WHY ZIMBABWE IS A GOOD INVESTMENT DESTINATION

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A. Introduction

My talk covers the requirements and incentives attached to investing in Zimbabwe.

Let me start by giving a brief description of Zimbabwe

The Republic of Zimbabwe is an independent country in Southern Africa, well endowed with mineral, agricultural and other resources, which have created opportunities for the growth of resource-based industrial activities.

Its capital city is Harare and English is the official business language. Other common languages are Shona and Ndebele. It has an area of 390 000 square kilometers, (that is an area slightly larger than Germany). In 2011 its population was estimated at 12.8 million. Zimbabwe has an adult literacy rate of approximately 97% one of the highest in Africa.

This paper concentrates on two aspects:-

- The negative image for investment that Zimbabwe had until 2009 and how this came about, and
- What has changed since then and why Zimbabwe is now a good investment destination

B. How Negative Perceptions Developed of Zimbabwe

In the past, when investment in Zimbabwe was referred to, it usually generated very little enthusiasm. This image stemmed mainly from the economic chaos that reigned in Zimbabwe prior to 2009. The negative perceptions were reflected in international statistics that showed Zimbabwe ranked very poorly in terms of economic development and in global comparisons of competitiveness and corruption.

Macroeconomic Developments

Due to inappropriate policies and gross economic mismanagement Zimbabwe endured a decade of a very severe shrinking of its economy. Zimbabwe's gross domestic product (GDP) contracted by more than 50 percent during the ten years prior to 2009. The International Monetary Fund (IMF) estimated that GDP shrank by 14 percent in 2008 alone.

Without any doubt, the primary cause of this economic break down was the implementation of the fast track resettlement program of commercial farms in the year 2000. Not only did this program reduce agricultural productivity by more than half, but it also impacted badly on manufacturing and service industries with backward and forward links to agriculture. I will discuss this subject further under property rights.

The main indicator of economic collapse during this period was hyperinflation. This was largely due to the uncontrolled printing of money to fund government operations and the central bank's quasi-fiscal activities. The very rapid fall in purchasing power of the Zimbabwean dollar led to redenomination of the currency on three occasions, and in total removing an incredible 25 zeros off the face value of notes. In July 2008 inflation reached the officially estimated level of 231 million percent. Although the hyperinflation accelerated in subsequent months official figures were no longer published. Attempts were made to stop the rampant inflation through measures like price controls. But all that this achieved was for basic goods to disappear from shops and reappear in the black market at much inflated prices. Speculation thus became one of the main drivers of hyperinflation.

Zimbabwe's exchange rate policies during this period made it difficult for firms to obtain foreign currency, and this in turn caused acute shortages of fuel and other imported intermediate and final goods. Other outcomes of economic collapse included defaults in local and foreign debt payments and sharp declines in productive sector output.

Non-Economic Factors That Supported a Negative Investment Climate.

Property Rights

Governments that have scant regard for property rights cannot expect to readily attract foreign investment to develop their economies. Zimbabwe is no exception and this was demonstrated by the minimal amounts of direct foreign investment per annum during the last decade.

Zimbabwe's constitution prohibits the acquisition of private property without compensation. However, in 2000 the government authorized the confiscation of privately owned commercial farms. The constitution was amended in 2000 to allow the compulsory acquisition of these farms, with compensation limited to the improvements made on the land. In 2005, the government amended the constitution again to transfer ownership of all expropriated land to the government. Farm seizures continue to this day.

The program to confiscate commercial farms without compensating the titleholders raised serious questions about any respect for property rights and the rule of law in Zimbabwe. The lack of secure long term tenure that is tradable led to the collapse of the market for rural land.

To counter this development the government issued a batch of 99-year leases for land re-allocated to farmers in 2006. These leases, however, were not readily acceptable as security for loans because government retained the right to withdraw the lease at any time. Few leases have been issued since then and the flaw still remains. Commercial farms no longer have a collateral value and this is a major disincentive for investment in the agricultural sector.

Right to Private Ownership

Although Zimbabwean law guarantees the right to private ownership, this right has not been respected in practice. As already noted, the government seized thousands of private farms and conservancies, including ones belonging to foreign investors, without due process or compensation. Most of the foreign property owners held Zimbabwe Investment Authority certificates and purchased their land after independence in 1980.

