

AFRICA RISK CONSULTING

Zimbabwe Monthly Briefing November 2018

Zimbabwe Summary 21 November 2018

President Emmerson Mnangagwa (2017-present) announces that Australia-based oil and gas exploration company Invictus Energy has found oil in Muzarabani (Mashonaland Central Province) in northern Zimbabwe. Former presidential adviser Chris Mutsvangwa accuses vice president Constantino Chiwenga of victimisation and plotting his removal as chairperson of the Zimbabwe National Liberation War Veterans Association (ZNLWVA) after he criticised Chiwenga's business ally. The Zimbabwe Revenue Authority (ZIMRA) intensifies lifestyle audits as part of President Mnangagwa's anti-corruption crusade, mainly targeting individuals associated with former president Robert Mugabe (1980-2017) and his family. Zimbabwe improves four places in the World Bank's 2019 Doing Business rankings, coming 155th out of 190 countries, with a score of 50.44. The transport ministry announces a call to tender to secure a private investor for the national airline, Air Zimbabwe, which is currently under administration.

Mnangagwa announces oil find in Zimbabwe

President **Emmerson Mnangagwa** (2017-present) announced on 1 November that **Australia**-based oil and gas exploration company **Invictus Energy Limited** had conducted a survey that yielded results pointing to potential for commercial oil deposits in the **Cabora Bassa Basin** in **Muzarabani (Mashonaland Central Province)**, in northern **Zimbabwe**.¹ Although this promises the development of an oil sector that would boost Zimbabwe's economy, several questions have arisen after Mnangagwa's announcement.²

Mnangagwa conducted a press briefing flanked by Invictus Energy officers, saying the government has worked with Invictus Energy over the past few months to undertake oil and gas exploration:

*"Invictus is utilizing data which was generated by [United States-based] Mobil Oil in the early 1990s, when extensive oil and gas geo work was undertaken in the great Muzarabani area. We have since been advised by Invictus that the findings are positive and point to gas and oil deposits."*³

Mnangagwa said the government had agreed to enter into a production sharing agreement with Invictus once the project had reached the commercial production stage.⁴ Mines and mining development minister **Winston Chitando** said that the production well would be sunk in 2020 and would cost \$20m.⁵ He described the project as the largest undrilled onshore resource in **Africa**.⁶ However, Invictus Energy issued a statement to the **Australian Stock Exchange** on 2 November emphasising that it had not found oil and gas deposits in

¹ BBC, 1 Nov 2018.

² BBC, 1 Nov 2018.

³ President Mnangagwa quoted in VOA, 1 Nov 2018.

⁴ Reuters, 2 Nov 2018.

⁵ Reuters, 2 Nov 2018

⁶ Reuters, 2 Nov 2018

Zimbabwe, but only found signs of a "working petroleum system", which only an exploration well could confirm.⁷

*"The prospective resource estimate for the Muzarabani prospect relates to undiscovered accumulations which have both a risk discovery, and a risk development... Although the Cabora Bassa Basin possesses all the elements of a working petroleum system, a discovery can only be confirmed through drilling of an exploration well."*⁸

The opposition accused the government of lying about the oil find. Opposition **Movement for Democratic Change (MDC)** spokesperson **Jacob Mafume** said the government was trying to claim credit for natural occurrences:

*"It turns out that it is a lie. The reason (for lying) is that they have dramatically failed to turn around the economy. He was hoping to be an economic successful dictator like [Rwanda's president **Paul**] **Kagame** [1994-present]. Unfortunately, he has no competence to turn around an economy."*⁹

Invictus Energy does not have any other assets apart from the Zimbabwe project,¹⁰ which appears to be its first project.¹¹ Mobil Oil conducted exploration in the Muzarabani area in the 1990s, but concluded that it did not hold commercially viable oil resources. However, Chitando said that Invictus used modern technology to yield more promising results than Mobil's.¹² However, even if oil is confirmed, it is not guaranteed to spur economic growth in Zimbabwe. If Zimbabwe's experience with the discovery of diamonds is any guide, political elites in the army and government may siphon both the oil and the revenue out of Zimbabwe before it reaches the state coffers.¹³

