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Open for business?
Appraisal of FDI in Zimbabwe

Ringisai Chikohomero

Zimbabwe has teetered on the edge of economic crisis for the past 20 years. The situation was compounded by a political crisis that resulted in the 2017 'military assisted transition'. President Emmerson Mnangagwa promised a new dispensation and said that 'Zimbabwe is open for business'. But economic revival depended on an injection of hard currency and, two years later, there is little progress to show for it.

Key findings

- The promised investment in Zimbabwe has not happened. In 2018, the country received US$744 million in foreign direct investment. While this was a significant increase from 2017, it contrasts sharply with US$27 billion worth of investment deals and agreements said to have been signed by President Emerson Mnangagwa in 2018.
- The country maintains a regime of redundant and cumbersome procedures for setting up operations. Ranked 140th out of 190 in the World Bank's 2019 Ease of Doing Business Index, Zimbabwe is one of the world's most difficult countries in which to start and operate a business, both for locals and foreigners.
- Agriculture and mining are key sectors that need investment to unlock growth potential.
- Exploration for minerals is challenging. There has not been an exhaustive study of how much of the country's mineral resources can be viably and profitably exploited using current technology and barring environmental restrictions.
- Given the current land tenure regime, land is a dead asset. International investors are unwilling to invest significantly in agriculture.

Recommendations

- The government should redouble its efforts to improve the ease of doing business, cutting out redundant procedures, limiting red tape and streamlining licensing requirements, in line with regional trends and best practices. The current framework is untenable.
- The independence of the central bank is critical to economic recovery. However, for the ruling elite it is more a political consideration than an economic one – the bank presents an avenue for rent seeking and is an instrument for patronage and arbitrage. Political will is required to ensure its independence.
- Under the current governance system, the public sector plays a critical role in policy implementation and as gatekeeper to foreign investors. The culture, skill set and overall character of the bureaucracy are inimical to investment. To be competitive, the country needs a public service that is market oriented, with an understanding of how businesses operate and what the country seeks to achieve.
- To make the agriculture sector attractive to investors the government needs to ensure land transferability. Security of tenure that allows for land transferability is required to unlock value in land as an asset, as well as investment in agriculture.
- Establishing the Zimbabwe Investment Development Agency to create a one-stop shop for investors must be a priority. It would rationalise and streamline business registration and permitting, speed up the processing of applications and enhance transparency.

Introduction

The Zimbabwean economy has been teetering on the edge of crisis for the past 20 years, save for a brief interlude during the Government of National Unity (GNU) between 2009 and 2013. The economy is bedevilled by many ailments. The country's economic revival has been constrained by a number of factors, which include low productivity, policy inconstancy and uncertainty and the government's inclination towards control, as well as a currency and liquidity crisis.

From a historical perspective, the country has not been favoured with significant inflows of foreign direct investment (FDI). Muzurura observes that since Unilateral Declaration of Independence in 1965, the country has experienced low FDI, low levels of domestic capital formation and foreign exchange scarcity.[1] The regime of Robert Mugabe was characterised by unbridled government profligacy and the triumph of political expediency over economic fundamentals.

> The economic situation remains perilous, with the government playing catch-up to market forces

The political crisis reached its peak in November 2017, resulting in the Military Assisted Transition. Emmerson Mnangagwa took over the reins of government from Mugabe. As president, Mnangagwa anchored his political message on a new dispensation characterised by a more open, market-based economy, progressive economic reforms, and the opening up of political and civic space. The hope for economic revival hinged on a substantial injection of hard currency into the country, mainly as FDI. 'Zimbabwe is open for business' became the catchphrase of the new government.

Mnangagwa's presidency started off with candour, a marked departure from the intransigent Mugabe's reign. To the thousands who took to the streets to push for Mugabe to resign on 18 November 2017, the military intervention – and by extension Mnangagwa – embodied, if only for a little while, hope and the possibility of a return to economic fundamentals, the reign of markets and free enterprise, and respect for human rights.

This report seeks to establish the extent to which the new dispensation has lived up to the rhetoric of being open for business and of transforming the ruling ZANU-PF party. It analyses how the local and international business communities have reacted to the new government. It also seeks to answer the question of whether substantial FDI has found its way into Zimbabwe and, if not, why this should be the case, given initial indications of the Mnangagwa administration's professed intentions.

The report contends that while much was promised, very little has been delivered in terms of an injection of fresh capital into the economy. The new dispensation has squandered the good will it earned during the November 2017 transition. The pace at which the government has rolled out much-needed economic and political reforms has not met the expectations of either citizens or the international community. Consequently, the much-vaunted investment has not found its way into the country. The economic situation remains perilous, with the government playing catch-up to market forces.

The report is based on secondary data, key informant interviews, and conversations with local and international investors, government institutions and diplomatic missions.

Context

The Mnangagwa administration inherited an economy that was wobbling towards a precipice, with a neo-patrimonial governance structure sustained by wanton corruption, patronage,[2] arbitrage, a fiscal system akin to a large-scale Ponzi scheme[3] and 'economic short-termism'.[4] In the past five years, domestic and external government debt has ballooned from US$7 billion to US$17 billion.[5]

The government's unquenchable appetite for spending – largely on public sector wages and expensive perks for senior bureaucrats and cabinet ministers – has continued unabated, with the budget deficit reaching US$2.7 billion,[6] well over statutory limits and at close to 20% of GDP[7] before the rebasing of the economy.

From 2013, at the demise of the GNU, the government began funding expenditure by issuing Treasury bills from government and reserve bank overdrafts. The

export sector did not perform at optimum levels, leading to shortages of much-needed foreign currency. The government had to cover its monetary obligations by borrowing, and capturing foreign currency earnings from exporters, particularly gold miners and tobacco farmers.

During the Mugabe regime, Zimbabwe experienced significant divestment. This was because of adverse economic policies, such as the abhorred Indigenisation Act,[8] and the government's notoriety as a bad debtor, its inconsistent policy direction and its overall political instability, partly as a result of succession fights within ZANU-PF and accusations of rigged elections.

