



Report on

Cartel Power Dynamics in Zimbabwe

January 2021

NOTE FROM THE EDITOR

Maverick Citizen is publishing this report on cartel dynamics in Zimbabwe. Sadly, it is not safe to do so in Zimbabwe at a time when freedom of expression and the press has been brutally suppressed. Journalists and activists are being regularly arrested, imprisoned and sometimes tortured and murdered.

The findings outlined in this report emanate from local research that has been thoroughly and independently fact checked by Maverick Citizen and trusted independent professionals. We believe the report's analysis and recommendations can inform anti-corruption agencies, governments and human rights activists worldwide on this urgent subject of concern.

Although all the facts and allegations in this report have been published in various forms of media before, Maverick Citizen provided prior notice and the opportunity for those referred to in the report to respond to its findings before publication.

Maverick Citizen is a section of the Daily Maverick, and is an online news publication, which focuses on human rights, social justice and civil society activism. Read our reports daily at: www.maverickcitizen.co.za Write to us at: ZimMCRreport@gmail.com





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ACRONYMS

ASM	Artisanal and small-scale mining	OFAC	Office of Foreign Assets Control
BP	British Petroleum	PCC	Pacific Cigarette Company
CAMEC	Central African Mining & Exploration Company	PEP	Politically exposed person
CAP	Command Agriculture Program	PIS	Presidential Input Scheme
CEO	Chief Executive Officer	RBZ	Reserve Bank of Zimbabwe
COVID-19	Coronavirus Disease 2019	SADC	Southern African Development Community
CTC	Competition and Tariffs Commission	SARS	South African Revenue Service
DRC	Democratic Republic of Congo	SOE	State-owned enterprise
ENRC	Eurasian Natural Resources Corporation	TIMB	Tobacco Industry and Marketing Board
EU	European Union	SARS	South African Revenue Service
FIU	Financial Intelligence Unit	SOE	State-owned enterprise
GDI	Great Dyke Investments	TIMB	Tobacco Industry and Marketing Board
GDP	Gross Domestic Product	UAE	United Arab Emirates
GLTZ	Gold Leaf Tobacco Zimbabwe	UK	United Kingdom
GMAZ	Grain Millers Association of Zimbabwe	UN	United Nations
GMB	Grain Marketing Board	UNCTAD	United Nations Conference on Trade and Development
GOZ	Government of Zimbabwe	US\$	United States Dollar
IDC	Industrial Development Corporation	ZANU-PF	Zimbabwe African National Union - Patriotic Front
IMF	International Monetary Fund	ZAPU	Zimbabwe African People's Union
MDC	Movement for Democratic Change	ZERA	Zimbabwe Energy Regulatory Agency
MDC-T	Movement for Democratic Change - Tsvangirai	ZHL	Zimre Holdings Limited
MEM	Masawara Energy Mauritius	ZIMRA	Zimbabwe Revenue Authority
MOFED	Ministry of Finance and Economic Development	ZINARA	Zimbabwe National Road Authority
NGO	Non-governmental organisation	ZMDC	Zimbabwe Mining Development Corporation
NOIC	National Oil Infrastructure Company of Zimbabwe	ZUPCO	Zimbabwe United Passenger Company
NPS	National Project Status	ZW\$	Zimbabwean dollar
NSSA	National Social Security Authority		

EXECUTIVE SUMMARY

» This focus of this study was to understand the extent and impact of cartels on the political economy in Zimbabwe. To achieve this, the study investigated the contributing factors that enabled cartels to thrive and the power structures behind them, and subsequently analysed their impact on the economy, service delivery and long-term prospects of democratisation in Zimbabwe.

The study was conducted at a time when the world is grappling with the global pandemic of COVID-19. At the time of writing, there were almost 73 million confirmed cases and 1.6 million coronavirus deaths. Zimbabwe has recorded over 11 000 cases and over 300 deaths. The COVID-19 pandemic is overwhelming health systems and leading the world into a global recession. The pandemic restricted mobility, and desktop review was utilised to conduct this study. Secondary data was supplemented by eleven key interviews with experts in governance, health, journalism, and political economy, as well as government officials.