Former presidential adviser accuses vice president Chiwenga of victimisation

President Mnangagwa's former adviser, **Chris Mutsvangwa**, accused vice president General **Constantino Chiwenga** on 16 November of orchestrating his removal as the chairman of the **Zimbabwe National Liberation War Veterans Association (ZNLWVA)**.¹⁴ The accusation is the latest twist in internal tensions within the ruling coalition that may contribute to political instability in Zimbabwe.¹⁵ Mutsvangwa issued statements in October claiming that local businessman **Kudakwashe Tagwirei**, who has close ties with Chiwenga, was causing divisions within the ruling **Zimbabwe African National Union Patriotic Front (Zanu-PF)** party.¹⁶ Mutsvangwa also held Tagwirei responsible for corrupt activities that account for the continuing economic decay in Zimbabwe.¹⁷

The ZNLWVA, which consistently backed Mnangagwa's political ambitions before the coup in November 2017, issued a statement on 12 November saying that it had resolved to recall Mutsvangwa from the association's leadership on allegations of sowing political divisions in

⁷ Reuters, 2 Nov 2018.

⁸ Excerpt from Invictus Energy's statement to the Australian Stock Exchange, quoted by Reuters, 2 Nov 2018.

⁹ Opposition activist Jacob Mafume quoted in VOA, 2 Nov 2018

¹⁰ Invictus Energy website

¹¹ Source, analyst, London

¹² Source, analyst, London

¹³ Source, analyst, London

¹⁴ The Standard, 18 Nov 2018.

¹⁵ The Standard, 18 Nov 2018.

¹⁶ The Standard, 18 Nov 2018.

¹⁷ The Standard, 18 Nov 2018.

the ruling coalition.¹⁸ Mutsvangwa also alleges that Chiwenga has been working with the defence and war veterans deputy minister, **Victor Matemadanda**.¹⁹

*“They said they want to anoint him as the leader of war veterans because he is the only war veteran in a leadership position who won a parliamentary seat in the 30 July elections... Matemadanda has been trying to change the leadership, but he is meeting a lot of resistance from everybody... other provinces are saying this is nonsense, [except **Mashonaland East**]... We exposed the cartel and it does not have political cover at the moment. They are desperate for political protection and this has been worsened by the fact that President Mnangagwa won the elections in July... they are not happy. To continue with that cartel you need to have Number 1 supporting it, but he is not.”²⁰*

Matemadanda has denied claims that he is working with Chiwenga to remove Mutsvangwa from office.²¹

*“I have always defended Mutsvangwa, but I was surprised one day when his wife accused me of trying to usurp the chairmanship from Mutsvangwa as if there is a seat specifically reserved for a specific person to the chairman. I cannot fight Mutsvangwa today when I was fired by [former president **Robert**] **Mugabe** [1980-2017] for defending Mutsvangwa...”²²*

The conflict between Mutsvangwa and Matemadanda reflects the ongoing tensions between supporters of President Mnangagwa on one hand, and vice president Chiwenga on the other.²³ Mnangagwa and Chiwenga lead competing centres of power within the ruling coalition that includes Zanu-PF, the army and security services, business people, and the war veterans association.²⁴ The ongoing factional tensions are likely to escalate towards the next general election in 2023, especially if Chiwenga decides to run for office against Mnangagwa.²⁵ Should this happen, it is likely that the military will be involved in the political transition in the form of another coup or manipulated election results.²⁶

ZIMRA begins targeting wealthy socialites over corruption and tax fraud

The **Zimbabwe Revenue Authority (ZIMRA)** has begun arresting and charging wealthy individuals in Zimbabwe over tax evasion and other financial crimes. The government hopes to inspire investor confidence through the investigation and prosecution of crimes to create the impression of a safer and more equitable business operating environment.²⁷ The government gazetted the **Presidential Powers (Temporary Measures) (Amendment of the Money Laundering and Proceeds of Crime) Act Regulations 2018** on 21 November, which empowers ZIMRA to seize assets of individuals who fail to account for the source of their wealth.²⁸ Although this appears to confirm President Mnangagwa’s pledge to address corruption and fraud in the government and private sector, the arrests are yet to target high

¹⁸ The Standard, 18 Nov 2018.

