

Changes in Zimbabwe might attract investors

Experts agree that 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.



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This was the outcome of a panel discussion held at the Johannesburg offices of Norton Rose Fulbright. All five panel members and the moderator are legal or investment professionals or entrepreneurs in Zimbabwe.

The panel members were unanimous in anticipating significant legislative and economic reform in the relatively near future. 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 early next year, 2016, we will see significant change to Zimbabwe's investment policies," said Ritesh Anand of Invictus Capital and Zamco.

Elephant in the room

"Since the Indigenisation regulations were published in 2010, it 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 Peter Lloyd of Gill, Godlonton & Gerrans.

Lloyd said 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 acknowledgment that the law needs to be changed."

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.

Power sector

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 Themba Ndebele of Truworths Ltd and Imara Holdings.

"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, said Ndebele, referring to the Zimbabwean government's welcome engagement with the World Bank and the International Monetary Fund to settle its debt arrears. (Zimbabwe has in recent years defaulted on loans valued at \$1.5bn). The settling of Zimbabwe's arrears would undoubtedly come with conditions that would drive investment reform, the panellists agreed.

Expropriating assets

Asked about the possibility of government expropriating the assets of foreign investors in the future, Mordecai Mahlangu of Gill, Godlonton & Gerrans 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 said it is unlikely that the successor to President Robert Mugabe will continue in the same vein.

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