

## AFRICA RISK CONSULTING

### Zimbabwe Monthly Briefing July 2019

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#### Zimbabwe Summary 18 July 2019

*The finance ministry reintroduces the Zimbabwe dollar, an “RTGS dollar” that combines electronic and physical bond currency. The inflation rate spikes to 175% in June, up from 97% in May as the market reacts negatively to the reintroduced local currency. Demand for crypto-currencies, especially bitcoin, rises sharply in response to the government’s ban on transacting in foreign currency. Zimbabwe faces water and electricity shortages as economic and humanitarian conditions worsen. Russia-based diamond mining conglomerate Alrosa invests \$12m into Zimbabwe’s diamond mining sector.*

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#### Government reintroduces Zimdollar...

Zimbabwe’s finance ministry reintroduced the Zimbabwe dollar in the form of a currency known as **RTGS dollar** on 24 June, ending the multicurrency regime it established in 2009.<sup>1</sup> The move has exacerbated concerns around Zimbabwe’s economy and failed to stem the trend of high inflation.<sup>2</sup> The RTGS dollar will consist of the **Real Time Gross Settlement (RTGS)** electronic transfer system, and bond notes as surrogate currency.<sup>3</sup> The **Reserve Bank of Zimbabwe (RBZ)** introduced the bond notes in 2016, as a temporary currency backed by a \$250m facility from the **African Development Bank (AfDB)**.<sup>4</sup> At the time, they traded 1:1 with the **United States (US)** dollar, but quickly began losing value mainly because of the dominance of the parallel market rate.<sup>5</sup>

The finance ministry has directed that businesses can no longer quote prices in US dollars, but only in RTGS dollars.<sup>6</sup> The government’s directive banning all foreign currencies, including the US dollar, has also driven the parallel foreign currency market underground, similar to the pre-2009 period.<sup>7</sup>

The announcement followed statements by President **Emmerson Mnangagwa** (2017-present) and finance minister **Mthuli Ncube** earlier in 2019 suggesting that the government was considering reintroducing the local currency by the end of the year. The sudden announcement of currency changes in June suggests that the government may have intended to prevent any preemptive action by businesspeople, especially those dealing in the parallel foreign currency trading business.<sup>8</sup>

*“The government’s move has little value or positive effect on Zimbabwe’s economic woes. Firstly, Zimbabwe already had a local currency in the form of bond notes, which maintain the same exchange rate against the dollar as the RTGS dollar. Secondly,*

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<sup>1</sup> Financial Times, 24 Jun 2019

<sup>2</sup> Financial Times, 24 Jun 2019

<sup>3</sup> Financial Times, 24 Jun 2019

<sup>4</sup> Financial Times, 24 Jun 2019

<sup>5</sup> Financial Times, 24 Jun 2019

<sup>6</sup> Fin24, 24 Jun 2019.

<sup>7</sup> Financial Times, 24 Jun 2019

<sup>8</sup> Source, analyst, London.

*Zimbabwe lacks economic fundamentals that support a strong currency. This includes a strong export sector and investment inflow, both of which would cause the currency to appreciate, or strengthen against other global currencies. Third, the country's political system does not inspire confidence, and the manner in which the currency changes have been made reinforces this fact. Policy uncertainty is a leading disincentive for prospective investors.”<sup>9</sup>*

The change gives the finance ministry and the RBZ control over monetary policy and interest rates, which is one of the main reasons for the return to local currency.

*“The government feels undermined by the business community, especially foreign currency speculators, and this move is also a way to regain control over currency dynamics. There has been a tug of war that even predates the 2008-era hyper-inflationary environment, where the government would set official exchange rates, but the parallel market rates would hold, and thus affect the overall economy – especially the prices of goods and services. However, having control over the currency does not necessarily translate to having control over the economy. The same inflationary pressures that affected the bond notes will also undermine the RTGS dollar regime.”<sup>10</sup>*

The shortage of physical cash also accounts for the government's decision to revert to a local currency.<sup>11</sup> The RBZ did not enter into a formal agreement with the **US Federal Reserve**, or the **South African Reserve Bank (SARB)** (central bank), despite the US dollar and South Africa rand being the most widely used currencies during the multi-currency regime.<sup>12</sup>

The government formally abandoned the Zimbabwe dollar in 2009, after inflation reached the historic level of 500 billion percent.<sup>13</sup> The multi-currency regime helped to slow down the rate of inflation, although the dollarisation policy increased the cost of goods and services, resulting in extreme poverty for most Zimbabweans, especially those in rural areas.<sup>14</sup> The new directive moves Zimbabwe back into the hyper-inflationary period and the RTGS dollar will lose value against the US dollar rapidly.