¹⁹ The Standard, 18 Nov 2018.

²⁰ Former presidential advisor, Chris Mutsvangwa quoted in The Standard, 18 Nov 2018.

²¹ The Standard, 18 Nov 2018.

²² Defence and war veterans deputy minister, Victor Matemadanda quoted in The Standard, 12 Nov 2018.

²³ Source, analyst, London

²⁴ Source, analyst, London

²⁵ Source, analyst, London

²⁶ Source, analyst, London

²⁷ Daily News, 21 Nov 2018.

²⁸ Daily News, 21 Nov 2018.

ranking political leaders who have been at the centre of the political and economic decay in Zimbabwe.²⁹

The government has reportedly been losing substantial sums of money through various forms of tax evasion, including smuggling and bribery at ports of entry.³⁰ The **Reserve Bank of Zimbabwe** (central bank) has also been stepping up investigations of money laundering cases. ZIMRA has intensified lifestyle audits on several businesspeople in Zimbabwe, especially those who flaunt their wealth, since the law was passed.³¹ However, ZIMRA's head of corporate communications, **Francis Chimanda**, said ZIMRA's lifestyle audit programme has been in place for some time:

*"ZIMRA will continue conducting lifestyle audits on individuals and where expenditure does not match income, this will be flagged and appropriate action taken. ZIMRA is [also] ready to assist other enforcement agencies in conducting lifestyle audits... In instances of criminal activities, the implicated companies will be prosecuted according to the law."*³²

Police have arrested high-profile businesspeople, such as **Pioneer Gases CEO Genius Kadungure**, on allegations of tax evasion, and reportedly brought in several others for questioning.³³ However, the audits and arrests are mostly politically motivated.³⁴ The government appears to be targeting businesspeople who are connected to Mugabe, and not President Mnangagwa.³⁵ ZIMRA is yet to bring in for questioning or charge Zanu-PF political leaders who were involved in corruption scandals during Mugabe's tenure.³⁶ The anti-corruption activities do not represent an overhaul of the country's political and economic system and are thus not likely to increase investor confidence.³⁷

Zimbabwe improves its Doing Business rankings

Zimbabwe improved its ease of doing business ranking to 155, up from 159 in 2018, out of 190 countries in the **World Bank's 2019 Doing Business** rankings.³⁸ This will be welcome news to Zimbabwean authorities, as an improved business climate may stimulate more economic activity, create jobs and reduce poverty within the country.³⁹ Zimbabwe's overall score of 50.44 placed it slightly below the **sub-Saharan African** average of 51.61.⁴⁰ The rankings use a variety of indicators to assess the business environments of World Bank member states.⁴¹ These indicators include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.⁴² Zimbabwe made reforms in four domains:

²⁹ Daily News, 21 Nov 2018.

³⁰ Daily News, 21 Nov 2018.

³¹ Daily News, 21 Nov 2018.

³² Daily News, 21 Nov 2018.

³³ Daily News, 21 Nov 2018.

³⁴ Source, analyst, London

³⁵ Source, analyst, London

³⁶ Source, analyst, London

³⁷ Source, analyst, London

³⁸ World Bank, 31 Oct 2018.

