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Zimbabwe is back on the emerging market investment map

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The adoption of the dollar has stabilized the country's economy. With low inflation and strong growth, the country led by Robert Mugabe is starting to attract investors. Especially microfinance funds.

Ranked 172nd out of 185 countries in the World Bank's latest "Doing Business" index, Zimbabwe is a country that most investors aim to avoid. The disputed re-election of Robert Mugabe on July 31st confirmed for some the lack of democracy and continued high legal risks, such as the vast indigenization campaign being run by the ruling Zanu-PF party. Yet the situation is evolving rapidly. Monetary and economic stability have been reached thanks to the legalized use of other currencies, particularly the US dollar in January 2009, which precipitated the abandoning of the Zimbabwe dollar. The result: inflation below 4% (lower than that of South Africa) and 7.5% average growth are beginning to attract investors looking for emerging markets.

Foreign investors have already invested in the stock market, one of the best performing in Africa (52% growth at end July 2013) and already hold 25% of its market capitalization. Beyond the markets, debt constitutes an ideal means to profit from growth by reducing risk. International transactions with financial institutions are approved in less than a week by a Zimbabwe Central Bank keen to support the sector. Funds specializing in microfinance did not wait for the results of the elections. They disbursed the first private loans to market leader MicroKing, a classic microfinance institution (MFI) that mainly refinances through credit and provides financial services to entrepreneurs who do not have access to banks, in particular for small amounts (CHF 1,000 on average). While most MFIs are not as successful, demand for microcredit remains largely unsatisfied.

Despite only moderate growth (5%) projected for this year, the outlook remains positive. Forming the power base of the opposition party, Harare's population has been relieved by the extreme calm of the elections, especially after the trauma of the violence following the 2008 elections. The South African Development Community's pragmatic recognition of the election results will lead to a gradual easing of international sanctions. The European Union has lifted most sanctions on Zimbabwean officials as well as eight companies (of ten targeted) following the peaceful referendum in March 2013. The redistribution of the country's wealth has improved, and a growing number of economic actors are beginning to reap the benefits of investments, including the government, which recently hosted (together with Zambia) the General Assembly of the World Tourism Organization, a specialized agency of the United Nations. Also, the relatively high quality of education and management capacity of the country's private companies is a fundamental condition for all investors. The literacy rate (91%) is higher than its richer neighbors, such as South Africa and Botswana.

The country is by no means completely out of harm's way. Public finances are flagging, with debt estimated at 88% of GDP at the end of 2012. The financial sector is very fragile and has recently witnessed several bank closures. Systemic illiquidity is pushing banks to attract depositors with double digit interest rates (in dollars) and is barely contributing to refinancing the private sector. The country is subject to economic sanctions that prevent it from operating its major diamond and gold mines profitably. Food security deteriorated in 2012 due to vagaries of the climate, highlighting a significant vulnerability, with more than a million people depending on public aid and humanitarian agencies. Corruption is endemic, and a lack of civil liberties is leading many governments and NGOs to call Zimbabwe an authoritarian regime to be banned. A return to the Zimbabwean dollar, a possibility raised by the leaders of Zanu-PF before the elections, could undermine the economic progress made since 2009.

Nevertheless, investors are starting to come. Bets are on that Zimbabwe, boosted by a growing need for foreign investments, will find the means to climb higher in the 2014 "Doing Business" ranking. Or perhaps in 2015?

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