International companies that did not close shop altogether significantly scaled down their operations, save for a coterie of South African mining firms and retailers. Reputable daily business newspaper *The Standard* put the number of companies that shut down in Zimbabwe between January 2017 and 2019 at 55.[9]

Even the country's constant friend, China, slowed its investment activities in the country. In 2016, the volume of trade between Zimbabwe and China reduced from US$1.2 billion to a mere US$400 million. In the same period, investment traffic from the Asian giant to Zimbabwe paled in comparison to what the Chinese were investing in the rest of Africa.[10]

The pressures of an underperforming economy have hit the population hard. Fuel prices have risen by over 200% since January 2019. Prices of basic commodities are beyond the reach of many,[11] yet the salaries of employees, including civil servants, have not been adjusted in proportion to increases in the cost of living, pushing more people into poverty.

In 2019, extreme poverty increased to 5.7 million from 4.7 million in 2018.[12] Roughly two out of five Zimbabweans (7.3 million people) live on less than US$3.20 per day, the extreme poverty line for lower-middle-income countries.[13] In some rural provinces, such as Matabeleland North, nearly 90% of the population are living in poverty.[14] Zimbabwe's economy is projected to further contract by 6.5% in 2019.[15]

Business environment

The African Development Bank (AfDB) describes Zimbabwe as 'an inhospitable business climate'.[16] Ranked 140th out of 190 countries in the World Bank 2019's Ease of Doing Business Index, Zimbabwe is one of the most difficult countries in which to start and operate a business. Though progress has been made in the 24 months that Mnangagwa has been in power – the country has moved up from 155th place in the index – much remains to be done to make the country attractive to investors.

Zimbabwe's lethargic civil service, which is unfortunately charged with much of the regulatory oversight, vetting, reviewing and processing of investments, further complicates things.[17] The country ranked 160th out of 180 countries in anti-corruption watchdog Transparency International's 2018 Corruption Perceptions Index.[18]

The World Economic Forum's 2017 Global Competitiveness Index, which assesses drivers of economic growth and prosperity, institutions (legal and administrative) and quality of policies, ranked Zimbabwe 127rd out of 141. The country ranks poorly on public sector performance with a score of 134 out of 141.[19]

> Even the country's constant friend, China, slowed its investment activities in the country

According to the 2018 AfDB Zimbabwe Economic Report the country needs to 'address budget and balance of payments deficits and major structural challenges such as large infrastructure gaps, an inefficient government, and inhospitable business climate.'[20] Such are the hurdles Zimbabwe's government must clear to attract the kind of investment it needs to turn the country's fortunes around.

Investment drive

With Mugabe's departure, it became apparent that to salvage the fast-deteriorating economic situation, the succeeding government had to drastically shift from self-destructive policies such as the Indigenisation Act and Fast Track Land Reform (FTLR), and begin the onerous journey back to normalcy.

Historically, the country has had rather suppressed FDI inflows. According to World Bank data, between 1970 to 2017 the country's average FDI was US$90 million. It peaked in 2014, when the country received US$500 million.[21] The country has for a long

time suffered a crisis of confidence induced by policy inconsistency, lack of competitive edge and a reputation as a bad debtor.

The new government touted FDI as the key to unlocking growth, employment and productivity. Concrete measures to lure international investment were put in motion from the onset. Mnangagwa's inaugural speech in November 2017 was a marked departure from his predecessor and seasoned by the new dispensation narrative. The president sought to reassure investors that the country would make deliberate efforts to guarantee the security of all investments:

> … key choices will have to be made to attract foreign direct investment … our system of economic organisation and management will incorporate elements of the market economy in which enterprise is allowed encouraged and protected … I wish to be clear, all foreign investments will be safe in Zimbabwe.[22]

By December 2017, the government had developed the Zimbabwe Investment Guidelines and Opportunities document,[23] setting out a framework for reengagement with international financial institutions and a clear strategy to attract FDI. The investment guidelines were essentially a set of promises to the international community that the government would drastically change, emphasising respect for property rights and the rule of law, and rolling back the role of the state in the economy.

With the help of well-meaning prominent Zimbabweans in the diaspora[24] and impressionable segments of the international community, the government set out on an extensive charm offensive. The key message that Mnangagwa carried to the international community was that Zimbabwe had repented of its destructive ways and was embarking on a path of reform. The Zimbabwe is 'open for business' mantra became the new dispensation's rallying cry.

Investment opportunities

Following the Zimbabwe Investment Guidelines and Opportunities document, the government packaged its ideas and ambitious targets into a policy document titled Towards an Upper-Middle Income Economy by 2030: New Dispensation Core Values. The document, which was designed for an international audience, set out a vision to transform the Zimbabwean economy into an upper-middle-income economy within 11 years.

The document stated that: 'The new Government is cognisant of the huge resource requirements for re-building the economy and has prioritised investment, a key ingredient for powering the economy.'[25] Through this document, the government set out a strategy to win investor confidence and its intent to address governance issues. Interestingly, the 2018 harmonised elections are set out in this document as a key milestone towards political reforms.[26]

> The mining sector is the largest contributor to Zimbabwe's foreign currency earnings

The translation of government policy into action was delegated to various line ministries in the government, which in turn set out to profile investment opportunities and sector-specific procedures for investments. The Ministry of Mines and Mining Development developed the Mineral Potential: Procedures and Requirements of Acquiring Licenses and Permits, showcasing Zimbabwe's mineral wealth and the investment prospects. The document lists about 14 minerals, with gold, diamond and platinum at the top of the list.

The mining sector is the largest contributor to Zimbabwe's foreign currency earnings. In 2018, the sector's contributions stood at 60% of all currency earnings. The sector has been placed as the springboard for growth and economic stabilisation. The Zimbabwe Investment Authority (ZIA) states that between US$5 billion and US$7 billion in investment is required for the sector to realise its full potential. However, exploration of these minerals remains a challenge. There is yet to be an exhaustive study of how much of the mineral resources are 'reserves' – in other words, how much of the minerals that Zimbabwe has can be viably and profitably exploited using current technology and within environmental restrictions.

Gold, which is the leading foreign currency earner in the sector, is besieged by a number of challenges. Nearly all gold-mining activities take place at ancient work sites, with no new exploration done in recent years.[27]

In the past two years, gold has been posting impressive production records. Gold output increased from 24 tonnes in 2017 to 33.2 tonnes in 2018, with small-scale and artisanal miners making up to 65% of output.[28] Conversations with some interviewees, however, noted that the small-scale miners are mining in abandoned shafts, which are no longer commercially viable for primary miners.

