ZIMBABWE

On the Verge of a New Era

As Zimbabwe prepares to adopt a new constitution, *Business Outlook* explores the vast potential of this resource-rich country and why investor confidence is coming back.

This month, Zimbabweans go to the polls in their first presidential elections in four years, and the world will watch with interest. With vast natural resources that include gold and platinum, the country of 12.6 million people may be one of the most affluent nations in Africa, but it has yet to reach its potential, having endured E.U. and U.S. sanctions over the last decade as a result of constitutional breakdown and human rights abuses.

Last year, Prime Minister Morgan Tsvangirai, who has co-led a coalition government with President Robert Mugabe since February 2009, agreed to launch a referendum that would bring about a new constitution. The result is that the country will soon hold its arguably most important elections since it became independent from the U.K. in 1980. The proposed “new era” will, business leaders in the country hope, bring Zimbabwe in from the wilderness and ensure a fairer and more modern society for its people.

Four years on from the power-sharing agreement and after years of crisis, the economy is stabilizing, thanks to the introduction of the Short-Term Economic Recovery Program (STERP) by the coalition. Moves to cut red tape and create incentives for investment have been welcomed across the board.

“STERP is a people-centered rehabilitation strategy,” says Tendai Biti, Minister of Finance. “Its key goal is to stabilize the macro and micro economy. We need to recover the level of savings, investment and growth as a start to a longer-term economic program. To stabilize the economy, we must begin to increase economic productivity and capacity utilization in all sectors of the economy. We must revive our productive sectors and create jobs now.

“STERP has replaced the discredited Zimbabwean dollar with multiple currencies. It proscribes quasi-fiscal activities, including the printing of money, restores a positive interest-rate regime and removes restrictions on remittances. Among our immediate priorities is the strengthening of the efficiency and accountability of the regulatory environment of the financial sector to protect investors and donors alike.

Morgan Tsvangirai
Prime Minister

“In a very short period of time, prices have stabilized and productivity capacity is picking up, but we still require a sufficient burst of resource energy to begin to achieve our growth targets. We are making headway, and our aim is to restore a culture of self-reliance.”

Among the challenges that Minister Biti—a former lawyer—has identified, is that the country’s agricultural and mining resources are produced at raw value, due to a lack of technology in manufacturing. There has also been a severe lack of investment in the economy since 1965, resulting in substandard roads, railways and power links.

“After the election,” says Biti, “I would like to see a Zimbabwe that is inching closer toward self-sustenance in terms of food production, a Zimbabwe that will have the skylines of its cities dominated by cranes and construction, agricultural land that is productive and a Zimbabwe that will begin to slowly take its rightful place in the region.”

There is certainly plenty of scope for growth. Zimbabwe has a wealth of riches, including gold, platinum, ferroalloys, cotton, textiles, clothing and tobacco, which it exports around the world. The financial sector is competitive and sophisticated for investors taking a long-term view.

John Mangudya, CEO of CBZ Holdings Ltd., Zimbabwe’s largest commercial bank, says now is a good time to invest. “We are quite happy with what has been done since 2009,” he says. “There has been a big change in the way business is conducted. At the beginning of 2009, the financial sector had around $400 million of deposits; today it has more than $4 billion. Confidence has come back, and we have seen growth average 9% a year since 2009.

“As a financial institution, we have been working hard to raise money overseas. In 2011-12, we raised around $68 million offshore as well as $120 million in credit to ensure we restructure the books and provide medium and long-term money for our customers. This is how we have been managing the situation. The economy has been expanding, but we believe we can do better if we simultaneously look for easier funding offshore, combined with better local funding."

CBZ will focus on transitional growth until sanctions are lifted. "Zimbabwe is a paradox. We are a very rich country but with poor people, and it is those people who are suffering most under the sanctions," Mangudya says. "There is a kind of paralysis here. Stocks have not performed well because there is a lack of clients and a fear of government policies. We have the gold, minerals, diamonds and coal, but we need investors to come and share their wealth.

"The future looks bright, provided the government continues to put good policies in place. There is a good group of people at CBZ full of passion and creativity, and we want to ensure we partner with our investors and that they know we are here for good."

