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Zimbabwe Summary 16 April 2018

President Emmerson Mnangagwa (2017-present) conducts an official state visit to China at the invitation of President Xi Jinping (2013-present) with the goal of convincing the Chinese government and businesses to invest in Zimbabwe. Mnangagwa shows interest in adopting Rwanda's market-led development model. The Mines and Minerals Bill before parliament will compel mining companies operating in Zimbabwe to list the majority of their shares on the Zimbabwe Stock Exchange (ZSE).

Mnangagwa pays a state visit to China

President **Emmerson Mnangagwa** (2017-present) paid a state visit to **China** at the invitation of President **Xi Jinping** (2013-present) from 2 to 7 April.¹ The visit was both symbolic and part of Mnangagwa's attempts to convince the Chinese government and businesses to invest in **Zimbabwe**.² This was Mnangagwa's first state visit outside the southern **African** region since taking power from former president **Robert Mugabe** (1980-2017).³

Mnangagwa's delegation included a dozen ministers, and about 80 leading business people.⁴ Mnangagwa promised to continue with Mugabe's "**Look East**" policy, and said that China's financial resources, technical expertise and modern technology would be crucial in reviving Zimbabwe's struggling economy.⁵ Jinping expressed his willingness to work with Mnangagwa, and the two countries signed a number of memoranda of understanding in the fields of food assistance, hydropower, and economic and technical assistance.⁶ However, analysts claim that Mnangagwa's visit was more symbolic than material. The visit did not reap the desired commercial benefits, as China remains cautious in the context of the upcoming election:

*"It is unlikely that the Chinese will give cash to **Harare** until after Zimbabwe's elections are held. In the same manner as other investors, they are waiting for Mnangagwa to be installed as president with full legal legitimacy in order to swiftly ramp up their investments in the country."*⁷

Since coming to power, Mnangagwa has promised to rebuild Zimbabwe's economy, and re-engage with the international community.⁸ China and Zimbabwe have enjoyed cordial relations dating from China's support of Zimbabwe's struggle for independence.⁹ Mugabe

¹ The Source, 4 Apr 2018.

² The Source, 4 Apr 2018.

³ The Source, 4 Apr 2018.

⁴ The Source, 4 Apr 2018.

⁵ The Source, 3 Apr 2018.

⁶ The Source, 3 Apr 2018.

⁷ Source, analyst, Harare

⁸ The Source, 4 Apr 2018.

⁹ The Source, 4 Apr 2018.

made several state visits to China during his 37-year rule, with China arguably becoming Zimbabwe's most important international ally after Western countries began to isolate Mugabe's administration in 2000 in the wake of the controversial land reform process.¹⁰

Mugabe's strong relationship with China formed the basis of Zimbabwe's "Look East" policy, which was an attempt to reorient Zimbabwe's foreign and economic policy towards **Beijing**.¹¹ As a result, China continued to invest in large infrastructure projects throughout Mugabe's rule.¹² China state-owned **Sinohydro** recently completed a \$535m expansion of **Kariba South Power Station**, which will increase power generation by 300 megawatts.¹³ However, some of the promised deals worth billions of dollars are yet to materialise, partly because the instability of Mugabe's administration diminished Beijing's confidence to continue investing in the country.¹⁴ Since coming to power, Mnangagwa has promised to break with the past, bring stability, and implement investor-friendly reforms in order to revive the country's economy.¹⁵

*"Mnangagwa has long positioned himself as different to Mugabe. In 2015, when he visited Beijing in his role as Mugabe's vice-president, he cast himself as a reformist in the mould of **Deng Xiaoping** [1978-1989], the leader who implemented the market-oriented reforms that laid the foundations for China's economic growth. It is in this image that Mnangagwa, now president, returned to China as part of his international trips around the world to convince businessmen and politicians that Zimbabwe really is open for business."¹⁶*

The Chinese reportedly long backed Mnangagwa as their preferred successor to Mugabe.¹⁷ In November 2017, there was speculation that China played a supporting role in the military coup that brought Mnangagwa to power.¹⁸ This was fuelled by the visit to Beijing of Mnangagwa's co-conspirator and then army commander, General **Constantino Chiwenga**, now vice-president, in the days immediately prior to Mugabe's ouster.¹⁹ China signed a \$153m loan agreement for the refurbishment of the **Robert Mugabe International Airport** and pledged more support to the new regime in the first weeks of Mnangagwa's administration.²⁰ Mnangagwa is also understood to have been instrumental in helping two Chinese companies obtain vast diamond mining concessions in **Marange**, eastern Zimbabwe, where they allegedly partnered with the army in controversial mining deals that have since been mired in accusations of corruption and human rights abuses.²¹

Mnangagwa shows interest in Rwanda's development model

Rwandan Development Board executives, led by CEO **Clare Akamanzi**, visited Zimbabwe on 10 April at the invitation of President Mnangagwa to share **Kigali**'s economic success

¹⁰ Mail & Guardian, 4 Apr 2018.

