

AFRICA RISK CONSULTING

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Zimbabwe Summary 11 June 2021

Newly published penalties under Statutory Instrument 127 (SI127) for what the government describes as “profiteering from selling hard currency” have raised concern in Zimbabwe’s business community, which says SI127 threatens progress made in stabilising inflation and foreign exchange rates. President Emmerson Mnangagwa (2017-present) reinforces the mining sector’s \$12 billion target for 2023, calling for increased investment and a favourable operating environment. The government partners with the International Finance Corporation (IFC) to improve access to Victoria Falls in an effort to boost the tourism sector. Zimbabwe continues to record new cases of Covid-19 amid its vaccination rollout. Businesses, restaurants and schools remain open with a 10pm - 5am curfew in effect.

Business community denounces new currency regulations

New penalties for what the **Zimbabwe** government describes as “*profiteering from selling hard currency*” have raised concern in the business community. President **Emmerson Mnangagwa** (2017-present) on 27 May published penalties for companies and individuals to prevent “*profiteering*” from selling the hard currency the government makes available at auctions.¹ The **Presidential Powers (Temporary Measures) (Financial Law Amendment) Regulations** allow Mnangagwa to impose **Statutory Instrument SI127 (SI127)** for 181 days. SI127 allows the **Reserve Bank of Zimbabwe (RBZ)** (central bank) to impose penalties “*in the event of default in complying with exchange control regulations that govern the use of funds obtained from the auction system, receipting goods in a currency other than that in which it was paid for*”, and penalising sellers of goods and services not authorised to charge for them exclusively in foreign currency. Businesses selling goods or services at a rate above the ruling auction market rate will face penalties, as well as those who refuse to accept payment in Zimbabwe dollars (ZWL).

Information secretary **Nick Mangwana** said the government’s rationale for the SI is an attempt to curtail the abuse of the foreign exchange system, where businesses are seen to abuse the exchange by obtaining **United States dollars (USD)** at a cheaper rate and going on to sell the goods using the parallel market rate, which is appreciably more expensive.² In a statement released on 29 May, the RBZ noted:

“The SI is not designed to harm business but to provide a level playing field for business and to protect consumers.”³

The **Confederation of Zimbabwean Industries (CZI)** says SI127 is likely to have “*dire unintended consequences*” including a spike in USD inflation that will affect businesses relying on USD sales to keep operations afloat.⁴ USD inflation is likely to decrease sales in USD, as cash is already in short supply. While the government’s auction system is the official channel in which to access US dollars, shortages or delays in access to foreign exchange are likely to force businesses to search the parallel market for US dollars. The parallel market is likely to see

¹ Bloomberg, 27 May 2021

² ZWNews, 30 May 2021

³ Zimbabwe Independent, 4 Jun 2021

⁴ NewzWire, 2 Jun 2021

further devaluation as heavy fines turn a parallel rate to a premium black rate, which will also see Zimbabwe dollar imported inflation increase. Overall, it is feared that increased inflation, both in ZWL and USD, is likely to dent fragile confidence, decline overall economic activity and result in hyperinflation similar to that of 2019.⁵

Fiscal policy that the government has implemented in the last nine months has thus far proven successful in taming a soaring inflation rate and stabilising the local currency. Monthly inflation rates have decelerated from above 30% in June and July 2020 to an average of just 2.2% in the months of March to June 2021.⁶ The government's **Foreign Auction Exchange**, introduced in June 2020, has allowed the Zimbabwe dollar to stabilise, which has positively impacted domestic growth.

Zimbabwe's formal business community claims the government's failure to consult with it over SI127 will result in a lack of buy-in from the business community.⁷ Since the key issues addressed in SI127 are likely to affect the formal sector rather than the informal sector, this is likely to result in limited adherence to the statutory instrument, or potential circumvention of the SI through the informal sector.

The consensus in the business community seems to be that SI127, while recognising that consumer and market protection are necessary, may undo the positive steps that have been made in the last year to regain confidence in Zimbabwe's economy and the Zimbabwe dollar. With the **Covid-19** pandemic (see below) and two consecutive droughts already proving to be difficult obstacles, there is need for continued growth-oriented economic policies that generate foreign exchange and stimulate economic activity. Additionally, a stabilised Zimbabwe dollar would allow the government to incentivise ZWL use in-country, which would in turn motivate businesses to liquidate foreign exchange holdings earlier to gain access to requisite ZWL.

