

AFRICA RISK CONSULTING

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Zimbabwe Summary 13 December 2018

Botswana-based retailer Choppies Enterprises' CEO, Ramachandran Ottapathu, reveals how the company bribed former vice-president Phelekezela Mphoko to circumvent Zimbabwe's indigenisation laws. The opposition Movement for Democratic Change Alliance holds mass demonstrations against President Emmerson Mnangagwa (2017-present)'s government. Mnangagwa dismisses the possibility of establishing a government of national unity with the opposition. Entrenched patronage and corruption in the ruling Zimbabwe African National Union-Patriotic Front (Zanu-PF) make it unlikely that Zimbabwe's political and economic situation will change substantially in the short term.

Choppies' investment strategy reveals high-level corruption

The chief executive officer of Botswana-based retailer **Choppies Enterprises**, **Ramachandran Ottapathu**, revealed on 10 December how his company effectively bribed former vice president, **Phelekezela Mphoko**, to set up a subsidiary in **Zimbabwe**.¹ Ottapathu's statement provides insight into the strategies foreign companies have employed in Zimbabwe and elsewhere to circumvent laws governing foreign investment to establish subsidiaries fraudulently.² The revelations are a part of an ongoing tussle for control of **Choppies Zimbabwe**. Ottapathu claims it belongs to the Botswana-based parent company, while Mphoko claims 51% ownership through his family company, **Nanavac Investments**.³ Choppies owns 34 branches in Zimbabwe, and plans to increase them to 60.⁴ It employs over 2,000 workers.⁵

In a letter that he copied to several news outlets, Ottapathu said,

"We would like to state again, for your understanding... that Choppie's operations in Zimbabwe are owned, in the main, by Choppies Enterprises Limited, a company registered in Botswana. The reference of 51% being owned by [the] Mphokos was done [to] comply with the legislation which was put in place by the government which precluded foreigners from owning big stakes in business in preference to locals. That legislation is being looked at as we write to you because of the vision that the government has to open up the business sector and promote investment. What we did as Choppies is nothing else than answer the Zimbabwean government's call to come and invest in Zimbabwe..."⁶

Ottapathu described in detail how Choppies brought Mphoko and his family into the business to subvert the indigenisation law:

¹ The Chronicle, 11 Dec 2018.

² The Chronicle, 11 Dec 2018.

³ The Chronicle, 11 Dec 2018.

⁴ The Chronicle, 11 Dec 2018.

⁵ The Chronicle, 11 Dec 2018.

⁶ Excerpts from Choppies CEO Ottapathu, quoted in New Zimbabwe, 10 Dec 2018.

*"[The] Mphokos never invested any cent in the business. We gave them shares on paper. Their 7% free carry shares was a way of thanking them for facilitating that we set up the business in Zimbabwe. The 44% shares were allotted to them to add to the 7% free carry shares to make it 51%. [However,] that is merely on paper. [The] Mphokos were given the 51% shares in an agreement, which allows us to buy back the shares, [whenever] we [wish to]... **Siqokoqela Mphoko** [ex-vice president Mphoko's son] and his father, who are shareholders of Nanavac, have all along been getting dividends through their bank account for the 7% shares they hold, not 51%."*⁷

Ottapathu claimed the company has documentation to prove it brought in \$25m from **Barclays Bank of Botswana**, the underwriters of the funding, to set up Choppies' operations in Zimbabwe and that Choppies Enterprises can buy back the 7% free carry share at \$1 per share if they want the Mphokos out of the business.⁸

The tussle for control of the company reportedly emanates from the Mphokos' plans to seize control of Choppies Zimbabwe from the parent company in Botswana.⁹ Police have since arrested Nanavac director Siqokoqela Mphoko and his wife **Nomagugu** on charges of "looting" cash and groceries from Choppies supermarkets.¹⁰

*"We are... aware of machination by those who seek to portray themselves as victims and saints to wrestle the Choppies Enterprises from its owners, the people of Botswana... The partners know the truth, and some are now trying to take advantage of the situation to twist facts in their favour... We firmly believe that our partners should desist from greed and respect the tenets of the agreement that we made, and committed ourselves to at the initial stages."*¹¹

Choppies Enterprises Botswana plans to retain its majority ownership in its Zimbabwe subsidiary, following President **Emmerson Mnangagwa's** (2017-present) announcements that the government has reformed the **Indigenisation and Economic Empowerment Act** to allow foreign companies to own majority shares in local companies, provided they are not engaged in diamond or platinum mining.¹² Mphoko's lawyer, **Welshman Ncube**, dismissed Ottapathu's claims, indicating that he was trying to take advantage of Mphoko's diminished political power since he lost the position of vice president in the coup in November 2017.¹³

The case reveals the extent of high-level corruption in Zimbabwe, where senior government officials engage in corrupt relationships with foreign investors to attain preferential treatment in accessing economic opportunities.¹⁴ These include business licences, government contracts, mineral deposits, and land.¹⁵ President Mnangagwa and vice president **Constantino Chiwenga** have been similarly implicated in corrupt business practices in diamond and chrome mining, in Zimbabwe, **South Africa**, and the **Democratic Republic of the Congo**.¹⁶ The case will test the extent to which Zimbabwe's current political and legal system can protect the interests of investors.

