

AFRICA RISK CONSULTING

Zimbabwe Monthly Briefing December 2022

Zimbabwe Summary 9 December 2022

Finance minister Mthuli Ncube presents a tight 2023 national budget on 24 November, opting to focus on stabilising economic indicators such as inflation but potentially sacrificing economic growth. The government announces offers of lucrative allowances and loans to cabinet members and legislators, just a few months before their terms in office end. Critics describe the offers as 'bribes' ahead of the general election next year. Zimbabwe is facing its worst power crisis since 2019 as low water levels at Kariba Dam cut the dam's power plant generation down to 200 megawatts (MW), less than a fifth of installed capacity, leading to power outages for up to 19 hours a day. South Africa-headquartered platinum group metals and chrome producer, Tharisa, has started construction of its \$4.2 billion Karo Platinum project (KPP) in Zimbabwe, 80km southwest of the capital, Harare. The government, after missing several deadlines since pledging a \$3.5 billion deal in 2020 to compensate white farmers, has come up with a new payment plan that involves the controversial Kuvimba mining house. The 2022 Zimbabwe National Chamber of Commerce state of industry and commerce survey indicates that businesses are more pessimistic about economic conditions heading into 2023, listing the general elections as the main concern.

Government presents tight budget ahead of the 2023 vote

Finance minister **Mthuli Ncube** presented a contractionary 2023 national budget on 24 November to complement the government's tight monetary policy, sacrificing economic growth in favour of combating inflation. Despite the prevailing high inflation rate, averaging 167% in 2022, Ncube gave very little in terms of tax relief to consumers tax cut a tax cut levied on dollar electronic transactions to 2% from 4%.¹ However, this forced Ncube to reverse the 0.5% value-added tax (VAT) rate cut effected in 2020 to cushion the economy against **Covid-19** back to 15%.

The budget predicts a 1.5% gross domestic product (GDP) deficit - revenues are expected to reach Z\$3.9 trillion (\$6.03 billion) but total spending for the year is set at Z\$4.2 trillion (\$6.5 billion). This is less than half of the Z\$8.7 trillion (\$13.5 billion) that government departments had asked for.

The gap between what ministries want, and what Ncube was ready to give back, mirrors the government's stance on the monetary policy where interest rates will go into 2023 at the high of 200%. While the tight monetary and fiscal policies have reaped rewards in driving inflation downwards, it has come with a detrimental effect of suffocating economic growth.

Ncube has also cut his 2022 forecast for economic growth 2022 on the back of high inflation and the impacts of tight monetary policy on aggregate demand. Initial projections pegged growth at 5.5% this year, which Ncube revised downwards to 4.6% during his mid-year budget but has further cut projections to 4% before it moderates to 3.8% in 2023.²

¹ Newswire 24 Nov 2022

² 2023 national budget statement

Despite the lack of significant tax relief measures for ordinary citizens, the allocation for public sector wages will increase from 42.3% to 52.4 % which is expected to boost the morale of civil servants ahead of the key elections next year, in which President **Emmerson Mnangagwa** (2017-present) is seeking re-election. Ncube set aside a budget of Z\$76 billion (\$116 million) for the presidential, parliamentary, and local government elections which are likely to happen in July or August. Voter registration was allocated Z\$12 billion (\$18.6 million), voter inspection Z\$11 billion (\$17 million) and the actual election conduct was allocated Z\$53 billion (\$82.03 million).³

The election preparations are taking place at a time when the main opposition party, **Citizen Coalition for Change (CCC)**, and some civil society organisations have expressed concern over the **Zimbabwe Electoral Commission (ZEC)**'s failure to avail the physical copy of the voters' roll at a reasonable price. ZEC is charging \$187,000 for persons or institutions to access the voters' roll.⁴

There are also fears that the voters' roll is in shambles amid revelations that in many cases people with identical names and identity numbers are registered in different constituencies, while in many cases an unusually high number of people are sharing one address.⁵

...as cabinet and legislators offered bumper allowances ahead of vote

The government is set to spend millions in unbudgeted allowances and loans to the cabinet and all legislators in what analysts have labelled a 'bribe' ahead of the 2023 election. Amid high poverty levels, a collapsed health system, rolling power cuts and three-digit inflation, various sectors of society have criticised the move.⁶

Cabinet ministers have been offered \$500,000 loans and deputy ministers \$350,000 under a similar scheme, despite having only a few more months in office. A similar offer has been extended to all members of parliament (MPs), who will each get \$40,000. This has divided the main opposition party, the **Citizen Coalition for Change (CCC)**, with legislators defying its leader **Nelson Chamisa**'s call not to accept the money. Prominent author **Tsitsi Dangarembga** was quoted by the daily newspaper, **Newsday** as saying.