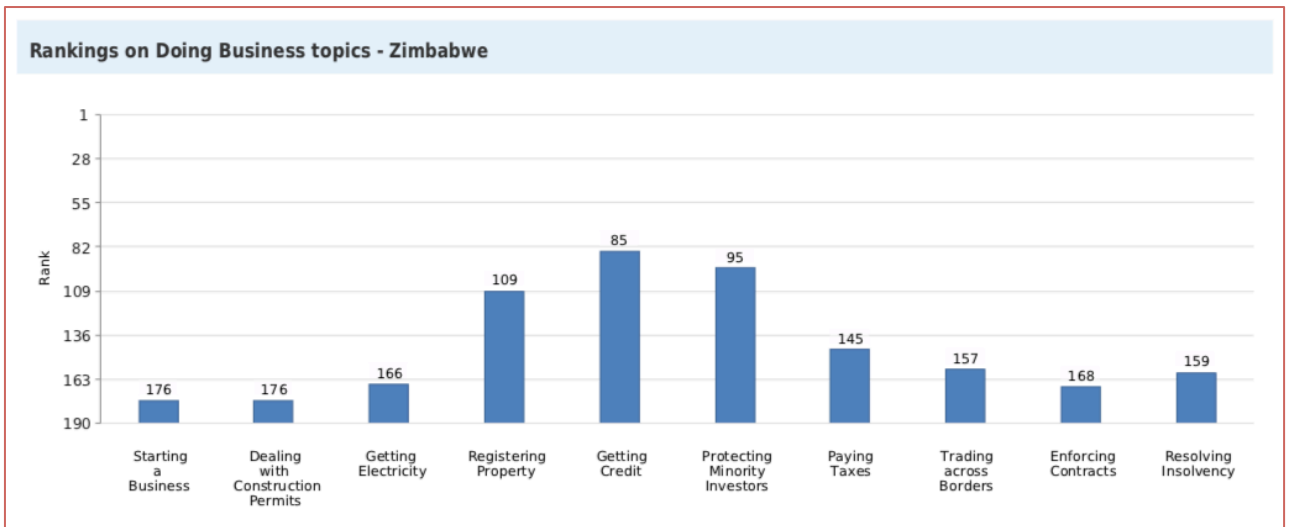
³⁹ World Bank, 31 Oct 2018.

⁴⁰ World Bank, 31 Oct 2018

⁴¹ World Bank, 31 Oct 2018

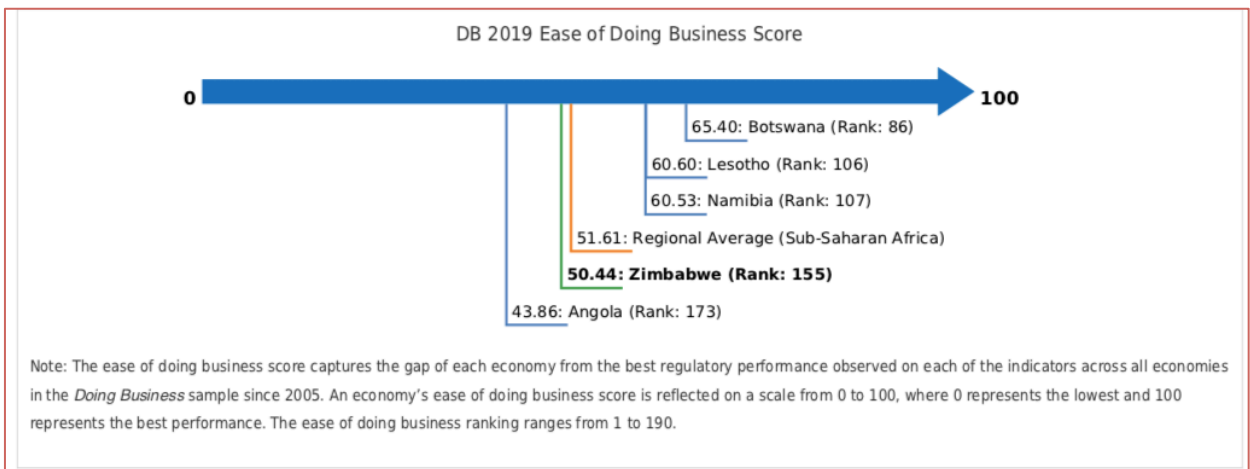
⁴² World Bank, 31 Oct 2018

- Starting a business: Zimbabwe made starting a business easier by reducing the time needed to obtain a business licence;
- Dealing with construction permits: Zimbabwe made dealing with construction permits faster by issuing building permits through a one-stop shop;
- Getting credit: Zimbabwe improved access to credit information by increasing the coverage of the credit registry and providing consumer and commercial credit scores to banks and financial institutions;
- Enforcing contracts: Zimbabwe made enforcing contracts easier by making judgments rendered at the appellate and supreme court level in commercial cases available to the general public online.⁴³



