

## AFRICA RISK CONSULTING

### Zimbabwe Monthly Briefing September 2021

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#### Zimbabwe Summary 10 September 2021

*The International Monetary Fund (IMF) assists Zimbabwe's economy with additional liquidity to stabilise the domestic currency and develop infrastructural capacity to combat Covid-19 consequences. Zimbabwe's National Oil Infrastructure Company (NOIC) enters a joint venture with United Kingdom-based energy company Coven Energy to construct a second fuel pipeline between Beira (Mozambique) and Harare, rattling the monopolistic hold of Sakunda Holdings on the fuel sector. Zimbabwe's largest trade union files a court application against public and private entities after the government tells civil servants to get vaccinated against Covid-19 or risk losing their jobs. The successful rollout of the vaccination programme alongside decreased Covid-19 cases leads to government relaxing level 4 lockdown measures.*

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#### IMF injects liquidity into Zimbabwe economy ...

The **International Monetary Fund (IMF)** has issued a **Special Drawing Rights (SDR)** payment of \$961m (ZWL\$82.6 billion) to the **Zimbabwe** government to help it fight the adverse economic impacts of the **Covid-19** pandemic and stabilise the domestic currency. The SDR payment is expected to allow the government to invest in restoring key infrastructure and strengthen vital industries. The injection of liquidity into the Zimbabwean economy is viewed as a significant development, with key stakeholders likely to scrutinise the government's every move in deploying the funds.<sup>1</sup>

The SDR is a non-conditional payment that allows the government, and more specifically finance minister **Mthuli Ncube**, to deploy these funds at its discretion. The IMF created the SDR as an international reserve asset in 1969 in order to supplement member states' reserves and provide additional liquidity when there are balance of payment issues. Zimbabwe's SDR payment is one of many that make up the IMF's recent \$650 billion allotment to boost liquidity in the global financial system.<sup>2</sup> This is Zimbabwe's second SDR payment, following a \$400m payment it received in 2009 to counter the effects of hyperinflation. Ncube noted that the government will allocate the funds to four areas,

*"social sector, productive sector, infrastructure, and support for reserve and continuous funding".<sup>3</sup>*

The government will deploy \$500m (ZWL\$43 billion) of the SDR funds to support the local currency in a bid to restore confidence in the interbank system.<sup>4</sup> In February 2019, the **Reserve Bank of Zimbabwe (RBZ)** (central bank) abandoned the 1:1 peg of the Zimbabwe dollar to the **United States (US)** dollar. This has resulted in sliding between the official and black-market exchange rates, currently at ZWL86:USD1 and ZWL150:USD1 respectively.<sup>5</sup> In addition, the backlog in settlement of the foreign exchange auction market has increased to nine weeks. It is

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<sup>1</sup> Source, Zimbabwe analyst

<sup>2</sup> Sunday Mail, 1 Aug 2021

<sup>3</sup> Sunday Mail, 29 Aug 2021

<sup>4</sup> News24, 25 Aug 2021

<sup>5</sup> Reuters, 24 Aug 2021

estimated that \$350m of the SDR funds are required to catch up on the backlog and strengthen confidence in the interbank system.

The government will also channel SDR funds into acquiring additional vaccine doses to assist in its fight against Covid-19. Zimbabwe has vaccinated around 15% of its population – making it one of the more successfully vaccinated countries in **sub-Saharan Africa** – which is expected to assist its economic recovery. Further SDR funds are earmarked for investment in key infrastructure throughout the country such as hospitals, schools and roads, with the completion of the **Emergency Road Rehabilitation Programme** in a shorter timeframe projected to improve road quality and support transport and logistical supply routes.<sup>6</sup> SDR funds also aim to assist mining and manufacturing companies in purchasing new equipment and to revive the horticulture industry through encouraging cultivation of blueberries, macadamia nuts and roses.

Zimbabwe's deployment of SDR funds is likely to attract a high degree of scrutiny. In the short term, the focus will be on the ability of the funds to improve the foreign exchange supply and increase confidence in the interbank system by shortening the backlog of payments. However, sceptics claim the funds will simply buy the government more time by hiding larger systemic problems.<sup>7</sup> The unconditional nature of the SDR funds will also focus attention on the government's transparency in using them. Ncube noted that the government will capture the deployment of the funds in 100-day reports, which it will release quarterly.<sup>8</sup>

### **\$1.3 billion public-private partnership to expand fuel pipeline supply ...**

Zimbabwe's **National Oil Infrastructure Company (NOIC)** has signed a 30-year joint venture agreement with **United Kingdom (UK)**-based company **Coven Energy** for the construction of a \$1.3 billion fuel pipeline from **Beira (Mozambique)** to **Harare**.<sup>9</sup> The construction of the pipeline is expected to create temporary and permanent jobs and generate foreign exchange for the country. It is also expected to relieve vehicular congestion and reduce petroleum smuggling between Mozambique and Zimbabwe.