Mnangagwa reinforces \$12 billion mining target for 2023

In his keynote address opening the **Chamber of Mines** conference in **Victoria Falls** on 4 June, President Mnangagwa discussed the prospect of meeting the mining sector's 2023 goal of becoming a \$12 billion industry.⁸ With the 2023 goal just 18 months away, Mnangagwa underscored the effort needed to achieve this goal – especially in the context of the Covid-19 pandemic, which has disrupted the value chain in the mining industry.⁹ Due to the importance that the mining sector plays in the economy, the industry has managed to navigate the pandemic through tax cut incentives.¹⁰

Currently generating \$2 billion annually, Zimbabwe's mining sector has vast potential to increase revenues in minerals, which bring in about 60% of overall export revenue.¹¹ However, the Covid-19 pandemic saw price decreases in some of the country's most valuable and resource-vast minerals – gold, diamonds and platinum.¹² Mnangagwa called for the reopening of idle mines and construction of new mines, given the room for diversification and growth within the sector.

Mnangagwa placed emphasis on increasing foreign and domestic investment in the sector as well as pursuing enhanced exploration activities to allow Zimbabwe to take full advantage of its mineral wealth supply, which hosts up to 40 different minerals. Mnangagwa called for the creation of a favourable investing environment for domestic and foreign investors, in line with

⁵ NewzWire, 30 May 2021

⁶ Confederation of Zimbabwean Industries, 31 May 2021

⁷ Confederation of Zimbabwean Industries, 31 May 2021

⁸ Chronicle, 4 Jun 2021

⁹ Chronicle, 4 Jun 2021

¹⁰ The Herald, 4 Jun 2021

¹¹ Bulawayo24News, 7 Jun 2021

¹² Ministry of Mines and Mining Development, 1 Jun 2021

the government's 2023 mining goals initially set out by mines minister **Winston Chitando** in 2019. Mnangagwa noted the \$12 billion goal is achievable through infrastructural investment that the Zimbabwe government cannot finance alone. Mnangagwa also called for value addition processes and beneficiation to be extended to more advanced stages within the country, as many minerals are exported without any value added to the overall chain.¹³

The mining industry is crucial to Zimbabwe's ability to earn foreign exchange, and at its current operating capacity there is room for improvement. However, this requires foreign investment, which in turn requires mutual trust between the government and investors. Investors need to be confident that their rights will be respected, and that their investment does not face unnecessary risk. Zimbabwe's historical reputation and current international isolation status are unlikely to boost investor confidence without a show of good faith from the government – something that the recent SI127 regulations may thwart (see above). As a result, the government appears unlikely to reach its 2023 overall goal of \$12 billion, but this does not detract from the need and room for growth and diversification – both in minerals and in the value adding processes of the mining sector.

Government partners with IFC to expand Victoria Falls access

The government on 7 June announced a partnership with the **International Finance Corporation (IFC)** to help boost the tourism sector by attracting more airlines and flights into the town of **Victoria Falls**. The IFC, a member of the **World Bank Group**, is the largest global development institution for emerging markets.¹⁴ Victoria Falls is Zimbabwe's most significant tourist destination. Pre-pandemic tourism levels allowed it to support 25,000 direct jobs. Zimbabwe's tourism industry attracted over two million new arrivals in 2018 and 2019, the majority being foreign tourists and customers who bring in much needed foreign exchange.¹⁵ However, Covid-19 restrictions forced businesses in Victoria Falls to retrench thousands of employees.

The partnership with the IFC aims to support economic recovery and increase employment in the tourism sector by increasing airline access and frequency of flights into Victoria Falls. With the eventual easing of global Covid-19 restrictions, the main priority is to improve access to Victoria Falls for visitors. The government completed construction of a longer runway in November 2016 at **Victoria Falls Airport** to increase the number and type of long-haul aircraft that can land, as well as a new passenger terminal.¹⁶ Transport and infrastructural development ministry permanent secretary **Theodius Chinyanga** noted:

"A strategic air service development effort is needed to drive recovery from the ongoing COVID-19 crisis and ensure longer-term growth for Victoria Falls as a regional hub."¹⁷

Additionally, **Germany**-based **Lufthansa** subsidiary **Eurowings** is meeting with partners in Victoria Falls on 11 June to discuss expanding access through **Windhoek (Namibia)**, potentially beginning in April 2022, to boost tourism from the **European** market. **Africa Albida Tourism** CEO **Ross Kennedy** expressed optimism for Zimbabwe's tourism industry and an expected boost from increased numbers of foreign tourists in the coming months.