Source: World Bank Doing Business 2019, Training for Reform, Economy Profile Zimbabwe

Zimbabwe scored below most of its peers in the **Southern African Development Community (SADC)**. Although **Angola** came well below Zimbabwe ranking 173rd with a score of 43.86, **Namibia** and **Lesotho** scored 60.53 (107) and 60.60 (106) respectively.⁴⁴ **Botswana** ranked in 86th place with a score of 65.40.⁴⁵



Source: World Bank Doing Business 2019, Training for Reform, Economy Profile Zimbabwe

⁴³ World Bank, 31 Oct 2018

⁴⁴ World Bank, 31 Oct 2018

⁴⁵ World Bank, 31 Oct 2018

The rankings reflect the changes that President Mnangagwa's government has instituted since coming to power in November 2017.⁴⁶ This will demonstrate his commitment to the mantra that Zimbabwe is "open for business".⁴⁷ Nevertheless, Zimbabwe needs further political and economic reforms, such as eradicating corruption and promoting transparency, to attract investors whose capital would revive the economy.⁴⁸

Government seeks private investor for Air Zimbabwe

Transport and infrastructural development minister **Joel Biggie Matiza** said on 9 November that his ministry plans to invite bids from private investors to recapitalise **Air Zimbabwe**, the national airline.⁴⁹ The response to the bids will demonstrate the extent to which President Mnangagwa has gained the trust of private investors after establishing a new cabinet in September.⁵⁰ Air Zimbabwe has been under administration since October, after its debt to domestic and foreign creditors soared to \$377m.⁵¹ The central government assumed the debt and anticipated that this would make the airline more attractive to private investors because of reduced risk.⁵² The government's efforts to privatise Air Zimbabwe are part of its broader policy of privatising state-owned enterprises and ending the subsidisation of loss-making parastatals.⁵³

Air Zimbabwe administrator **Reggie Saruchera** said on 12 November that potential investors should submit their bids before 23 November, and pay a non-refundable deposit of \$20,000.⁵⁴ However, he did not specify whether the government would allow investors to tender for partial or total shareholding of the national carrier.⁵⁵ Air Zimbabwe currently has only three operational planes, having grounded three others after failing to maintain them.⁵⁶ Air Zimbabwe also ceased to fly to international destinations because of threats of seizure of its planes over unpaid fees at various airports in **Africa** and overseas.⁵⁷

The transport ministry's tender comes amidst reports that a planned merger between Air Zimbabwe and a little-known local airline, **Zimbabwe Airways**, has collapsed.⁵⁸ Individuals connected to former president Mugabe reportedly own the airline, which took delivery of used planes from **Malaysia** in 2017.⁵⁹ The planned merger failed when **Harare**-based lawyer, **Phillipa Phillips**, who is listed as a director and nominee shareholder, indicated to the transport ministry that the merger would not go ahead unless she received \$2m for shares that she held in Zimbabwe Airways.⁶⁰

*"[Phillips] wrote to the ministry demanding a \$2 million payment for shares she claims to nominally hold in the company. So the deal has been effectively called off, and that is why government has had to invite private investors to come in."*⁶¹

⁴⁶ Source, analyst, London

⁴⁷ Source, analyst, London

⁴⁸ Source, analyst, London

⁴⁹ Pindula, 12 Nov 2018.

⁵⁰ Pindula, 12 Nov 2018.

⁵¹ Pindula, 12 Nov 2018.

⁵² Pindula, 12 Nov 2018.

⁵³ The Standard, 12 Nov 2018.

⁵⁴ The Standard, 12 Nov 2018.

⁵⁵ The Standard, 12 Nov 2018.

⁵⁶ The Standard, 12 Nov 2018.

⁵⁷ The Standard, 12 Nov 2018.