Large-scale primary producers have allegedly been selling their gold through small-scale producers because of the distortions in foreign currency allocations between primary large-scale producers and small-scale miners. The government had in place a 70:30 forex retention policy for large-scale primary producers.

What this meant was that the government would retain 70% of the export earnings and give the companies an equivalent amount in real-time gross settlement (RTGS)[29] dollars at a 1:1 ratio. The companies would get only 30% in hard currency. For the small-scale producers, the ratio stood at 30:70. This distortion of the foreign currency retention scheme posed a danger to productivity and recapitalisation of primary producers in the minerals sector. As a result, the primary producers would sell their gold through small-scale miners, thereby distorting the recording of outputs.

Agriculture remains the backbone of the Zimbabwean economy, contributing over 30% of export revenue in 2017. Tobacco has been the leading foreign currency earner in the sector. Yet investment in the sector has been subdued compared to other sectors (see Table 1).

From the onset of the FTLR exercise in 2000 to around the 2005 elections, ZANU-PF ran the slogan 'Land is the economy and the economy is land,' emphasising the primacy of land and agriculture, in particular, to Zimbabwe's growth and development prospects. The country is favoured with vast expanses of cultivable prime land and climatic conditions that are conducive for year-round farming. However, the country is also prone to droughts and extreme weather, such as El Niño-related events, which have a direct impact on agricultural productivity.

The most recent AfDB report on the country[30] notes agriculture as one of the key drivers of growth, thus making it a priority sector for investment. However, the sector has not recovered from the FTLR exercise. While the redistributive value of FTLR has been celebrated, its lasting effect on agriculture as a commercial enterprise has been negative.

The Mugabe government, after evicting close to 90% of commercial white farmers, gave the remaining white farmers renewable five-year leases, while it gave indigenous farmers non-transferable 99-year leases. The implication was that none of the farmers had security of tenure. Without security of tenure, the agricultural land is un-bankable and cannot be used as collateral, so banks stopped giving loans to farmers. The minister of finance Professor Mthuli Ncube has referred to agricultural land in Zimbabwe as a 'dead asset'.[31]

> Without security of tenure, the agricultural land is un-bankable and cannot be used as collateral

Agricultural productivity hinges on the bankability/transferability of the land. What is more, the land expropriation challenged the paramountcy of property rights and the rule of law. This scared off investors in agriculture, with only a few remaining, mostly in agro-business.

Infrastructure development has lagged behind in the country in comparison with its regional neighbours. This has had a negative an impact on other sectors, as infrastructure by and large plays the role of an enabler

Table 1: Investment in selected sectors (US$ million)

Sector	2009	2010	2011	2012	2013	2014	2015	2016
Agriculture	548	7	518	370	24	240	637	856
Manufacturing	3 201	2 912	6 049	1 655	2 805	3 685	6 284	2 003
Mining	6 483	2 694	8 256	4 554	3 361	3 241	1 974	2 966

(e.g. roads and rail for transportation, energy, water and ICT).[32] Infrastructure is a key consideration for investors when they are look for investment opportunities. The sector has suffered from low investment and the quality of infrastructure continues to deteriorate. The country has an overall ranking of 129 out 141 on the 2019 WEF competitiveness index.[33]

Unreliable energy supply is a major drawback for productivity in the country. Energy infrastructure has suffered neglect and can barely meet the demands of commercial and domestic use. Recurrent power cuts and load shading have a negative impact on the country's attractiveness as an investment destination. The country's installed capacity stands at 2 000 megawatts (MW), but actual power generation is 845 MW.[34] Investment in the sector has been suppressed and the country relies more on its neighbours to keep its lights on. The country exports 60% of its electricity requirements.[35]

Assessing the 'open for business' promise

The government appears to have oversold the country's attractiveness as an investment destination. What is more, looking at the current state of affairs post-Mugabe, the government seems to have been overambitious about its capacity not only to reform but to implement reforms. Two years after the demise of Mugabe and rise of Mnangagwa, the euphoria has waned. The much-needed quantity and quality of investments into the country has not materialised.

Net FDI inflows increased from US$247 million in 2017 to US$744 million in 2018, an increase of more than 200%. While this is a significant increase, it falls below regional trends over the same period.[36] What is more, the net FDI contrasts sharply with the nearly US$27 billion investment deals and agreements Mnangagwa signed between 2018 and 2019.[37]

Week in, week out, the state media paints a picture of massive investment inflows, mega-deals and high-powered delegations of international investors visiting the country. Optics matter and the state might be playing to both its domestic constituency and international investors, who have adopted a wait-and-see attitude.[38]

Interviews with personnel at the country's investment authority revealed discord between the management and investors. Interviewees indicated that while their institution was charged with processing all investment into the country, many international investors with personal links to the government would make clandestine deals. This practice distorts the investment figures in the country, as official channels are bypassed in some instances, where deals are made directly with influential individuals. These deals remain shrouded in mystery.

> Infrastructure development has lagged behind in the country in comparison with its regional neighbours

The point of departure for this research is to acknowledge that Zimbabwe has received investment inflows over the years, even during the Mugabe days. However, the investment received from November 2017 to June 2019 has been insufficient to stimulate significant growth and turn the country's fortunes around. Moreover, the investment inflows have not matched the government's much-hyped efforts to lure investors into the country.

Why have investors not flocked to the country? Was the promise of a new dispensation a high-sounding with no substance? To answer these questions, one has to look at the primary considerations of investors in a context such as Zimbabwe, the nature and quality of reforms instituted, and the extent to which reforms have been implemented.

From interviews with domestic and international investors, a number of areas are considered to be of priority when considering investing in Zimbabwe:

- Speed and cost
- Certainty of policies, tax regime and guarantee of property rights
- Investment insurance premiums
- Preservation of value of investment
- Repatriation of profits
- Guaranteed exit at divestment
- Zimbabwe's high-risk profile

The following sections consider a few of these areas and how they illustrate investors' concerns.

Speed and cost

A major consideration for investors in setting up shop and beginning operations are the speed and cost involved, and all the attendant processes in the country. Speed refers to the time it takes to set up shop with all documentation, licences and certificates completed and granted. Cost refers to the fees and other levies that have to be paid to start the business and comply with regulatory bodies. Table 2 shows the formal processes, costs and timeframes. However, it leaves out cost of sector-specific licences and permits.