¹¹ Mail & Guardian, 4 Apr 2018.

¹² Mail & Guardian, 4 Apr 2018.

¹³ Mail & Guardian, 4 Apr 2018.

¹⁴ Mail & Guardian, 4 Apr 2018.

¹⁵ Mail & Guardian, 4 Apr 2018.

¹⁶ Source, analyst, Harare

¹⁷ Mail & Guardian, 4 Apr 2018.

¹⁸ Mail & Guardian, 4 Apr 2018.

¹⁹ Mail & Guardian, 4 Apr 2018.

²⁰ Mail & Guardian, 4 Apr 2018.

²¹ Mail & Guardian, 4 Apr 2018.

story.²² The visit signals Mnangagwa's intention to imitate **Rwanda's** development model in Zimbabwe, which would primarily entail attracting foreign investments without opening the political environment to democratic contestation.²³ The Rwandan delegation reportedly addressed cabinet ministers, parastatal heads, civil servants, and the private sector.²⁴ The delegation discussed Rwanda's rise from the ashes of genocide and how it has succeeded in resuscitating the economy, curtailing corruption, and maintaining political stability.²⁵

Since coming to power, Mnangagwa has promoted the importance of new investments in reviving the economy, and has affirmed the safety of all foreign investments in the country.²⁶ Mnangagwa's interest in Rwanda results from its increasing economic growth rates for more than a decade, driven by business-friendly policies and strong inflows of foreign investment.²⁷ Rwanda has maintained a GDP growth rate of around 8% since 2001, becoming one of the fastest growing economies in **Africa**.²⁸ President **Paul Kagame** (2000-present) was elected president in 2000 after becoming the country's de facto leader at the end of Rwanda's genocide in 1994.²⁹

Although attempts to follow the Rwandan system may yield some benefits, analysts have warned against copying its development model because of its attendant discordant politics.³⁰ This reportedly includes intolerance of dissent, and targeted attacks on political opponents, which in some cases have involved alleged assassinations both in Rwanda and other parts of the world.³¹ Rwanda's model may not work in Zimbabwe because the countries from which it seeks foreign investment, such as the **United States (US)** and several **European** countries, often require the promotion and protection of civil liberties as a primary condition for gaining access to both foreign aid and investment.³²

Stephen Chan, professor of world politics at the **School of Oriental and African Studies** at the **University of London (United Kingdom)**, outlined the differences:

*"Rwanda is a much smaller country, where the president is intolerant of dissent and is able to use the fear of rebel armies in neighbouring **Democratic Republic of the Congo (DRC)**, and the return of genocide, to keep his people on his side."³³*

About 40% of Rwanda's national budget is provided by foreign aid.³⁴ Zimbabwe does not currently attract that level of foreign aid or enough foreign investments to achieve Rwanda's growth rate levels.³⁵ Mnangagwa also has yet to build domestic confidence in his economic proposals:

"Securing the support of the international community, and more importantly the people of Zimbabwe, will only happen if Mnangagwa is prepared to embark on a bold course of

²² Daily News, 15 Apr 2018.

²³ Daily News 15 Apr 2018.

²⁴ Daily News, 15 Apr 2018.

²⁵ Daily News 15 Apr 2018.

²⁶ The Zimbabwe Independent, 13 Apr 2018.

²⁷ Daily News, 15 Apr 2018.

²⁸ Daily News, 15 Apr 2018.

²⁹ Daily News, 15 Apr 2018.

³⁰ Daily News, 15 Apr 2018.

³¹ Daily News, 15 Apr 2018.

³² Daily News, 15 Apr 2018.

³³ Stephen Chan quoted in Daily News, 15 Apr 2018.

³⁴ Stephen Chan quoted in Daily News, 15 Apr 2018.