Coven Energy is an unlisted energy company registered in both **South Africa** and the UK and is grouped under an interest known as **Mining, Oil & Gas Services (MOGS)** backed by South African investment group **Royal Bafokeng**.<sup>10</sup> MOGS has been campaigning unsuccessfully for a stake in Zimbabwe's oil sector since 2012 amid increasing opposition from government and competitors in the industry. The 50:50 private-public partnership will allow the project to be built in phases over a four-year period with an initial capital injection of \$850m (ZWL 73.1 billion).<sup>11</sup> The next phases in the joint venture include the signing of a Memorandum of Understanding by the Zimbabwean government and a feasibility study by Coven Energy before the project gets underway.<sup>12</sup>

Chronic fuel shortages, largely as a result of foreign exchange shortages, have damaged Zimbabwe's economy. Fuel is wholly imported –through the existing **Feruka** pipeline between Beira and Harare, and by vehicle from Mozambique and South Africa – which requires foreign exchange.<sup>13</sup> Government pressure to use ZWL to purchase fuel locally has resulted in further shortages of foreign exchange for fuel importers.

<sup>6</sup> News24, 25 Aug 2021

<sup>7</sup> Source, Zimbabwe analyst

<sup>8</sup> Sunday Mail, 29 Aug 2021

<sup>9</sup> ZimLive, 11 Aug 2021

<sup>10</sup> ZimLive, 11 Aug 2021

<sup>11</sup> ZimLive, 11 Aug 2021

<sup>12</sup> Offshore Technology, 12 Aug 2021

<sup>13</sup> Offshore Technology, 12 Aug 2021

The new pipeline, if it materialises, threatens the monopolistic control of the Feruka pipeline on the Zimbabwean fuel sector. The Feruka pipeline was installed in 1966 and reportedly supplies Zimbabwe with 90% of its fuel needs. **Sakunda Holdings**, owned by recently sanctioned businessman **Kudakwashe Tagwirei** (see *ARC Briefing Zimbabwe August 2021*), financed refurbishment of the Feruka pipeline in 2014 in return for use of the pipeline to import fuel or charge the importation of fuel to other importers. Construction of the second pipeline is likely to draw resistance from Tagwirei and Sakunda Holdings in threatening their monopoly on Zimbabwe's fuel industry.<sup>14</sup> A second pipeline may also result in lower fuel prices amid greater competition.

Additional fuel supply places Zimbabwe in a position to service the rest of the **Southern African Development Community (SADC)** as a hub for both transport and fuel supply. In the long term it may also strengthen connections with **Zambia, Malawi, Botswana** and the **Democratic Republic of the Congo (DRC)**. Improved fuel pipeline supply will also decrease the vehicular transport of fuel, which creates congestion and strains Zimbabwe's fragile road network. Information minister **Monica Mutsvangwa** noted:

*"The objective is to establish Zimbabwe as the hub for the transportation of refined petroleum products to the SADC region."*<sup>15</sup>

The NOIC-Coven Energy deal still needs to pass feasibility studies and complete the projected four-year construction period in the face of strong resistance from the likes of Tagwirei and Sakunda Holdings. However, if successful, it will increase confidence both domestically and internationally as proof of progress towards economic and infrastructural development.

### **Unions push back as civil servants ordered to get vaccinated to keep their jobs ...**

The **Zimbabwe Congress of Trade Unions (ZCTU)** has reacted strongly to the government's announcement that civil servants must be vaccinated against Covid-19 or face dismissal.<sup>16</sup> The government will need to balance its short-term goal of increasing vaccination uptake against the longer-term implication of state overreach threatening individual rights, a decision that the **High Court of Zimbabwe** will have to rule on in a test of the strength and independence of the judicial system.

ZCTU, Zimbabwe's largest trade union, filed court applications on 13 August against both the state and a number of private companies over insistence on the vaccination of employees.