"I really think the CCC has lost the election with that \$40,000 bribe. People stayed in the bush and sometimes had eight grains of maize to eat but the opposition cannot resist a \$40,000 bribe. This is utter spinelessness!"⁷

Chamisa, who has described the loans as bribes, also says the loans are Mnangagwa's attempt to appease the ruling **Zanu-PF** MPs ahead of next year's vote and are meant to silence legislators from speaking out against rampant corruption.

Mnangagwa and his ruling ZANU-PF allies have been accused of using state institutions to muzzle and oppress opposition members ahead of the 2023 general elections. The CCC is the main challenger to the ruling party in next year's vote, but analysts say the political and electoral playing field remains deeply uneven and stacked in favour of ZANU-PF, just as in the days of former strongman, **Robert Mugabe** (1986-2017). Although fears of election violence are not as heightened as in the past, the ruling party has been criticised for its use of the law and security institutions against opponents, and the conflation of party and state resources to boost its position.

³ Newshawks, 25 Nov 2022

⁴ Newshawks, 27 Nov 2022

⁵ Newshawks, 27 Nov 2022

⁶ Newsday, 5 Dec 2022

⁷ Newsday, 5 Dec 2022

Kariba Dam runs low causing crippling 19-hour-a-day power cuts

Zimbabwe is facing its worst power crisis since 2019 as low water levels at **Kariba Dam** cut the dam's power plant generation down to 200 megawatts (MW), less than a fifth of installed capacity, leading to power outages for up to 19 hours a day.⁸ The country was already facing long hours of power cuts, as the old **Hwange** coal plant keeps breaking down, generating only 301MW of its 920MW installed capacity.

The **Zambezi River Authority**, which runs the Kariba Dam - jointly owned by Zimbabwe and its neighbour **Zambia** - said Zimbabwe was now 6% over its 2022 water allocation while usable water levels on the **Kariba Reservoir** had fallen to just 4.6% of normal storage capacity. The Kariba south plant produces 1,050MW per day, approximately 70% of Zimbabwe's electricity.

The ZRA has said the current performance of the 2022/2023 rainfall season in the Kariba lower catchment is yet to improve and the associated inflows from the upper Kariba catchment will only influence any potential increase in the lake level at Kariba during the latter part of the first quarter of 2023. The ZRA believes it is highly unlikely that there will be any reasonable inflow augmentation in the remaining period of the year 2022, giving little or no chance of improvement in the reservoir storage levels going into the first quarter of the year 2023.

Zimbabwe is now looking to import power to plug the deficit as the new Hwange power units 7 and 8, which will add a combined 600MW, are only expected to come onto the grid in 2023. Mnangagwa said the country will need to rely on its neighbours in the **South African Development Community (SADC)** region for electricity as a short-term measure to meet the shortfall that the country faces between now and April 2023.⁹

Tharisa begins building \$4.2 billion platinum mine

South Africa-headquartered platinum group metals and chrome producer, **Tharisa**, has started construction of its \$4.2 billion **Karo Platinum** project (KPP) in Zimbabwe, 80km southwest of the capital, **Harare**.¹⁰ Tharisa is a 70% shareholder in **Karo Mining Holdings** which in turn indirectly owns 85% of the Karo Platinum project, with the Zimbabwean government holding the remaining 15% on a free carry basis.

Karo Mining Holdings is also in the process of raising funds via a \$50m bond listing on the **Victoria Falls Stock Exchange (VFEX)** which will be used in part to fund the development of the project, which has a total capital cost of \$391m for phase one. In addition to the \$50m bond, Karo will also raise \$260m in project finance and \$130m by leveraging the company's assets.

Production is expected to begin in July 2024, producing 194,000 ounces annually with an expected lifetime of 17 years. Company officials say approximately 1,000 jobs will be created at Karo during mine development, with a further 1,000 created when the mine is operational. Karo is also in talks with **French** renewable energy firm **Total Eren** for the development of a 300MW solar plant to supply the mine with power to counter Zimbabwe's incessant power shortages.¹¹

Zimbabwe is planning to double the royalty rate it charges mining companies on the platinum group metals (PGMs) they produce to 5% from January 2023 in a bid to increase government revenues. Zimbabwe is the world's third-largest producer of platinum, after **South Africa** and **Russia**, hosting major miners such as **United Kingdom**-headquartered **Anglo-American Platinum** and South Africa's **Impala Platinum** and **Sibanye Stillwater**.

