sufficiently strong proposals to mobilize climate finance, for example, the requirements for GCF are often considered too high and costly. There is also a lack of capacity to mobilize co-financing, scale up finance for technology deployment and crowd in the private sector. Inadequate availability of data and limited expertise lead to several problems including: (i) challenges in data analyses; (ii) challenges in evaluating accurate data on adaptation financing, policies, and actions; and (iii) complications in the identification of funds and the procedures to access them. Therefore, the Government of Zimbabwe can fruitfully explore the Climate Adaptation Financing Framework to inform policy and foster climate action.

Tax administration in Zimbabwe would also need reform to incentivize increasing private financing of climate change. For example, there are complex procedures that demand careful monitoring, compliance, and administrative efforts as well as increased responsibilities for tax authorities, financial institutions, and green investment firms, potentially leading to higher compliance costs.

3.3.3 Pathways to mobilizing private sector finance for green growth and climate action.

Zimbabwe offers opportunities for mobilizing private sector financing for climate change in the key sectors of energy, agriculture, and industry. However, the country is characterized by both actual and perceived market risks which have an impact on private investment. It would be critical that both actual and perceived risks are addressed for the development of Zimbabwe's green investment market. One approach to tackle this challenge is by using de-risking financial instruments, such as guarantees, which can enhance investor confidence. The Government's role is to create a favourable environment for doing business by pursuing consistent macro-economic and financial policies that enhance investor confidence which could help provide assurances and mitigation of potential risks. Such instruments can play a significant role in fostering vibrant primary and secondary markets within the green investment sector.

The country needs to strengthen collaboration between government and private sector which will help to create awareness on climate change and financing mechanisms. The Government of Zimbabwe is establishing the National Climate Change Fund (NCCF), which was proposed in the National Climate Policy. The NCCF plays a central role in financing the implementation of the revised NDCs. It seeks to mobilize climate change resources from different financing sources, both public and private, international and domestic, to support country-driven climate change priorities based on national circumstances and realities. The NCCF covers a diverse range of sectors through different thematic windows and offers a wide range of financing instruments such as grants and concessional loans to support climate change mitigation and adaptation actions. NCCF financing takes different formats, including blending public, private and philanthropic financing to support climate change mitigation and adaptation projects at national and sub-national levels.

In transitioning to a low carbon and climate-resilient economy the Government, through the Infrastructure Bank of Zimbabwe (IDBZ), is working on the establishment of a National Climate Finance Facility (NCFF) which provides a platform to crowd in various climate finance sources and private sector investment for green infrastructure projects. The NCFF is co-funded by the Government of Zimbabwe through the proceeds of climate-related taxes for green infrastructure development. It draws capital from various financing sources, including multilateral and bilateral financiers and the private sector and will deploy financing through diverse financial instruments including grants, loans, equity and guarantees. Operationalization of the NCFF is supported by the legal registration of an independent entity (the Trust Deed Fund) and the development of operational procedures and systems for effective fund administration.

3.3.4 Role of DFIs and MDBs

As in most countries, inadequate financing is one of the major obstacles to climate change action. Multilateral development banks (MDBs) and Development financial institutions (DFIs) have a critical role to play in enhancing access to finance and in strengthening the capacity of stakeholders in climate response, including governments and the private sector.

These institutions can support Zimbabwe in developing national development strategies that respond to climate change, including low-carbon and green growth transitions. Finally, DFIs and MDBs are key actors in supporting innovation in climate finance instruments.

As discussed earlier, Zimbabwe does not have access to concessional and long-term financing which creates another obstacle to delivering its goals. In addition, short-term financing is very expensive. MDBs and DFIs should therefore offer less risk-averse finance to Zimbabwe and direct this finance to all sectors that are most important for green growth. This in turn will help unlock further private sector financing.

As demonstrated by the Renewable Energy Fund, established under the Infrastructure Development Fund of Zimbabwe (IDBZ), local DFIs also have a role to play in addressing bottlenecks around access to finance by local private sector entities. The IDBZ is currently promoting investments from both public and private companies and the REF specifically seeks to lower investment bottlenecks in renewable energy enterprises. It also ensures that initiatives are bankable and sustainable and therefore more likely to be successful.

