

## AFRICA RISK CONSULTING

### Zimbabwe Monthly Briefing February 2018

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#### Zimbabwe Summary 20 February 2018

**Opposition Movement for Democratic Change (MDC-T) leader Morgan Tsvangirai dies of cancer in South Africa. The MDC-T's leadership succession divides the party. President Emmerson Mnangagwa (2017-present) promises pro-business economic policy reforms and investment incentives. The Reserve Bank of Zimbabwe (RBZ) (central bank) announces initiatives in its 2018 Monetary Policy Statement to liberalise the foreign exchange market.**

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#### MDC-T leader Morgan Tsvangirai dies...

Main opposition **Movement for Democratic Change (MDC-T)** leader **Morgan Tsvangirai** died in **South Africa** on 14 February, reportedly from colon cancer, after undergoing 18 months of treatment.<sup>1</sup> His death has left the MDC-T divided over his succession.

Tsvangirai's career as a trade unionist and political leader began in 1988, when he became full-time secretary general of the **Zimbabwe Congress of Trade Unions (ZCTU)**, the largest workers' union in Zimbabwe.<sup>2</sup> Tsvangirai led successful industrial action against tax increases in 1997 and twice forced former President **Robert Mugabe** (1980-2017) to withdraw announced tax hikes, a rare setback for Mugabe who enjoyed almost total political control in Zimbabwe.<sup>3</sup>

*"Tsvangirai was a champion of workplace democracy as a trade unionist, before stepping into the political arena. He fought to assert civic and political rights in Zimbabwe, in a political environment that held considerable risk to political activists who went against the ruling Zanu-PF. Despite his personal failings, he remains the most outstanding political leader in Zimbabwe's post-colonial history, as far as promoting democracy and civil liberties is concerned."*<sup>4</sup>

Tsvangirai helped found the labour-backed opposition political party, the **Movement for Democratic Change (MDC)**, in 1999.<sup>5</sup> He quickly became Zimbabwe's most visible opposition figure, harnessing the frustrations of urban workers bearing the burden of a struggling economy.<sup>6</sup> In February 2000, the MDC engineered Mugabe's first poll defeat – the rejection in a national referendum of a draft constitution that would have entrenched his presidential powers.<sup>7</sup> In June 2000, Tsvangirai's MDC shocked the ruling **Zimbabwe African National Union-Patriotic Front (Zanu-PF)** party by winning 57 out of 120 seats in a parliamentary election.<sup>8</sup> Tsvangirai had also defeated Mugabe in the first round of the March

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<sup>1</sup> Daily News, 15 February 2018.

<sup>2</sup> Eyewitness News, 27 Jun 2016.

<sup>3</sup> Financial Gazette, 14 Feb 2018.

<sup>4</sup> Source, analyst, London

<sup>5</sup> Financial Gazette, 14 Feb 2018.

<sup>6</sup> Financial Gazette, 14 Feb 2018.

<sup>7</sup> Financial Gazette, 14 Feb 2018.

<sup>8</sup> Financial Gazette, 14 Feb 2018.

2008 presidential vote, garnering 47% against Mugabe's 43% but was forced to pull out of a run-off election due to a campaign of violence against his supporters by Zanu-PF activists.<sup>9</sup> After the disputed and violent election, in which scores of his supporters were reportedly killed, Tsvangirai's MDC joined a government of national unity (GNU) with Zanu-PF.<sup>10</sup> Tsvangirai served as the prime minister to Mugabe's presidency in the unity government between 2009 and 2013.<sup>11</sup> His presence in government helped to stabilise an economy that had been in continual decline, especially since 2000.<sup>12</sup> Tsvangirai lost the 2013 elections, although the MDC disputed the results.<sup>13</sup> After the electoral defeat, the MDC split for a second time. Some members led by former finance minister **Tendai Biti** broke away from the main party, blaming Tsvangirai for the election loss.<sup>14</sup>

