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Investing in Zimbabwe



September 2012

Zimbabwe Economy Background

The Zimbabwe economy has experienced a decade of contraction from 1998 to 2008 and severe hyperinflation. A multi foreign currency system, with US Dollars as the dominant currency, was adopted in 2009. Zimbabwe's economy is once again showing significant growth, 9.4% in 2011

This coincided with the introduction of a power sharing government between the three major political parties in Zimbabwe. Since then, the Government has been working towards a revival of the economy. Zimbabwe is in the process of drafting a new constitution.

The Zimbabwe economy has traditionally been based on agriculture with tobacco being dominant. Other agricultural products are maize, cotton, tobacco, wheat, coffee, sugarcane, peanuts; sheep, goats, pigs

Mining has taken over as the main anchor of the economy with coal, gold, platinum, copper, nickel, tin, diamonds, clay, numerous metallic and nonmetallic ores as the main minerals.

The other industries that make up the economy are steel; wood products, cement, chemicals, fertilizer, clothing and footwear, foodstuffs, beverages

Due to the prolonged period of economic stagnation opportunities are abound in Zimbabwe

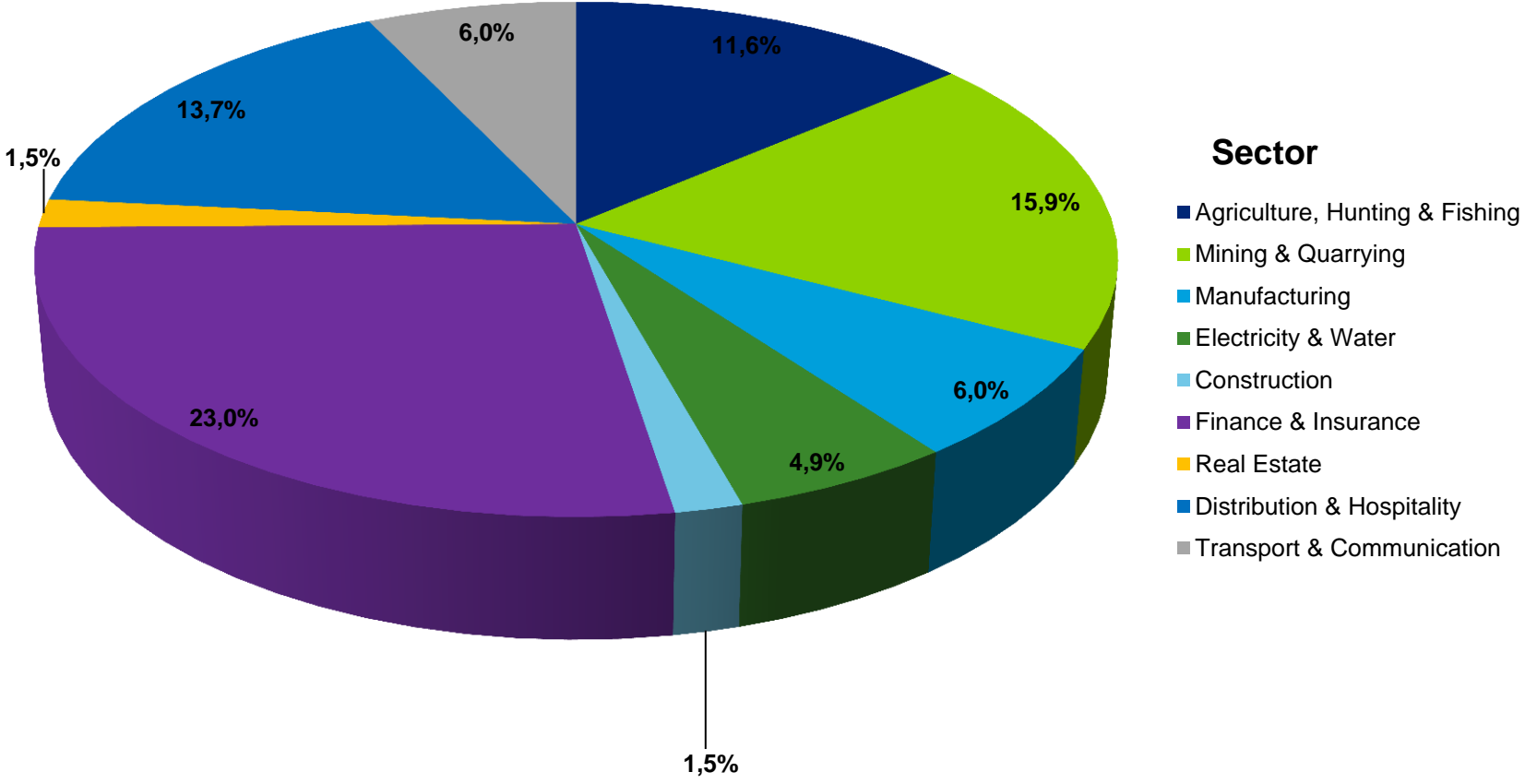
Zimbabwe Economic Indicators

	2009	2010	2011 Est.	2012 Initial Proj	2012 Revised Prj
Nominal GDP (US\$ Billion)	6.133	7.433	9.433	11.914	11.427
Real GDP Growth (%)	5.4%	9.6%	9.4%	9.4%	5.6%
Inflation Average (%)	-7.7%	-3.1%	3.5%	5%	5.0%
Central Government					
Revenues (US\$ Billion)	0.973	2.339	2.921	4.000	3.640
Expenditures (US\$ Billion)	0.850	2.107	2.895	4.000	3.640
External Sector					
Exports (US\$ Billion)	1.613	3.317	4.496	5.167	5.090
Imports (US\$ Billion)	3.213	5.162	7.562	6.800	8.215
Monetary					
Deposits (US\$ Billion)	1.381	2.328	3.100	4.279	3.877
Domestic Credit (US\$ Billion)	0.723	1.695	2.755	3.940	3.538

Source: MOF, MOEPIP and RBZ

The country's economy has experienced an average growth rate of 7.6% over the 3 year period since dollarisation. The Government's Medium Term Plan (2010 – 2015) projected an average 7.1% growth rate for the 5 year period.

Zimbabwe Economic 2012 Projected Growth



MoF – 2012 National Budget

Finance and Insurance, Mining and Quarrying and Agriculture are the sectors exhibiting the most growth

Investment Requirements

- Company or Branch Registration.
- Zimbabwe Investment Authority (ZIA) - For companies in respect of new investment
- Zimbabwe Revenue Authority (ZIMRA) – Tax registration
- Ministry of Youth, Indigenisation & Empowerment – Indigenisation compliance (local ownership levels)
- Other approvals for certain regulated industries – Banking, Mining, Energy, Health Care, etc.
- Very few exchange controls.

Proposed changes to Investment Laws