IV. NATURAL CAPITAL FOR CLIMATE FINANCE AND GREEN GROWTH

4.1 THE EVOLUTION OF NATURAL CAPITAL

Zimbabwe is richly endowed with vast natural resources which include renewable natural resources, land, forest, water, wildlife, and sunshine. Non-renewable natural resources include a vast deposit of a variety of minerals and gas. The exploitation of these natural resources provides significant opportunities for the country's socio-economic growth. However, sustainable development depends on the rents from the extraction of natural resources being converted into other sources of income (Newman et.al., 2016). Like other natural resource-rich countries, Zimbabwe is faced with multiple challenges to ensure the sustainable use of natural resources, including transparency and accountability in the exploitation of the natural resources and management of the resource revenues.

Natural capital rents for Zimbabwe, which have been collected from minerals, forest and coal, have averaged 6.0% of GDP from 2018 to 2020. This is a marked improvement from 4.6% of GDP in 2015 and may suggest further growth is possible. Minerals accounted for an average of 3.2% of GDP for the period 2018-2020 which represents a significant increase from 0.8% of GDP in 2015 whereas forests and coal rents have averaged 2.3% of GDP and 0.4% of GDP during the same period.

4.2 NON-RENEWABLE NATURAL CAPITAL

Minerals: The National Development Strategy

of the Government of Zimbabwe (GoZ) has set out a long-term vision to transform the country into an upper middle-income society by 2030. One of the main pillars to support this middle-income status is the mining and minerals industry. Mining is currently one of the key economic sectors in the country, contributing about 8.6% to the country's GDP, responsible for more than 60% of exports and accounting for a significant share of foreign direct investment (FDI). The Zimbabwe Policy Research Unit (ZEPARU) noted that the growth of Zimbabwe's mineral sector is underpinned by enhanced mineral exploration, the opening of both new and closed mines, increased capacity utilization, beneficiation of mineral resources and strengthening of the linkages in the minerals value chains. Zimbabwe is endowed with a diverse mineral resource base with at least 133 minerals that have been extracted or confirmed at one time or another, consisting of about 75 gemstone varieties, 28 metal minerals, 27 types of industrial minerals and three energy minerals. Zimbabwe's mineral resource base is diverse and rich, especially with respect to minerals such as platinum, chromium, diamonds, gold, black granite, asbestos, coal, and tantalite.

4.3 RENEWABLE NATURAL CAPITAL

4.3.1 Land

Zimbabwe has a total land area of 386,000 square kilometres with a 2008 population of approximately 12 million people, 63% of whom live in rural areas. About 48% of the country's land is agricultural, 5% of which is irrigated.

Forested areas make up 45% of land area, and nationally protected areas constitute 15% of land area.

4.3.2 Forest

Zimbabwe's total forest and woodland area is 17,547,000 ha found in communal lands, on private land and in national parks and protected areas, constituting about 45% of the country's total land area. About 66% of the forests and woodlands are on farms, communal and resettlement areas and their surroundings; 28.5% in parks; about 5% lies within gazetted forests; and 1% constitutes the commercial exotic plantations largely in Eastern Highlands and a few in the Midlands. There are also 24 gazetted indigenous forests in Zimbabwe which are found mainly in the north-western region (Forestry Commission, 2018). Forests play a critical role in providing socio-economic and environmental benefits to Zimbabwe, being vital for rural livelihoods, biodiversity, climate mitigation, energy supply, soil and water protection. Besides their economic contribution, forests also provide environmental benefits such as water catchment protection and climate change mitigation as well as cleaning the air. However, the depletion of forests in Zimbabwe is taking place at an alarming rate as the country lost 36.6% of its forest area between 1990 and 2015 (FAO, 2015). Deforestation is mainly attributed to illegal settlements, change of land use, and mining, among other causes.

Efforts towards afforestation and reforestation do not keep pace with the significant level of forest depletion. Institutional and legal frameworks for sustainable forest management are currently weak. Evidence shows that by 2015, Zimbabwe's forest cover had declined by 36.6% from 22,164,000 ha in 1990 (FAO, 2015). Zimbabwe's planted forest fell from 154,000 ha in 1990 to only 87,000 in 2015 while other naturally regenerated forest fell from 21,209,000 ha to 13,174,000 ha over the same period (FAO, 2015). The Forestry Commission has been on a massive tree planting programme nationwide since 1992 and since 2005 an average of 8.1 million trees were planted which had a survival rate of about 65 to 70% (Nhekauro

and Gumbie, 2013). Zimbabwe has various regulatory instruments governing the use of forestry resources including the Forest Act and the Communal Lands Forest Produce Act of 1987 that directly influence the management and utilization of forest resource in Zimbabwe, but the sharp deforestation rate suggests there is more to do.