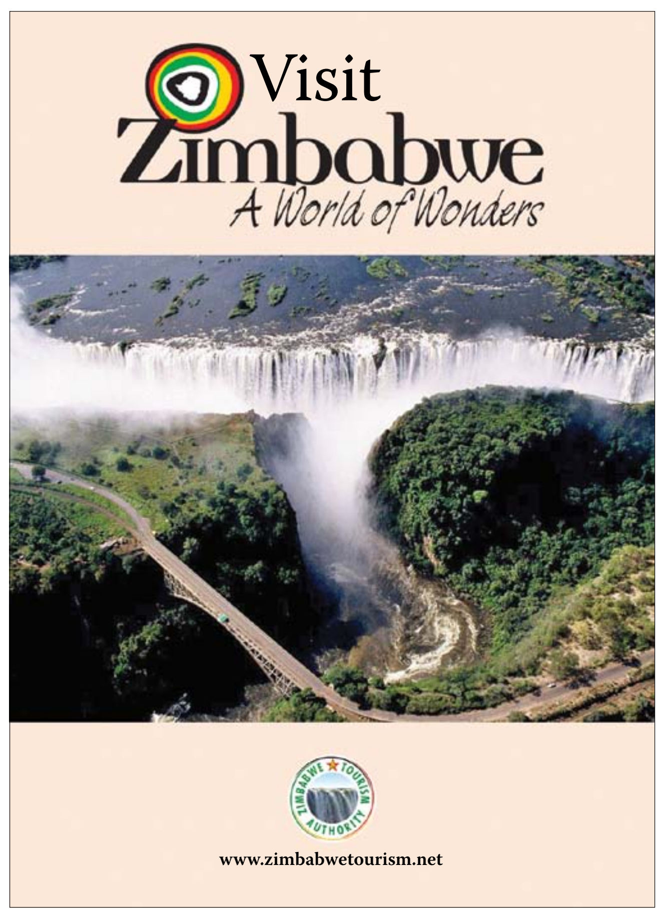
At leading financial house TN Bank, Group CEO Tawanda Nyambirai notes how, in fact, the people are one of the country's most overlooked resources.

"Zimbabweans are hospitable, educated and skilled," he says. "They can offer the relevant services to what various industries require. Furthermore, we have people whose consumption patterns are in line with global trends, so we can be a very good market for foreign companies that may want to establish themselves in Zimbabwe. There are all those positives, but what is needed is a solution that ensures we have got flows of capital from outside.

"We need foreign investors to know more about Zimbabwe, to realize that Zimbabwe is not just one person or a couple of politicians, Zimbabwe is so many individuals who work hard every day who are knowledgeable about what is happening. Zimbabwe can be a very good market that can consume the products and services that the whole world is consuming, it can be a good manufacturing hub and I think the outside world needs to be reminded that Zimbabwe has excellent tourist attractions such as Victoria Falls and wild animals. It is important that those that have capital realize that things have really changed. Life is normal in Zimbabwe, but the economy needs support from the outside."

"Zimbabwe can consume the products and services the world is consuming." *Tawanda Nyambirai, Group CEO, TD Bank*

TN Bank launched commercial banking operations in February 2009 after having operated for 10 years as a finance house. Today it is the only bank in Zimbabwe that offers "plastic money" based on smart-card technology. The TN Cash Card can be used at hundreds of outlets throughout the country. The bank is a subsidiary of TN Holdings, which is in the process of converting the furniture shops it operates into TN Business and Home Centers. The centers will offer



Tendai Biti
Minister of Finance

various products and services, including banking services, pharmaceuticals and products from Econet—the country's leading telecommunications operator—under a franchise arrangement.

"We realized that in order for the bank to be relevant, it needed to deliver its services where people spend their time and their money—effectively, where they do their shopping—and for that reason, we came up with an e-store banking concept," Nyambirai says. "We believed this would offer more convenience to our retail banking customers. As a result, we took over a furniture company called Tetco, which is one of the oldest companies in the country, and turned the furniture branches into malls where you can access furniture, telecom products and fast food alongside banking services.

"This is a response to the competition that is coming from utilities and telecom companies that have invented concepts such as the money transfer space. We have transformed ourselves from a traditional banking institution that waits for people to come to it into a banking institution that goes to the people and offers the things people need on a day-to-day basis."

