

AFRICA RISK CONSULTING

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The Reserve Bank of Zimbabwe (RBZ)'s plan to introduce bond coins to address the cash crisis and improve liquidity in the market has created uncertainty in the financial system. Zimbabwe's largest opposition parties – Zimbabwe People First (ZimPF) and Movement for Democratic Change (MDC-T) – are entangled in internal divisions over leadership positions. Members of former vice president Joice Mujuru's ZimPF are jostling for position ahead of the party's inaugural congress scheduled for 1 October, while the leadership of Morgan Tsvangirai's MDC-T is divided on the idea on the joining a grand coalition of opposition parties. The government moves to set up Special Economic Zones in order to attract foreign direct investment.

Zimbabwe Reserve Bank to introduce bond notes to address cash crisis

The **Reserve Bank of Zimbabwe (RBZ)** announced plans on 4 May to introduce a raft of measures, including bonded notes, to deal with the crippling liquidity crisis Zimbabwe is currently facing.¹ The cash crisis has resulted in several banks imposing a limit on cash withdrawals by depositors. Following Zimbabwe's adoption in 2009 of a basket of currencies – including the **South African** rand, the euro and the **Chinese** yuan alongside the **United States (US)** dollar – the economy was relatively stable. Before the government abandoned the Zimbabwe dollar, annual inflation had peaked in 2008 at 89.7 sextillion² percent.³ However, since 2009 the country has been running a trade deficit, importing more than it exports. It is also experiencing a cash shortage, since the RBZ cannot mint any of the currencies it uses.

RBZ governor **John Mangudya** said the central bank would introduce bonded notes worth \$200m to deal with the cash crisis.⁴ The Zimbabwe bond notes will have denominations of \$2, \$5, \$10 and \$20, and will function as an extension of the current family of bond coins.⁵ The government has already hired a **German** firm to print the notes, which are likely to begin circulating in two months.⁶ The **African Export-Import Bank (Afreximbank)**, a **Cairo**-based institution that promotes trade within Africa, will provide the \$200m that the RBZ will use to back the bond notes.⁷ The RBZ introduced bond coins in December 2014 to provide loose change to Zimbabweans who were either rounding prices to the nearest dollar or giving customers small products such as matches, pens, sweets and teaspoons as change at points of sale. The bond coins are circulating in denominations of 1 cent, 5c, 10c, 25c and 50c.

¹ NewZimbabwe, 4 May 2016.

² Approximately 9 followed by 22 zeros (Source: FT, 25 Jan 2016.)

³ FT, 25 Jan 2016.

⁴ NewZimbabwe, 4 May 2016.

⁵ NewZimbabwe, 4 May 2016.

⁶ The Source, 20 May 2016.

⁷ Atlantic Magazine, 6 May 2016.

Critics argue that the government is attempting to covertly bring back the Zimbabwe dollar into the system through the bond notes.⁸

*“Bond notes and coins are just a local currency by another name. In the same way the coins came [into circulation] in 2014, the political establishment is forcing the notes upon the central bank, and that explains why the central bank is finding difficulty explaining their legitimacy to a suspicious market. What makes it more suspicious for Zimbabweans, especially the learned, is that the same establishment of people who ran the central bank under **Gideon Gono**, is still in full force and running the bank under a new face – John Mangudya.”⁹*

The central bank will also convert 40% of all bank deposits that come from exports to the South African rand and an additional 10% to euros.¹⁰

In a series of media statements, Mangudya explained that the US\$200m from Afreximbank was a foreign exchange stabilisation and incentive support facility to provide a 5% incentive on foreign exchange receipts, including tobacco and gold sales proceedings.¹¹ However, **University of Zimbabwe** economist **Ashok Chakravarti** points out that Zimbabwe should follow practices that countries in similar circumstances have implemented.¹² These include increasing import tax by up to 5% to create more revenue for the government, and regulating the economy, including withdrawal limits, to curb externalisation.¹³ Chakravarti argues that Zimbabwe has excess demand, fuelled by government over-expenditure and the printing of treasury bills (TBs).¹⁴