The study's findings define cartels as observed in the Zimbabwean context and explain their origins and motivations. The findings also present a typology of prevailing cartels in Zimbabwe, descriptions of their beneficial owners and the power dynamics amongst the various actors in the cartels.

From this study we find that there is consensus across political

parties, academics, and wider society that cartels go **against the public interest**, and they are characterised by collusion between the private sector and influential politicians to attain monopolistic positions, fix prices and stifle of competition. Zimbabwe's institutions for regulating property rights, law and finance have been ensnared, and are actively abused to facilitate rent-seeking by cartels.

The study finds three types of cartels: the first being collusive relationships between private sector companies; the second being abuse of office by public officeholders for self-enrichment; and the third and main type being collusive relationships between public officials and the private sector. Case studies in the transport, mining, energy and agricultural sectors are then used to show how Zimbabwe's political patrons are at the heart of almost all cartels – enabling public officials loyal to them and private sector companies from which they benefit to acquire illicit profits.

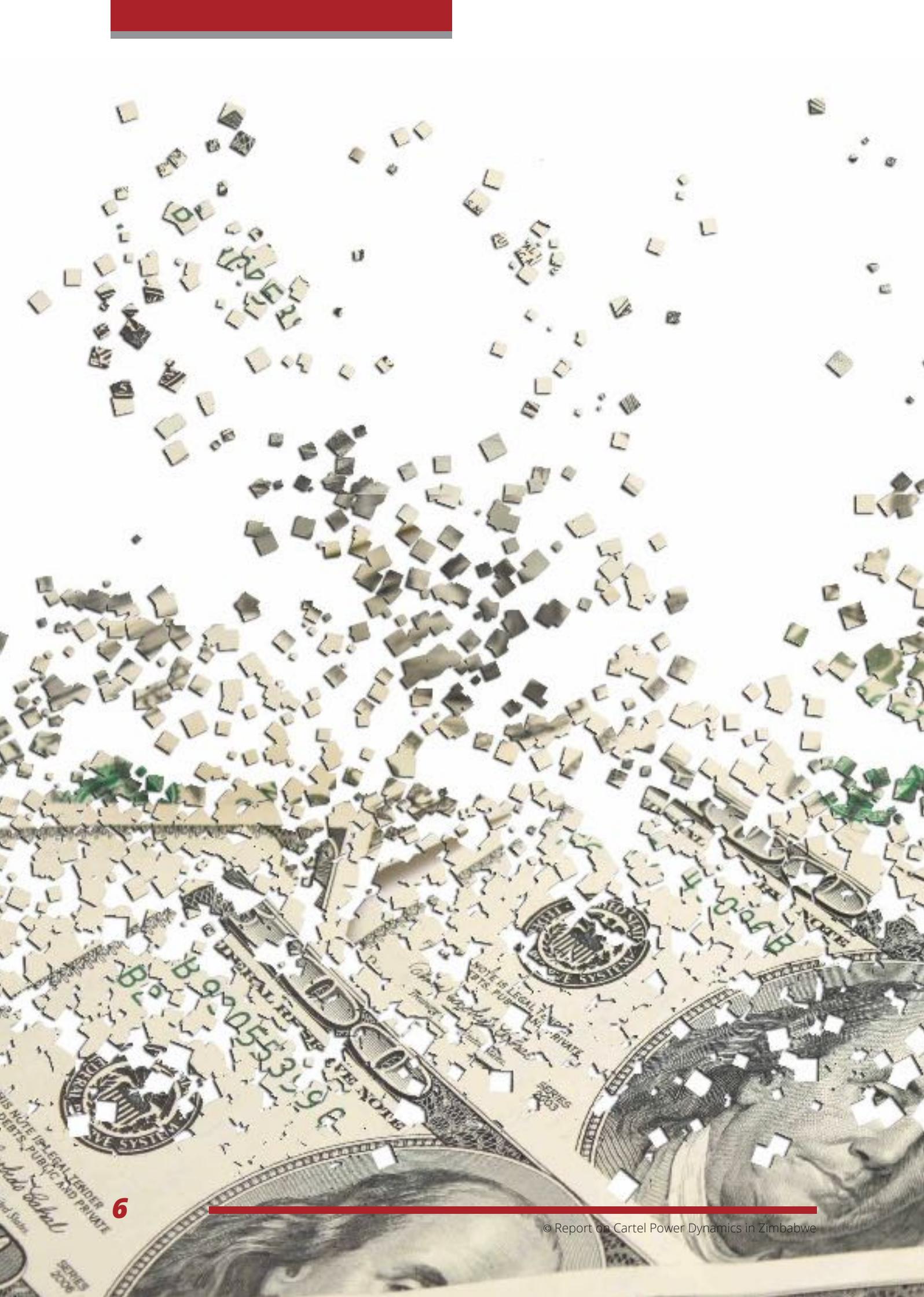
The cartels impact Zimbabweans in multiple ways – entrenching their patrons' hold on

