The Unseen Sector:
Learning from research to uncover investment opportunities in Climate Smart Agriculture and Renewable Energy in Zimbabwe
Learning brief #2

Overview

This paper provides insights from a mapping exercise that looked at MSMEs' investment needs and opportunities in the Climate Smart Agriculture (CSA) and Renewable Energy (RE) sectors in Zimbabwe. The study, which was requested by the EU Delegation (EUD), made a number of recommendations that can be taken up by the EUD to attract investments that would have a long lasting impact on MSMEs, including by using guarantee facilities under the European Fund for Sustainable Development Plus (EFSD+).

While these findings will inform EU activities in Zimbabwe, they may also be useful to investors, donors or other organisations which have an interest in the two sectors, or, more broadly, in tackling the pressing development challenges of stagnant MSME growth, informality and unemployment in Zimbabwe.

The research was carried out for the European Union Delegation by the EU Africa RISE programme.

What are MSMEs telling us: The Context

In Zimbabwe, MSMEs account for between 80 and 90 per cent of employment and contribute 60-70 per cent of GDP. The overwhelming majority of these MSMEs are informal, and the sector has been relatively stagnant over the last decade. Macro-economic and financial sector instability, including currency instability, and high levels of political risk, have made economic growth difficult for the MSME and informal sectors, which in addition have suffered from the shock of the Covid-19 lockdowns over the last two years.

Many MSMEs have responded to the economic downturn by shifting to online business opportunities, decreasing staff and hours worked, and increasing focus on the basics such as growing food. Some have engaged in risky activities such as illegal cross-border trade.

MSMEs are ready to start again. They want to make investments to respond to market opportunities and challenges and grow their business. Climate change has had a significant adverse impact on their [agricultural] productivity. Investments will therefore need to be in ‘climate-smart agriculture’ (CSA) – practices that increase productivity and food security – while helping MSMEs adapt to the impacts of climate change as well as contributing to the global effort to mitigate climate change by reducing emissions from land use.

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[1] EFSD+ (2021-2027) is the financial arm of the EU External Investment Plan, aiming to steer greater European external investment into Africa and EU Eastern and Southern neighbourhood countries.
However, to invest, they need finance, and this is limited for the sector: 43% of MSME owners are financially excluded; they do not use any financial products or services (Box 1 2012 FinScope MSME survey on financial services).

Box 1: Key findings from 2012 FinScope MSME Survey

Just over half, 57%, of MSMEs are financially included (about 1.6 million), i.e., they use financial products or services (formal and/or informal) to manage their business finances. Of these, half use informal mechanisms to manage their business finances; 18% are formally served, including both bank and formal non-bank products/services; 14% are banked and 7% have/use other formal non-bank products/services.

The rest, 43% of MSME owners or about 1.2 million, are financially excluded, i.e., they do not use any financial products or services (either formal or informal). If they borrow, they borrow from friends and family; if they save, they save at home.

MSMEs are often stuck in the ‘missing middle’: too large for microfinance, too small or too risky for commercial bank financing and lacking enough growth to attract venture capital. Therefore, their financial needs are usually met through self-finance, family and friends and community groups, e.g., internal savings and lending schemes (ISLS), or informal sector business membership organisations such as the Zimbabwe Chamber of Informal Economy Associations. These limited options constrain realising growth.

While MSME owners aim to grow their businesses, they also want to be recognised and respected as they contribute substantially to the economy. This is especially the case for women and youth. Youth want a future in the country of their birth. Women want a means to feed themselves and their families. They want to see the implementation of supportive policies that recognise, regulate and support the informal sector; they acknowledge the central role and responsibility of the Government of Zimbabwe (GoZ) in providing the incentives to formalise. Whilst there is agreement that formalisation can bring benefits to MSMEs, this very much depends on GoZ’s macro-economic, political and social policies to create incentives to formalise as well as give Zimbabweans a more equitable share of economic wealth and a greater voice in national policy formulation.

[2] At the time of this publication, a more recent study, the 2022 FinScope report was not available. We will update the brief once the report becomes available.
What Investment Opportunities exist: The Business Model

The research shows that there are several investment opportunities in the CSA/RE sectors in Zimbabwe with either national or sub-national reach. They are presented in detail below.

- Investment opportunities with national level impact

They involve building a business model around a larger player in the sector with a history of reasonable commercial performance that has the potential not only to grow itself but also to pull a whole value chain along with it. Five such investment opportunities are listed in Box 2 below.

**Box 2. CSA opportunities with national level impact potential**

1. Produce animal feed using rural based pelleting plants and selling feed in rural areas where it is consumed. Use locally produced/gathered feed inputs, e.g., Rhodes grass, local leguminous indigenous vegetation – e.g. monkey bread, acacia
2. High value horticulture for export, e.g., blueberries, fruits, garlic, ginger, teas, macadamia nuts, paprika
3. Specialised seed production, e.g., for high quality horticulture, small grains, quinoa, sesame
4. Improved animal genetic, by working with Livestock and Meat Advisory Council
5. Part processed chicken, e.g. Crumbed chicken. Commercialise indigenous small livestock, e.g. guinea fowl, goats, road runner chicken, guinea pigs, etc.

