

## AFRICA RISK CONSULTING

### Zimbabwe Monthly Briefing April 2016

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#### Zimbabwe Summary 24 April 2016

*The opposition Movement for Democratic Change (MDC-T) holds a peaceful protest march in Harare demanding that President Robert Mugabe (1980- present) step down. The demonstration is the biggest in Zimbabwe for nearly a decade. Mugabe attempts to clarify the indigenisation policy amid public conflict between his cabinet ministers over its implementation. United Kingdom (UK)-based Aggreko signs a three-year energy deal while UK-based Metallon Gold commits to investing \$16.3m at Redwing Mine in expression of confidence in Zimbabwe's economy.*

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#### MDC-T holds anti-Mugabe protest

The first large **Movement for Democratic Change (MDC-T)** protest in **Harare** in years demonstrated MDC-T leader **Morgan Tsvangirai's** continued capacity to mobilise support. The MDC-T marched peacefully through Harare on 14 April, demanding that President **Robert Mugabe** (1980-present) step down. The demonstration was the biggest in nearly a decade, as the government usually prohibits all forms of mass action.

Harare police had tried to block the march, arguing that they did not have enough manpower to control it.<sup>1</sup> However, the Harare **High Court** ruled that these were insufficient grounds to stop the demonstration and that police presence was not necessary for the exercise of the right to demonstrate.<sup>2</sup> A previous MDC-T attempt at mass action in 2007 ended with police assaulting Tsvangirai and other political leaders who had gathered for a prayer meeting.<sup>3</sup>

The march was a response to increasing poverty, corruption and unemployment as ongoing economic decline has led to multiple company closures and job losses. Zimbabwe has also faced acute cash shortages, which have undermined commercial and household/personal transactions in the dollarised economy. The **Reserve Bank of Zimbabwe (RBZ)** imposed limits on withdrawals in 2012, leading to companies and individuals opting not to deposit their money with financial institutions, thus worsening the cash crisis.

Tsvangirai used the march to demonstrate his continued relevance and the MDC-T's strength as the country's largest opposition. After the march, Tsvangirai addressed his supporters, criticising Mugabe's rule and the economic crisis that has occurred under his watch and demanding that Mugabe step down.<sup>4</sup>

*"The demonstration presented Tsvangirai with a chance to reconnect with the masses. The difference now from the time he started opposition politics is that the current masses constitute the economically disadvantaged vendors who are educated but jobless."<sup>5</sup>*

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<sup>1</sup> Daily News, 15 Apr 2016

<sup>2</sup> Daily News, 15 Apr 2016.

<sup>3</sup> Business Day Live, 14 Apr 2016.

<sup>4</sup> Business Day, 14 Apr 2016

<sup>5</sup> Source, analyst

The ruling **Zimbabwe African National Union-Patriotic Front (Zanu-PF)** party has since declared Mugabe as its sole presidential candidate in the 2018 elections, despite the aging Mugabe turning 92 in February.<sup>6</sup>

### Mugabe quells indigenisation row...

Mugabe has intervened to clarify the controversial indigenisation policy, following several months of public conflict between finance minister **Patrick Chinamasa** and youth empowerment and indigenisation minister **Patrick Zhuwao** regarding its implementation.<sup>7</sup> Zhuwao, who is also Mugabe's nephew, is pursuing radical application of the law across all sectors of the economy, while Chinamasa has adopted a more moderate position. The **Indigenisation and Economic Empowerment Act**, passed in 2008, forces foreign companies, including mines and banks, to transfer at least 51% of their shares to local black Zimbabweans. The conflict peaked at the end of March, the deadline for all foreign companies to submit their plans to cede 51% of their shareholding to locals. Chinamasa in March waived the requirement on all banks, which are largely foreign-owned, as rigid application of the policy in the financial services sector would further undermine the economy.<sup>8</sup> After Chinamasa had issued his directive, Zhuwao also issued a decree in March ordering compliance by all foreign-owned companies and threatening to withdraw their operating licences by 31 March.<sup>9</sup>

In a statement on 12 April, Mugabe said that the law only mandated Zhuwao's ministry to coordinate the implementation of the policy by line ministries, instead of issuing directives.<sup>10</sup> Mugabe conceded that the disagreement between the two ministers had harmed the country's business environment, but refused to admit that the indigenisation policy itself was the main problem. Mugabe acknowledged the law had caused confusion among Zimbabweans, the business community, and current and potential investors, and undermined market confidence.<sup>11</sup>