The partnership falls within a broader, long-term tourism programme between the IFC and the government, the **Zimbabwean Destination Development Program (ZDDP)**, which aims to revitalise Zimbabwe's tourism industry and make it more competitive regionally and globally.¹⁸

¹³ The Herald, 4 Jun 2021

¹⁴ ZimbabweMail, 7 Jun 2021

¹⁵ International Trade Administration, 6 Sep 2020

¹⁶ International Trade Administration, 6 Sep 2020

¹⁷ ZimbabweMail, 7 June 2021

¹⁸ ZimbabweMail, 7 Jun 2021

The ZDDP will be boosted by the government's prioritisation of Covid-19 vaccination for tourism workers in Victoria Falls, which is likely to ease the process of re-attracting airlines, tourists and revenue. Lockdown restrictions are beginning to ease in Zimbabwe (see below); however, mandatory 10-day quarantine for international air travelers upon arrival may affect implementation of the partnership.¹⁹

The partnership between the government and the IFC is crucial in helping Zimbabwe to rebuild tourism, particularly in a sector of the economy that is responsible for attracting foreign exchange. It will allow Victoria Falls to cater to increased numbers of visitors, which may have downstream effects for other tourist destinations in the region. This will be further boosted by the designation of Victoria Falls as a **Special Economic Zone (SEZ)** and **International Finance Centre (IFC)**, which is likely to attract domestic and foreign investors through various tax incentives, duty-free status and the recently announced **USD Victoria Falls Stock Exchange**.²⁰

COVID-19 update

Zimbabwe continues to record new cases of Covid-19 amid its vaccination rollout. To date it has recorded at least 39,238 cases of Covid-19 in its population of 14.7 million since the outbreak of the pandemic, with a total of 1,611 Covid-19-related deaths.²¹ There are currently roughly 881 active cases with a seven-day rolling average of 39.5 new daily cases since 1 June.²² The dominant variant of the virus detected in new cases is B.1.351, which was first identified in South Africa.

The health ministry reports it has administered over one million doses of Covid-19 vaccine, using a combination of **Russia**-manufactured **Sputnik V**, **China**-manufactured **Sinopharm** and **Sinovac**, **US**-manufactured **Pfizer** and **Moderna**, **British-Swedish**-manufactured **AstraZeneca** and **India's Covaxin**. At least 688,696 people have received their first doses, while 385,275 have received second doses – meaning that roughly 2.5% of the population has received both doses.²³ However, the government has delayed the August allocation of **US**-manufactured **Johnson & Johnson (J&J)** doses over clotting concerns.²⁴ A batch of 500,000 doses of alternative vaccines is expected to arrive by 15 June.

Social distancing measures continue to be in effect. Businesses, restaurants and schools remain open although restaurants are only able to operate at 50% capacity.²⁵ A curfew is in place between 10pm and 5am. Commercial and international travel is available, albeit with quarantine restrictions of 10 days for international arrivals. A negative Covid-19 test result is required upon arrival. Airline operations have resumed through routes to the rest of the **Southern African Development Community (SADC)** region. Flights from Harare to **Addis Ababa (Ethiopia)** and **Nairobi (Kenya)** have continued throughout the pandemic as a hub for travel to **Europe**, the **Middle East** and **Asia**.

¹⁹ U.S. Embassy in Zimbabwe, 7 Jun 2021

²⁰ International Trade Administration, 6 Sep 2020

²¹ Reuters, 8 June 2021

²² WorldoMeter, 8 Jun 2021; CoronaLevel, 8 Jun 2021

²³ Post-Cabinet Press Briefing, 8 Jun 2021

²⁴ Post-Cabinet Press Briefing, 8 Jun 2021

²⁵ FCDO Website, 7 Jun 2021

Planner

Jun 2021 **(Zimbabwe)** President **Emmerson Mnangagwa** to sign Second Constitutional amendment bill

Jul 2023 **(Zimbabwe)** Harmonised elections

Chronology

10 Jun 2021 **Pretoria (South Africa)** *EWN*. President **Cyril Ramaphosa** says the insurgency in neighbouring **Mozambique** is being monitored in case it spills over into **South Africa**;