4.3.3 Water

According to the FAO, Zimbabwe's total internal renewable water resources are estimated at 12.26 km³/year, of which 11.26 km³ are surface water resources and 6.00 km³ are groundwater resources. The overlap between surface water and groundwater resources has been estimated to be 5.00 km³. The country consists of major river systems, which form the basis of the country's seven river catchments: Save, Runde, Mzingwane, Gwayi, Sanyati, Manyame and Mazowe. Except for the Save and Runde, the other main rivers drain into either the Zambezi or the Limpopo. The annual potential yield at 10 % risk (resources in a dry year of a 10th year frequency) from all river basins in the country is estimated at 11.26 km³/year. This assessment excludes external surface water resources from bordering international rivers like the Zambezi and Limpopo. Out of this potential yield and allowing for topographical constraints and disparities between locations of storage sites and regions where water is required, the estimated exploitable yield is 8.5 km³/year, of which 56% (4.8 km³/year) is already committed. This leaves 3.7 km³/year available for irrigation and other sectors. Dams are the core of significant progress towards the full development of the country's water resources. Their total capacity is about 103 km³, but this includes 50% of Lake Kariba on the Zambezi River, which is shared between Zambia and Zimbabwe and accounts for 94 km³ of this capacity. Excluding this shared dam, total capacity is thus about 9 km³. (FAO, 2005).

4.3.4 Wildlife

Zimbabwe is home to many species of wildlife in national parks, safari areas, recreational parks and sanctuaries collectively called the

Wildlife Estate, covering an estimated 12.5 % of the total land area of Zimbabwe. These areas mostly lie in remote or rugged terrain, in hot and dry areas with infertile soils of low agricultural potential. Most of Zimbabwe's wildlife resides within these park estates, made up of different categories: national parks, safari areas, botanical reserves and botanical gardens, sanctuaries and recreational parks as outlined in the Parks and Wildlife Act and mostly managed by the Parks and Wildlife Management Authority. Zimbabwe's wildlife sector suffers from institutional and regulatory

gaps and the lack of a comprehensive policy to sustainably manage the resource. Illegal trading in wildlife is on the increase and the current wildlife governance structure marginalizes local people in decision-making. Zimbabwe is a signatory to the Convention on International Trade in Endangered Species in Wild Flora and Fauna and bound by the convention's resolutions. The Convention regulates the worldwide commercial trade in wild animal and plant species and its goal is to ensure that international trade does not threaten the survival of any species.

V. CONCLUSION AND POLICY RECOMMENDATIONS

5.1 CONCLUSION

Zimbabwe has shown strong commitment to addressing climate change. The country has developed key policy and strategic instruments on green growth and climate change, notably the Climate Change Response Strategy that provides a framework for a comprehensive and strategic approach on aspects of adaptation, mitigation, technology, financing, public education and awareness. However, access to finance for climate change and green growth has been limited. The Government recognizes that it needs to mobilize private sector finance, MDBs and DFIs in order to achieve its updated NDC commitments. Zimbabwe has prioritized private sector financing to support it in transitioning to green and inclusive growth. The country is developing the National Climate Change Fund and Climate Finance Facility to crowd in private sector through blended finance and results-based approaches to de-risk markets, scale up investments and scale up climate actions.

5.2 POLICY RECOMMENDATIONS FOR PRIVATE SECTOR FINANCING FOR CLIMATE CHANGE AND GREEN GROWTH

5.2.1 National Government

- Zimbabwe has in recent years been characterized by a challenging business environment due to macroeconomic conditions and policy rigidities. These have had significant impact on private sector investment. Going forward, the Government needs to both address macroeconomic challenges and provide

a favourable environment for private sector investment.