Bilateral Investment Promotion and Protection Agreements (BIPPA)

Although Zimbabwe has BIPPA's with 17 countries; only four of these treaties were ratified (these being with the Netherlands, Denmark, Germany, and Switzerland). In spite of these agreements, the government has not protected investments undertaken by nationals from these countries, particularly with regard to land.

For example, a group of Dutch farmers whose farms were seized under the land reform program presented their case to the International Centre for the Settlement of Investment Disputes (ICSID) in April 2005, demanding that Zimbabwe honor its BIPPA with the Netherlands. The case was heard by a tribunal in Paris in November 2007, and the tribunal issued a verdict favorable to the farmers. Zimbabwe's government acknowledged that the farmers had been deprived of their land without payment of compensation but the amount the farmers claimed in damages is still in dispute.

Dispute Settlement

Zimbabwe has acceded to the 1965 Convention on the Settlement of Investment Disputes between states and nationals of other states.

In the event of an investment dispute, the Government of Zimbabwe has agreed to submit the matter for settlement by arbitration. This is done according to the rules and procedures promulgated by the United Nations Commission on International Trade Law (UNCITRAL) once the investor has exhausted the administrative and judicial remedies available locally.

However, despite these agreements Constitutional Amendment 17, was enacted in 2005, and removed the right of landowners whose land has been acquired by the government to challenge the acquisition in court. Also in a land related case the government refused to recognize a ruling by a SADC Tribunal in Windhoek, Namibia. It stated that Zimbabwe had withdrawn from the jurisdiction of the SADC Tribunal because the protocol establishing the Tribunal had not been ratified by the required two-thirds majority of SADC. Very recently the Tribunal has been dissolved altogether and no longer operates.

The judiciary generally upholds the sanctity of contracts between private companies. However, in the case of contracts involving the government or politically influential individuals, judgments sometimes appear biased. Administration of justice in those commercial cases that lack political overtones is still generally impartial.

Corruption

In 2005 the government enacted an Anti-Corruption Act that established a government-appointed Anti-Corruption Commission to investigate corruption. Despite this, up to now government officials and police have often lacked sufficient backing to effectively investigate cases. Also political interference in some cases have resulted in some investigations being abandoned.

The current inclusive government has made known that it intends to enhance the institutional capacity of the Anti-Corruption Commission. In addition, the government proposes to improve accountability in the use of state resources.

Indigenization

The Indigenization and Economic Empowerment Act (Chapter 14:33), which was enacted in 2007, requires all non-indigenous enterprises operating in Zimbabwe to dispose of at least 51 percent shareholding to indigenous entities. Parliament introduced this legislation to correct the historical economic imbalances that resulted prior to the country's independence in April 1980. The stated idea behind the law was to indigenize the Zimbabwean economy by promoting the participation of indigenous Zimbabweans in business and the exploitation of economic resources.

The regulations are framed with the general objective that every business of or above the prescribed value threshold must within 5 years from the operative date of regulations or within 5 years of commencement of the business concerned, dispose of a controlling interest of not less than 51% of the shares or interest therein to indigenous Zimbabweans.

Recently the Minister of Youth, Indigenization and Economic Empowerment issued a General Notice in terms of the Act to businesses in the Finance, Tourism, Education and Sports, Arts, Entertainment and Culture, Engineering and Construction, Energy, Services, Telecommunications, Transport and Motor Industry Sectors to indigenize their entities within one year.

Naturally, these measures have dampened investor sentiment and have been soundly criticized, especially the 51% ownership requirement. In response to the likely effects of the Act, consultations over the likely detrimental effects are under way. These centre on the possible exemption of new investments from complying with indigenization provisions, as Government seeks to redesign the policy so that it will satisfy foreign investors.

Summary

To summarize, the collapse of the economy prior to 2009, the disregard of property rights, political interference in the judicial process, corruption and indigenization policies have all played a role in projecting a negative image of Zimbabwe to the outside world. Normally the unpromising situation that I have described to you is hardly attractive for investment.