³⁵ Stephen Chan quoted in Daily News, 15 Apr 2018.

action that confronts corruption, protects private property and focuses public policy and scarce resources on empowering those who are struggling to survive.”³⁶

While it seeks to learn from Rwanda, Zimbabwe’s starting point will be credible, free, and fair elections, which will establish the government’s legitimacy.³⁷ Mnangagwa’s government appears to be committed to holding credible and transparent polls.³⁸ The government said on 10 April it would invite election monitors from Western countries, which will be the first time in more than 15 years since Mugabe banned them in 2002.³⁹ The foreign affairs ministry said Zimbabwe will invite the UK, US, **European Commission, European Parliament, Australia** and the **Commonwealth** as part of a list of 46 countries and 15 organisations to observe the elections.⁴⁰

Mnangagwa’s government also appears committed to the economic reforms set out in the 2018 budget statement (see *ARC Briefing Zimbabwe December 2017*).⁴¹ Finance minister **Patrick Chinamasa** said the government is looking to sell shares in 35 state-owned firms, including telecommunications, and mining entities in the latest step to revive the economy.⁴² This would be done through engaging strategic partners and floating shares on the local stock exchange.⁴³ Some state regulators will become government departments while others will be merged to save costs and minimise bureaucracy.⁴⁴

Mining companies to list on Zimbabwe Stock Exchange

The government indicated on 5 April that it will require all mining companies operating in the country to list the majority of their shares on the **Zimbabwe Stock Exchange (ZSE)**.⁴⁵ This is likely to give rise to uncertainty among investors at a time when the government is trying to attract foreign direct investment (FDI) to revive the economy.⁴⁶ The **Mines and Minerals Bill** submitted to parliament on 5 April states that,

“No mining right or title shall be granted or issued to a public company unless the majority of its shares are listed on a securities exchange in Zimbabwe.”⁴⁷

The bill states that companies seeking mining rights and that are already listed on a foreign exchange must notify the minister of mines, and 85% of the funds from the local listing must be used exclusively to develop the local rights.⁴⁸ In terms of the bill, failure to comply will result in a fine equal to 100% of the funds raised at the overseas listing or as much as 10 years in prison.⁴⁹ The government intends to use the new law to hold companies more accountable by monitoring their output operations through the exchange listing.⁵⁰

³⁶ Source, analyst, Harare

³⁷ Source, analyst, Harare

³⁸ Business Day, 10 Apr 2018.

³⁹ Business Day, 10 Apr 2018.

⁴⁰ Business Day, 10 Apr 2018.

⁴¹ Business Day, 10 Apr 2018.

⁴² Reuters, 13 Apr 2018.

⁴³ Reuters, 13 Apr 2018.

⁴⁴ Reuters, 13 Apr 2018.

⁴⁵ Bloomberg News, 5 Apr 2018.

⁴⁶ Bloomberg News, 5 Apr 2018.

⁴⁷ Bloomberg News, 5 Apr 2018.

⁴⁸ Bloomberg News, 5 Apr 2018.

⁴⁹ Bloomberg News, 5 Apr 2018.

⁵⁰ Bloomberg News, 5 Apr 2018.

Zimbabwe's change in leadership in 2017 sparked increasing interest in its mineral resources.⁵¹ Zimbabwe has the world's second largest platinum reserves after **South Africa**.⁵² Zimbabwe also holds substantial deposits of gold, chrome, lithium, coal and iron ore, but platinum and diamonds remain the key mineral exports for the country.⁵³ The government says mining commitments have reached as much as \$6 billion since Mnangagwa's appointment, including a record \$4.2 billion pledge from a company linked to **Cyprus**-based mining entrepreneur **Loucas Pouroulis** for a platinum mine and associated infrastructure.⁵⁴ South Africa's **Moti Group** is preparing to double its investments in the country to \$500m, including in projects ranging from chrome-ore mining to fertilizers and diamond polishing.⁵⁵

Despite this increasing interest, big mining companies are taking a cautious approach. Large producers including UK-headquartered **Anglo American Plc** have indicated that more needs to be done on policy before they can make big decisions.⁵⁶ Since becoming president, Mnangagwa has promoted the narrative that *"Zimbabwe is open for business."*⁵⁷ This has included reversing several regulatory measures from the Mugabe era, including the indigenisation and economic empowerment law that was seen as hostile to foreign investment.⁵⁸ Mugabe's indigenisation law required foreign companies to cede at least 51% of their shares to local partners. Although Mnangagwa repealed this law in December, companies extracting platinum and diamonds are still subject to 51% local ownership.⁵⁹

*"Zimbabwe needs a stable political and regulatory environment in order to attract investments required in mining and other sectors. The government's local listing proposal will potentially scare some of the foreign investors that were starting to appreciate Mnangagwa's leadership. With the upcoming elections likely to alter the current political system, Zimbabwe still has a long stretch to go until both political and regulatory stability is established."*⁶⁰