Table 2: Cost of doing business in Zimbabwe

Process	Agency	Cost (US$)	Timeframe
Enquiry about investing in Zimbabwe	Zimbabwe Investment Authority (ZIA)	No charge	N/A
Company registration	Registrar of Companies	145	6 working days
Exchange control approval (dilution)	Reserve Bank of Zimbabwe	–	2 weeks
Investment approval	ZIA	Application fee: 500 Licence fee: 2 500	5 working days
Consideration of indigenisation plan	Ministry of Youth, Indigenisation and Economic Empowerment	No charge	1 week
Indigenisation compliance certificate	National Indigenisation and Economic Empowerment Board	500–5 000 (depending on type of certificate applied for)	2 days–1 month
Application for residence permit	Immigration Control Department	500	Up to 3 weeks
Application for work permit	Immigration Control Department	500	2–4 weeks
Registration for tax heads	Zimbabwe Revenue Authority	No charge	1–2 days (except for VAT, which takes 20 days)
Registration with National Social Security Agency (NSSA)	NSSA	No charge	1 day
Application for environmental impact assessment (EIA) certificate 1. Prospectus submission 2. EIA report 3. EIA extension of validity	Environmental Management Authority	1. 120.75 2. 1.5% of total project cost 3. 220.50	1. 20 working days 2. 60 working days 3. Over the counter
Licensing with local authorities	Local authorities	Varies depending on type of licence	Varies depending on type of licence
Application for registration as a designated tourist facility (NB: licences may be granted by other authorities (e.g. National Parks) depending on activity)	Zimbabwe Tourism Authority	Hotel: 450 Restaurant/ lodge: 300	2–3 weeks
Registration of mining title	Ministry of Mines and Mining Development	350–100 000 depending on type of title	24hrs–3 months

Source: Zimbabwe Investment Authority

According to the information on the ZIA website, setting up shop takes anything between 100 and 209 days, and requires up to 13 different certificates and licences, depending on the sector.[39] This is in sharp contrast with regional trends: it takes 21 days to set up shop in South Africa, 28 days in Zambia[40] and about 30 days in Botswana.[41] A local investor said it had taken nine months to go through all the processes. This was corroborated by a German and Japanese investors' delegation, which visited Zimbabwe in the first quarter of 2018.

> In 2018 it took 7.5 months for an international investor to begin operating in Zimbabwe

At each licensing or regulatory authority's offices, undue delays, forestalling and niggling requests are the order of the day. The bureaucratic processes are so cumbersome and ponderous, one investor interviewed said that, 'The government and its bureaucrats have a huge appetite for control and to command and a penchant for stamping and approving – it makes them feel powerful.'[42] Despite some reforms, the government machinery, it was observed, has yet to reform its approach to doing business.

One clear indication of this lacklustre approach is to be found on ZIA's own website. For instance, the cost of doing business sections on the website has not been updated to reflect revisions made to the Indigenisation Act. Recognising how the act had been a sore point with investors, one would expect ZIA to have revised the information on its website and included corresponding caveats to explain the changes.

The fees and licensing costs of operating in Zimbabwe are higher than in neighbouring countries. One businessman interviewed noted that administrative costs alone can be up to 5% of the total investment. A cost drivers study by the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU) found that it takes more procedures, time and money to process exports and imports in Zimbabwe than in South Africa or Zambia. Table 3 compares selected indicators on time and procedures for exporting and importing for the three countries.

In terms of timeframe, the research revealed that as recently as 2018 it took 7.5 months for an international investor to begin operating in Zimbabwe. The heavy bureaucratic red tape, and multiple and often conflicting requirements, create spaces and opportunities for corruption, a subject that is discussed in detail below.

The government has attempted to create a 'one stop shop' to address time, redundancy and inefficiencies by setting up the Zimbabwe Investment Development Agency (ZIDA). ZIDA plans to bring the activities of ZIA, the Joint Venture Unit in the Ministry of Finance and Zimbabwe Special Economic Zones Authority under one roof to become Zimbabwe's One Stop Investment Services Centre.[43] ZIDA was yet to be promulgated into law and the laborious processes persist.

Table 3: Comparison of customs clearance process

	Zimbabwe	South Africa	Zambia
Number of agencies – Exports	10	2	5
Number of agencies – Imports	10	2	5
Physical inspection (% of import shipments)	13.69	8.64	8.89
Multiple inspections (% of import shipments)	41.83	2.10	1
Solicitation of informal payments (% of respondents answering 'nearly always' or 'often')	50	7.14	0
Transparency of customs clearance (% of respondents answering 'nearly always' or 'often')	0	42.9	66.7

Source: ZEPARU

Policies, tax regimes and the rule of law

The hallmarks of the previous administration were policy inconsistency, arbitrary seizure of property and flagrant flouting of rules. The new administration has set about to correct the irrationalities of the past. According to open access policy-tracking website Citizen Watch,[44] the new president promised a total of 222 reforms but had only implemented seven by the second anniversary of his accession to power (see Table 4).

The majority of reforms are geared towards addressing inconsistencies, inefficiencies in the public sector and unnecessary bureaucratic red tape to ignite growth towards the government's vision of transforming Zimbabwe into an upper-middle-income country by 2030.

More than 50% of the promised reforms are still in the pipeline. While reforms by nature do take time to implement, Zimbabwe's case is further compounded by lack of political will and commitment. A case in point was the lapsing of four key bills, including the ZIDA bill, with the end of Parliament's first session in September 2019.[45]

While the government promised much, it has delivered little. The most significant reform by the new administration was the amendment of the Indigenisation Act, scrapping the 51% local ownership requirement except for the diamond and platinum sectors.[46] The move was significant because the act had been used as a rallying point to depict all that was anti-FDI in Zimbabwe under Mugabe. However, the Indigenisation Act was just one item among a range of laws, policies and requirements that make investing in Zimbabwe laborious. Investors find themselves burdened with never-ending licensing requirements.