What then has altered and why should foreign investors come to Zimbabwe? I will now do an about-turn and explore the various beneficial aspects.

C. What Positive Factors make Zimbabwe attractive for Investment

Some of these will be dealt with in more detail later but in summary the main items are:-

- Geographically Zimbabwe is centrally and strategically located in the Southern African Region. It is a regional gateway and forms part of the North – South Corridor linking South Africa with countries to the north of Zimbabwe like Zambia, DRC, and Malawi.
- Because of this location it is well positioned to serve regional markets for countries that are members of the Southern African Development Community (SADC).
- It has become a regional logistics hub supported by infrastructure such as railways, roads, a power grid, and telecommunications.
- Zimbabwe is fortunate in that it has abundant natural resources. Its topography, soils, and climate are conducive to producing a very wide range of agricultural commodities. Similarly, a large variety of commercially exploitable mineral deposits exist.
- Zimbabwe's favourable natural resource endowment has led to a well diversified economy with the principal sectors being manufacturing, services, agriculture, mining, and tourism.
- Since 2009 the rejuvenated business climate and economy favors increased levels of investment.
- Zimbabwean workers are highly skilled and the country is fortunate in having one of the highest literacy rates in Africa.

D. Positive Economic Developments since February 2009

The economic environment and performance are very important considerations when assessing investment opportunities in a foreign country. Therefore I will give a brief resume of recent economic developments in Zimbabwe.

The change began in 2008 when the three main political parties in the country signed the Global Political Agreement (GPA) to form a Government of National Unity (GNU). The GPA, for all its flaws, has brought about an improved level of political stability. Since then much more rational economic policies have been adopted to stabilize the economy. The main measures that were taken are:-

- Government officially abandoned the local currency and "dollarized" the economy by introducing a multicurrency system in February, 2009. The main currencies now in use in Zimbabwe are the US dollar, the South African Rand, the Pound Sterling, the Botswana Pula, and the Euro. This change effectively eliminated hyperinflation.
- Foreign currency accounts were restored and foreign exchange surrender requirements were removed.
- Price controls that had been applied to control inflation, and which failed miserably, were removed.
- Expansionary fiscal policies were ended by requiring government ministries to apply cash budgeting in managing their finances and to exercise fiscal discipline
- Expansionary monetary policies were discontinued with the Reserve Bank of Zimbabwe no longer being allowed to undertake quasi-fiscal activities.
- In agriculture the marketing of all commodities was decontrolled and the Grain Marketing Board monopoly removed.
- In mining the surrender requirements of proceeds to the Central Bank were removed. Gold marketing was liberalized.
- Exporters now retain 100 percent of their foreign currency account balances for their own use. This has removed the anti-export bias associated with the previous system of surrendering a certain proportion to the RBZ at the highly over-valued official exchange rate.

These measures have had a remarkable effect in turning the economy around and setting it on a growth path. The benefits are:-

- In 2009 Zimbabwe recorded a positive annual GDP growth (of 6.3%) for the first time in a decade, albeit from a low base.
- Official GDP growth rates are calculated at 8.1% for 2010, and 9.3% for 2011.
- The current annual growth forecast for 2012 is 5.6%, with the slowdown attributed mainly to a poor agricultural season and financial liquidity problems affecting all sectors.

- Zimbabwe's year on year consumer price index actually deflated by 7.7 percent between January and December 2009.
- Very low annual inflation then set in with 3.2% being recorded for 2010 and 4.9% for 2011.
- Inflation is expected to close out this year at around 5%
- Zimbabwe's current inflation rate compares very favourably with all countries in the SADC region.

The economy is presently more liberalized than it has ever been, as the Government has allowed market forces to operate in virtually all sectors. It has reduced corporate and personal taxes, and has also decreased or eliminated import duties on raw materials and other essential industrial inputs, in a bid to stimulate the economy.

Macroeconomic Challenges in Zimbabwe

Despite significant strides attained by the Zimbabwean economy under the multiple currency system, new challenges have emerged. The following are the major challenges that the economy is currently facing:

- Policy reversals and inconsistencies;
- Indiscipline in the financial sector;
- Deterioration of infrastructure.
- Adverse global economic developments;
- A difficult external sector position with a wide trade gap;
- Persistently recurrent liquidity challenges;
- Widespread closure of companies; and
- Limited fiscal space.

