

**AFRICA RISK CONSULTING****Zimbabwe Monthly Briefing February 2016****Zimbabwe Summary 21 February 2016**

*Tensions escalate in the ruling Zimbabwe African National Union-Patriotic Front (Zanu-PF) as Grace Mugabe launches fresh attacks on vice president Emmerson Mnangagwa, war veterans, and military service chiefs. Former vice president Joice Mujuru formally launches her People First movement as a political party. The Zimbabwean government clarifies its indigenisation law in an attempt to boost investor confidence. The Reserve Bank of Zimbabwe (RBZ) moves to stop the externalisation of profits out of Zimbabwe, and announces measures to increase surveillance of foreign companies' financial transactions.*

**Tensions escalate in ZANU-PF ...**

Infighting in the ruling **Zimbabwe African National Union-Patriotic Front (Zanu-PF)** party continues to escalate, with **Grace Mugabe** making thinly veiled attacks against vice president **Emmerson Mnangagwa**, war veterans and military service chiefs.<sup>1</sup> Grace Mugabe held a rally held in **Chiweshe, Mashonaland Central**, on 12 February where she accused Mnangagwa's faction of fanning factionalism in the party. She also accused unnamed senior military officers of plotting to bomb her family's private property in **Mazoe** and kill her youngest son, **Chatunga**.<sup>2</sup> Grace's unproven accusations allegedly angered the army and other sections of the security sector, which reportedly support Mnangagwa's presidential ambitions.<sup>3</sup> Political analyst **Eldred Masunungure** warned that Grace Mugabe's attacks against the security sector's senior leadership could result in political violence.<sup>4</sup>

*"President **Robert Mugabe** (1980-present)'s policy of divide and rule and refusal to nominate a successor has resulted in a dysfunctional party, over which he is gradually losing control. The escalating public fighting clearly indicates defiance to his call for unity. Each of the warring factions claims legitimacy and complete loyalty to his rule, while suggesting that the other wants to harm him. He will unlikely be able to rein in the factions, and in the event of his death, violence will most likely break out."<sup>5</sup>*

Following Grace Mugabe's rally, war veterans planned to hold an extra-ordinary meeting in **Harare** on 18 February at which they wished to convey their position in the party's factional fighting and voice their grievances concerning the attacks from the first lady. However, the police stopped the meeting, attacking the war veterans with water cannons and teargas.<sup>6</sup> In a televised address, President Mugabe chastised war veterans minister **Christopher Mutsvangwa** for organising the "unsanctioned" meeting, labelling him "completely irresponsible" for arranging it without following appropriate party procedure.<sup>7</sup>

<sup>1</sup> Zimbabwe Independent, 19 Feb 2016

<sup>2</sup> Zimbabwe Independent, 19 Feb 2016.

<sup>3</sup> Zimbabwe Independent, 19 Feb 2016.

<sup>4</sup> News Day, 16 Feb 2016.

<sup>5</sup> Source, analyst

<sup>6</sup> Zimbabwe Independent, 18 Feb 2016.

<sup>7</sup> New Zimbabwe, 19 Feb 2016.

### ... as ousted Joice Mujuru launches her own political party

Former Zanu-PF and Zimbabwe vice president **Joice Mujuru** has finally marked her entry into opposition politics by registering her movement as a formal political party. She registered the **Zimbabwe People First** with the **Zimbabwe Electoral Commission** on 12 February.<sup>8</sup> This becomes her first overt political move as an opposition politician, following her expulsion from Zanu-PF in December 2014. She will take on her former colleagues and possibly her former mentor, President Mugabe, in the 2018 elections.

*“Since Mujuru has finally made a formal expression of her foray into opposition politics, this introduces an interesting dynamic to the 2018 elections. She becomes a compromise candidate of sorts, having support from within Zanu-PF, including some of her allies whom the party also expelled in 2014, and supporters from the political opposition and the international community as well. In this way, she will potentially draw supporters from both ends of the political spectrum, and others who may have been indifferent to the country’s politics.”<sup>9</sup>*

The party’s interim spokesperson, **Rugare Gumbo**, whom Zanu-PF also expelled in 2014, noted that the new party will hold its inaugural congress, where Mujuru will formally assume its leadership, in the near future.<sup>10</sup> People First has been building party structures throughout the country since late 2015. Mujuru launched her manifesto, **Blueprint to Unlock Investment and Leverage for Development (BUILD)**, in September 2015,<sup>11</sup> which will direct the party’s activities going forward.