⁷ Choppies CEO Ottapathu quoted in New Zimbabwe, 10 Dec 2018.

⁸ Choppies CEO Ottapathu quoted in New Zimbabwe, 10 Dec 2018.

⁹ New Zimbabwe, 10 Dec 2018.

¹⁰ New Zimbabwe, 10 Dec 2018.

¹¹ Choppies CEO Ottapathu quoted in New Zimbabwe, 10 Dec 2018.

¹² IOL, 11 Dec 2018.

¹³ IOL, 11 Dec 2018.

¹⁴ Source, analyst, London

¹⁵ Source, analyst, London

¹⁶ IOL, 11 Dec 2018.

MDC anti-government rally in Harare attracts large numbers...

The opposition **Movement for Democratic Change Alliance (MDC)** held a popular mass demonstration in the capital, **Harare**, on 29 November to protest President Emmerson Mnangagwa's legitimacy and the worsening economic situation in Zimbabwe.¹⁷ The rally demonstrated the extent of opposition leader **Nelson Chamisa's** popularity, and the level of public discontent with Mnangagwa's government.¹⁸ The opposition timed the march to coincide with the one-year anniversary of former president **Robert Mugabe's** (1980-2017) removal from power in a coup in November 2017.¹⁹

Mnangagwa's government allowed the demonstrations to take place, demonstrating its commitment to civil liberties, after the **Zimbabwe Defence Force** attacked protestors in August in the immediate aftermath of the election.²⁰ Armed police kept close watch on the thousands of protestors, who denounced Mnangagwa, saying that he stole the MDC's electoral victory in July.²¹ Others expressed anger at the worsening economy, characterised by cash and fuel shortages, increasing prices of basic commodities, and drug shortages.²² In the run-up to the rally, MDC spokesman **Jacob Mafume** said that it was not just an MDC demonstration, but a people's demonstration:

"We are dealing with bread and butter issues that affect people's everyday life. We have the usurious 2% tax that affects people's lives. We have the various excise duties that have been put on diesel and petrol, which will lead to inflation and price increases. We have shortages of almost everything including the bond note (surrogate local currency), which has dramatically failed as an instrument of the economy. We have shortages of drugs, we have the use of the US dollar for payment of duty for vehicle imports. We need a solution as a people because we are seeking a route to legitimacy a route to political dialogue."²³

The demonstration highlights a stalemate in Zimbabwe's politics since the army's attack against civilians in August.²⁴ In planning the demonstration, the MDC aimed to send a message to both Zanu-PF and foreign partners that the MDC is a relevant and powerful player in Zimbabwe's politics.²⁵ The MDC sought to demonstrate that the army's recent attacks on civilians would not deter the opposition from staging mass protests against the government.²⁶ The demonstration was also an attempt to force President Mnangagwa to commit to talks that will lead to a government of national unity (see below).²⁷

Mnangagwa's government gained political advantage by allowing the demonstration to proceed, while the absence of state-sanctioned violence against the demonstration diminished the rally's political effectiveness.²⁸ The government appeared to show its commitment to political reform and atonement for the killing of six civilians in August.

¹⁷ TimesLive, 29 Nov 2018.

¹⁸ TimesLive, 29 Nov 2018.

¹⁹ Business Day, 29 Nov 2018.

²⁰ TimesLive, 29 Nov 2018.

²¹ TimesLive, 29 Nov 2018.

²² TimesLive, 29 Nov 2018.

²³ Opposition MDC Alliance spokesman, Jacob Mafume quoted in Business Day, 29 Nov 2018.