Zimbabwe maintains multiple tariffs, licences and permits, which could be streamlined and consolidated for ease of operations for businesses. For instance, a manufacturer whose main raw materials are agricultural products has to renew import licences every three months, regardless of how long the manufacturer has been importing the same raw materials. At the end of every 90-day cycle, the manufacturer has to go through the rigmarole of reapplying for permits.[48]

More than 50% of the promised reforms are still in the pipeline

This increases operating costs and has the potential to derail the pace of production. A report on cost drivers notes that, 'tariff policy in Zimbabwe is significantly placing producers, exporters and perhaps would be exporters at a competitive disadvantage'.[49] Though the report is from 2014, respondents in this study said that the tariff constraints persist. To support this, the 2018 World Bank Ease of Doing Business Report alluded to Zimbabwe's cumbersome tax and licensing burden: a company in Zimbabwe pays four times more taxes

Table 4: Reform efforts and progress

Sector	No. of reforms promised	Implemented	In progress	Not started	Broken	Modified
Governance	117	3	62	50	2	–
Governance politics and human rights	11	1	8	1	1	–
Corruption	4	2	2	–	–	–
Trade and international relations	15	1	11	4	–	
Social services	42	–	19	21	1	1
Agriculture	33	–	20	13	–	–

Source: zimcitizenswatch.org[47]

than a company in Zambia and seven times more than a company operating in South Africa.[50]

Property rights

Property rights are at the core of the breakdown in relations between Zimbabwe and Western countries. In the research for this report, property rights featured predominantly as a chief concern for investors in light of the FarFell Coffee Estate invasion and Gaika mine legal saga. During his November inaugural speech, Mnangagwa touched on protection of investments but was largely silent on the questions of property rights and observance of the rule of law.[51] Property rights in the mining and agriculture sectors have been the most vulnerable to arbitrary abrogation.

At the time of Mnangagwa's inauguration, controversial farm evictions were underway at Lesbury Farm in Rusape, some 200km east of Harare. In early 2017, the son of the provincial affairs minister for Manicaland province set out to evict a white farmer from FarFell Coffee Estate. The farm is reputed for its high-quality coffee, which is exported internationally. The timing of the eviction made it even more controversial. The attempted takeover coincided with the harvest of the crop, a tactic reminiscent of farm invasions in the early 2000s, when senior ZANU-PF members would take over farms right at the point of harvesting and export the products. The proceeds from the exports were hardly ever invested back into farming.

The Mnangagwa administration resolved and reversed the evictions, indicating that the government would preserve the sanctity of property rights. However, the full import of the move by the cabinet was to send a message that security and guarantee of investments were only for those who could mobilise cabinet members. The courts seemed to be powerless in the face of politically motivated property rights violations.

Such incidents have somewhat dented confidence in the government's commitment to property rights, respect for rule of law and following due process. The farm invasions came hot on the heels of similar occurrences in the mining sector. In the gold-mining region of Kwekwe, the occupation of Gaika mine in February 2018 by artisanal miners (*makorokoza*) with the support of the minister of state security, Owen Ncube, and ZANU-PF heavyweights was a case in point.

According to the records of the court proceedings, a group of 200 youths from Kwekwe – invaded Gaika mine barely four months into the new dispensation. The youths, acting under the orders of ZANU-PF member of parliament Vongaishe Mupereri,[52] have come to be known as the Gaika Mining Syndicate. Gaika mine approached the courts seeking their intervention to stop the lawlessness. The High Court of Zimbabwe issued an order in March 2019 granting the relief sought by the owners of Gaika mine, DGL Investments.

Unfortunately, neither the police nor the Gaika Mining Syndicate took heed of the court ruling. The police refused to implement a court order barring any interference in mining activities. The police cited the political nature of the conflict as hindering them in following through with the court order. Raising the political trump card was reminiscent of the impunity of the Mugabe era. A letter surfaced that had purportedly been written by minister Ncube, giving the illegal miners a green light to carry on with their mining activities, notwithstanding the order from the highest court in the land to stop.[53]

> Property rights are at the core of the breakdown in relations between Zimbabwe and Western countries

Such flagrant disregard for the rule of law did not escape the notice of potential investors.[54] Property rights are sacrosanct and the supremacy of the rule of law guarantees security of investment in any environment. Incidents such as those highlighted poses a serious threat to the country's drive to lure investors as well as making those already investing in the country jittery.[55]

Repatriation of profits and guaranteed exit

Investors are keen to know how easy it is to repatriate profits and, at the point of divestment, how easy and expedient it would be to liquidate a business venture. The currency crisis sits at the heart of these questions. Zimbabwe's currency crisis[56] can be traced back to the demonetisation of the domestic currency, the Zimbabwean dollar, and the introduction of a multicurrency system in 2009. This move brought

macroeconomic stability and general relief to the population during the subsistence of the GNU. However, insufficient foreign currency reserves inevitably led to a currency shortage.

Post-GNU, the ZANU-PF government's penchant for unbridled spending and disregard for economic fundamentals led to a burgeoning budget deficit and the failure of the government to meet its financial obligations. This was coupled with liquidity crunch as foreign and local businesspeople repatriated hard currency from Zimbabwe. The budget deficit resulted in the government depending more and more on loans from local banks by issuing Treasury bills to meet the deficit.

The government found itself at real risk of defaulting on loan payments. This set in motion a series of events that culminated in the government issuing credit notes – virtual money, in essence – to banks to avoid defaulting on loan payments. The RTGS platform became a form of money on its own and a default currency set at parity with the US$.

With foreign currency in short supply, the virtual money became a medium of exchange in business, but its false parity was not sustainable as the markets rejected the fictitious equivalency. The motivation for maintaining the false parity was in part because the government was capturing a percentage of foreign currency receipts from exporters for the purposes of procuring key commodities such as fuel and wheat and giving exporters the RTGS equivalent at 1:1.

The false parity could not be maintained for long as the value of the RTGS began to plummet on the black market as demand for hard currency increased. This created a vicious circle that resulted in further shortages of foreign currency as exporters failed to recapitalise and produce for export.

The currency crisis has severely impaired the ease with which foreign business entities can deploy and repatriate funds from the country. This implicitly raises the issue of currency manipulation and the uncertainty that the multiple-currency system brings for business. The crisis has not only had an impact on repatriation, but also on the storage of value of investments.

Investors and local businesspeople have cited the country's strict capital controls as antithetical to FDI.

To illustrate the point, it is enough to look at the case of large-scale mining corporations. International investors have struggled to repatriate profits, as well as to finance operations. Large-scale commercial miners (primary producers) have had to surrender a significant portion of their forex earnings to the government and get the RTGS at the 1:1 exchange rate. What is more, there is a cap on the amount of money that can be repatriated out of the country in hard currency, and a 30-day time limit to liquidate the foreign currency.