⁸ Bloomberg, 6 Dec 2022

⁹ News24, 6 Dec 2022

¹⁰ Herald, 8 Dec 2022

¹¹ Newswire, 21 Oct 2022

Government proposes changes to farmer's compensation deal

The government, after missing several deadlines since pledging a \$3.5 billion deal in 2020 to compensate white farmers, has come up with a new payment plan that involves the controversial **Kuvimba** mining house.¹² The government holds a controlling stake in Kuvimba, however, it was reported by US media house **Bloomberg** in 2021 that the government bought its assets from a company linked to **Kudakwashe Tagwirei**, a businessman sanctioned by the US government. The government's two-thirds stake is held by public bodies including the sovereign wealth fund and the insurance and pension commission.¹³

The government agreed to pay \$3.5 billion in 2020 to these farmers for improvements on the land, but not for the land itself, with the state pledging to pay half of the money in 12 months, with a quarter of the rest paid in each subsequent year and full payment over five years (*see ARC Briefing Zimbabwe Sep 2020*).

However, the government has been unable to pay anything and in finance minister Ncube's budget speech on 24 November, a new payment plan with the farmers was proposed. The government under the new proposal will pay interim cash payments of \$35m per year for three years starting in 2023 until 2025. The balance of \$295m would be paid in 2026, with the government sourcing the funds from sale proceeds of the funds from operations from their Kuvimba shareholding and/or sale of any other government asset.¹⁴

Kuvimba's key assets include **Bindura Nickel Corporation**, valued at \$38m on VFEX, in addition to the **Freda Rebecca, Shamva** and **Jena** gold mines. Kuvimba also owns a large platinum project in **Darwendale (Mashonaland Wes)**. The government will issue dollar-denominated treasury bonds to pay the remaining \$3.15 billion. **Andrew Pascoe**, president of the **Commercial Farmers Union**, noted that farmers' groups will hold talks with Ncube to further understand the proposed payment plan.

Treasury appointed UK-based **NewState Partners** as transaction advisers in April last year to help raise money from international financiers. Resolving the dispute is key to stemming the decades of economic decay partly triggered by the land seizures under former president Mugabe.¹⁵

Businesses pessimistic about 2023 prospects on elections

The **2022 Zimbabwe National Chamber of Commerce** state of industry and commerce survey has indicated that businesses are more pessimistic about economic conditions heading into 2023, listing the general elections as the main concern. This is based on outcomes of previous general elections in the country where policy reversals and political violence have made the business environment riskier.¹⁶

The survey indicated that 59% of businesses expect the economy to deteriorate next year, while 61% expect profitability to deteriorate and 53% expect ease of doing business to deteriorate. Only 17% and 11% are optimistic about profitably and ease of doing business respectively.

The survey revealed that across all the nine economic variables stakeholders were asked about, on average 48% indicated that the situation is expected to deteriorate in 2023 compared to 2022.

¹² Bloomberg 25 Nov 2022

¹³ Financial Times, 4 Oct 2021

¹⁴ Newswire, 25 Nov 2022

¹⁵ Newswire, 25 Nov 2022

¹⁶ The Independent, 8 Dec 2022

The survey added that the **Business Confidence Index**, published by the global **Organisation for Economic Co-operation and Development (OECD)**, showed that firms and stakeholders in industry and commerce had no confidence in the government's macroeconomic stabilisation policies in 2023 nor in international and domestic economic recovery. The survey also indicated that the financial muscle of consumers is anticipated to be lower in the coming year than what it is currently, also attributed to the upcoming elections.

The current tight monetary and fiscal policies have stabilised inflation, but it has come at a cost of slowing economic growth due to its impact on consumer demand. Liquidity constraints are still prevalent in the market coupled with currency volatility. These factors, in addition to the current rolling 19-hour-a-day power cuts, are exacerbating the unfavourable business environment.

Planner

Jan/Feb **Harare (Zimbabwe)** 2023 Monetary Policy Statement
 February **Harare (Zimbabwe)** Monetary Policy Committee(MPC) decision
 6-8 Feb 2023 **Cape Town (South Africa)** Investing in African Mining Indaba;
 30 Jun 2023 **(South Africa)** Expiry of special residence permits for **Zimbabweans** living in South Africa;
 July/August 2023 **(Zimbabwe)** General elections

Chronology

9 Dec 2022 **Harare (Zimbabwe)** *Herald*. A total of 14,000 **Mosi-a-Tunya** gold coins valued at Z\$13,6 billion (\$21.1 million) have been sold since July this year with corporates having bought 90% of the bullion coins to hedge against inflation;

8 Dec 2022 **Harare (Zimbabwe)** *New Zimbabwe*. Government's decision to set the chromium prices through the **Minerals Marketing Corporation of Zimbabwe (MMCZ)** will likely turn away investors and companies willing to venture into, economist **Gift Mugano** has said. In a post-Cabinet briefing, information minister, **Monica Mutsvangwa**, said the government had agreed to a policy change whereby all chrome ores will be traded through MMCZ which will set quarterly prices of chrome ore which miners and traders will trade at;