E. <u>Foreign Investment Opportunities</u>

I now wish to discuss investment opportunities in general, before going into detail about incentives directly targeted at foreign investors.

Foreign investment is most welcome, especially where it will generate export earnings, create employment, lead to the transfer of technology and skills, and provide access to foreign markets.

The government's priority sectors for foreign investment are manufacturing, mining, and infrastructure development. In these sectors foreign investors were in the past permitted to own up to 100 percent of an enterprise, although joint ventures with local investors were encouraged.

As a new development the Indigenization Act, which I have already discussed, now requires eventual participation by "indigenous Zimbabweans" However, with much pressure being applied, the authorities have agreed to review and revise the regulations. Sectoral committees have been formed to make recommendations to government. The outcome is expected to improve the investment climate for foreigners.

However, it must be noted here that the requirement that local investors have a stake in certain types of business ventures is nothing new. It is as well to mention those areas which are reserved for local investors.

F. Reserved Investment Areas

The Government reserves several sectors for local investors. Under current laws, foreign investors wishing to participate in these sectors may only do so by entering into joint venture arrangements with local partners. The foreign investors may not own more than 35 percent of the operation. These rules apply to the following sectors:

- Agriculture

  - Cultivation of food and cash crops
  - Horticulture
  - Livestock rearing
  - Dairy farming
  - Game ranching
  - Forestry
  - Fishing and fish farming
  - Poultry farming
  - Grain milling
  - Sugar refining
  - Tobacco packaging and grading

- Transportation

  - Road haulage
  - Passenger services
  - Rail operations

- Retail and wholesale trade, including distribution
- Water provision for domestic and industrial purposes
- Baking and confectionary enterprises
- Cigarette manufacturing

Some minor enterprises like photography and hairdressing are also reserved

G. Current Investment Climate and Opportunities

Before talking about the main sectors that attract investment some general observations are relevant.

Most sectors are already responding positively to the improved economic environment, and it is particularly notable in the retail and telecommunications sectors. Because of perceived country risk, asset prices are still heavily discounted.

While there has been a major brain drain, the country still has one of the continent’s most educated work forces. Economic and political problems have prompted many of the country's skilled workers to emigrate, and this has led to shortages of labour for some managerial and technical jobs. The contraction of the economy until recently resulted in formal unemployment estimates rising to levels as high as 80%. Thus in general there is a large pool of labour to draw from when setting up a business venture.

With regard to labour, collective bargaining takes place through a National Employment Council (NEC) in each industry, comprising representatives from labor, business, and government. In addition, the Zimbabwe Congress of Trade Unions (ZCTU), the country's umbrella labor organization, advocates for workers' rights.

Manufacturing

There are potentially profitable opportunities in Zimbabwe's manufacturing sector for investors. This sector has undergone a substantial contraction over the last decade and government has prioritized it for resuscitation. Average capacity utilization in factories was around 30% in 2008 and is now pegged at around 40% Emphasis is being placed on increasing the percentage to more than 60% as rapidly as possible.

There is need to retool and rehabilitate plant and equipment and to install new capacity. The industrial sector is involved in the value addition of primary products, and produces capital goods, and intermediate and consumer goods. Diversification within this sector is encouraged. There are plenty of tax incentives that investors can take advantage of.Some categories for investment have been identified as:-

Agro - processing

- Processing, canning, and extracts, particularly of meat, fruit, vegetables, oilseeds, nuts,and milk
- Leather products and footwear
- Sugar refining and confectionary
- Milling and Baking
- Stock Feeds
- Textiles, including cotton ginning, spinning, weaving
- Finished fabrics, Clothing, and Knitwear
- Brewing, soft drinks, and beverages
- Tobacco products

Construction

- Cement
- Brick manufacture

- Iron and steel structures
- Timber
- Saw milling and the production of furniture and wood items

Chemicals

- Industrial chemicals
- Fertilizers
- Insecticides
- Paints, polishes, glues
- Detergents, soaps, and varnishes
- Petroleum products
- Tyres and Rubber goods
- Plastic products

Metals, Machinery, and Equipment

- Metals and metal products
- Vehicle and machinery assembly
- Trailer and farm implements manufacture
- Electrical goods and transformers

Miscellaneous

- Glassware
- Cosmetics
- Pharmaceuticals, medicines, and vaccines
- Computer and electronic items assembly
- Radio and communications equipment

This list is by no means exhaustive, but is meant to illustrate the types of value addition that takes place and the wide range of manufactured items.