» Cartels are deeply entrenched in many parts of Zimbabwean life and breaking their hold over the state and its economy will be vital «

power, retarding democratisation, destroying service delivery for citizens and creating an uncompetitive business climate – which leaves Zimbabweans poorer, more severely under-served by their government and disempowered to hold the state to account.

This study shows that cartels are deeply entrenched in many parts of Zimbabwean life. It is therefore vital to break the hold of the cartels over the state and its economy if Zimbabwe is to move into a more economically stable future. Under the current governing administration, the citizens of Zimbabwe and civil society can make small practical steps towards curbing cartels. To best achieve this, they would have to focus on leveraging the Constitution and Parliament, safeguarding those championing reform in the state, lobbying continually for the independence of key institutions, and reaching out to external actors to apply pressure on the private sector to disengage from cartels.

This will not happen overnight, but it is an essential set of steps on the road towards a more prosperous Zimbabwe. ■



HOW MUCH ARE CARTELS COSTING ZIMBABWE?

Cartels are, by their very nature, secretive. Whilst the social and economic cost is evident in unemployment, disease and hunger, it is rather difficult to accurately measure how much wealth the citizens of Zimbabwe have lost because of cartel activities.

Fortunately, many studies and reports give important glimpses of the sheer scale of these losses.

For example:

- ▶ Illicit cross-border transactions have cost the country billions of dollars over the last decade. Estimates vary from **AFRODAD's conservative estimate** of US\$570 million a year to the Chairperson of the Zimbabwe Anti-Corruption Commission **placing the estimate at US\$3 billion a year.**
- ▶ Cartels' domestic activities have also transferred billions of dollars from citizens to corrupt public officials and the private sector actors they collude with. **Transparency International Zimbabwe** notes that the cost of corruption involving state officials, including the police, local government, education officials and transport sector regulators, is in excess of US\$1 billion every year. This report reveals that a large corrupt payment to a crony of the President led to the devaluation of Zimbabwe's currency by 23% - robbing citizens of 23% of their income and savings overnight.
- ▶ **Estimates** suggest that more than US\$1.5 billion worth of gold leaves

Zimbabwe illegally each year, often ending up in Dubai.

- ▶ According to a **report by the Comptroller and Auditor General in 2012:** *"Financial records for Treasury order transfers from the main exchequer account to the Paymaster General Account totalling \$3,499,320 653 were not availed for audit examination."*
- ▶ According to the **Zimbabwe Coalition on Debt and Development's** analysis of the 2018 Zimbabwe Auditor General report: *"In 2018, transactions worth US\$5.8 billion, EUR5 million and 319 thousand South African Rand had financial irregularities ranging from unsupported expenditure, excess expenditure, outstanding payments to suppliers of goods and services, transfers of funds without treasury approval among other issues. This constitute about 82% of government expenditure for 2018."*
- ▶ **Reports suggest** that in Zimbabwe's diamond sector, "billions of dollars' worth of the precious stones still unaccounted for", the value of which is possibly as high as \$15billion.