10 Jun 2021 **Harare (Zimbabwe)** *Herald*. **High Court** backs **Chief Justice Luke Malaba's** right to resume work despite a previous ruling that President **Emmerson Mnangagwa's** decision to extend Malaba's tenure breached the constitution because he has turned 70;

9 Jun 2021 **Harare (Zimbabwe)** *AFP*. Finance minister **Mthuli Ncube** says GDP is expected to grow 7.8% this year, up from -4.1% and much higher than international expectations;

9 Jun 2021 **Harare (Zimbabwe)** *SundayNews*. Government extends the winter wheat season to 15 June to pave the way for increased wheat plantation, hoping to ensure self-sufficiency;

8 Jun 2021 **Kwekwe (Zimbabwe)** *VOAZimbabwe*. Government extends the **Covid-19** lockdown in the **Midlands** town of **Kwekwe** due to an increase in Covid-19 cases, including the so-called **Indian** variant;

6 Jun 2021 **Harare (Zimbabwe)** *Club of Mozambique*. **Mozambique's** President **Filipe Nyusi** visits **Zimbabwe** at the invitation of President **Emmerson Mnangagwa**, with both presidents agreeing to reinstate the **Joint Permanent Commission**, an agreement for periodic high-level conferences on matters of mutual interest;

6 Jun 2021 **Harare (Zimbabwe)** *New Zimbabwe*. New report by **Global Initiative Against Transitional Organised Crime** says **Chinese** nationals are now "*prominent and influential actors*" in the illicit gold sector and have formed questionable partnerships with the ruling elite;

6 Jun 2021 **Harare (Zimbabwe)** *SundayNews*. National airline carrier **Air Zimbabwe** is set to resume regional flights and rebuild itself as a feeder into the regional network, after domestic flights resumed on 2 June;

3 Jun 2021 **Maputo (Mozambique)** *Africanews*. **Botswana's** President **Mokgweetsi Masisi** says regional body **Southern African Development Community (SADC)** to hold a Special Extraordinary Summit in **Maputo** on 20 June to address the security situation in **Cabo Delgado**;

2 Jun 2021 **(Zimbabwe-South Africa)** *Business Day*. **Zimbabwean** authorities and **South African** state investigation unit **Hawks** investigate rampant gold smuggling route from Zimbabwe through South Africa;

1 Jun 2021 **Harare (Zimbabwe)** *New Zimbabwe*. **Chamber of Mines** chief executive **Isaac Kwesu** says 2020 and Q1 2021 saw a 29% decline in gold output;

1 Jun 2021 **Harare (Zimbabwe)** *BusinessTimes*. Zimbabwe's \$3.5 billion land compensation deal appears to be under threat as some former farmers table new demands that include return of expropriated land;

31 May 2021 **Harare (Zimbabwe)** *Business Day*. Mines ministry informs **Todal Mining**, a venture controlled by **Eurasian Resources Group**, that its platinum mining concessions could be seized because no progress has been made in developing them;

29 May 2021 **Harare (Zimbabwe) CPJ**. Press freedom watchdog **Committee to Protect Journalists** calls on **Zimbabwean** authorities to immediately release local journalist **Jeffrey Moyo** who was remanded in custody on accusations of violating the country's immigration laws to facilitate a reporting trip by two foreign colleagues;

28 May 2021 **Harare (Zimbabwe) Zimbabwe Independent**. President **Emmerson Mnangagwa's** government is set to spend at least \$1m on 35 new off-road double cab vehicles for top bureaucrats in the home affairs ministry;

27 May 2021 **Harare (Zimbabwe) Bloomberg**. President **Emmerson Mnangagwa** publishes penalties for companies and individuals to prevent what the government describes as profiteering from selling hard currency it makes available at auctions;

27 May 2021 **(Southern Africa) News24**. **Southern African Development Community (SADC)** leaders meet in **Mozambique** to discuss joint troop deployment into **Cabo Delgado**, where insurgents have penetrated the north of the country;

27 May 2021 **Harare (Zimbabwe) Post-Cabinet Press Briefing**. **Information Communication Technology** minister **Jenfan Muswere** presents report outlining Zimbabwe's progress toward building and running a digital economy, and its "quite advanced *Digital Financial Services pillar*";