Mining

There are tremendous opportunities for investment in this sector. Zimbabwe has a wide range of mineral deposits and some 40 different minerals are extracted. These include precious minerals like gold, platinum, emeralds, and more recently diamonds, and other base metals like chrome, asbestos, iron ore, nickel, and tin. There are large reserves of coal and methane gas as well as rare minerals such as lithium and tantalum that exist in commercially viable quantities. Industrial minerals like limestone, phosphates, clay, dolomite, and black granite are also exploited. Zimbabwe has the second largest reserves of platinum in the word and the reserves of chrome and diamonds are also among the largest in the world.

The mining sector requires US$ 6 billion for capitalization over the next 5 years. Opportunities exist for prospecting and establishing new mines and for resuscitating existing ones. Besides supplying export markets mining houses also supply minerals used in various domestic manufacturing processes and a wide variety of goods is produced. Investments can also involve the beneficiation of minerals like cutting and polishing diamonds, jewellery production and tile manufacture.

In 2011 mineral shipments amounted to US$ 2.5 billion which represented 57% of total exports. Mining was a direct employer of some 60,000 persons with many others in support industries.

Some of the investor incentives for mining include:-

- A favourable geological environment
- Access to prospecting and mining claims readily obtained
- Remittability of 100% of after tax profit
- Corporate tax of 25%
- Immediate write off of all capital expenditure
- Operating losses can be carried forward indefinitely
- An active stock market.

An investor wishing to invest in this sector should approach the Chamber of Mines

Tourism:

This sector has great potential for investment because of Zimbabwe's many tourist attractions. Examples of opportunities include:-

- World renowned tourist destinations like the Victoria Falls
- Trans-frontier Conservation Areas/ National Parks (e.g. Great Limpopo Trans-frontier Park / Hwange National Park)
- Tourism Development Zones (areas with high tourism potential where investors enjoy various tax incentives)
- Hunting safaris and tour operations (a rich and varied game species including the Big Five)
- Urban Areas (accommodation, restaurants, transport and touring services and conference facilities)
- Eco-tourism (conservation of the environment, partnerships with the local communities.)

Infrastructure

Zimbabwe still has one of the most developed infrastructures in sub-Saharan Africa. It has a relatively strong and complex base that includes road and rail networks, power generation and distribution facilities, water supplies, and telecommunications.

However, years of economic decline have resulted in a deterioration of much of the infrastructure. As well as the need for rehabilitation, prospective economic growth will necessitate further development and expansion of the infrastructure. Currently, power and water shortages severely hamper business activities. Zimbabwe's power generating capacity must be expanded and its water supplies improved. Sections of major highways need resurfacing and many roads in urban areas should be repaired. Programs should be implemented to extend the road network linking major centres as well as with neighbouring countries.

Government recognizes the need for private sector participation in financing and development of infrastructure. The private sector is therefore welcome to participate in the development and provision of infrastructure on a public private partnership (PPP) basis. Government has put a policy framework with guidelines and tax incentives in place for financing and developing infrastructure.

Sub Sectors within this category are:

- Energy (electricity, gas, bio fuels and renewable energy)
- Transport (roads, bridges, railways and airports)
- Communications
- Urban water and sewage reticulation
- Agriculture infrastructure including dams and irrigation schemes.
- Industrial parks and factory shells.
- Housing and Office buildings
- Health Facilities
- Education Facilities
- Sporting Facilities

Financial Sector and Capital Markets

Once one of the most sophisticated banking and financial system by regional standards, Zimbabwe's financial sector contracted greatly in recent years as business evaporated due to the economic downturn. However there is still an extensive country-wide bank branch network. Three major international commercial banks and a number of regional and domestic banks operate with a total of over 200 branches. The finance sector comprises of:-

- 18 commercial banks
- 2 merchant banks
- 4 building societies
- 16 asset management companies
- 1 peoples savings bank
- 172 micro finance institutions

There are also various finance houses, insurance companies and pension funds in operation.