### ... as party leadership succession divides the MDC-T

Tsvangirai's death came as MDC splinter parties had formed the **MDC Alliance** to contest the upcoming elections, which are expected to be held in July.<sup>15</sup> Tsvangirai was the MDC-T's presidential candidate until his death, but had appointed two deputy presidents, **Nelson Chamisa** and **Elias Mudzuri**, to jointly lead the MDC-T while he was away seeking treatment.<sup>16</sup> This created tensions in the party as long-time MDC-T deputy president **Thokozani Khupe** had expected to act as party president in Tsvangirai's absence.<sup>17</sup> As Tsvangirai's illness persisted, the three deputy presidents started wrangling over Tsvangirai's succession. This remained unresolved until his death on 14 February.<sup>18</sup>

The **MDC National Council**, at a sitting on 15 February, appointed Chamisa as the party's acting president for 12 months.<sup>19</sup> Chamisa's appointment attracted widespread criticism from senior members of the party. They argued that the appointment violated the MDC-T's constitution that provided that the vice president elected by the party congress – in this case Khupe – would automatically succeed Tsvangirai.<sup>20</sup>

Chamisa is likely to run as the presidential candidate for the party in the upcoming election. However, the succession issue will continue in the short to medium term, which will give Zanu-PF an advantage over a fractured opposition.<sup>21</sup>

### Mnangagwa releases pro-business policy statement

President **Emmerson Mnangagwa** (2017-present) has issued a policy document that aims to create a business-friendly environment in Zimbabwe.<sup>22</sup> Since taking over from Mugabe in November, Mnangagwa has publicly said that the government will institute policies that enable the private sector to operate profitably.<sup>23</sup> Mnangagwa launched a policy statement on

<sup>9</sup> Financial Gazette, 14 Feb 2018.

<sup>10</sup> Financial Gazette, 14 Feb 2018.

<sup>11</sup> Financial Gazette, 14 Feb 2018.

<sup>12</sup> Financial Gazette, 14 Feb 2018.

<sup>13</sup> Daily News, 16 Feb 2018.

<sup>14</sup> Daily News, 16 Feb 2018.

<sup>15</sup> Source, analyst, London

<sup>16</sup> Daily News, 16 Feb 2018.

<sup>17</sup> Daily News, 16 Feb 2018.

<sup>18</sup> Daily News, 16 Feb 2018.

<sup>19</sup> News Day, 15 Feb 2018.

<sup>20</sup> News Day, 15 Feb 2018.

<sup>21</sup> News Day, 15 Feb 2018.

<sup>22</sup> Fin24, 7 Feb 2018.

<sup>23</sup> The Herald, 19 Jan 2018.

18 January entitled “**Investment Guidelines and Opportunities in Zimbabwe**”, which outlines the guidelines for investing in and harnessing business opportunities in the country.<sup>24</sup> The policy statement declares the state’s “*commitment to companies that invest in Zimbabwe and support its economic development*”.<sup>25</sup>

*“Zimbabwe’s economy will be founded on sound market principles, and principles of legal protection that encourage and protect private enterprise. The government commits to the protection of all investments from expropriation, or from measures taken that will have a similar effect.”*<sup>26</sup>

Mnangagwa set out the government’s immediate plans, which include compensation of farmers who lost their investments through the land reform programme, and promised to expedite the amendment of the **Indigenisation and Empowerment Act** to reduce uncertainty for investors.<sup>27</sup> The policy statement also says government will accelerate the implementation of the **Special Economic Zones**.<sup>28</sup>

Mnangagwa courted the interest of various international businesses when he presented his policy proposals at the **World Economic Forum (WEF) in Davos, Switzerland**, in January.<sup>29</sup> He encouraged investment in Zimbabwe’s travel and tourism sector, inviting investors to build golf courses and hotels in return for government subsidies and other forms of support.<sup>30</sup> The **International Monetary Fund (IMF)** appears to endorse Mnangagwa’s plans. IMF managing director **Christine Lagarde** expressed her satisfaction with Mnangagwa’s pronouncements on fixing the economy.<sup>31</sup>