⁵⁸ Bulawayo24, 17 Nov 2018.

⁵⁹ Bulawayo24, 17 Nov 2018.

⁶⁰ Bulawayo24, 17 Nov 2018.

⁶¹ Anonymous source quoted in Bulawayo24, 17 Nov 2018.

Air Zimbabwe's financial woes emanate from decades of corruption and fraudulent activities that also affected other state-owned companies. The auditor-general issued a report on 14 November that exposed large-scale theft of funds from the national airline.⁶² The report exposed several irregularities including the lack of supporting documents to account for expenditures such as overheads and the purchase of property, aircraft, and equipment.⁶³ The report also mentions allegations of collusion between members of the Air Zimbabwe management team, and their insurance brokers to defraud the national carrier.⁶⁴ These revelations are likely to dissuade investors from responding to the transport ministry's call to tender.⁶⁵ Although President Mnangagwa has sought to portray himself as establishing a transparent regime, the government is yet to begin investigations into theft at state corporations, including Air Zimbabwe.⁶⁶

Planner

9 Dec 2018 **Harare (Zimbabwe)** Customer Experience and Service Delivery Symposium;
 23 Apr 2019 **Bulawayo (Zimbabwe)** Zimbabwe International Trade Fair (**ZITF**) Business Days;
 12 Jun 2019 **Harare (Zimbabwe)** Sign Africa Expo;
 June 2023 (**Zimbabwe**) General elections;

Chronology

21 Nov 2018 **Harare (Zimbabwe)** *Daily News*. Industry deputy minister **Raji Modi** reveals that Zimbabwe's trade with **China** has reached \$1 billion;

21 Nov 2018 **Harare (Zimbabwe)** *Bulawayo24*. **India**-based company **Varun Beverages** announces plans for increased production at its recently launched \$40m manufacturing and bottling plant in Harare;

19 Nov 2018 **Harare (Zimbabwe)** *TimesLive*. The **Zimbabwe Revenue Authority (ZIMRA)** targets wealthy Zimbabweans with lifestyle audits and arrests;

17 Nov 2018 **Harare (Zimbabwe)** *Vanguard*. President **Emmerson Mnangagwa** calls for a review of Zimbabwe's traffic laws amidst successive fatal road accidents;

13 Nov 2018 **Harare (Zimbabwe)** *News24*. The **Zimbabwe Defence Forces (ZDF)** deny that soldiers shot and killed six protesters on 1 August as the commission of inquiry on post-election violence continues;

13 Nov 2018 **Harare (Zimbabwe)** *IOL*. **Zimbabwe Statistics (ZimStats)** reveals that inflation rose to 21% in October;

6 Nov 2018 **Harare (Zimbabwe)** *IOL*. The **Zimbabwe Republic Police** arrests former information, communication, technology, postal and courier services minister **Supa Mandiwanzira** on allegations of abuse of office;

2 Nov 2018 **Perth (Australia)** *Voice of America*. **Australia**-based **Invictus Energy**

⁶² Bulawayo24, 14 Nov 2018.

⁶³ Bulawayo24, 14 Nov 2018.

⁶⁴ Bulawayo24, 14 Nov 2018.

⁶⁵ Source, analyst, London

⁶⁶ Source, analyst, London

downplays President **Emmerson Mnangagwa**'s announcement that Zimbabwe has confirmed commercial deposits of oil;

1 Nov 2018 **Harare (Zimbabwe)** *Africa News*. President **Emmerson Mnangagwa** has extended the tenure of **Reserve Bank of Zimbabwe (RBZ)** governor **John Mangudya**, which was set to expire this year, by another four years;

1 Nov 2018 **Harare (Zimbabwe)** *BBC*. President **Emmerson Mnangagwa** announces that Australia-based oil and gas exploration company **Invictus Energy** has discovered oil in **Muzarabani** district;

31 Oct 2018 **Washington (United States)** *World Bank*. Zimbabwe improves four places to 155 out of 190 countries in the **World Bank's 2019 Doing Business** rankings;

About Africa Risk Consulting:

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