These examples, drawn from different sectors of the economy, give an indication of the real cost of cartels. However, determining their precise cost is necessary, and is also something that will only be possible if the recommendations in this report are implemented, and if illegal cartel activity and political patronage is halted. ■

INTRODUCTION

Zimbabweans do not trust many of the key institutions in the country. They do not trust in the money issued by their Central Bank, or the electoral process that bestows power on their leaders. They also do not trust their leaders to serve the interests of citizens, and there is no trust in the courts, the military or the police to serve them well.

The Afrobarometer surveys have found that three in five Zimbabweans believe officials who commit crimes go unpunished and a third believe the President ignores the country's laws.¹

At the heart of this distrust lies the perception of many Zimbabweans that corruption in the country is endemic and increasing – 60 per cent of Zimbabweans think corruption increased between 2018 and 2019.²



The 2019 Transparency International Corruption Perceptions Index ranks Zimbabwe as the twenty-first most corrupt country in the world³ – ranking

21ST
Most corrupt
country in
the world

below Nigeria, a country in which corruption has been regarded as endemic for decades,⁴ and just above Iraq, in which Chatham House believes corruption is now a bigger threat to stability than terrorism.⁵ Furthermore, the 2019 Global Corruption Barometer found that 46 per cent of Zimbabweans feel powerless to address corruption.⁶

Ordinary citizens are not the only ones who think corruption is increasing and are powerless to address it. In early 2020, the country's Prosecutor General remarked, "What we have in Zimbabwe

is the problem of cartels who affect every sector of the society. We have got sections in the judiciary, the Zimbabwe Republic Police, the National Prosecutors Authority [sic] and even from the Zimbabwe Anti-Corruption Commission (ZACC) who are controlled by cartels and manipulate investigations, and this is pulling the country's economy down".⁷

Anecdotal coverage of these cartels and corruption in press reports point to a high incidence of abuse of power by officeholders as a means to generate ill-gotten profits for themselves and their cronies. This comes at a cost to ordinary citizens who are faced with high inflation, eroded incomes, food insecurity, shortages of fuel and water, and an outbreak of COVID-19.

This study was conducted to:

- Define cartel power structures; describe how these structures operate; and analyse the impact they have on the quality of life of Zimbabweans;
- Expose the identities of the main cartels, the main sectors in which they operate (fuel, transport, foreign exchange, agriculture, mining, etc.), and the entities they use as fronts;
- Examine the linkages between cartels, on the one hand, and political power, the armed forces and business, on the other, to uncover the extent to which cartels control or are controlled by such forces;
- Identify the influences and legal framework that enable cartels to thrive, and the necessary reforms to ensure the non-repetition of the phenomenon; and
- Analyse the immediate and long-term impact of cartels on the economy, politics, rule of law and the security situation in the country.

The report is structured into seven parts: the first is this introduction; followed by a background section that describes the prevailing context at the time the study was conducted; the study's methodology; the main findings; a discussion of the most notable observations made from the findings; the key opportunities and barriers to meaningful action to curb the corrupting influence of cartels; and finally the report's conclusions and recommendations. ■

BACKGROUND

Key Facts and Figures about Zimbabwe

Population:
15 million (69% rural)

Prevalence of poverty:
67% of citizens (2018)

Number of citizens living in extreme poverty:
2 million (2019)

Proportion of food-insecure rural citizens:
27% (2020)

Inflation:
838% (July 2020)



Zimbabwe is a landlocked, lower-middle-income⁸ country located in Southern Africa with a population of 15 million.⁹ The majority of Zimbabwe's citizens live in rural areas (69 per cent)¹⁰ and in poverty (67 per cent).¹¹