An example of a model that involves work throughout the value chain by addressing different constraints from production to export/domestic markets, is shown in Fig.1.

It model could be applied to high value produce such as, horticulture (blueberries, raspberries, vegetables), specialized seed production, macadamia.

**Figure 1. National sector [whole value chain] investment model: Horticulture**

[3] More details on potential partners, level of investment, business model are included in the full study that can be made available upon request.
- Sub-national investment model, which involves identifying value addition opportunities for locally produced products to be processed and sold on the domestic market

This model will address the need to reduce the high cost of items that are currently manufactured in town, but which have large rural markets, e.g., stockfeed which is so expensive that most smallholder farmers cannot afford it. Two potential investment opportunities for CSA are included in Box 3.

**Box 3. CSA opportunities with local, sub-national level impact potential**

1. Local and mobile processing units, e.g. cassava beer brewing, dairy processing, nut/seed butter processing, milling units, oil expression, sunflowers, etc.

2. Localised processing to add value to agricultural produce, e.g., tinned beans, tomatoes, solar drying vegetables, etc.

An example of a business model on stock feed production is presented in Figure 2 below. In this example, the town-based production model relies on inputs being transported from rural areas, e.g., maize, soya (stock feed inputs) to be processed in town before being transported back to rural areas for sale and consumption.

**FIGURE 2. Sample model for local level investment: Stock feed**

- Bush conservation by community
- Bush inputs gathered by women and youth
- Locally grown crops - maize, soya, specialised grasses, etc - women and youth
- Local feed Processing / milling - rural SME financed by ISALs, powered by solar energy
- Packaging women and youth
- Possible urban markets
- Mainly local rural markets
- **LOCAL LEVEL MODEL:** Stock feed, oil seed, indigenous livestock Feed sample below

- There are also opportunities for investment in the solar sector that could add value to the agricultural sector

They are: cold chain cooling; power for agri-processing equipment; drying, e.g., banana chips, horticultural produce; boreholes and irrigation; productive use at small business centres; roof top power to feed into the grid supply.

There is also a need for policies that stabilise the macroeconomy and the financial sector, and enable Zimbabwe to regain its sovereign credit rating, reduce risk and the cost of finance, and create trust between local and international stakeholders. Policies that support better the MSME and informal sectors, or and enabling women, youth to own land, are also critical.

How do we fill the financing gap: Financiers and Lenders

There are some sources of public and private finance available in Africa that countries can benefit from, e.g., bilateral and multilateral official development assistance (ODA), debt and equity instruments, insurance and certification in the private sector compliance and voluntary carbon markets. However, the gap between the money needed and what is available is still significant, especially when climate change is factored in:

- Dedicated CSA/RE funds constitute only a fraction of overall funding for climate action and agriculture;
- The majority of specific CSA/RE funding is designated as climate finance, but these funds are relatively small compared with total climate finance and very small compared with total ODA for agriculture and rural development.

Private finance for agriculture, particularly at the MSME or primary production level, is constrained by the high risk-return profile associated with it. Unlocking the scale of finance inherent in the private sector for CSA/RE requires the presence or development of an appropriate investment and business case for financiers and lenders. Often, this may mean collaboration with the public sector players that can absorb or 'buy out' some of the risk, to make the risk-return profile more attractive for financiers and investors.

The EU has several financial instruments available that it can use to buy down risks and attract investment in the CSA/RE sectors in Zimbabwe, such as guarantees, blended finance and other instruments under EFSD+. They need to be promoted and DFIs'/other investors’ risks preventing investment in MSMEs in Zimbabwe need to be understood and addressed.

The Way Forward

Reflecting on the findings, the study concluded there is scope for investment in the CSA/RE sectors in Zimbabwe so that MSMEs, including those in the informal sector, can benefit.

The EU should target potential partners e.g., DFIs, other [impact] investors, private equity, venture capital, and impact capital firms that have [or could have] an appetite to invest in Zimbabwe.

The EU needs to engage with these partners and, if needed:

- better tailor guarantee facilities under the European Fund for Sustainable Development Plus (EFSD+) to a particular DFI or other investor to buy down risks;
- design the financing model with these investors, e.g., whether that investor/DFI will make use of local private equity or venture capital firms like Spear Capital and Takura Capital or other local partners; and,
- implement the models.

It is through these initiatives of attracting investments in CSA and RE sectors in Zimbabwe that MSMEs, an unseen sector crying out for help, but which contribute hugely to employment creation in the country, will see their potential unlocked and grow.

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[5] EFSD+ (2021-2027) is the financial arm of the EU External Investment Plan, aiming to steer greater European external investment into Africa and EU Eastern and Southern neighbourhood countries
For more information about this learning brief and the full study behind this paper, or if you want to learn more about the EU Africa RISE facility, please contact us at info@eu-africa-rise.com.