*“While the government tries to apportion the blame for cash shortages elsewhere, it is the state’s manipulation of the **Real Time Gross Settlement (RTGS)** which is the primary cause of the cash shortage presently choking the economy. Paying for maturing TBs and interest payment through the RTGS is starving the market of cash.”¹⁵*

Economist and MDC-T member of parliament (MP) for **Bulawayo South**, **Eddie Cross**, also notes that the government is honouring TB maturity at a time when revenue collection is much lower than recurrent expenditure.¹⁶ Figures for the first quarter show a 16% disparity between collections and target.¹⁷ The government was meeting these by pushing figures not backed by real cash.¹⁸ As a result, there are insufficient bank notes and coins to back bank balances, a situation which should not happen in a market that does not print money. Other commentators caution that the government should support exporters by stopping the importation of poor quality products that are being sold in the informal market and which are responsible for reducing cash circulation in the market.¹⁹

⁸ The Source, 6 May 2016.

⁹ Source, analyst, Zimbabwe

¹⁰ Atlantic Magazine, 6 May 2016.

¹¹ NewsDay Zimbabwe, 12 May 2016

¹² NewsDay Zimbabwe, 12 May 2016

¹³ NewsDay Zimbabwe, 12 May 2016

¹⁴ NewsDay Zimbabwe, 12 May 2016

¹⁵ Source, analyst

¹⁶ The Source, 16 May 2016.

¹⁷ The Source, 16 May 2016.

¹⁸ The Source, 16 May 2016.

¹⁹ The Source, 12 May 2016.

Major opposition parties fractured as preparations for 2018 elections begin

Former vice-president **Joice Mujuru's Zimbabwe People First (ZimPF)** party is currently experiencing internal divisions, with some senior officials reportedly plotting to unseat Mujuru ahead of the inaugural congress planned for October this year.²⁰ This may lead to a split before the party elects a substantive leadership. Leading party officials **Bright Matonga** and **Sylvester Nguni** are reportedly competing to control and direct party processes, with Nguni having the upper hand, since he worked closely with Mujuru when she was **Zimbabwe's** vice-president from 2004 to 2014.²¹ The former secretary for administration in the ruling **Zimbabwe African Union-Patriotic Front (Zanu-PF)**, **Didymus Mutasa**, whom Zanu-PF expelled alongside Mujuru in 2014, is reportedly also involved in competition for top party positions.²² ZimPF spokesperson **Rugare Gumbo** acknowledged the divisions, but said on 21 May that the leadership will reconcile all the differences in due course.²³ Gumbo also claimed that members of Zimbabwe's **Central Intelligence Organisation (CIO)** have infiltrated the party in order to interfere with its processes to establish formal structures ahead of the congress.²⁴

Morgan Tsvangirai's Movement for Democratic Change (MDC-T) is also experiencing internal disunity. Local media reported on 21 May that Tsvangirai is warming to the idea of forming a grand coalition with other opposition parties, including Mujuru's ZimPF.²⁵ MDC-T vice-president **Thokozani Khupe** reportedly resists the idea, seemingly fearing that she may lose her position as party vice-president in a coalition with Mujuru.²⁶ Other MDC-T senior officials reportedly share her view.²⁷ Khupe dismissed claims of divisions but said that the party remains open to the idea of forming an electoral coalition with ZimPF.²⁸

*"The reported divisions in the opposition political parties are a confirmation of what has been in the country's political system for years. There are always material benefits attached to public office. Losing public office is equated to financial and material exclusion and this is why politicians prefer to cling onto power or fearlessly fight and displace even their own colleagues in the same party."*²⁹

Government will adopt Special Economic Zone strategy

The government announced plans on 18 May to revive investor interest through setting up **Special Economic Zones (SEZs)** as a way to stimulate economic growth.³⁰ SEZs allow investors to operate under tax-favourable conditions that are different from the rest of the economy, providing incentives that reduce the cost of doing business. Macro-economic planning and investment minister **Obert Mpofu** said that the government has selected three areas for trial runs before it establishes the initiative countrywide.³¹ These are **Sunway City Integrated Industrial Park in Harare**, the **Victoria Falls** financial hub, and the **Bulawayo**

²⁰ The Standard, 22 May 2016.