Investment Authority Amendment Bill is being crafted which may introduce a more favourable investment climate. Proposals include:

- investment committee with a board covering a broader cross spectrum of interested parties including representatives of the investor community.
- Broader investor protection including the covering of investor protection agreements and honouring of international treaties has been put in place.
- There are mechanisms for resolving of disputes both locally and internationally.
- Mechanisms to speed up processing of applications (should be processed within 5 days).
- Introduction of Special Economic Zones and industrial parks which are likely to have special tax incentives.
- **Proposed exemption for new licensed investor from indigenisation (local ownership requirements)**

Tax and Customs Incentives

Incentives include:

- Lower income tax rate of 20% (Standard rate is 25%) for manufacturers who export more than 50% of their product by volume.
- Favourable customs duty regime in respect of most raw materials and capital equipment.
- Rebates of duty on projects of national importance
- Rebates of duty in respect of inward processing for export (toll manufacturing type arrangements)
- Income tax holidays and lower tax rates for Build Own Operate Transfer Arrangements.
- Favourable Capital Allowance regime (Generally deductions allowed over 4 years).
- Tax losses expire after 10 Years.

Key Issues Applicable to Dutch Investors

Bilateral Investment Promotion and Protection Agreement (BIPPA) with the Netherlands provides incentives to investors and there is international protection by conciliation or arbitration.

Double Taxation Agreement:

- The business profits of a Netherlands enterprise is taxed in Netherlands only, unless it is operates a business in Zimbabwe through a Permanent establishment (PE) in which case the attributable earnings of the PE will be taxed in Zimbabwe.
- Lower withholding tax rates of 10% on Dividends and Royalties can be obtained (Standard 15%)

Zimbabwe's Economic Future

- Government and relevant stakeholders have stated that “Zimbabwe is open for business”, however, the foreign investment has not supported this claim.
- Incoming investors have highlighted that clarity in the political landscape will provide the stability that is required to promote investment.
- Investors consistently state that once the political environment is clear with regards to elections and related processes and the country exhibits direction with firm rules and regulations, which are not easily subject to change, foreign investor confidence should follow.
- A prevailing stable economic environment will then be required to encourage further foreign investment.
- The economy is expected to grow by an average of 7.6% over the next few years

