Investing in Zimbabwe - new possibilities

Zimbabwe's current debt and energy problems could be just the catalysts the country needs for radical reforms that could convince foreign investors to return. With no domestic savings and empty government coffers, Zimbabwe is being forced to make changes that will win investors over.

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This was the upshot of a wide-ranging panel discussion held at the Johannesburg offices of Norton Rose Fulbright late last year on 'Investing in Zimbabwe: Getting the deal done'.

All five panel members and the moderator were legal or investment professionals or entrepreneurs in Zimbabwe, giving them a down-on-the-ground view of the country's true investment potential.

The panel members were Ritesh Anand, executive chairman of Invictus Capital and a board member of Zamco, a wholly owned subsidiary of the Reserve Bank of Zimbabwe; Peter Lloyd and Mordecai Mahlangu, both partners at Harare-based law firm Gill, Godlonton & Gerrans; Themba Ndebele, chief executive of Truworths in Zimbabwe, chair of Imara Holdings and a board member of African Century, and Nicky Moyo, who runs a financial services consulting firm DEAT Capital in Bulawayo.

The moderator was Steven Gamble, head of the cross-border finance practice at Norton Rose Fulbright South Africa, who relocated to Harare earlier in 2015.

"So often with Zimbabwe, we get side-tracked if we fixate on the man, the myth, the legend. These speakers are people who are doing deals on the ground in Zimbabwe," said Rob Otty, md of Norton Rose Fulbright in South Africa, introducing the panellists.

Although disagreeing on some points, such as the impact of the dollarization of the Zimbabwean economy, the panel members were unanimous in anticipating significant legislative and economic reform in the relatively near future.

Indigenisation is the elephant in the room

They agreed the reform would include more changes to the Indigenisation Act, which requires all companies operating in Zimbabwe to be 51% owned and controlled by Zimbabweans.

"The indigenisation policies are opaque and inconsistent. This has led to a lot of confusion. There is general acceptance that the policies need to be amended. I think in 2016, we will see significant change to Zimbabwe's investment policies," said Anand.

"Since the Indigenisation regulations were published in 2010, indigenisation has been the elephant in the room. Sometimes it has dozed quietly in the corner; at other times, it has stamped around loudly. The fact of the matter is that in recent months, there has been clear acknowledgment from a number of government ministers that indigenisation has been a serious deterrent to investors," said Lloyd.

He added that government recognition of the damage done had already resulted in some changes to the Indigenisation Act. Where previously decision-making had been centralised, individual ministers in sectors such as mining now have some leeway in approving companies' indigenisation plans.

"We have seen the implementation of the policy depart from the law. While the disjunction between policy and law is a deeply unsatisfactory situation, the fact remains there is acknowledgement that the law needs to be changed."

Still on the topic of legislative reform, panellists referred to the Joint Venture Bill, which when it becomes law, will promote public-private partnerships through a formal, government-recognised structure. This is more recognition on the part of government that private capital and skills are needed to drive infrastructure projects.

Energy and debt crises force change

The sector most in need of a skills and capital injection is the power sector, the panel members agreed. "The lack of power in Zimbabwe and related challenges will accelerate economic reforms," said Ndebele.

"The investment needed in power projects cannot be funded by internal savings. There are no domestic savings and local capital," he said, referring to Zimbabwe's liquidity crunch. "Indigenisation or no indigenisation, if there is no power, there is no revenue and therefore government is forced to make changes."

The other factor forcing government's hand is its debt position, referring to the Zimbabwean government's welcome engagement with the World Bank and the International Monetary Fund (IMF) to settle its debt arrears. (In recent years, Zimbabwe has defaulted on loans valued at US $1.5bn.)

The settling of Zimbabwe's arrears would undoubtedly come with conditions that would drive investment reform, the panellists agreed.

Expropriation outdated

Asked about the possibility of government expropriating the assets of foreign investors in the future, Mahlangu said this is unlikely. "I think lessons have been learnt as a result of the decimation of the economy. I have a sense that it is unlikely to happen again... the price was too high."

He also said it is unlikely that the successor to Zimbabwean President Robert Mugabe will continue in the same vein. "The current president of Zimbabwe accumulated and consolidated power over 35 years ... therefore a change in leadership would be positive and hopefully peaceful."

Moyo said it is important to remember that Zimbabwe, despite its difficulties, still had "many very good, resilient companies" that practise good governance and have been operating for many years.

"We also need to look at the kind of indicators of what the future could be and the enablers of economic activity. In the telecoms sector, US $1bn has been invested in fixed and mobile telecoms over the past five or six years. Expansion activities such as these are critical enablers of long-term infrastructure projects and give you optimism about the future."

Anand concluded, "Zimbabwe is starved of capital and, because of its political challenges, is not an easy sell. However, I genuinely believe that this time Zimbabwe is serious about making reforms. In addition, the fact that we operate in a US dollar environment means there is no currency risk, interest rates are coming down and prices are normalising.

"Zimbabwe has a highly educated population with great resilience and a culture of entrepreneurship. There are opportunities across the board and they are not limited to agriculture and power. All sectors need to raise capital and fill the skills gap."