- Zimbabwe has been significantly dependent on global finance mechanisms to mitigate the effects of climate change as its domestic finance mechanisms have not been fully developed. This underscores the importance of partnership models between Government and private sector. As a result, local financing institutions such as the Infrastructure Development Bank of Zimbabwe could play a much greater role in future in mobilizing and channelling climate finance.
- Further strengthening the coordination between government and the private sector is a clear priority. The architecture supporting climate adaptation projects lacks a policy direction or instruments sufficient to allow the partners and private sector to invest with confidence. In Zimbabwe, practical solutions to the climate adaptation challenge require a harmonized relationship between the private and public sector, which is lacking.
- There is a need for ensuring action on mainstream green growth is integrated into national policies and strategies to ensure effective implementation. Zimbabwe's climate action agenda contained in the NDS1 highlights several key actions. These include prioritizing the mainstreaming of climate change and related financing in all national programmes; promoting climate smart innovations and technology transfer; strengthening capacity building and awareness on climate change adaptation and mitigation; promoting low emissions

development pathways; and promoting the reduction of greenhouse gases and alternative energy solutions.

- The Government should lead but work in tandem with the private sector to develop a pipeline of bankable green projects aligned with Zimbabwe's NDC priorities. For example, the GEF country programme recommends that the pipeline of projects should address the climate change problem through adaptation, mitigation of technology transfer, policy, and provide a governance framework for adaptation and mitigation. The projects should also have a strong climate impact, based on the best available science.

5.2.2 MDBs and DFIs

- Strengthening coordination between MDBs and DFIs and the private sector is needed to facilitate the implementation of green growth and climate action frameworks and actions. Establishing long-term partnerships to provide finance

through various mechanisms including grants, concessional loans, investments, and risk-sharing instruments, will depend on mobilizing the private sector.

- MDBs and DFIs should develop innovative financing instruments that de-risk private sector investments, particularly in the non-energy sectors that are often considered higher risk and less attractive to the private sector.

5.2.3 Private sector

- The private sector needs to collaborate with the Government, MDBs and DFIs to identify key risks to climate change and green investment plans and propose ways of addressing them. Developing platforms that link the domestic private sector with other international actors such as MDBs, DFIs and the private sector internationally should also be considered to enhance resource mobilization.

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Annex 1: Zimbabwe Selected Indicators