Zimbabwe is facing its worst economic crisis in a decade – it is in the second recession in 20 years, which has been worsened by the COVID-19 pandemic. The country has also experienced decades of food shortages, which left more than 27 per cent of rural inhabitants facing high levels of acute food insecurity by the end of 2020, a number projected to rise to 35 per cent in early 2021.¹² Meanwhile, the proportion of Zimbabweans living in extreme poverty now two million people.¹³

Corruption and poorly implemented economic reforms since 2018 have triggered another cycle of hyperinflation, eroding the capacity of the already fragile public health, education and social protection systems on which the majority of the population depends. The recently created local currency has been successively devalued, with inflation officially reaching 838 per cent in July 2020.¹⁴

According to the IMF, Zimbabwe has the largest informal economy on earth,¹⁵ as only a small

proportion of Zimbabweans hold jobs in the formal sector, with the majority in informal employment who derive their livelihoods from agriculture,¹⁶ artisanal and small-scale mining (ASM), and cross-border trade, among other informal activities.

A significant proportion of the country's population has migrated to neighbouring countries such as South Africa, Botswana and Namibia, and overseas to the UK, Australia, Canada and the U.S., among others. This diaspora is an important source of remittances which amount to 10 per cent of the country's foreign currency receipts.¹⁷

In Zimbabwe, the COVID-19 pandemic and regressive policy responses to it are expected to significantly affect economic sectors, including tourism, mining and manufacturing, which were previously resilient to the economic crisis. Remittances from Zimbabwe's large diaspora are likely to decline substantially as the diaspora's earnings fall and as currencies in countries such as South Africa, home to most Zimbabweans abroad, potentially lose their value against the U.S. Dollar, against which most prices of goods and services in Zimbabwe are assigned. ■

METHODOLOGY

» *The focus of this study was to understand the extent and level of impact of cartels on the political economy in Zimbabwe. To achieve this, the study investigated the factors enabling cartels to thrive and the power structures behind the cartels. It also analysed the impact of cartels at the macroeconomic and household levels, and on the long-term prospects of democratisation in Zimbabwe.*

i) Research Questions

The research was framed around the following key research questions:

- *What types of cartels exist in Zimbabwe?*
- *Who benefits from them and who loses to them?*
- *How do cartels impact democratisation and prospects of economic development in Zimbabwe?*
- *What are the underlying drivers of cartel formation and operation, and what are the potential opportunities for addressing these influences?*

A more detailed set of research questions is presented in the semi-structured interview guide found in Annexure 1.

ii) Data Collection Methods and Sources

The study utilised desktop review to conduct the study, and made use of available media reports, journal articles, secondary resources, government documents, parliamentary records and relevant laws, websites and sector assessments. This was supplemented with eleven interviews with experts in governance, health, journalism and political economy. Interviewees were required to provide written or verbal consent after the aims and objectives of the study had been explained to them.

iii) Data Analysis and Management

Qualitative data was analysed using MaxQDA, a qualitative data analysis software, while quantitative data was analysed using Microsoft Excel. MaxQDA allowed for coding of the data collected from key interviews. This study traverses a range of sensitive topics, some of which affect powerful individuals and institutions.

Given the repressive nature of the state, the study protects the identity of all interviewees, and notes taken from the interviews have been destroyed. Alphanumeric codes will be used to identify the interviewees, and any descriptions of them will be made generic enough to show how their expertise and experiences are critical to the study without being specific enough to allow them to be identified.

iv) Limitations

The limitations encountered in carrying out this study arose from the COVID-19 pandemic and the sensitivity of the study's scope. The COVID-19 pandemic limited mobility and all key interviews were conducted remotely. A few individuals were reluctant to engage in a remote-interviews, primarily because of fear that the conversation would be intercepted by state security agents, and therefore declined to participate or committed to meeting in person when it was safe to do so. Unfortunately, such conversations could not be conducted before completion of this study. Some government officials noted they were working from home and were consequently unable to obtain the necessary clearance to participate in the study. ■