6 Dec 2022 **Harare (Zimbabwe)** *Herald*. **Reserve Bank of Zimbabwe's** (central bank) Monetary Policy Committee (MPC) keeps the bank policy rate at 200% expressing satisfaction with the current tight monetary policy stance which has helped maintain economic stability, with monthly inflation trending downwards for five straight months from 30,7% in June to 1,8% in November;

5 Dec 2022 **Harare (Zimbabwe)** *Newswire*. **United Kingdom**-listed mining company **Contango** says it is in talks with a "*multinational company*" for a possible coking coal mining deal, prompting speculation that the potential partner is **Tsingshan** which is building a steel plant near **Mvuma** and looking for coking coal;

2 Dec 2022 **Harare (Zimbabwe)** *Newswire*. Local infrastructure company **Fossil Mines** has completed the takeover of fellow local company **Lafarge Cement**, giving it control of one of **Zimbabwe's** biggest cement producers, in a deal reportedly worth \$29.7m;

2 Dec 2022 **Harare (Zimbabwe)** *Newshawks*. **Zimbabwe** has engaged former **Mozambican** president **Joaquim Chissano** to facilitate the first dialogue with its creditors as the country seeks to normalise relations with the international community, following several failed

attempts to settle arrears with the **World Bank, International Monetary Fund** and the **African Development Bank**,

30 Nov 2022 **Harare (Zimbabwe) Herald**. **Chinese** global steel giant **Tsingshan Holdings Group** signs a memorandum of understanding (MoU) with government allowing it to venture into lithium mining and cement works;

30 Nov 2022 **Harare (Zimbabwe) Daily Maverick**. Cabinet approves strict new legislation that will criminalise any **Zimbabwean** citizen or permanent resident who lobbies for international sanctions against the country;

29 Nov 2022 **Harare (Zimbabwe) Newsday**. Government says it has invested more than \$5.5m in the development of the **Mining Cadastre Information Management System**, a computer-based and up-to-date land information system containing a record of interests in land such as land owners' rights, restrictions and responsibilities which is expected to go live in the first quarter of 2023;

27 Nov 2022 **Harare (Zimbabwe) Newswire**. **Zimbabwe** says it has produced its largest ever wheat crop, as more farmers grew the grain and government expanded irrigation, bringing production up from approximately 20,000 tonnes in 2009 to 326,687 tonnes this year;

27 Nov 2022 **Harare (Zimbabwe) Newshawks**. **Private Voluntary Organisations (PVO) Bill**, which targets to restrict works and funding of civil society, has had an immediate and dramatic effect on external funding, with finance minister **Mthuli Ncube** estimating that grants will decrease from \$776m this year to \$352.8m next year;

24 Nov 2022 **Harare (Zimbabwe) Newsday**. Mining house **RioZim Limited** says power supply challenges remain a key risk to the sustainability of its operations, despite the addition of diesel generators to lessen production stoppages;

22 Nov 2022 **Harare (Zimbabwe) New Zimbabwe**. High Court orders the **Zimbabwe Republic Police** and home affairs ministry to pay ZWL'400,000 (\$1,242) in compensation to **Edcock Dube** who was tortured in 2021 following his arrest for the violation of curfew regulations;

17 Nov 2022 **Harare (Zimbabwe) Herald**. **Luxembourg**-headquartered steel giant **ArcelorMittal** is set to build coke oven batteries, valued at \$15m each, as part of its beneficiation and value-addition process in **Zimbabwe** to help create jobs;

17 Nov 2022 **Harare (Zimbabwe) The Commonwealth**. **Commonwealth** Secretariat mission to **Zimbabwe** concludes citing positive progress and the intention to advance Zimbabwe's membership application;

16 Nov 2022 **Harare (Zimbabwe) Newswire**. **Zimbabwe Power Company (ZPC)** says critical refurbishment of the aged **Hwange** power plant will start in 2023, funded by a \$310m loan from the **Export-Import Bank of India**, in attempts to extend the life of Hwange's six existing generator units to produce a total of 880MW;

15 Nov 2022 **Harare (Zimbabwe) Newswire**. **Chinese**-headquartered **Sinosteel's** subsidiary **Zimasco** shuts down its smelter after authorities cut power over a tariffs dispute, stemming from **Zimbabwe Electricity Transmission Distribution Company's (ZETDC)** regulatory approval to raise tariffs for exporters by 24% and compel foreign-currency earners to pay their electricity bills;

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