Indicators	Unit	2010	2015	2018	2019	2020	2021	2022 (e)	2023 (p)	2024 (p)
National Accounts										
GNI at Current Prices	Million US \$	8,346	17,269	23,331	22,264	22,878	24,470	...	...	...
GNI per Capita	US\$	650	1,220	1,550	1,450	1,460	1,530	...	...	...
GDP at Current Prices	Million US \$	12,042	19,963	24,312	22,600	21,670	24,124	23,640	25,302	26,738
GDP at 2010 Constant prices	Million US \$	12,042	17,049	18,605	17,462	16,097	17,460	17,985	18,565	19,158
Real GDP Growth Rate	%	19.7	1.8	3.5	-6.1	-7.8	8.5	3.0	3.2	3.2
Real per Capita GDP Growth Rate	%	18.2	-0.4	1.4	-8.0	-9.7	6.3	0.9	1.1	1.0
Value Added: Mining and quarrying	Million US \$	802	1,089	1,353	1,313	1,244	1,377	1,337	...	...
Value Added: Mining and quarrying	% GDP	6.7	5.5	5.7	5.8	5.7	5.7	5.8	...	...
Value Added: Fishing	Million US \$	...	...	...	...	...	...	...	...	...
Value Added: Fishing	% GDP	...	...	...	...	...	...	...	...	...
Prices and Money										
Inflation (CPI)	%	3.0	-2.4	10.5	237.2	621.5	143.3	184.1	132.2	36.1
Exchange Rate (Annual Average)	local currency/US\$	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Government Finance										
Total Revenue and Grants	% GDP	20.5	18.7	14.9	12.5	16.5	23.2	23.7	23.4	23.4
Total Expenditure and Net Lending	% GDP	18.6	19.7	21.4	12.2	14.7	25.0	24.6	23.6	22.9
Overall Deficit (-) / Surplus (+)	% GDP	1.9	-0.9	-6.5	0.2	1.8	-1.8	-0.9	-0.2	0.4
External Sector										
Terms of Trade Growth	%	-72.9	24.1	-3.0	9.3	54.1	-14.2	-5.3	3.3	5.3
Current Account Balance	Million US \$	-1,444	-1,597	-1,380	920	678	698	234	192	131
Current Account Balance	% GDP	-12.0	-8.0	-5.7	4.1	3.1	2.9	1.0	0.8	0.5
Debt and Financial Flows										
Debt Service	% exports	...	...	...	...	...	...	...	...	...
External Debt	% GDP	47.6	39.1	25.7	36.9	51.1	47.6	52.8	60.9	68.9
Net Total Financial Flows	Million US \$	743	841	746	807	988	952	...	...	...
Net Official Development Assistance	Million US \$	713	788	795	844	985	974	...	...	...
Net Foreign Direct Investment	Million US \$	166	421	745	280	194	166	...	...	...
Demography										
Total Population	Millions	12.8	14.2	15.1	15.4	15.7	16.0	16.3	16.7	17.0
Population Growth Rate	%	1.3	2.2	2.0	2.0	2.1	2.1	2.0	2.1	2.1
Urban population	% of total	36.4	36.1	36.2	36.3	36.4	36.5	36.6	36.7	36.8
Life Expectancy at Birth	Years	50.7	59.6	61.4	61.3	61.1	59.3	59.4	61.9	62.1
Fertility Rate	births per woman	4.0	3.8	3.7	3.6	3.5	3.5	3.4	3.4	3.3
Poverty and Income Distribution										
Pop. living below national poverty line	% of total population	...	...	...	38.3	...	...	...	...	...
Population living below \$2.15 a day	% of total population	...	...	...	39.8	...	...	...	...	...
Gini Index	%	...	...	...	50.3	...	...	...	...	...
Labor Indicators										
Labor Force participation (total)	%	65.6	65.9	65.9	65.8	65.2	65.6	66.1	66.1	...
Labour Force participation (youth)	%	49.1	50.7	50.5	50.1	49.6	49.3	49.8	49.8	...
Unemployment rate (total)	%	5.2	5.3	6.8	7.4	7.9	8.1	7.9	8.0	8.0
Unemployment rate (youth)	%	8.8	7.9	10.6	11.6	12.7	12.5	12.4	12.5	12.4
Natural Resources rents										
Total natural resources rents	% GDP	7.1	4.6	6.1	5.3	6.8	...	...	...	...
Oil rents	% GDP	...	...	...	...	...	...	...	...	...
Natural gas rents	% GDP	...	...	...	...	...	...	...	...	...
Mineral rents	% GDP	2.3	0.8	3.1	2.7	3.9	...	...	...	...
Forest rents	% GDP	3.2	3.3	2.2	2.3	2.6	...	...	...	...
Coal rents	% GDP	1.6	0.5	0.8	0.3	0.3	...	...	...	...
Natural Capital Renewable Resources										
Arable land	1000 hectare	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	...	...	...	...
Agricultural land	1000 hectare	16,200.0	16,200.0	16,200.0	16,200.0	16,200.0	...	...	...	...
Other land	1000 hectare	4,579.7	4,810.1	4,948.3	4,994.4	5,040.4	...	...	...	...
Forest land	1000 hectare	17,905.3	17,674.9	17,536.7	17,490.7	17,444.6	...	...	...	...
Planted Forest	1000 hectare	108.0	108.0	108.0	108.0	108.0	...	...	...	...
Annual freshwater withdrawals, total	% of internal resources	28.6	27.7	30.8	30.8	...	...	...	...	...
Total Fisheries Production	metric tons	13,982.0	34,490.9	32,302.5	29,225.4	34,163.1	...	...	...	...
Climate Finance and Green Growth										
Total Climate Finance*	Million US \$	...	...	...	...	488.6	...	...	...	...
Green Growth Index**	%	50.8	51.8	50.1	50.0	50.0	50.0	...	...	...

Source : AfDB Statistics Department: African; IMF: World Economic Outlook, April 2023 and International Financial Statistics, April 2023; AfDB Statistics Department: Development Data Portal Database, April 2023. United Nations: OECD, Reporting System Division.

Notes ... Data Not Available (e) Estimations (p) Projections Last Update: June 2023

* Source: Climate Policy Initiative (www.climatepolicyinitiative.org)

**Source: Global Green Growth Institute (GGGI). The scores for the Green Growth Index range from 1 to 100, with 1 having the lowest or very low performance and 100 having the highest or very high performance



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