> Investors and local businesspeople have cited the country's strict capital controls as antithetical to FDI

The beginning of 2019 saw the RTGS dramatically drop in value on a daily basis on the parallel market, to the extent that it became a fallacy for the government to maintain the 1:1 official rate. While the government's Monetary Policy Statement sought to rectify this by introducing a controlled floating of the RTGS against the dollar at 1 US$ to 2.5 RTGS, it was too little too late for multinational corporations that had been struggling under the weight of the fictitious parity – the damage had already been done.

The dilemma for investors and local businesspeople alike was what would happen to their dividends and foreign currency receipts captured during the 1:1 regime. Investors saw the value of their investments being eroded as the RTGS tumbled on the parallel market.

Between 2017 and early 2019, investors in Zimbabwe struggled to move money to pay dividends to shareholders. Oil and Gas producer Total Zimbabwe, beverage company Delta and mining companies, such as ZIMPLATS, could not repatriate hard currency to pay dividends to shareholders outside the country. Delta's largest shareholder, Anheuser-Busch Inbev, has over US$100 million trapped in the country. In 2018 RioZim and Metallon Gold recently sued the Reserve Bank of Zimbabwe (RBZ) demanding hard currency that they are owed by the Zimbabwean government.

In a bid to rein in the currency crisis, stop the freefall of the RTGS against the US dollar and stave off increasing demands by the civil service to pay salaries in US dollars,

the Minister of Finance Mthuli Ncube instituted Statutory Instrument (SI) 142 of 2019, which effectively ended the multi-currency regime in Zimbabwe. It returned the RTGS to being the sole legal tender.

This sent citizens and businesses into a panic. Members of the public who had opened foreign currency accounts also known as nostro accounts rushed to make withdrawals, as they feared that hard currency would be liquidated into the RTGS. The reaction from individuals and the markets showed lack of confidence in the local currency.

The SI did not preclude private transactions in the form of currency or exchange of value.[57] In the months following, there has been a lot of vacillation with regards to the SI. Some sectors, such as tourism and some sections of the retail sector, have been granted a waiver to charge in both US dollars and RTGS (ZWL) while other sectors are prohibited from doing so.

The minister of finance has been forced to issue more SIs to support SI 142, such as SI 212 of 2019 Exchange Control (Exclusive Use of Zimbabwe Dollar for Domestic Transactions) Regulations. This propensity and reliance on SIs instead of enacting laws through parliament does not cultivate confidence that the government is keen on the rule of law. Also, inconsistencies and false starts in policy create a sense of policy uncertainty, which does not augur well for the administration's efforts to woo investors.

Sanctions and Zimbabwe's high-risk profile

The full impact of the sanctions slapped on Zimbabwe by the US and the European Union (EU) are hotly contested, with spirited voices on all sides.[58,59] However, the discourse around sanctions cannot be reduced to a simple binary of for and against. Rather, it requires a more nuanced analysis of how they affect the country. The EU sanctions have been much watered down and in 2019 the EU decided not to extend sanctions on Zimbabwe.[60] The US sanctions in the Zimbabwean Democracy and Economic Recovery Act (ZIDERA) remain in place, albeit with some modifications from the original 2003 document.[61]

The US Treasury, through the Office of Foreign Assets Control (OFAC), publishes a Specially Designated Nationals and Blocked Person List (SDN List). These are people on the sanctions list who are prohibited from transacting with individuals or institutions in the US.[62] OFAC provides the instruments for monitoring and enforcing compliance with sanctions. The penalty for transacting with someone on the SDN List can be as high as US$1 million or 20 years in prison. Zimbabwe's having persons on SDN List increases the country's risk profile.

The OFAC rules restrict the country's ability to attract finance from global markets and the ease with which international investors can transact with the country. One of the effects of sanctions is to place a high-risk profile on the country. The rules make it cumbersome for international banks to work with the country, as they have to invest in vetting individuals or companies, as well as keeping track of OFAC lists and stipulations.

By 2008, Zimbabwe had lost relationships with over 50 international correspondence banks.[63] In 2019 Standard Chartered bank Zimbabwe was found to have breached the OFAC regulations and was fined US$18 million.[64]

> One of the effects of sanctions is to place a high-risk profile on the country, making it cumbersome for banks to work with Zimbabwe

While the removal of sanctions would not miraculously turn the fortunes of the country around, there is a case to be made against sanctions in respect of enabling the ease of transacting with US-based companies and individuals. Zimbabwe's economic malaise is deep seated and has its genesis in flagrant mismanagement by ZANU-PF – unbridled corruption, disregard for the rule of law and government overspending over many years.

Indeed, while those opposed to sanctions have cited lack of access to financial markets as the greatest burden for the economy, Zimbabwe has long defaulted on paying back loans to the Bretton Woods institutions and Paris Club.[65] Without settling these arrears, the country is unlikely to be able to borrow from these key institutions. In addition, the failure by the government to pay its arrears increases the country's reputational risk perception, thus further closing it out from international financial markets.

Accessing international credit lines

In 2001, Zimbabwe was declared 'ineligible to use the IMF's general resources.'[66] In addition, Zimbabwe still owes external creditors close to US$8 billion.[67] The creditors include the Paris Club, World Bank and the European Investment Bank. Suffice it to say that the removal of sanctions is unlikely to unlock the much-vaunted lines of credit for the country.

Thus, the argument that sanctions are blocking access to the IMF, World Bank and other international creditors does not hold water. What is more, the record of Zimbabwe as a bad debtor not only to Western creditors, but to Asian creditors, and the Chinese in particular, militates against any reasonable prospects of attracting funding.

Nonetheless, the research found that the risk and perception of doing business with a country under US sanctions discourages many would-be investors and private financiers. Over the past 10 to 15 years a number of cases have been cited where international banks have simply declined to handle any Zimbabwe-related transactions. Some companies in the West – especially in the US – have turned down business opportunities with ordinary Zimbabweans on the basis of the sanctions and the country's high-risk profile.

For banks, the transactional costs of doing business with a sanctioned country outweigh any envisaged return on investment. For investors, this is further compounded by the fact that the insurance premiums required to secure and guarantee investments in a high-risk profile country are costly. One interviewee said that Zimbabwe could have the best deposits of gold in the world, but the risk and cost of doing business there means it is not worth the venture.