FINDINGS

»» *The study's findings help define cartels specifically in Zimbabwe, while describing the context and factors that enable them to exist. The findings also present a typology of the cartels existing in Zimbabwe, the beneficial owners of these cartels, and how power dynamics play out among the various cartel actors. This chapter explores these ideas, with notable cases illustrating the findings.*

The chapter begins with a brief overview of what a cartel is and why they chase economic rents. It also provides an outline of the factors that enable cartels to operate in Zimbabwe, conducted through an in-depth analysis of these issues. Readers who would like to understand these issues in much deeper detail can refer to Annexure 2.

"Cartel" is defined differently by different stakeholders. However, common themes can be found in the diversity of definitions. Zimbabwe's legal framework does not mention the word "cartel", although classic cartel behaviour is described by paragraph 7 of Schedule 1 to the Competition Act (Chapter 14:28).

"Cartel" is used widely across Zimbabwean society to describe **corrupt business practices with the collusion of political leaders**. It has been used in this sense by a wide range of stakeholders from President Mnangagwa¹⁸ and the Minister of Finance¹⁹ to the President of the largest opposition party, Advocate Nelson Chamisa.²⁰

The media, academia and civil society have used "cartel" to describe "**crookedness** by selfish individuals, social classes, or groups and institutions to fleece an already sorry population without caring too far about it";²¹ state capture;²² and "the complicity of the state elite and the business community for the purpose of self-enrichment".²³ One journalist said, "cartels and the **ruling elite** are one and the same thing".²⁴

Cartels are formed to transfer wealth from consumers and public funds to participants in the cartels (i.e., rent-seeking).²⁵ The **undeserved or unearned profit** that rent-seekers gain is defined by economists as an "economic rent".²⁶ Economic rents in Zimbabwe fall into two categories – natural economic rents and man-made economic rents.²⁷

Natural economic rents arise from the differences in naturally-occurring factors such as the

quality of agricultural land, climatic conditions and concentration of mineralisation on mineral claims. These allow some market players to be more profitable than others without the use of more capital, labour or entrepreneurial prowess.

In contrast, man-made economic rents arise from 1) policy decisions that give rise to, for example, monopoly positions for some market actors, provision of publicly-funded subsidies which artificially reduce costs of production for some market actors and cheap foreign currency; 2) illicit activities by private market players which include tax evasion and trade misinvoicing; and 3) illicit activities such as bribery and corruption.

A man-made economic rent, therefore, is the unnecessary portion of a payment that is made for goods or services, simply because the producer has the market power to charge it. This economic rent is also a social welfare loss, as Zimbabwean society could have gained the same goods and/or services without paying as much.

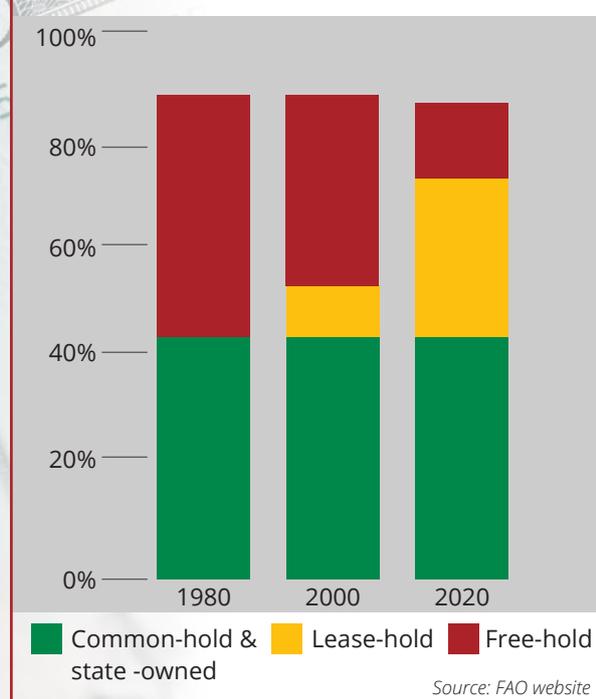
The findings show that a complex mix of political, economic and social factors create an enabling environment for cartel-based corruption, and that some

of these factors have been part of the fabric of Zimbabwe for over a century.