### ... as inflation increases to 175% and economic crisis deepens

The **Zimbabwe National Statistics Agency (Zimstat)** revealed on 15 July that Zimbabwe's official rate of inflation has risen to 175%, sparking fears of a return to hyperinflationary conditions that occurred in 2008.<sup>15</sup> This becomes the world's second highest rate of inflation after that of **Venezuela**.<sup>16</sup> Zimstat revealed that inflation sharply increased from 97.5% in May to the current figure in June mainly because of high fuel and electricity prices.<sup>17</sup> Zimbabwe is also experiencing shortages of foreign currency, medicine, food, and water.<sup>18</sup> Urban areas have also been experiencing 16-hour power outages.<sup>19</sup>

Zimbabwe-based economist **Eddie Cross** blames poor government policies for the current

<sup>9</sup> Source, analyst, London

<sup>10</sup> Source, analyst, London

<sup>11</sup> BBC, 26 Jun 2019.

<sup>12</sup> BBC, 26 Jun 2019.

<sup>13</sup> Fin24, 24 Jun 2019.

<sup>14</sup> Fin2 Fin24, 24 Jun 2019.4, 24 Jun 2019.

<sup>15</sup> Business Day, 15 Jul 2019.

<sup>16</sup> Business Day, 15 Jul 2019.

<sup>17</sup> Business Day, 15 Jul 2019.

<sup>18</sup> Business Day, 15 Jul 2019.

<sup>19</sup> Business Day, 15 Jul 2019.

decline into hyperinflation:

*“The chances of falling into hyperinflation are real now. The real reason why there has been such hyperinflation is that the interbank market [for trading foreign currency] has not been working to the maximum. Authorities need to put more policies and build more confidence to get the banks and other players to start trading on the market.”<sup>20</sup>*

The government’s reintroduction of the Zimbabwe dollar and runaway inflation have resulted in high demand for crypto-currencies, especially bitcoin, in Zimbabwe as individuals and businesses try to find an alternative to the RTGS dollar.<sup>21</sup> This is despite the RBZ banning banks from processing crypto-currencies because of fears of hacking, theft and facilitation of criminal activities such as money laundering.<sup>22</sup> Zimbabwe-based crypto-currency trader, **Confidence Nyirenda** said:

*“The major issues that they [the government] had with the use of bitcoins and cryptocurrencies were people getting scammed and also the fear of money being laundered through bitcoins. All those [were] the primary and secondary concerns, but we also have solutions on how to [respond] to them. But they did not want to accommodate what we were trying to put across the table as a contribution.”<sup>23</sup>*

Entrepreneurs and individuals have been using crypto-currencies for transactions and as a store of value.<sup>24</sup> Crypto-currency traders have been using conventional electronic payment platforms such as **Ecocash, Paypal, Western Union** and **Moneybookers** to receive payments for bitcoin from people in and outside of Zimbabwe.<sup>25</sup> The transactions are occurring on a peer-to-peer level, since there are no official crypto-exchanges in Zimbabwe.<sup>26</sup>

However, this alternative medium of exchange does not apply to a wider spectrum in Zimbabwe, since it is accessible only to a minority of people who are knowledgeable of, and trust, the crypto-currency system’s ability to keep their finances secure.<sup>27</sup> The high inflation rate and alternative strategies that individuals and businesses have resorted to results in economic instability that creates a lack of confidence among prospective investors both within and outside Zimbabwe.<sup>28</sup> The government is yet to prove its competence in managing the economy, further adding to the crisis of confidence that Zimbabwe faces.<sup>29</sup>

### **Zimbabwe faces acute power and water shortages**

A countrywide power shortage has hit Zimbabwe, affecting business and household consumers who face up to 16 hours at a time without electricity.<sup>30</sup> This will further undermine the few remaining operational businesses in Zimbabwe and discourage new economic activity.<sup>31</sup> Several business owners have resorted to operating during the night, when they are guaranteed a steady electricity supply.<sup>32</sup> The government has blamed low

<sup>20</sup> Zimbabwe-based economist, Eddie Cross, quoted in Business Day, 15 Jul 2019.