*“However, the party’s electoral success largely rests on her ability to forge formal alliances with other opposition parties, particularly the **Movement for Democratic Change (MDC)** and its factions. This will not be an easy move, given the history of factionalism that has broken up the opposition parties numerous times, and personal animosity among some of the leaders. Since the news of her party registration broke, Zanu-PF supporters have already challenged her to show the evidence of her political muscle through holding rallies, and this will also be a crucial test for her readiness to contest in the 2018 elections.”<sup>12</sup>*

### Government clarifies indigenisation law in attempt to boost investor confidence

Finance minister **Patrick Chinamasa** has clarified amendments to the country’s controversial **Indigenisation Act** that he gazetted in December 2015, indicating the country’s intention to re-engage with foreign investors.<sup>13</sup> Under the indigenisation law, foreign and white-owned companies with assets of more than \$500,000 must cede or sell a 51% stake to black nationals, or the country’s **National Economic Empowerment Board (NIEEB)**.<sup>14</sup> This law has been a major deterrent to investors willing to do business in Zimbabwe. The new regulations now require that foreign companies operating in the manufacturing sector would be given leeway to phase in the implementation of the law’s requirements. In the first year, companies must cede a lesser share at 26%, in the second year 36%, in the third year 46% and 51% in the fourth year.<sup>15</sup> In the resources-based sector, government-designated entities may acquire 51% equity in businesses exploiting natural resources at no monetary cost to the government or designated entities, save for the requisite contributions the resources that the companies exploit.<sup>16</sup>

<sup>8</sup> The Standard, 14 Feb 2016.

<sup>9</sup> Source, analyst

<sup>10</sup> The Standard, 14 Feb 2016.

<sup>11</sup> The Standard, 14 Feb 2016.

<sup>12</sup> Source, analyst

<sup>13</sup> The Zimbabwe Independent, 8 Jan 2016.

<sup>14</sup> Daily News, 10 Feb 2016.

<sup>15</sup> Daily News, 10 Feb 2016.

<sup>16</sup> The Herald, 5 Jan 2016.

The “designated entities” are:

- the **National Indigenisation and Economic Empowerment Fund (NIEEF)**;
- the **Sovereign Wealth Fund**;
- employee share ownership trusts;
- community share ownership trusts;
- the **Zimbabwe Mining Development Corporation (ZMDC)**;
- the **Zimbabwe Consolidated Diamond Company (ZCDC)**; and
- any other company incorporated by government or in which government has a controlling interest.<sup>17</sup>

In sectors such as mining, non-indigenous businesses will be required to pay the full amount of the **empowerment levy**, which will be charged at 10% of the business’ gross turnover, as part of measures designed to ensure compliance with the indigenisation legislation.<sup>18</sup> The government also changed its earlier position, where it had rejected empowerment credits and corporate social responsibility as measures through which companies can achieve compliance with the empowerment law. The new framework states that empowerment credits may now be taken into account in achieving the 51% indigenisation threshold.<sup>19</sup>

However, the new amendments do not allow new non-indigenous businesses to invest in the reserved sectors unless under special cases as determined by the line ministries and approved by cabinet.<sup>20</sup>

The reserved sectors are:

- agriculture;
- primary production of food and cash crops;
- transportation (passenger buses, taxis and car hire services);
- retail and wholesale trade;
- barber shops, hairdressing and beauty salons;
- employment agencies;
- estate agencies and real estates;
- bakeries;
- advertising agencies;
- provision of local art and craft, marketing and distribution;
- tobacco grading and packaging;
- cigarette manufacturing;
- valet services;
- milk processing;
- grain milling;
- fuel retailing; and
- artisanal mining of all minerals (except diamonds).<sup>21</sup>

The government emphasised that businesses that comply with these regulations would benefit through the provision of indigenisation compliance rebates, indigenous shareholding rebates and rebates for achieving socially and economically desirable objectives.<sup>22</sup> A maximum (100%) indigenous compliance and empowerment rebate score will mean that a business has effectively

<sup>17</sup> The Zimbabwe Independent, 15 Jan 2016.

<sup>18</sup> Daily News, 10 Feb 2016.

<sup>19</sup> The Herald, 5 Jan 2016.

<sup>20</sup> The Herald, 5 Jan 2016.

<sup>21</sup> The Zimbabwe Independent, 15 Jan 2016.

<sup>22</sup> The Herald, 5 Jan 2016.

complied with the indigenisation and economic empowerment programme and will no longer pay the empowerment levy.<sup>23</sup>

Following the gazetted amendments, **French** investors expressed their interest in long-term investment in Zimbabwe. French ambassador to Zimbabwe **Laurent Delahousse** said French businesses are willing to increase their investments in the country following the introduction of the Indigenisation Act amendments.<sup>24</sup> However, Delahousse pointed out that pegging the empowerment levy at 10% of companies' gross profit was unreasonable and urged the government to review this position, as it would deter investors.<sup>25</sup>

*"Why would an investor invest in Zimbabwe and cede anything at all when the same investor can operate in neighbouring countries like **Zambia, Mozambique, Botswana** and **South Africa** which are comparatively friendlier and more receptive than Zimbabwe? The cost of doing business is very high in comparison to the surrounding countries. A highly unstable political environment with an aging president at the helm and with no succession plan, and a ruling party at war with itself leaves any observer guessing about the future. A highly corrupt and politically tangled bureaucracy is deterrent to investors."*<sup>26</sup>