**TelOne, Zimbabwe National Road Administration (ZNRA), SeedCo Zimbabwe** and **Windmill Ltd** are among the public and private entities that the ZCTU has taken to the High Court over decisions to bar employees from working and discriminate against them over their choice or inability to be vaccinated against Covid-19.<sup>17</sup>

The government's announcement comes as it establishes mandates for vaccination as a requisite to trade in markets, work out at the gym and eat in restaurants. President **Emmerson Mnangagwa** (2017-present) has set an ambitious target to vaccinate two-thirds of the population by the end of 2021. Justice minister **Ziyambi Ziyambi** stated during an interview with **ZiFM Radio** on 7 September that:

*"If you are a government employee, for the protection of others and the people you are serving, get vaccinated. But if you want to enjoy your rights which are in the constitution, you can resign."*<sup>18</sup>

<sup>14</sup> Pindula, 18 Feb 2021

<sup>15</sup> ZimLive, 11 Aug 2021

<sup>16</sup> Africa News, 8 Sept 2021

<sup>17</sup> Bloomberg, 28 Aug 2021

<sup>18</sup> Business Live, 7 Sep 2021

The government's vaccine mandate is problematic. While the vaccine rollout has been relatively successful, there is a scarcity of vaccines and vaccination centres are understaffed.<sup>19</sup> Those wishing to be vaccinated face long queues, and are forced to arrive at vaccination centres as early as 4am. The High Court's ruling on enforced vaccination will place a spotlight on the judicial system's independence and robustness in removing itself from the influence and pressure of the executive's mandate.

### ... as lockdown restrictions ease

Despite the recent vaccination mandate, President Mnangagwa announced on 7 September the downgrading of level 4 lockdown measures to level 2. The government will review the level 2 measures after two weeks, taking into consideration the country's infection levels and vaccination rate. Business operating hours are extended from 8am to 7pm, but the government has maintained the 50% office capacity limit. Inter-city travel is now permitted alongside a return to schools for the final term of the academic year. The 6:30pm to 6:00am curfew has also been relaxed to 10:00pm to 5:30am.<sup>20</sup>

Daily Covid-19 cases have dropped substantially, decreasing from new daily cases of 956 on 6 August to 121 on 6 September. The country has recorded a total of 125,671 Covid-19 cases in its population of 14.7 million, with 4,493 Covid-19-related deaths.<sup>21</sup> These figures appear to indicate that the so-called "*third wave*" has receded.<sup>22</sup>

The government is administering several Covid-19 vaccines, ranging from **Russia**-manufactured **Sputnik V**, **China**-manufactured **Sinopharm** and **Sinovac**, **US**-manufactured **Pfizer** and **Moderna**, **British-Swedish**-manufactured **AstraZeneca**, **India's Covaxin** and the one-dose vaccine **Johnson & Johnson**. Zimbabwe received 15,000 doses of the Sputnik V vaccine from **Serbia** on 1 September.<sup>23</sup> The government's efforts have made Zimbabwe's vaccine rollout one of the most successful in **Africa**, as 11.7% of the population is fully vaccinated while a further 6.6% have received at least one dose.<sup>24</sup>

Commercial and international travel is still available in Zimbabwe. Those arriving from countries with the **Alpha** (first identified in the UK) and **Delta** variants must quarantine at government-appointed facilities while those from other countries either need to present a negative **Polymerase Chain Reaction (PCR)** test or proof of double vaccination. Airline operations have resumed through routes to the rest of the SADC region. Flights from Harare are using **Addis Ababa (Ethiopia)** and **Nairobi (Kenya)** as hubs for travel to **Europe**, the **Middle East** and **Asia**.

<sup>19</sup> Insider Zim, 8 Sep 2021

<sup>20</sup> Post-Cabinet Press Briefing 7 Sep 2021

<sup>21</sup> Post-Cabinet Press Briefing, 7 Sep 2021

<sup>22</sup> WorldOMeter, 7 Sep 2021

<sup>23</sup> Bulawayo24, 2 Sep 2021

<sup>24</sup> Our World in Data, 5 Sep 2021

## Planner

July 2023 (Zimbabwe) – Harmonised elections

### Chronology

8 Sep 2021 **Harare (Zimbabwe)** *Bloomberg*. **Victoria Falls Stock Exchange** and the **Dubai Gold & Commodities Exchange** sign an MoU that may lead to the establishment of a gold market in Zimbabwe;

7 Sep 2021 **Harare (Zimbabwe)** *Herald*. President **Emmerson Mnangagwa** announces extension of business hours and shortens curfew as **Covid-19** cases drop sharply;