²⁴ Source, analyst, London

²⁵ Source, analyst, London

²⁶ Source, analyst, London

²⁷ Source, analyst, London

²⁸ Source, analyst, London

... as Mnangagwa dismisses possibility of unity government with the opposition

President Mnangagwa dispelled speculation on 12 December that Zanu-PF will establish a government of national unity (GNU) with the opposition **Movement for Democratic Change Alliance (MDC)**.²⁹ The statement limits the likelihood of a multi-stakeholder forum for the resolution of Zimbabwe's political and economic challenges.³⁰ The statement also follows the opposition's popular demonstration on 29 November (see above) during which opposition leader Nelson Chamisa emphasised the need for dialogue to resolve the country's political and economic crises.³¹ MDC Alliance spokesman Jacob Mafume said the opposition is not asking for a GNU, simply a collaborative approach to governance with the ruling party, which has so far failed to resolve the country's problems.³²

In his address to the Zanu-PF central committee, Mnangagwa said that the party did not need the opposition because it won two thirds of the seats in parliament. Zanu-PF won 179 parliamentary and senate seats, against the MDC's 88:

*"I heard they are saying that there is need for a government of national unity (GNU)... Those who are dreaming of a GNU must wake up and brew beer so that they get to their normal senses... We have two-thirds majority in Parliament... We will rule, and rule, and rule."*³³

President Mnangagwa's statement aims to deprive the MDC Alliance of any leverage or belief that they have political capital with which they can compel Zanu-PF to negotiate for an inclusive governance structure.³⁴ Mnangagwa is aware of his contested legitimacy, and made the statements to assert his right to the presidency and Zanu-PF's victory in the July elections.³⁵ His statement was also a concession to Zanu-PF supporters, who are strongly opposed to governments of national unity because they limit their access to government positions and the patronage-derived benefits that members get from the government.³⁶ However, Mnangagwa also signalled to foreign partners his unwillingness to adopt a middle-of-the-road approach to resolve the crisis in Zimbabwe, and the limited extent to which he can implement political reforms.³⁷

2019: Zimbabwe in focus

Zimbabwe faces subdued economic performance in 2019, unless President Emmerson Mnangagwa makes radical policy reforms, which is unlikely. The **World Bank** notes that President Mnangagwa's government has expressed a desire to implement policies to ensure financial stabilisation, address cash shortages and the parallel market, reduce inflation, improve the balance of trade, and achieve overall economic growth.³⁸ The government has mainly been raising funds by borrowing from local commercial banks and using an overdraft facility at the **Reserve Bank of Zimbabwe** (central bank).³⁹ The World Bank also notes that

²⁹ Daily News, 13 Dec 2018.

³⁰ Daily News, 13 Dec 2018.

³¹ Daily News, 13 Dec 2018.

³² MDC Alliance spokesman Jacob Mafume quoted in Daily News, 13 Dec 2018.

³³ President Emmerson Mnangagwa quoted in Daily News, 13 Dec 2018.

³⁴ Source, analyst, London

³⁵ Source, analyst, London

³⁶ Source, analyst, London

³⁷ Source, analyst, London

³⁸ World Bank Report on Zimbabwe, 2018.

³⁹ World Bank Report on Zimbabwe, 2018.

Zimbabwe is likely to experience a drought in the 2018/19 agricultural year because of an anticipated **El Nino** event.⁴⁰

Levels of corruption are unlikely to decline, given the limited changes to the country's governing regime after the coup in November 2017. **Transparency International (TI)** ranked Zimbabwe 22/100 in 2017, and the country has maintained an average score of 21/100 since 2012.⁴¹ Transparency International notes that corruption manifests itself in Zimbabwe in several ways. These include petty bureaucratic corruption in all tiers of government, grand levels that include top government officials, and an entrenched system of political patronage that involves members of the ruling party, security forces, and businesspeople.⁴²

The country's overall quality of political governance may improve slightly as President Mnangagwa attempts to attract new investment and multilateral lending. However, the changes in governance are likely to be cosmetic. Mnangagwa and fellow senior members of the ruling coalition are alleged to be deeply entrenched in corrupt business practices; prudent policies that aim to open the economy to fair competition and increased political transparency would threaten the upper levels of government.⁴³ The **Mo Ibrahim Foundation Index** ranks Zimbabwe at 44.7% and 39th out of 54 countries in **Africa**.⁴⁴ The scores are below the African average of 49.9%, and lower than the **Southern African** average of 57.1.⁴⁵ This may improve in 2019, but only slightly, for the reasons stated above.⁴⁶

Zimbabwe is not likely to receive multilateral lending from the **International Monetary Fund (IMF)** and World Bank in the short term, mainly because of the absence of genuine political reforms. Although the IMF and World Bank both endorsed the government's plan to pay \$2.2 billion in arrears to international funders in October,⁴⁷ the **United States** government, which is the largest shareholder in the IMF and World Bank, maintains its sanctions on President Mnangagwa's government because of ongoing political repression and lack of political reform.⁴⁸

Planner

23 Apr 2019. **Bulawayo (Zimbabwe) Zimbabwe International Trade Fair (ZITF)**
Business Days;

12 Jun 2019. **Harare (Zimbabwe) Sign Africa Expo**;

17 Jul 2019 **Bulawayo (Zimbabwe) Mining Engineering and Transport Expo (MINENTRA)**

June 2023. **(Zimbabwe) General elections**;

⁴⁰ World Bank Report on Zimbabwe, 2018.