Limits to reforms

In the preceding sections, the report has touched on some key reform efforts instigated by the Mnangagwa regime. Reforms include the scrapping of the 51% local ownership requirements under the Indigenisation Act, concerted efforts to improve the ease of doing business and the proposed one-stop shop for investment under ZIDA.[68] In launching the Transitional Stabilisation Programme in October 2018, the government also committed to fiscal prudence and sound monetary policy undergirded by market principles.

Some international investors and Zimbabweans were cautiously optimistic that Mnangagwa was genuine about instituting reforms and getting the economy back on its feet. However the major challenge remains whether the ZANU-PF machinery, which is still very much intact, has reformed. With a majority in parliament of over two-thirds, the party has not moved with speed to pass key reforms that are essential for economic transformation and confidence building.[69]

> It is doubtful there is a genuine appetite for reforms within elite circles and among the power brokers

The Military Assisted Transition was spurred not by some moment of epiphany in the army and a sudden deep-seated desire to save the country. Rather, it was a fight over access to the feeding trough. It is doubtful there is a genuine appetite for reforms within elite circles and among the power brokers.

Zimbabwe also faces a crisis of confidence. The Mugabe years were characterised by an arbitrary and blatant disregard for the rule of law and property rights. Reckless utterances, which dented confidence in it, have put a blight on the country. What is more, the conflation of the party, state and military has made it difficult to really separate the old regime from the new.[70]

Investors are by nature risk takers and thick skinned, but years of sustained attacks on markets and ignoring economic fundamentals have taken their toll. In conversations with interviewees, a business broker based in South Africa said: 'After taking a delegation of international investors [to] Zimbabwe a few months ago we came to the conclusion that Zimbabwe is seriously not open for business.'[71] The new regime has failed to engender confidence in its reform efforts.

Reforms in Zimbabwe have to be understood beyond being an exercise in changing the legal framework to encompass an overhaul of how the government and ruling party approach economic policy and governance. The case of Zimbabwe is one of a government whose proclivity is to control and to be invasive in business, and is steeped in ideological considerations. A local businessman described the government approach to markets as follows:

> The government of Zimbabwe has an abiding market phobia. The government's fear of opening up and letting markets reign is closely tied to its control and command philosophy. The philosophy of control is entrenched – the Bureaucrats won't move or get excited about reforms because the familiar is comfortable. The bureaucrats and government are attuned to controlling, to approve and to be the final arbiter – players and referees in the economy.[72]

The government's desire to control the economy is pervasive and tied to ZANU-PF's preoccupation with holding on to power. The party's approach to governance is geared towards command and control. ZANU-PF retains total control of key government institutions including the RBZ, which is of interest because in free market societies an independent central bank is at the centre of macroeconomic stability, especially in post-hyperinflationary environments.

Zimbabwe, after its worst inflation in 2008, still retained politically controlled RBZ. The state-controlled central bank is an opportunity for continued rent-seeking behaviour. Since 2016 the allocation of scarce foreign currency to business has become more and more opaque creating opportunities for arbitrage by the ruling elite.

In addition, the government controls the bureaucracy and public sector to the point of inertia. Zigora and Chigwamba have described the bureaucracy as 'cumbersome and heavily centralised, secretive.'[73] The public sector has internalised the command and control culture to the extent that it is difficult for it to suddenly transform into an adaptive, responsive and innovative service-oriented system. This weighs heavily on reform efforts.

The public sector for the past 38 years has operated according to political signals and obedience to the ZANU-PF system – that work culture is difficult to change. Local businesspeople and investors interviewed decried the fact that the public sector is a huge impediment and that it is oriented towards controlling all aspects of business.

Also, the public sector is neither adaptive nor responsive and sticks to archaic procedures that have been in place for over 30 years. One businessman said that fear underlies this inertia: in the previous regime, bureaucrats were rewarded more for being obedient and correctly reading national political signs than for being innovative and entrepreneurial. As a result, the current character and culture of the public sector is not oriented towards providing efficient services and supporting market-based economy, militating against Mnangagwa's 'open for business' mantra.

In agriculture, for example, the government continues to set market prices for products and to block free market rules. In some instances, such as maize production, this has made farming less attractive, as it would cost more to produce than one gets in return. This impedes any transformative reform attempts. The government has made overtures to former white commercial farmers with a promise to compensate them. But the case of fresh farm invasions and cabinet interventions to resolve them points to the fact that the institutions that are charged with enforcing contracts are weak and play second fiddle to political authority.

Two more cases illustrate this point. In the preceding sections the report has dealt with the currency crisis and the distortions brought about by an imposed parity between the US dollar and the RTGS of 1:1. In February, the RBZ through the Monetary Policy Statement, removed the 1:1 ratio, opting to float the RTGS on the open market. However, instead of fully liberalising and allowing the market to determine the value of the RTGS, the governor of the RBZ pegged the floating RTGS (ZWL) at US$ 1:2.5 RTGS (ZWL).

> The public sector is neither adaptive nor responsive and sticks to archaic procedures that have been in place for over 30 years

The RBZ, in essence, did not liberalise the foreign exchange market but retained a measure of control – a 'controlled liberalisation'. The RBZ also announced that it would on a daily basis monitor transactions and forex trade in banks in a bid to maintain control over the process.

What is more, the central bank is not immune to political influence. This has seen the RBZ fall prey to engaging in quasi-fiscal operations, making itself a centre of arbitrage and clientelism. According to a statement by the recently established Monetary Policy Committee (MPC), the central

bank has continued the practice of 'unequal distribution of money supply.'[74] This unequal distribution of money to favoured corporations supports the assertion that the central bank is not independent and works under instruction from powerful interests in politics. The recent establishment of the MPC itself was meant to guarantee independence and transparency in monetary policy. It remains to be seen how effective the committee will be in the face of political pressure.

In February, Zimbabwe and South Africa held their 3rd Bi-National Commission (BNC). The South African government announced that it would facilitate credit for Zimbabwean companies from South African banks. After the BNC, Mnangagwa announced that the government would select the companies that would benefit from the envisaged scheme,[75] again showing that the proclivity for control runs deep. It is not only a practice, but an ideology that underpins the Zimbabwean government's modus operandi. This goes against market economics and creates avenues for patronage.