Under Mugabe, mining companies such as South Africa-based **Anglo American Platinum Ltd** and South Africa-based **Impala Platinum Holdings Ltd** reduced their rates of production as the economy grew weaker, and access to foreign currency dried up.⁶¹ In the wake of the new listing requirement, **Zimplats**, the country's biggest platinum producer and a local subsidiary of Impala Platinum Holdings Ltd, warned that the proposal to compel miners to list the majority of their shares on the ZSE would undermine the companies' ability to invest and grow.⁶²

"Zimbabwe's current economy, with the prevailing foreign currency shortages cannot structurally support this move. The country is suffering from a severe liquidity crisis marred by low foreign currency reserves, which is making it difficult for investors to

⁵¹ Bloomberg News, 5 Apr 2018.

⁵² Bloomberg News, 5 Apr 2018.

⁵³ Bloomberg News, 5 Apr 2018.

⁵⁴ Bloomberg News, 5 Apr 2018.

⁵⁵ Bloomberg News, 5 Apr 2018.

⁵⁶ Bloomberg News, 5 Apr 2018.

⁵⁷ Bloomberg News, 5 Apr 2018.

⁵⁸ Bloomberg News, 5 Apr 2018.

⁵⁹ Bloomberg News, 5 Apr 2018.

⁶⁰ Source, analyst, Harare

⁶¹ Bloomberg News, 5 Apr 2018.

⁶² Bloomberg News, 5 Apr 2018.

expatriate their funds. It would therefore be an impractical move, from a technical point of view, for mining companies.”⁶³

Other analysts have suggested that as new regulatory requirements become clearer, this could prove positive for future investment, as investors who can profit within the regulatory framework enter Zimbabwe and support the development of its considerable mineral potential.⁶⁴ The proposed legislation is likely to boost local ownership of Zimbabwe’s mining sector, and the ZSE may also benefit from more company listings. However, the government should create incentives for companies to voluntarily list on the ZSE rather than forcing them to do so.

Planner

18 Jul 2018 (Bulawayo) Mining Engineering and Transport Expo;
 25 Jul 2018. (Harare) TBEX Africa Event;
 July/August 2018 Scheduled general elections
 6 Sept 2018. (Harare) Sanganai Travel Expo;

Chronology

18 Apr 2018 (Zimbabwe) *VOA*. Vice president **Constantino Chiwenga** announces the government’s dismissal of 16,000 nurses who had engaged in a strike over low wages;
 15 April 2018 **(Zimbabwe)**, *Daily News*. Local and international analysts warn President Mnangagwa against adopting **Rwanda’s** development model;
 13 Apr 2018 **(Zimbabwe)** *Reuters*. Finance minister **Patrick Chinamasa** announces the government’s plans to sell shares in 35 state-owned firms;
 10 Apr 2018 **(Zimbabwe)** *Reuters*. **Zimbabwe** plans to invite Western countries to monitor its July national election, for the first time in 15 years;
 9 Apr 2018 **(Zimbabwe)** *CNBC*. **United States** senators **Jeff Flake** and **Christopher Coons** visit **Zimbabwe** on a fact-finding mission as part of efforts to re-engage with the government of Zimbabwe;
 6 Apr 2018 **(Zimbabwe)** *Bloomberg*. **Impala Platinum** says **Zimbabwe’s** plan to compel mining companies to list the majority of their shares on the **Zimbabwe Stock Exchange** will undermine investment in the mining sector;
 6 Apr 2018. **(Zimbabwe)** *The Herald*. President **Emmerson Mnangagwa** invites **Chinese** banks to establish branches in **Zimbabwe**;
 5 Apr 2018 **(Zimbabwe)** *Bloomberg*. The government announces plans to compel all mining companies to list on the **Zimbabwe Stock Exchange (ZSE)**;
 4 Apr 2018 **(Zimbabwe)** *Mail & Guardian*. President Emmerson Mnangagwa conducts inaugural state visit to **China** for meetings with President **Xi Jinping**;
 3 Apr 2018. **(Zimbabwe)** *CAJ News Agency*. Home affairs minister **Obert Mpofu** states that the government will not intervene in former first lady **Grace Mugabe’s** disputes with small-

⁶³ Source, analyst, Harare

⁶⁴ NKC African Economists, 6 Apr 2018.

scale miners who claim ownership of part of her citrus farm in **Mazowe**;

3 Apr 2018. **(Zimbabwe) Bloomberg. Zimbabwe's** leadership change ignites a race for mining concessions in **Zimbabwe** by foreign mining companies;

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