⁴¹ Transparency International website

⁴² Transparency International website

⁴³ Source, analyst, London

⁴⁴ Mo Ibrahim Foundation, 2017

⁴⁵ Mo Ibrahim Foundation, 2017

⁴⁶ Source, analyst, London

⁴⁷ Reuters, 10 Oct 2018.

⁴⁸ Source, analyst, London

Chronology

14 Dec 2018. **Harare (Zimbabwe)** *Reuters*. President **Emmerson Mnangagwa** states that he will publish a report this month into post-election violence that occurred in August;

14 Dec 2018. **Harare (Zimbabwe)** *The Herald*. The **Africa Export-Import Bank (Afreximbank)** signs a \$1.5 billion stabilisation facility with Zimbabwe;

14 Dec 2018. **Harare (Zimbabwe)** *New Zimbabwe*. The **Reserve Bank of Zimbabwe (RBZ)** releases a statement absolving four senior officials of fraudulent activities after their suspension in October;

13 Dec 2018. **London (United Kingdom)** *eNCA*. Zimbabwe's mining minister, **Winston Chitando**, reportedly invites UK-based companies **De Beers** and **Vast Resources** to mine Zimbabwe's diamonds;

10 Dec 2018. **Harare (Zimbabwe)** *News24*. Former **South African** president, **Kgalema Motlanthe**, offers to mediate talks between opposition **Movement for Democratic Change Alliance** leader **Nelson Chamisa** and ruling **Zimbabwe African National Union Patriotic Front (Zanu-PF)** president **Emmerson Mnangagwa**;

10 Dec 2018. **Bulawayo (Zimbabwe)** *NewsDay*. **Botswana**-based retailer **Choppies Enterprises'** CEO reveals that the company bribed former vice-president **Phelekezela Mphoko** with shares to subvert Zimbabwe's indigenisation laws;

3 Dec 2018. **Harare (Zimbabwe)** *Al Jazeera*. Medical doctors in Zimbabwe's public hospitals go on strike for better pay and improved working conditions;

30 Nov 2018. **Harare (Zimbabwe)** *eNCA*. President **Emmerson Mnangagwa** launches the construction project for Zimbabwe's new **China**-funded parliament building;

29 Nov 2018. **Harare (Zimbabwe)** *TimesLive*. The opposition **Movement for Democratic Change Alliance** holds a well-attended anti-government public rally, the first since the election in July;

24 Nov 2018. **Harare (Zimbabwe)** *BBC*. President **Emmerson Mnangagwa** reveals that former president **Robert Mugabe** is unable to walk because of ill health;

Zimbabwe's Scorecard in the 2018 Ibrahim Index of African Governance

2017 SCORE/100	2017 RANK/54	TREND 2008-2017	
44.7	39 th	+10.8	
SAFETY & RULE OF LAW			
SCORE/100 2017	RANK/54 2017	TREND 2008-2017	
SAFETY & RULE OF LAW	46.7	37	+11.1
RULE OF LAW	41.6	39	+14.6
Independence of the Judiciary (BS/WEF/V-Dem/GI)	44.6	24	+18.0
Independence & Transparency of the Judicial Process (EIU/GI)	37.5	36	+37.5
Access to Justice (V-Dem)	46.5	35	+20.1
Property Rights (BS/WEF/AfDB/WB)	20.8	51	+11.8
Mechanisms for Orderly Transfers of Power (EIU)	0.0	39	0.0
Absence of Multilateral Sanctions (CDD)	100.0	1	0.0
TRANSPARENCY & ACCOUNTABILITY	25.5	38	+1.7
Access to Public & Legislative Information (GI)	54.2	9	+4.2
Access to Records of State-owned Companies (GI)	25.0	11	+25.0
Accountability of Government & Public Employees (V-Dem/AfDB/WB/EIU)	37.5	37	+21.7
Sanctions for Abuse of Office (BS)	14.3	38	-14.3
Absence of Corruption in Government Branches (V-Dem)	37.5	33	+9.9
Absence of Corruption in the Public Sector (V-Dem/EIU/WEF)	13.5	44	-6.0
Absence of Corruption in the Private Sector (WEF/WB)	26.2	34	-12.8
Absence of Favouritism (EIU/WEF)	0.0	44	0.0
Anti-corruption Mechanisms (BS/GI/AFR)	21.0	38	-12.4

Source: Mo Ibrahim Foundation, 2018 IAAG

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