Political structures that enable cartels include a non-inclusive “**winner-takes-all**” approach to elections;²⁸ the top leaderships’ **patron-client relationships** with the security sector, judiciary, senior bureaucrats, traditional leaders, party officials and rural households;²⁹ violent **transitions that involve the military**;³⁰ **extractive institutions** that “remove the majority of the population from participation in political or economic affairs” (Acemoglu & Robinson, 2012);³¹ and the repeated use of “violence to silence political dissent and peaceful protests” (U.S. Department of Treasury, 2020).³²

Economic structures that enable cartels include: a **notoriously unstable macro-economic framework**;³³ dependence on finite resources such as land and minerals; Zimbabwe’s **predominantly informal economy**;³⁴ the state’s significantly large role in the economy in which one out of every two dollars spent comes from the state;³⁵ and Zimbabwe’s position as a **key node in the region’s infrastructural network**, which makes Zimbabwe vulnerable to cross-border illicit financial flow.³⁶

Figure 1: Evolution of Property Rights over Agricultural Land, 1980-2020



These structures create a perfect storm in which the private sector is highly incentivised to target public expenditure (public tenders) as its source of income by **colluding with public officials**; outcompete the informal sector’s prices by **avoiding taxes and statutory fees**; and seek ways to avoid the impact of macroeconomic instability on its

revenues and savings by, for example, **externalising foreign currency** or **colluding with public officials** to guarantee access to scarce foreign currency from the RBZ. These economic structures create unfair enabling conditions for cartel activity.

Social structures also serve to enable cartel behaviour through the co-option of traditional leaders and the largely neutral stance of churches on politics, which has weakened society’s response to the excesses of the power of the state.^{37,38} Zimbabwean society has been described as “fractured and broken” as a result of successive waves of violence and human rights abuses,³⁹ whose victims have been targeted on the basis of their ethnicity, social class and political affiliation.

A key interviewee described Zimbabwe as having “limited social cohesion, which means as citizens, Zimbabweans can’t coalesce around a common interest”.⁴⁰ There is a shared understanding across a significant proportion of Zimbabwe’s society that national dialogue is sorely needed, and that citizen agency is limited.

The institutions that most affect cartel behaviour in Zimbabwe are those that relate to property rights, law and finance. “Institutions” is used in this chapter to describe **the formal and informal rules that organise social, political and economic relations**⁴¹, and not brick-and-mortar organisations, to which the word commonly refers.

Property rights are generally weak in Zimbabwe because, over time, a larger proportion of resources have been expropriated from private ownership to state ownership, as is shown in Figure 1. This makes property rights worthless⁴² and creates a centralised, corruptible allocation of property rights by public officials – a power that those officials and private sector entities can exploit to extract rents.

Zimbabwe’s governance is characterised by rule by law,⁴³ whereby law is used as a tool of political power⁴⁴ to control citizens, rather than rule of law, whereby law is used to control the state and people in power. This is the case in Zimbabwe, for example, where anti-corruption laws are used selectively against political opposition, while those in power and their associates enjoy **impunity from accountability**,⁴⁵ avoiding prosecution for human rights violations, corruption and other crimes. When both state and private actors are not held accountable under the law, cartels can operate with impunity.

The management of money supply and interest rates in the economy weakens the ability of the private sector to legitimately access finance, and thereby incentivises cartel behaviour as a means of profit-making.

There are two key motivators for the cartels' key actors. The first is rent-seeking and the second is political financing. There is a symbiotic relationship between actors that seek self-enrichment through rent-seeking and the ZANU-PF party, which seeks funding that can be illicitly channelled from the government through the private sector.