### Government to curb foreign currency outflows

**Reserve Bank of Zimbabwe (RBZ)** governor **John Mangudya** has stated that the government will institute controls on all foreign currency flows in and out of the country. This follows indications that the economy lost US\$1.8 billion through illicit transactions and externalisation in 2015.<sup>27</sup> Mangudya further indicated that RBZ records for 2015 show that individuals externalised \$684m, while firms doing business in Zimbabwe repatriated \$1.2 billion out of the country.<sup>28</sup> Mangudya stated that the externalisation resulted in low multiplier effect (low money supply to banks) and low aggregate demand (low demand for goods and services), further exacerbating liquidity challenges in an economy already under enormous pressure.<sup>29</sup> The governor stated that individuals externalised funds for various purposes such as donations, investments, and account transfers, and firms externalised funds in the form of export sales proceeds and highly inflated management, technical and professional fees.

The RBZ has thus introduced a raft of measures to close the leakage in the financial system. This includes the removal of the concept of "free funds," which Mangudya said was supporting illicit financial flows.<sup>30</sup> In addition, individuals must now give prior notice of not less than a day to a financial institution for cash withdrawals of above \$10,000.<sup>31</sup> For companies, the central bank now requires that service payments, management fees, and any other service fees should not exceed an aggregate of 3% of revenue and require bank approval.<sup>32</sup> The governor also pointed out that offshore investment would require prior bank approval. Mangudya added that the RBZ would conduct on-site and ex-post validation of all companies with parent or sister companies in other countries. The RBZ and local banks need to be proactive and strengthen surveillance systems to successfully curb illicit financial flows.<sup>33</sup>

<sup>23</sup> The Herald, 5 Jan 2016.

<sup>24</sup> Daily News, 10 Feb 2016.

<sup>25</sup> Daily News, 10 Feb 2016.

<sup>26</sup> Source, analyst

<sup>27</sup> New Zimbabwe, 4 Feb 2016.

<sup>28</sup> Reserve Bank of Zimbabwe, Monetary Policy Statement, Jan 2016.

<sup>29</sup> Reserve Bank of Zimbabwe Monetary Policy Statement, Jan 2016

<sup>30</sup> Reserve Bank of Zimbabwe, Monetary Policy Statement, Jan 2016.

<sup>31</sup> New Zimbabwe, 4 Feb 2016.

<sup>32</sup> New Zimbabwe, 12 Feb 2016.

<sup>33</sup> Source, analyst

*“The central bank should also strengthen internal systems that can trigger red flags for illicit transactions early.”<sup>34</sup>*

The governor also announced measures to improve liquidity in the economy, which include reviewing upwards the nostro (offshore) account limits from 5% to 10% of the bank’s total deposit, aligning the pricing structure for external loans with domestic interest rates ranging from 6 to 10% per year, and increasing the single investor limit of the **Zimbabwe Stock Exchange (ZSE)** from 10 to 15%.<sup>35</sup>

Apart from instituting tight measures to plug the financial leakages, Zimbabwean authorities indicated further strategies to improve economic viability. This includes supporting tourism, especially from South Africa, which is a major source of tourists into Zimbabwe. The RBZ announced that it will exempt tourists from South Africa from paying value added tax (VAT), so long as they use the rand for transactions during their stay in Zimbabwe.<sup>36</sup>

### **Implications**

Zanu-PF continues to be embroiled in vicious internal fighting that could potentially escalate to armed violence, given the security sector’s involvement. The ruling party’s preoccupation with succession politics has led to neglect of state duties, which exacerbates the country’s deteriorating political and economic fortunes. This undermines its corresponding efforts to revive the economy, such as adjustments to the indigenisation law in order to attract investors. Mujuru’s formal entrance into opposition politics will strengthen the potential for Zanu-PF’s electoral defeat in a free and fair election in 2018. However, she would have to prioritise establishing coalitions with the country’s fractured political opposition, in order to create a more formidable united front against Zanu-PF.

Although the Reserve Bank’s strategies to curb externalisation of foreign currency can be justified, one can also view them as a desperate attempt by the cash strapped government to squeeze more private funds from foreign companies which are already under economic strain. The companies will probably develop strategies to circumvent the requirements, although they may also scale down their operations. This will have negative effects on the economy, and thus reduce the government’s revenue collection targets. The **World Bank** has predicted that the country’s economic growth rate will be 1.5% in 2016, much less than government’s 2.7% projections.<sup>37</sup>

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<sup>34</sup> Source, analyst

<sup>35</sup> New Zimbabwe, 4 Feb 2016.

<sup>36</sup> New Zimbabwe, 12 Feb 2016.

<sup>37</sup> Daily News, 12 Feb 2016.

### About Africa Risk Consulting:

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