The military factor

Optics matter for investors and the research for this report revealed that in the post-Mugabe administration the role of the military has become more pronounced, especially with regards to commercial interests. The new government appears to rely more visibly on the military than did the Mugabe regime. Given the alarming role of the military in politics and the private sector, this emerging dynamic has heightened investors' fears.

While the country was caught up in the euphoria of the November 2017 transition, investors adopted a cautious wait-and-see approach. Unfortunately, the killing of civilians by the military on 1 August 2018 and 14 January 2019 have tainted international perceptions of change in Zimbabwe, perhaps irreversibly. International investors interviewed mentioned that many genuine investors in Western capitals were alarmed by the government's unconstitutional deployment of the military and subsequent killings of protestors.

This image of a brutal, heavy-handed regime conjures up images of the Mugabe era and renders Mnangagwa's rhetoric about a new dispensation and reformed ZANU-PF weak. It remains to be seen how the country will handle future civil unrest.

The military, through state-owned arms manufacturer Zimbabwe Defence Industries and investment vehicles such as Rusununguko Nkululeko Holdings, has always been an active player in the private sector, especially in mining. However, the military assisted transition in November 2018 changed perceptions of the army's role in politics and the economy. Recurrent allegations of mine invasions, either by military investment vehicles or military elites, do little to improve the image of the country and investor confidence.

The new government appears to rely more visibly on the military than did the Mugabe regime

In fact, some investors have claimed that the military is now part of the vetting and approval process, especially in mining. 'The role of the military is not official but decisive in who gets a strategic mining licence,' claimed one investor. The army has been accused of demanding a significant stake in some mining companies in return for the security of the investment.

One interviewee said: 'You cannot make headway into the resources without the blessing of the army overtly or covertly.' While the veracity of these claims could not be verified, the import of the accusations is sufficient to dent investor confidence at a time when the country needs to bolster investor confidence.

Recommendations

Zimbabwe's ability to attract investment hinges upon a commitment to implement comprehensive reforms in both the economic and political spheres – rhetoric alone will not cut it. To improve the country's attractiveness, the government must overcome an operational burden, institutional weaknesses, and systemic and structural challenges. The recommendations are divided between the three areas.

At an operational level, the government needs to redouble its efforts to improve the ease of doing business by cutting out redundant procedures, limiting red tape in the public sector, and streamlining licensing requirements in line with regional trends and best practices in countries such as South Africa and Zambia – the current framework

is untenable. The government needs to be clear and decisive as to the economic path it is taking and not vacillate between free market indicators and command and control all at the same time. Mixed signals in policy reforms do not give confidence to investors or citizens.

Institutional reform in Zimbabwe is closely tied to political reform. For instance, the independence of the central bank is critical with regards to engendering confidence and consistency in monetary policy. However, for the ruling elite it is more a political consideration than an economic one.

In a country were the central bank has a propensity for undertaking quasi-fiscal operations, under the command and control of the ruling party it presents an avenue for rent seeking and is an instrument for patronage and arbitrage. This dynamic has been evidenced in recent years by foreign currency allocation, command agriculture and agriculture mechanisation schemes, which undermine free market principles and full liberalisation of the economy.

With regard to the attractiveness of the agriculture sector to investors, the government needs to ensure land transferability. A clause could be included in 99-year leases stipulating that land is transferable. Further guarantees of tenure needs to be clearly defined. Security of tenure that allows for land transferability is required to unlock value in land as an asset, as well as investment in the agriculture sector. This would be the single most significant reform to attract investment in agriculture.

> Rationalising licences and permits is key to improving business and making the country more competitive

The current fiscal challenges and failure of economic reform efforts in the past three decades points to weak institutions that cannot act independently of the ruling party – the RBZ is a case in point. The government needs to commit to institutional strengthening to ensure the independence of key economic institutions such as the central bank.

In the same vein, serious efforts to reform the public sector must accompany economic and political reforms. Under the current governance system, the public sector plays a critical role in policy implementation and as gatekeeper to foreign investors. The culture, skill set and overall character of the bureaucracy are inimical to investment.

To be competitive, the country needs a public service that is market oriented, with greater flexibility and responsiveness. It needs to be grounded in an understanding of how business operates and the broader picture of what the country seeks to achieve, instead of preoccupying itself with the rigmarole of bureaucratic operations.

Regarding operational challenges, the government needs to expedite the establishment of ZIDA. It is anticipated that this will rationalise and streamline the registration, vetting and granting of permits, improve the speed with which applications are processed and enhance transparency. Rationalising licences and permits is key to improving the business environment and making the country more competitive.

Conclusion

The mantra 'Zimbabwe is open for business' has been rehashed by the government since the fall of Mugabe. While there has been some increase in activity among local and international investors, the country has not yet managed to attract sufficient investment to support growth and productivity in the economy. Zimbabwe faces serious economic challenges, with inflation back on an upward trajectory and the country struggling to achieve economic stability.

The new administration has made concerted efforts to achieve macroeconomic stability and rein in government spending. It has set itself an overambitious target of reaching middle-income status by 2030. The plan includes FDI being injected into the moribund economy to propel growth and productivity.

However, the mantra has not found full expression in practice. While a number of key reforms have been made, structural and operational limitations to really making Zimbabwe open for business exist. A nuanced analysis of the mantra that Zimbabwe is open for business is that the call is for investors to make deals with bureaucrats, ZANU-PF politicians and the military. The conversations are hardly business-to-business but

rather between investors and the government and elites. The mantra and attractive soundbites do not reflect the stark realities on the ground.

It is evident that after an extended period of bad policies, the abrogation of sound macroeconomic fundamentals and disdain for the rule of law Zimbabwe's reputation precedes it. Most would-be investors are sitting on the fence and do not buy the story that the new administration is indeed new. Optics are important and in the past 12 months the government has done more to tarnish its image than to burnish it. Military intervention and the subsequent killings of protestors have cast a shadow over Mnangagwa's reform claims.

What is more is that the government, while promising to liberalise and adopt free market principles, seeks to retain a measure of control over the economy and private sector activities to the detriment of the economy. The ideological flux only engenders a sense of policy uncertainty and brings into question the government's commitment to doing things differently from the regime of Robert Mugabe.

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About the author

Ringisai Chikohomero is a researcher in the ISS Peace Operations and Peacebuilding programme in Pretoria. Before taking up this position, he was a regional analyst at political Economy Southern Africa, where he conducted research on regional integration and political developments in Southern Africa.

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