As well as retail banking services, the bank offers structured loan products, including loans to small and medium-scale gold miners and millers, loans to Zimbabweans in the diaspor and trust services to foreign investors and to nonresident Zimbabweans. The bank is keen to expand into the region and has recently opened a branch in Zambia.

TN Bank's partner Econet Wireless Zimbabwe is the country's largest provider of telecommunications services and enjoys a 70% share of the mobile market. It launched its network in July 1998 and is one of the largest companies on the Zimbabwe Stock Exchange in terms of market capitalization, with investments totaling $1billion. Douglas Mboweni, Econet's CEO, firmly believes that now is the time for investors to access his country's vast potential.

"The U.S. and European ICT sectors are becoming saturated with everyone competing for the same market," he says. "In Zimbabwe, the ICT sector has seen accelerated growth of around 6% to 7% in telecoms, which is very high. People here are embracing technology and the tools of communication, such as mobile banking and even shopping online. We have a very alert market.

"Businesses are also using technology to track where their drivers or fleet are, for example, which means increased cost-effectiveness and more productivity. We want to be able to capitalize on that and offer enhanced workforce automation, where people can order consumer products from their back offices without having to physically go where the products are to process the orders."

As well as achieving greater service in the segments that promise optimum returns, Econet is also investing heavily to serve rural areas through a $70 million program. "We are connecting rural areas and small towns and working closely with the regulator to ensure we reach our goals," Mboweni says. "We have around 85% coverage of 2G and 32% in 3G, and we want to increase that to 56% over the coming year. We will then address issues of capacity. The challenges we face are centered on investment and liquidity."

Having recently undergone a $3 million branding exercise, Econet is ready to tackle its competitors head on. “We want to be able to simplify our operations and be more efficient and productive, and we want our employees to be better able to deliver those services to the market,” Mboweni says. “The only way to attack the market is to have innovative products and services. Our leadership in that area is key. Customer experience makes all the difference, so we focus on maintaining a quality network. Finally, we provide excellent value for the money for domestic and international customers alike.”

Investing in the Tourism Sector

With such magnificent attractions as Victoria Falls to offer, Zimbabwe is never short of visitors. Tourism as a whole grew by 8.2% in 2012, while this year the falls will provide the backdrop for one of the tourism industry’s most prolific events: the UN World Tourism Organization’s (UNWTO) General Assembly. The UNWTO’s 155 member countries promote tourism as a driver of economic growth, inclusive development and environmental sustainability and offer leadership and support to the sector in advancing knowledge and tourism policies worldwide. Zimbabwe will be joint host with neighboring Zambia.

According to Zimbabwe Minister of Tourism Walter Mzembi, the event’s location is an endorsement of Zimbabwe as an approved tourism destination. “We are still recovering financially, yet we are second only to China in terms of tourism growth,” he says. “The fact that UNWTO members are all coming here this year shows their confidence in the location, the unparalleled beauty of the country and the potential in the business side of tourism.”

Karikoga Kaseke, CEO of the Zimbabwe Tourism Authority, adds: “We have an eight-year plan where we expect to see tourism becoming the greatest contributor to GDP by 2020. People should see Zimbabwe as the premium African destination for tourism.

“If you invest in a tourism development zone, you get advantages in terms of corporate tax, paying zero tax in the first five years, 10% for the following five years and so on until you are on a par with other taxpayers. We allow investors in these zones to import all of their construction goods duty-free. Zimbabwe has established an open skies policy and our accommodation is the most competitively priced in the region. We need investment in luxury hotels now.”

“We expect to see tourism become the greatest contributor to GDP by 2020.” *Karikoga Kaseke, CEO of Zimbabwe Tourism Authority*

In the meantime, the Kavango Zambezi Transfrontier Conservation Area plan has brought Zimbabwe together with Botswana, Angola, Zambia and Namibia for conservation, economic growth and regional integration in a park the size of Italy.

As Minister Mzembi says: “The project is so breathtaking in its scope and ambition that it inspires dreams of a different tomorrow.” Hopefully, come election time, that will be the case for Zimbabwe too.

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