<sup>21</sup> VOA, 17 Jul 2019.

<sup>22</sup> VOA, 17 Jul 2019.

<sup>23</sup> Zimbabwe-based crypto-currency trader, Confidence Nyirenda, quoted by VOA, 17 Jul 2019.

<sup>24</sup> Quartz, 10 Jul 2019.

<sup>25</sup> Quartz, 10 Jul 2019.

<sup>26</sup> Quartz, 10 Jul 2019.

<sup>27</sup> Source, analyst, London.

<sup>28</sup> Source, analyst, London.

<sup>29</sup> Source, analyst, London.

<sup>30</sup> Al Jazeera, 5 Jul 2019.

<sup>31</sup> Al Jazeera, 5 Jul 2019.

<sup>32</sup> Al Jazeera, 5 Jul 2019.

water levels at the **Kariba Dam** hydropower plant, which is the largest in the country, as well as ageing coal-fired power plants and corruption.<sup>33</sup>

National power utility **Zimbabwe Electricity Supply Authority (ZESA)** CEO **Patrick Chivaura** revealed on 8 July that the country will need at least \$14m a month to import power and meet its supply deficit of 600 megawatts.<sup>34</sup> The country is also experiencing severe power cuts because the RBZ, which paid for electricity imports for the last five years, has ceased providing finance for that purpose because of finance minister Mthuli Ncube's austerity policies.<sup>35</sup> ZESA has been unable to make enough profit from tariffs on household consumers and businesses to pay for electricity imports, mainly from South Africa's state-owned power utility, **Eskom**.<sup>36</sup> Chivaura blamed the lack of profitability on uncompetitive tariffs of 1.2 US cents per kilowatt hour (kWh), which he described as the cheapest in **Africa** and the world.<sup>37</sup>

The government has resorted to removing import duties on solar-related products, including batteries, cables and solar panels, in an attempt to increase the use of solar as an alternative to plant-generated electricity.<sup>38</sup> The import duties made solar power equipment prohibitively expensive, thus delaying the growth of the renewable energy sector in Zimbabwe.<sup>39</sup> Zimbabwe-based renewable energy entrepreneur **Patrick Bvumbi** said that, as an example, a **Chinese**-made 12-volt battery that is used with a small solar system costs \$75, but import costs and taxes, and profit mark-up resulted in the retail price rising to \$350.<sup>40</sup>

Apart from electricity woes, Zimbabwe also faces acute water shortages because of an ongoing drought.<sup>41</sup> Officials in Zimbabwe's largest cities of **Harare** and **Bulawayo** announced in June that they were introducing a water-rationing programme, in terms of which households would only receive tap water once a week.<sup>42</sup> However, there have been water shortages in Harare for several years, because the Harare city municipality has been struggling to obtain water-purifying chemicals that cost \$3m per month.<sup>43</sup>

Zimbabwe is facing a humanitarian crisis that is likely to result in mass demonstrations and violence.<sup>44</sup> The government is unable to provide the necessary funding for social services in urban areas, which are directly exposed to the consequences of the country's political and economic decline.<sup>45</sup>

### World's largest diamond mining company invests \$12m in Zimbabwe

**Russia**-based diamond mining company **Alrosa**, the world's largest diamond producer, signed a diamond exploration deal with the state-owned **Zimbabwe Consolidated Diamond Company (ZCDC)** on 16 July.<sup>46</sup> The deal may have a positive impact on Zimbabwe's ailing

<sup>33</sup> Al Jazeera, 5 Jul 2019.

<sup>34</sup> Fin24, 8 Jul 2019.

<sup>35</sup> Fin24, 8 Jul 2019.

<sup>36</sup> Fin24, 8 Jul 2019.

<sup>37</sup> Fin24, 8 Jul 2019.

<sup>38</sup> Reuters, 17 Jul 2019.

<sup>39</sup> Reuters, 17 Jul 2019.

<sup>40</sup> Reuters, 17 Jul 2019.

<sup>41</sup> CNN, 17 Jul 2019.

<sup>42</sup> CNN, 17 Jul 2019.

<sup>43</sup> CNN, 17 Jul 2019.