7 Sep 2021 **Harare (Zimbabwe)** *iol*. Government says it will force unvaccinated civil servants and teachers to resign in a bid to ramp up the uptake of **Covid-19** injections;

6 Sep 2021 **Harare (Zimbabwe)** *Bloomberg*. **Reserve Bank of Zimbabwe** (central bank) governor **John Mangudya** urges large corporates to stop "manipulating the exchange rate" by exploiting the gap between the parallel-market and official currency prices for profiteering;

6 Sep 2021 **Harare (Zimbabwe)** *The Chronicle*. Government says it is purchasing drones worth \$1.96m to patrol its borders to prevent smuggling;

5 Sep 2021 **Harare (Zimbabwe)** *Herald*. Finance minister **Mthuli Ncube** says government intends to launch a **US dollar bond** and list it on the US dollar-denominated **Victoria Falls Stock Exchange**;

5 Sep 2021 **Harare (Zimbabwe)** *The Standard*. Finance minister **Mthuli Ncube** says **Zimbabwe** has made its first debt payment to **Paris Club** group of creditor countries under a refreshed plan to clear up to \$10.7 billion owed to multilateral lenders;

3 Sep 2021 **Harare (Zimbabwe)** *The Zimbabwe Independent*. Finance minister **Mthuli Ncube** lays out a spending plan for the **International Monetary Fund (IMF)** loan of \$961m and says an implementation committee has been formed, chaired by Ncube, finance ministry secretary **George Guvamatanga** and central bank governor **John Mangudya**, which will report to President **Emmerson Mnangagwa** monthly;

3 Sep 2021 **Harare (Zimbabwe)** *NewsDay*. President **Emmerson Mnangagwa** says **Zimbabwe** is choking under **Chinese** debt, during a tour of the **Robert Gabriel Mugabe International Airport**, which is being refurbished courtesy of a \$153m Chinese loan;

1 Sep 2021 **Harare (Zimbabwe)** *Bloomberg*. **Germany**-based dual-listed **Deutsche Bank** cuts correspondent banking ties with **Standard Bank Group's Zimbabwean** unit, dealing a blow to one of the few remaining international banking providers operational in Zimbabwe;

28 Aug 2021 **Harare (Zimbabwe)** *News24*. **Zimbabwe's** largest workers' union, **Zimbabwe Congress of Trade Unions**, takes the state and several firms to court for insisting that employees must be inoculated against **Covid-19** before reporting for work;

26 Aug 2021 **Harare (Zimbabwe)** *AFP*. Information minister **Monica Mutsvangwa** says **Covid-19** vaccines are now open to anyone aged 14 and older, and only fully vaccinated people are permitted to eat in restaurants;

24 Aug 2021 **Harare (Zimbabwe)** *Bloomberg*. Government says it has received the equivalent of \$961m in **Special Drawing Rights** from the **International Monetary Fund**, \$500m of which finance minister **Mthuli Ncube** says will be used to support the currency.

23 Aug 2021 **Harare (Zimbabwe)** *Bloomberg*. State electricity company **Zimbabwe Electricity Transmission Distribution Co** awaits outcome of **International Chamber of Commerce** ruling in a currency dispute with **Zimbabwe's** biggest private power producer, **Nyangani**

**Renewable Energy**, which is holding up other investments;

16 Aug 2021 **Harare (Zimbabwe)** *Bloomberg*. Source close to the matter says government is considering borrowing money directly from private investors to fund the first half of a \$3.5 billion compensation agreement with white farmers whose land was seized two decades ago.

12 Aug 2021 **Harare (Zimbabwe)** *Bloomberg*. Government is pressing ahead with a plan to combine its mining assets under a massive private-public enterprise, even as evidence mounts that the project could be linked to sanctioned tycoon **Kudakwashe Tagwirei**;

11 Aug 2021 **Harare (Zimbabwe)** *AFP*. Information ministry says it has signed a \$1.3 billion joint venture agreement with **United Kingdom**-based **Coven Energy** to develop a fuel pipeline from capital **Harare** to the **Mozambican** port city of **Beira**;

11 Aug 2021 **Harare (Zimbabwe)** *TimesLive*. **South African** businessman **George Beukes** of **eXess Africa** says **Zimbabwe** government won't let him leave the country because of a contractual dispute involving \$1m and material for the construction of the **Harava Solar Park**.

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