Zimbabwe's Economic Future

- Gold, the recently discovered diamonds in Zimbabwe, platinum and coal hold the greatest potential for growth in the mining industry.
- Several companies have been awarded special grants for energy minerals, coal; coal bed methane gas, LNG and oil, over the last few years and this will also see increased production. Indicators of vast untapped potential in coal bed methane.
- The Ministry of Finance's midterm fiscal review reported that the agriculture sector has been hampered by lack of investment and poor weather conditions which has led to decreased yields. Former potential still to be fully unlocked in Agriculture but depends on political and regulatory frameworks.
- The manufacturing industry has faced challenges in its efforts to recover because of the cheap imports available on the market, particularly from China. Additionally the sector remains constrained by unreliable power supply and obsolete technology. Core infrastructure (factories and other facilities are intact but require in a number of instances modernisation)
- The financial sector has faced liquidity issues, with the closure of some banks in 2012, and cost of borrowing remains high. Investors with sufficient liquidity may have access to assets at a discount.

Investment Opportunities

Zimbabwe offers vast potential in respect of investment opportunity. The following industries have opportunities for investment:

- **Agriculture** Public Private Partnerships: Agro Processing and Primary Agriculture, Livestock development
- **Manufacturing:** food and agro processing, beverages, textile and ginning, clothing and footwear, fertiliser, pharmaceuticals, motor industries, packaging, paper printing and publishing, chemical and petroleum products, non metallic mineral products.
- **Mining** – Minerals value addition, Precious metals, Base metals, Energy minerals, Small scale mining mechanisation
- **Hospitality & Tourism** – Development of hotels and resorts as Zimbabwe has prime world class natural assets.

Investment Opportunities

The following industries have opportunities for investment:

- **Electricity** –Independent Power Producers (IPPs) to get licenses to develop power projects: mini hydros, coal bed methane gas, thermal power
- **Water** – development dams or borehole facilities and provision of water on a commercial basis to consumers in all sectors.
- **Transport:**
 - **Road haulage and commuter transport.**
 - **Infrastructure Development** -Build Operate and Transfer (BOOT) basis.
 - **Airways.** freight services to transport specialised produce, especially perishables to overseas markets

Investment Do's and Don'ts

- Evaluate strategic partners before signing contracts
- Comply with regulatory requirements and do not attempt to circumvent the system. Work with the system. Don't encourage corruption.
- Engage with entire inclusive government and avoid partisanship when navigating the political environment and forming business relationships
- Perform thorough due diligence on targets and assets especially with regards to ownership and title.
- Evaluate risks and institute measures to mitigate. Obtain local professional and legal guidance from professionals on the ground.
- Appreciate and understand the environment and culture that you will be investing in.
- Think long term and demonstrate commitment to Zimbabwe.
- Demonstrate what advantages you will bring to Zimbabwe.

Deloitte Country Entry Services

Country Entry Strategy

- Market Sizing
- Competitor Analysis
- Market Gap
- Demand Forecasting/Economic Modelling
- Regulatory Environment & Risks
- Supply Chain Analysis
- Need for local partner
- Vetting of local partner

Audit

- Meeting statutory & other requirements

Legal

- Company Registration
- Indigenisation Compliance
- Board Requirements
- Other Legal Compliance

Global Employment Services

- Relocations
- Immigration
- International Assignment
- Compensations & Benefits
- International Human Resources

Corporate Finance

- Advisory Services
- Debt Advisory
- Financial Due Diligence
- Independent Business Reviews
- Sponsor Services
- Capital Raising
- Identifying Investment
- Opportunities/Acquisition Targets
- Mergers & Acquisitions

Cross Border Tax

- International Tax Services
- Transfer Pricing
- Mergers & Acquisitions

Indirect Taxes

- Customs & Global Trade
- Indirect Tax (VAT)

Technology

- Enterprise Architecture
- IT Strategy
- IT Effectiveness
- IT Cost Reduction
- IT Sourcing & Procurement
- Cloud Computing
- Information & Analytics
- IT Programme Delivery

Innovation

- Establishing new revenue streams through product innovation & development of new product/service

Strategy

- Crafting new strategy
- Redesigning the organisation – Target Operating Model
- Optimising operations through process redesign
- Supply chain optimisation
- Radical Business Improvement & Cost Reduction
- Capital Efficiency & Portfolio Management
- Finance Transformation & CFO Services

Human Capital

- Staffing Sourcing & Recruitment
- Leadership Impact & Development
- Talent Strategies
- Reward Consulting
- Strategic Change
- Organisation Redesign & Implementation

Risk

- The identification, prioritisation & management of enterprise wide risks

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