Following the failure of a number of financial institutions in 2003 banking regulations have been tightened. The payments system under the multiple currency system introduced in 2009 seems to be functioning well. Liquidity is a major challenge for financial institutions due to low foreign currency inflows. Nevertheless the financial sector is well placed to provide all the banking services required by foreign investors

Zimbabwe's stock market has approximately 80 publicly-listed companies. In September 1996, the government opened the stock and money markets to limited foreign portfolio investment. Since then, a maximum of 40 percent of any locally-listed company can be foreign-owned. Despite this the market capitalization grew substantially from about US$1 billion in February 2009 to around US$4 billion by the end of December 2009. However, since then trading on the Zimbabwe stock exchange has been relatively weak and its capitalization is currently pegged at US$ 3.3 billion..

H. Requirements for Foreign Investors

I have covered the main areas likely to attract investors. I now wish to turn to the procedures that foreign investors must go through in order to invest in Zimbabwe.

Foreign investors wishing to start a new project in Zimbabwe must first register with, and be approved by, the Zimbabwe Investment Authority (ZIA), which then issues an investment certificate. ZIA is a statutory body established by an Act in 2006, with the mandate to promote, facilitate and coordinate investment in Zimbabwe.

ZIA is the first port of call for investors in Zimbabwe. It is a one-stop-shop for all investment information and facilitation. The Authority will explain the procedures to be undertaken and the documentation to be completed and submitted.

Investors are assisted in obtaining all the necessary permits, licences and all authorisations required to establish their businesses in the country. Applicants submit project proposal in form ZIA 1 which can be obtained from ZIA offices or downloaded from the ZIA website (www.zia.co.zw). Company registration documents are to be submitted together with the application. The non-refundable application fee is US$500, and if the application is successful the Investment License will cost a further US$2500. The project approval time frame is usually two weeks.

Foreign investment in existing companies requires approval from the Reserve Bank of Zimbabwe (RBZ). Applications are submitted to the RBZ's Exchange Control Department through the investor's commercial bank or merchant bank or other authorized dealer. Foreign investors with valid investment certificates may acquire real estate.

Company Registration

All private firms are required to incorporate and register under the Companies Act with the Registrar of Companies within the framework of their investment certificate or to apply for exchange control approval. Upon Successful Registration the company obtains a Certificate of Incorporation. The whole registration process can be completed within 5 working days at a cost of US$170.

I. Financial Incentives for Foreign Investors

There are many financial and tax incentives for foreign investors and details can be obtained from the Zimbabwe Investment Authority. Some of the incentives and specifications for investment are listed here.

- Several tax breaks are available for new investment by foreign and domestic companies. Capital expenditures on new factories, machinery, and improvements are fully tax deductible and the government waives import tax and surtax on capital equipment.
- An investment allowance of 15 percent in the year of purchase of industrial and commercial buildings, staff housing and articles, implements, and machinery;
- A twenty-five percent special initial allowance on the cost of industrial buildings and commercial buildings and machinery in growth point areas is granted as a rebate for the first four years;
- Special mining lease provisions entitling the holder to specific incentive packages to be negotiated with the Ministry of Mines;
- A refund of value added tax (at 15 percent) for capital goods purchased in Zimbabwe and intended for use in priority projects or investment in growth points.
- There are no general performance requirements outside of Export Processing Zones. Government policy, however, encourages investment in enterprises that contribute to rural development, job creation, exports, use of local materials, and transfer of appropriate technologies.
- There are no discriminatory import or export policies affecting foreign firms, although the government's approval criteria are heavily skewed toward export-oriented projects.
- Export Processing Zone designated companies must export at least 80 percent of output.