*"The situation has also led to an increase in cost of doing business, thus further weakening the country's economic competitiveness."<sup>12</sup>*

Mugabe said the mineral resources sector would have to comply fully with the policy:

*"Government and/or its designated entities will hold a 51% stake in business in natural resources sector, with the remaining 49% belonging to partnering investor(s). The need for investors in the sector to comply with the prescribed indigenisation obligations is, therefore, non-negotiable."<sup>13</sup>*

Mugabe said that the banking services sector would continue to operate under the auspices of the **Banking Act**, which the RBZ regulates, while the **Provident and Insurance Act** would regulate the insurance sector.<sup>14</sup> Nevertheless, the government would require financial institutions to contribute to local development through financial facilities for key economic sectors and projects, employee share ownership schemes, linkage programmes and other RBZ initiatives.<sup>15</sup> Mugabe said the government would grant sector-based empowerment credits or quotas to reflect the contribution

<sup>6</sup> Business Day, 14 Apr 2016

<sup>7</sup> NewsDay Zimbabwe, 13 Apr 2016.

<sup>8</sup> NewsDay Zimbabwe, 13 Apr 2016

<sup>9</sup> NewsDay Zimbabwe, 13 Apr 2016.

<sup>10</sup> NewsDay Zimbabwe, 13 Apr 2016.

<sup>11</sup> NewsDay Zimbabwe, 13 Apr 2016.

<sup>12</sup> NewsDay Zimbabwe, 13 Apr 2016.

<sup>13</sup> Zimbabwe Independent, 14 Apr 2016.

<sup>14</sup> Zimbabwe Independent, 14 Apr 2016.

<sup>15</sup> NewsDay Zimbabwe, 13 Apr 2016.

of investors in such businesses to national development efforts, to be achieved through negotiation involving line ministries and private investors.<sup>16</sup>

Reaction to Mugabe's intervention has been varied. The **Confederation of Zimbabwe Industries** welcomed his statement and said it brought a "*pragmatic tone*" to the policy's implementation.<sup>17</sup> However, the opposition **People's Democratic Party (PDP)** claims that Mugabe's apparent climb-down on the indigenisation policy is an attempt to mislead both the public and international stakeholders.<sup>18</sup> This suspicion is based on the timing of Mugabe's statement. Finance minister Patrick Chinamasa was in the **United States (US)** at the time for the **World Bank's** spring meetings seeking funding for the bankrupt government.<sup>19</sup>

Analysts argue that investors should regard Mugabe's statement with caution if he does not amend the Indigenisation and Economic Empowerment Act.<sup>20</sup>

*"Mugabe's intervention is a desperate attempt to appear sober and perhaps outfox the investor community regarding the highly controversial indigenisation policy. It should not be forgotten that Mugabe himself has vehemently defended this policy in the past and even used it as a campaigning tool in the 2013 general elections."*<sup>21</sup>

The indigenisation law has reportedly cost the country about 30,000 jobs and prevented the formation of an additional 100,000 in an environment where the manufacturing sector is struggling with factories closing shop.<sup>22</sup> Local economist **John Robertson** argues that the policy remains the single biggest discouragement to investors since it forces businesses to give away their shareholding.<sup>23</sup> He maintains that the situation in Zimbabwe makes it difficult to start a business, and the cost of staying in business for those companies that already exist is too high because of duplicate taxes, levies and permits that the government demands.<sup>24</sup> Robertson says the government should admit that the law is flawed and repeal it altogether.<sup>25</sup>

### ... as UK power, gold mining companies' activities reflect renewed confidence

Recent economic activity of two **United Kingdom (UK)**-based companies in Zimbabwe hints at renewed confidence and attempts to re-engage in Zimbabwe's economy in anticipation of a post-Mugabe era. **Glasgow (UK)**-based **Aggreko** has won a three-year contract to supply 200MW of diesel-fuel in Zimbabwe.<sup>26</sup> Aggreko's local agent **Sakunda Holdings Pty Ltd** is responsible for providing fuel under the contract between the **Zimbabwe Electricity Supply Authority (ZESA)** and the company.<sup>27</sup> Aggreko will also supply fuel efficient engines to ZESA through the contract.<sup>28</sup> The deal will increase energy supply in Zimbabwe and alleviate the existing electricity shortages.