<sup>44</sup> Source, analyst, London

<sup>45</sup> Source, analyst, London

<sup>46</sup> Business Day, 16 Jul 2019.

economy, although previous investments in the diamond sector provided little benefit due to systemic corruption.<sup>47</sup> Alrosa's chief executive officer, **Sergey Ivanov**, said that the company plans to commence exploration work this year:

*"We are hoping that exploration will start in September. We see a lot of potential and we will invest more in the coming years depending on the outcome of the exploration."<sup>48</sup>*

Zimbabwe's mining minister, **Winston Chitando**, said that the joint venture partnership would involve exploring areas known to have diamonds as well as new, potential diamond fields.

*"There will be exploration in new areas that are not known to have diamonds, and there will also be work in areas such as **Marange** and **Chimanimani** which are known to have diamonds. This is part of our vision to produce 10 million carats annually and to earn \$1 billion every year from diamonds."<sup>49</sup>*

Russia-based investors have also pledged further investment into Zimbabwe's platinum mining sector, to the tune of \$3 billion.<sup>50</sup> Although these developments potentially hold promise for Zimbabwe's economic future, this will largely depend on the extent to which the central government implements anti-corruption measures. Opaque dealings between high-ranking government and military officials resulted in former president **Robert Mugabe** (1980-2017) ordering the eviction of six diamond companies from the Marange diamond fields in 2016.<sup>51</sup> Mugabe made a yet to be proven claim that corruption had resulted in the disappearance of \$15 billion in diamond revenue.<sup>52</sup> President Mnangagwa has been implicated in corrupt dealings in mining, especially in the platinum sector, and this has discouraged investors from getting involved in Zimbabwe's mining sector.<sup>53</sup>

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<sup>47</sup> Business Day, 16 Jul 2019.

<sup>48</sup> Alrosa CEO Sergey Ivanov quoted in Business Day, 16 Jul 2019.

<sup>49</sup> Zimbabwe's mining minister, Winston Chitando, quoted in Business Day, 16 Jul 2019.

<sup>50</sup> Business Day, 16 Jul 2019.

<sup>51</sup> Business Day, 16 Jul 2019.

<sup>52</sup> Business Day, 16 Jul 2019.

<sup>53</sup> Source, analyst, London.

## Planner

1 Aug 2019 **Victoria Falls (Zimbabwe)** Zimbabwe International Mining Investment Conference;

12 Sep 2019 **Bulawayo (Zimbabwe)** Sanganai/Hlanganani World Tourism Expo;

21 Apr 2020 **Bulawayo (Zimbabwe)** Zimbabwe International Trade Fair Business Days;

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

## Chronology

17 Jul 2019 **Harare (Zimbabwe)** *VOA*. Demand for crypto-currencies rises sharply following the government's reintroduction of the **Zimbabwe dollar**, and subsequent spike in inflation as businesses and individuals seek an alternative method of transaction;

16 Jul 2019 **Harare (Zimbabwe)** The **Apex Council**, which is a grouping of civil servants' unions, has threatened to stage a strike over low wages and economic hardships in the country;

16 Jul 2019 **Harare (Zimbabwe)** *Business Day*. **Russia**-based diamond mining company **Alrosa** has invested \$12m in diamond exploration in **Zimbabwe** to develop new and known deposits;

16 Jul 2019 **Harare (Zimbabwe)** *Bloomberg*. The **Zimbabwe Vulnerability Assessment Committee** releases a high-level report that shows that more than half the population in Zimbabwe faces hunger;

15 Jul 2019 **Harare (Zimbabwe)** *Reuters*. **Zimbabwe's** official rate of inflation rises to \$175% in June, a sharp rise from 97% in May, giving rise to fears of a return to hyperinflation;

10 Jul 2019 **Harare (Zimbabwe)** *Fin24*. The **Zimbabwe National Statistics Agency (Zimstat)** reveals that Zimbabwe's trade deficit narrowed to \$332m for the five months to May, as government struggles to reduce its import bill;

9 Jul 2019 **Harare (Zimbabwe)** *eNCA*. The **Zimbabwe Republic Police (ZRP)** arrest and charge opposition **Movement for Democratic Change (MDC)** legislator **Job Sikhala** for treason, following statements that suggested the MDC plans to overthrow the government;

24 Jun 2019 **Harare, (Zimbabwe.)** *Financial Times*. The **Reserve Bank of Zimbabwe (RBZ)** (central bank) reintroduces the **Zimbabwe dollar**, abolishing the multicurrency regime and **United States** dollar pricing;

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Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

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