- Government participation is required in new investments in strategic industries such as energy, public water provision, railways, and armaments. The terms of government participation are determined on a case-by-case basis during license approval.
- Foreign investors are expected to make maximum use of Zimbabwean management and technical personnel, and any investment proposal that involves the employment of foreigners must present a strong case for doing so in order to obtain work and residence permits. Normally, the maximum contract period for a foreigner is three years, but this will be extended to five years for individuals with highly specialized skills. Foreigners who have prior permission from the RBZ may remit one-third of their salaries.

<u>Taxation in Zimbabwe</u>

Any investment program must consider not only the tax breaks granted, but also the prevailing rates of tax. The relevant ones are listed here.

- Corporate Tax Rate 30%
- Aids Levy (on tax payable) 3%
- Capital Gains Tax 20%
- Shareholders' Tax on Dividends
  - Listed Shares 15%
  - Unlisted Shares 20%

- **Growth Point Areas** Taxed At
  - New Manufacturing Projects 10%
  - New Infrastructure Projects 15%

    Applicable for the first five years

- **BOOT and BOT (Build – Operate-Own-Transfer) Arrangements with Government**
  - First Five Years 0%
  - Next Five Years 15%
  - Third Five years 20%
  - Thereafter 30%
- Taxable income from a manufacturing or processing company, which exports 50% or more of its products - 20%
- Taxable income of holder of special mining lease – 25%
- Taxable income of company or trust derived from mining operations – 15%

Investor Protection and Security: Zimbabwe is a signatory to the following treaties:

- Multilateral Investment Guarantee Agency (MIGA)
- Overseas Private Investment Corporation (OPIC)
- International Convention on Settlement of Investment Disputes (ICSID)
- New York Convention on the enforcement of Foreign Arbitral Awards
- United Nations Convention on International Trade Law (UNCITRAL).

Exchange Control Regulations

- Foreign investors and visitors may bring in any amount of foreign exchange into the country.
- Foreign investors' equity may come in the form of cash or machinery and equipment but raw materials, technical fees and other services may not be capitalized as part of equity.
- Up to 100% of dividends from net after tax profit may be remitted by foreign investors through their local authorized dealers.
- Foreign owned companies can also remit 100% of the original capital investment in the event of disinvestment.

Special Economic Zones: To be reintroduced in the soon to be Amended Zimbabwe Investment Authority Act and to include:

- 0% income tax for first 5 years
- 15% thereafter
- Exemption from capital gains tax
- Exemption from non resident taxes
- Duty free importations

(Sales tax on goods and services refundable)

Immigration Requirements/Work Permits

- There are no minimum and maximum investment thresholds but investors wishing to take up residence in Zimbabwe should invest at least:
    - US$300 000 for a sole venture.
    - US100 000 for a joint venture with a local investor.
    - Investors investing at least US$1 million qualify for automatic permanent residence. All business activities undertaken by foreign investors have to be approved by the Zimbabwe Investment Authority as foreign investment.

J. <u>REPATRIATION OF FUNDS BACK TO THE INVESTOR'S HOME COUNTRY</u>

The ability to repatriate funds is an important consideration and Zimbabwe has a liberal approach to this need.

- Regarding the repatriation of profits to the investor's home country, this requires Exchange Control Approval. In order to obtain such approval, the investor must make an application through the company's registered bank. The objective of requesting these documents is to assist the Reserve Bank of Zimbabwe to ascertain whether the investor is repatriating genuine profits and to also guard against clandestine externalization of foreign currency.

- In the event of disinvestment, Exchange Control Approval is once again required. Again, the application is made through the company's local bankers to the Reserve Bank of Zimbabwe. The investor must also give a reasonable justification for the disinvestment. In other words, the investor must explain why he has decided to pull out his investment from the country before the requisite Exchange Control Approval is granted.

- It is also important to note that in the event of Exchange Control Approval being obtained for disinvestment, the foreign investor is guaranteed of the repatriation of 100% of the capital investment which will not be reduced by tax. What are taxable will only be the profits made on such investments.

Conclusion

Most foreign investors have been waiting for the investment climate to improve in Zimbabwe. As I have outlined there has been a substantial change for the better since 2009. Some negative features still exist but these will soon be ironed out because Zimbabwe cannot afford to forego the foreign investment that it desperately needs. The economic environment is ripe for foreign investment and there are multiple opportunities to take advantage of.

THANK YOU

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