Foreign investors shunned Zimbabwe during Mugabe’s rule and will want to see more definitive government action before committing any new significant capital to projects in Zimbabwe.<sup>32</sup> **United Nations Conference on Trade and Development (UNCTAD)** data shows that foreign direct investment inflows into Zimbabwe declined from \$421m in 2015 to \$319m in 2016.<sup>33</sup> However, the **British** government’s development finance institution, the **Commonwealth Development Corporation (CDC)**, is actively considering investing in Zimbabwe under a \$1 billion fund targeting **Africa** over the next three years.<sup>34</sup> CDC CEO **Nick O’Donohoe** has since visited **Harare** for a preliminary survey of the current environment and to seek a better understanding from Zimbabwe’s private sector.<sup>35</sup>

**South African** businesses have also increased their interest in Zimbabwe in the past few years, including companies such as **Impala Platinum, Sibanye-Stillwater, Standard Bank, Nedbank, Tiger Brands** and **Pick ‘n Pay**.<sup>36</sup> The **Industrial Development Corporation (IDC)** in South Africa indicated that it is looking at opportunities to invest in Zimbabwe’s fertiliser processing, hospitality and tourism sectors and in agro-processing.<sup>37</sup>

<sup>24</sup> The Herald, 19 Jan 2018.

<sup>25</sup> The Herald, 19 Jan 2018.

<sup>26</sup> The Herald, 19 Jan 2018.

<sup>27</sup> The Herald, 19 Jan 2018.

<sup>28</sup> The Herald, 19 Jan 2018.

<sup>29</sup> Fin 24, 7 Feb 2018.

<sup>30</sup> Fin 24, 7 Feb 2018.

<sup>31</sup> Fin 24, 7 Feb 2018.

<sup>32</sup> Source, analyst, London

<sup>33</sup> Financial Gazette, 7 Feb 2018.

<sup>34</sup> Financial Gazette, 1 Feb 2018.

<sup>35</sup> Financial Gazette, 1 Feb 2018.

<sup>36</sup> Financial Gazette, 1 Feb 2018.

<sup>37</sup> Financial Gazette, 7 Feb 2018.

Although business interest in Zimbabwe is increasing, there are still significant macro-level challenges.<sup>38</sup> These include steep premiums for the purchase of foreign currency, as well as expensive electricity and other essential services. These structural issues may take longer for the government to resolve, potentially delaying outlays of investment into the country.

### Zimbabwe to get foreign currency relief

**Reserve Bank of Zimbabwe (RBZ)** governor **John Mangudya** delivered the **2018 Monetary Policy Statement (MPS)** on 7 February, in which he announced initiatives to liberalise the foreign exchange market.<sup>39</sup> The MPS disclosed a number of measures that seek to reinforce the government's narrative that *"Zimbabwe is open for business"*.<sup>40</sup> These measures include enhancement of the nostro stabilisation facility, protection of foreign exchange inflows, provision of investment guarantees for foreign investors, increasing tobacco and gold processing facilities, export incentives for horticulture, cotton, gold, and macadamia, and establishment of an offshore financial services centre.<sup>41</sup> The measures also include the upward review of the threshold for exports by individuals, purchasing of gold for value addition, and issuance of diaspora tobacco and gold financing bonds.<sup>42</sup> Mangudya indicated that the monetary policy will reinforce renewed investor confidence by putting in place concrete measures that will gradually liberalise the foreign currency market.<sup>43</sup>

The RBZ will enhance nostro stabilisation facilities by \$400m to provide assurances that international remittances and individual foreign currency inflows received through normal banking channels are available for use by the owners.<sup>44</sup> The enhanced facilities are designed to meet the foreign exchange requirements for the importation of essential goods that include fuel, medicine and electricity.<sup>45</sup> Mangudya said the nostro facilities would refine the operations of the **Portfolio Investment Fund** by ensuring that all portfolio investment inflows would be ring-fenced to meet portfolio investment outflows. Priority would be given to capital before capital appreciation (profits) and dividends.<sup>46</sup>

The move comes as foreign investors on the stock market struggle to repatriate dividend proceeds, due to the prevailing foreign currency shortages.<sup>47</sup> Mangudya said that the RBZ was working with the **African Export-Import Bank (Afreximbank)** to put in place a \$1.5 billion facility earmarked for the provision of guarantees to investment coming into the country and for liquidity support.<sup>48</sup> Of that amount, \$1 billion is for investment guarantees and the remaining \$500m for liquidity support.<sup>49</sup> Mangudya explained that such guarantees and liquidity support are necessary to protect investors' funds from country risk, and in doing so, enhance investor confidence.<sup>50</sup> Mangudya said the RBZ will use **Real Time Gross Settlement System (RTGS)** balances to fund productive sectors of the economy to enhance exports.<sup>51</sup> In

<sup>38</sup> Financial Gazette, 7 Feb 2018.