26 May 2021 **Harare (Zimbabwe) Daily Maverick**. Former finance minister and opposition politician **Tendai Biti** says **Zimbabwe** faces an "existential crisis like never before" due to widespread corruption;

26 May 2021 **Harare (Zimbabwe) The Guardian**. The government's unveiling of a statue of liberation figurehead **Mbuya Nehanda** in **Harare** stirs controversy over government priorities amid a struggling economy and strained health care system;

24 May 2021 **Harare (Zimbabwe) Fin24**. Zimbabwean authorities have suspended all maize and maize meal imports from **South Africa** due to Zimbabwe's record maize output, a blow for South Africa's largest maize export market;

22 May 2021 **Mutare (Zimbabwe) ReliefWeb**. **Police Internal Security and Investigation** members confront opposition **MDC Alliance** officials conducting a clean up exercise in **Mutare** highlighting further political harassment of opposition to the ruling **ZANU-PF** party;

21 May 2021 **Harare (Zimbabwe) Zimbabwe Independent**. Government investigation into the lands, agriculture, water and rural resettlement ministry notes a "haven of corruption activities" fuelled by closely knit syndicates, including top officials allegedly asking for bribes from **South Africa**-based mining firm **Lephalale**;

21 May 2021 **Harare (Zimbabwe) Zimbabwe Independent**. Socio-economic justice organisation **Zimbabwe Coalition on Debt and Development** report says government policy of buying gold on a no-questions-asked basis is creating chaos and fueling criminality in the mining sector;

21 May 2021 **Harare (Zimbabwe) Moneyweb**. **Blessing Mudavanhu**, CEO of Zimbabwe's largest bank, **CBZ Holdings Ltd**, say the bank is "actively exploring" plans to list on the newly established **United States** dollar-denominated stock exchange in **Victoria Falls**;

21 May 2021 **(Southern Africa) News24**. **Trade and Industrial Policy Strategies (TIPS)** report says the tourism sector in **Southern African Development Community (SADC)** countries are worst hit by the pandemic but predicts recovery in 2022;

19 May 2021 **(Africa) Reuters**. **French** President **Emmanuel Macron** says a summit in **Paris** on **Africa** financing has agreed to work towards persuading rich nations to reallocate \$100

billion in **International Monetary Fund (IMF)** special drawing rights monetary reserves to African countries by October;

19 May 2021 **(Africa)** *Africanews*. **World Bank** announces it will invest \$2 billion to support medium and small businesses in **Africa** and boost trade in the region as it recovers from the **Covid-19** downturn;

18 May 2021 **Harare (Zimbabwe)** *ReliefWeb*. **Japan** and the **International Federation of Red Cross and Red Crescent Societies (IFRC)** have partnered to provide food assistance to 6,000 of the most affected families in two rural districts in Zimbabwe;

17 May 2021 **Paris (France)** *France24*. France's President **Emmanuel Macron** hosts **African** leaders and heads of global financial institutions for a summit meeting that will seek to provide Africa with critical financing swept away by the **Covid-19** pandemic;

17 May 2021 **Harare (Zimbabwe)** *Business Day*. Government threatens unspecified action against judges after the high court reversed a decision by President **Emmerson Mnangagwa** to extend the tenure of chief justice **Luke Malaba** after he had reached retirement age;

16 May 2021 **Harare (Zimbabwe)** *Reuters*. The government has appealed against a **High Court** ruling that extending the Chief Justice's tenure by five years was illegal, creating a stand off between President **Emmerson Mnangagwa** and the courts;

15 May 2021 **Harare (Zimbabwe)** *SABC News*. High Court rules against President **Emmerson Mnangagwa's** earlier decision to extend the tenure of Chief Justice **Luke Malaba** by five years;

14 May 2021 **Harare (Zimbabwe)** *ZimLive*. Police commissioner general **Godwin Matanga** is summoned to a parliamentary portfolio committee in the wake of increased reports of gold smuggling;

12 May 2021 **Harare (Zimbabwe)** *Herald*. President **Emmerson Mnangagwa** extends tenure of controversial top judge **Luke Malaba** by five years, in a move seen as aimed at consolidating Mnangagwa's power;

12 May 2021 **Harare (Zimbabwe)** *ZimLive*. Traditional court judge **Chief Stanley Mhondoro** orders the remains of late former president **Robert Mugabe** to be exhumed, saying they were improperly buried at his **Kutama** homestead, instead of at the **National Heroes' Acre**.

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