UK-based **Metallon Corporation** plans to spend \$16.3m at **Redwing** gold mine in **Penhalonga (Manicaland Province)** over the next five years.<sup>29</sup> This investment will raise output by almost

<sup>16</sup> NewZimbabwe, 14 Apr 2016.

<sup>17</sup> NewZimbabwe, 13 Apr 2016.

<sup>18</sup> NewZimbabwe, 14 Apr 2016

<sup>19</sup> New Zimbabwe, 14 Apr 2016

<sup>20</sup> Source, analyst

<sup>21</sup> Source, analyst

<sup>22</sup> NewZimbabwe, 14 Apr 2016.

<sup>23</sup> The Source, 13 Apr 2016.

<sup>24</sup> NewZimbabwe, 14 Apr 2016.

<sup>25</sup> The Source, 13 Apr 2016.

<sup>26</sup> AllAfrica.com, 18 Apr 2016.

<sup>27</sup> AllAfrica.com, 18 Apr 2016.

<sup>28</sup> Daily Record, UK, 18 Apr 2016.

<sup>29</sup> The Source, 20 Apr 2016.

60% to 766 kg by 2020.<sup>30</sup> The mine, dating back to 1889, has flooded in recent years and is presently being dewatered.<sup>31</sup> It resumed operations in November 2015. The mine is reportedly currently at less than a third of its capacity but will reach about 50% by the end of 2016 with \$1.7m capital expenditure.<sup>32</sup> Metallon will invest the balance in phases: \$2.4 m in 2017, \$3.8m in 2018, \$4.9m in 2019 and \$3.5m in 2020.<sup>33</sup> Metallon also owns **How Mine (Matabeleland South Province)**, **Shamva Mine (Mashonaland Central Province)**, **Mazowe Mine (Mashonaland Central Province)** and **Arcturus Mine (Mashonaland-East Province)**.<sup>34</sup>

Analysts predict great future opportunities for high risk takers in Zimbabwe amid prospects for both political and economic reform.<sup>35</sup> In a move to improve competitiveness in the manufacturing sector, the government on 20 April revised downwards the duty levied on imports of television, refrigerator and freezer components from 60% to 25%.<sup>36</sup> The move came after **South Korean** appliances manufacturer **Samsung** had sought preferential treatment to bring in duty free components for its assembly plant in Harare.<sup>37</sup> Industry minister **Mike Bimha** said the government wanted to encourage Samsung in the partnership it set up with local firm **Cranbal Investments** in November, but had to create a level playing field for existing companies.<sup>38</sup>

*“The current government seems to have realised that it cannot carry on touring the hard line. Companies, both local and foreign-based should be willing to play by the rules now, hoping that the situation will get better.”<sup>39</sup>*

## Implications

The MDC-T demonstration may inadvertently have benefited Zanu-PF by projecting a false image of freedom and democracy in Zimbabwe. The ruling party used the mass action, which coincided with Chinamasa's visit to New York for the World Bank meetings, to repair its image of political repression and human rights abuse. It is also possible that the government allowed the protest to go ahead in order to weaken **Joice Mujuru's** chances of gaining strength as an opposition politician in the run up to the 2018 elections. In this way, Zanu-PF ensures that the opposition remains divided ahead of the elections.

The indigenisation policy remains an impediment for investors. The government may have strategically planned the hurried clarification of the indigenisation law to help Zanu-PF secure funding and support from the international financial institutions. Zanu-PF needs funds to start preparing for its 2018 election campaign. The government is looking at securing a loan facility with the **International Monetary Fund (IMF)** and is due to present a financing programme by November this year.

Metallon's investment is an expression of confidence in Zimbabwe's mining industry, economy, and political system. Although **Asian**-based companies dominate the economy, Western companies have begun seeking re-engagement, probably in anticipation of an end to Mugabe's rule in the near future. However, the indigenisation policy will continue to deter foreign investors who have to remain minority shareholders in a business in which they have invested vast amounts of capital.

<sup>30</sup> The Source, 20 Apr 2016.

<sup>31</sup> Metallon Corporation website: metcorp.co.uk

<sup>32</sup> The Source, 20 Apr 2016.

<sup>33</sup> The Source, 20 Apr 2016.

<sup>34</sup> Metallon Corporation website: metcorp.co.uk

<sup>35</sup> Source, analyst

<sup>36</sup> The Source, 20 Apr 2016.

<sup>37</sup> The Source, 20 Apr 2016

<sup>38</sup> The Source, 20 Apr 2016.

<sup>39</sup> Source, analyst

### About Africa Risk Consulting:

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