<sup>39</sup> News Day, 8 Feb 2018.

<sup>40</sup> News Day, 8 Feb 2018.

<sup>41</sup> RBZ Monetary Policy Statement, 7 Feb 2018.

<sup>42</sup> RBZ Monetary Policy Statement, 7 Feb 2018.

<sup>43</sup> Financial Gazette, 1 Feb 2018.

<sup>44</sup> News Day, 8 Feb 2018.

<sup>45</sup> News Day, 8 Feb 2018.

<sup>46</sup> News Day, 8 Feb 2018.

<sup>47</sup> News Day, 8 Feb 2018.

<sup>48</sup> News Day, 8 Feb 2018.

<sup>49</sup> News Day, 8 Feb 2018.

<sup>50</sup> News Day, 8 Feb 2018.

<sup>51</sup> News Day, 8 Feb 2018.

2017, the central bank allotted \$28m to small-scale tobacco farmers who are expected to produce 44 million kilograms of tobacco in this year's harvesting season, while \$74m was allocated to gold producers to support increased gold production.<sup>52</sup> Regarding foreign currency retention, the RBZ maintained the threshold for all services and products except gold, diamonds, platinum, chrome and tobacco at 100% of export receipts for exporters' use in their business operations within an extended period for of up to 14 days from the receipt fund.<sup>53</sup> The RBZ increased the retention threshold for privately-owned diamond firms, platinum and chrome producers to 35% from 20%.

The RBZ appears to be on a drive to revive the economy and attract investment into the country. The new government has also started implementing free market policies that were not acceptable during the Mugabe era to address some of the economic fundamentals that, with time, will put Zimbabwe on a competitive footing and attract foreign investment. The new financial measures will encourage exporters to use the formal banking system, thus resolving cash shortages and facilitating the repatriation of foreign currency back to Zimbabwe.

## Planner

July/August 2018. Scheduled general elections

14 Aug 2018. Defence Forces Day

## Chronology

22 Feb 2018. **(Harare)**. *Business Day*. **South Africa's Transnet** launches a joint venture with the **National Railways of Zimbabwe (NRZ)** to supply rail locomotives for lease;

**21 Feb 2018. (Harare)**. *News24*. Former president **Robert Mugabe** celebrates his 94th birthday in **Harare** in private, as the government declares it a public holiday;

20 Feb 2018. **(Harare)**. *News Day*. **African Union (AU)** chairperson **Moussa Faki Mahamat** visits **Zimbabwe** for a three-day working trip and meets with former president **Robert Mugabe**;

17 Feb 2018. **(Harare)**. *News24*. The governments of **Zimbabwe** and **Botswana** announce plans to enter into a diamond polishing deal for the processing of Zimbabwe's diamonds in **Gaborone**;

17 Feb 2018. **(Harare)**. *Washington Post*. Police arrest **University of Zimbabwe** vice chancellor **Levi Nyagura** over former first lady **Grace Mugabe's** PhD degree;

15 Feb 2018. **(Harare)**. *Financial Times*. Opposition leader **Morgan Tsvangirai** dies of colon cancer in **Johannesburg, South Africa**;

8 Feb 2018. **(Harare)** *News24*. Power struggles intensify in opposition **Movement for Democratic Change (MDC)** senior leaders over succeeding **Morgan Tsvangirai**;

1 Feb 2018. **(Harare)**. *USNews*. Government issues 99-year land leases to remaining white

<sup>52</sup> News Day, 8 Feb 2018.

<sup>53</sup> News Day, 8 Feb 2018

farmers in Zimbabwe;

1 Feb 2018. **(Harare)**. *Eyewitness News*. President **Emmerson Mnangagwa** appoints high court judge **Priscilla Chigumba** as the new commissioner for the **Zimbabwe Election Commission (ZEC)**;

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