²¹ The Standard, 22 May 2016.

²² The Standard, 22 May 2016.

²³ The Standard, 22 May 2016.

²⁴ The Standard, 22 May 2016.

²⁵ News Day, 21 May 2016.

²⁶ News Day, 21 May 2016.

²⁷ News Day, 21 May 2016.

²⁸ News Day, 21 May 2016.

²⁹ Source, analyst, Zimbabwe.

³⁰ The Zimbabwe Mail, 18 May 2016.

³¹ The Zimbabwe Mail, 18 May 2016.

industrial hub.³² The government has also been mobilising support from various stakeholders, including the **Japanese** government, which has already pledged support through the **Japan International Cooperation Agency (JICA)**.³³

Observers warn that the SEZs may not yield desired results if factors that induce economic uncertainty remain.³⁴ A sound legal and regulatory framework with concrete long term guarantees for potential business participants in the SEZs is necessary. Other areas of focus include reducing the debt burden, expanding and upgrading infrastructure, improvements in public service delivery, and improving productivity in the country's main economic sectors.³⁵

*"A key lesson drawn from international experience is that SEZs are not a panacea to solving all economic challenges. Instead, they catalyse deeper economic reforms and become a major engine for national development through backward and forward linkages with the rest of the domestic economy."*³⁶

Zimbabwe set up **Economic Processing Zones (EPZs)** from 1996 to 2006, which were mainly export oriented.³⁷ Businesses were required to export at least 80% of their production.³⁸ The scheme collapsed when the government decided to merge the EPZ authority and the **Zimbabwe Investment Centre** to form the **Zimbabwe Investment Authority (ZIA)** which is now responsible for handling investment issues in the country.³⁹

Implications

The imminent introduction of bond notes in Zimbabwe to circulate alongside the US dollar and other currencies raises fears of the return of the Zimbabwean dollar, which may lead to inflation. Many Zimbabweans may remember with unease when a single egg cost a billion Zimbabwe dollars at the peak of hyperinflation in 2008.⁴⁰ International investors and local Zimbabweans alike are wary of the use of the bond notes, which are reminiscent of bearers' cheques that the RBZ discontinued in 2009.

The internal divisions in MDC-T and ZimFirst are an enduring feature of Zimbabwe's domestic politics. Political office translates to access to economic opportunities, which accounts for the zero-sum nature of intra-and inter party competition in the country. The MDC has experienced several splits, the most recent being the departure in September and October last year respectively of senior leaders **Tendai Biti** and **Elton Mangoma** to form their own political parties. These internal disputes in the opposition will make a Zanu-PF electoral victory in 2018 easier. However, an opposition electoral coalition remains likely, despite the current jockeying for posts.

The government's commitment to establishing EPZs is a positive development, which may improve the country's regional economic standing. If the government implements EPZs alongside other measures to develop the economy overall, foreign direct investment could begin to flow back into the Zimbabwean economy. However, broad-based economic reform remains unlikely in the absence of political change in the country.

³² The Zimbabwe Mail, 18 May 2016

³³ The Zimbabwe Mail, 18 May 2016

³⁴ Source, analyst, Zimbabwe

³⁵ NewZimbabwe, 6 Feb 2016.

³⁶ Source, analyst, Zimbabwe

³⁷ NewZimbabwe, 6 Feb 2016.

³⁸ NewZimbabwe, 6 Feb 2016.

³⁹ NewZimbabwe, 6 Feb 2016.

⁴⁰ FT, 25 Jan 2016.

About Africa Risk Consulting:

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