Cartels are formed to transfer wealth from consumers and public funds to participants in the cartels. These participants are motivated by their love for money and political power.

Cartels thrive in Zimbabwe because of a complex mix of political, economic and social factors that create an enabling environment for cartel-based corruption.

These include patronage, militarisation of the state, unstable macroeconomic conditions, weak property rights, lack of rule of law and limited citizen agency to deal with corruption.

The Sabi Gold Mine and, more broadly, the changes of ownership in the formal gold mining sector since the coup of 2018 are a case in point. The government, through an SOE, the Zimbabwe Mining Development Corporation (ZMDC), acquired Sabi shortly after independence when gold prices were high (US\$850 per ounce after



THERE ARE TWO KEY MOTIVATIONS FOR CARTELS

1 Rent-seeking

2 Political Financing

There is a close symbiotic relationship between actors that seek self-enrichment through rent-seeking and the ZANU-PF party, which seeks funding that can be illicitly channelled from the government through the private sector.

adjusting for inflation). However, falling gold prices (US\$450 by 2002) and deterioration in the macroeconomic environment led to the closure of the mine between 2002-03.⁴⁶

Despite rising gold prices, attempts to find investors to help resuscitate the mine were futile as the macroeconomic and political environment continued to deteriorate. While the mine fell into judicial management in 2014, there was some improvement from 2016 when the government entered into a joint venture with a local consortium, the Chandiwana Mining Corporation.⁴⁷ The mine reopened and output reached 240kg per annum by 2018.⁴⁸ A quadrupling of the price of gold over the last 25 years has vastly increased the economic rents generated from mining gold and

attracted greater attention from rent-seekers.

In mid-2020, as gold prices reached 25-year highs, the ZMDC shareholding in Sabi Gold Mine was reportedly in the process of transfer to Landela Mining Ventures, a subsidiary of Sotic International, both of which are allegedly owned by Kudakwashe Tagwirei, a businessman and advisor to President Mnangagwa, widely regarded as a key benefactor of ZANU-PF.⁴⁹ Mnangagwa himself has said that Tagwirei is a relative – “my nephew”.⁵⁰ Landela was also said to have signed agreements to buy ZMDC’s equity in three other gold mines.⁵¹

In 2018, local press reported that Tagwirei had gifted luxury vehicles to President Mnangagwa,

Vice-President Chiwenga, Minister for Agriculture Perrance Shiri, and other senior officials.⁵² According to reports of court proceedings, Chiwenga later admitted to receiving a Mercedes Benz and a Lexus via the government's Command Agriculture Programme, an initiative allegedly bankrolled by Tagwirei.^{53, 54}

Exogenous factors also serve to enable cartel behaviour, most notably the sanctions imposed by Western countries and the simultaneous rise in investment and trade with non-Western countries. In response to the human rights abuses and illicit financial activity, four jurisdictions placed sanctions on Zimbabwe in the early 2000s – the U.S. European Union (EU), Canada and Australia (described in detail in Annexure 2).

There are two extremes to the rhetoric around sanctions. ZANU-PF, the military and the state blame these sanctions for the macroeconomic and political crisis in Zimbabwe, while international diplomats stress that the sanctions have no impact beyond the targeted individuals and institutions. In a recent op-ed, the U.S. Ambassador to Zimbabwe noted, "blaming sanctions is a convenient scapegoat to distract the public from the real reasons behind Zimbabwe's economic challenges – corruption, economic mismanagement, and failure to respect human rights and uphold the rule of law".⁵⁵

The sanctions are clearly not responsible for the state capture and economic malfeasance described throughout this report. However, the sanctions regime and U.S. sanctions in particular have had some negative externalities, for example, Zimbabwe lost over 50 relationships with correspondent banks between 2008 and 2017 as they engaged in de-risking as a result of the sanctions and global non-compliance with anti-money laundering legislation.⁵⁶

Zimbabwean banks have been fined large sums of money for handling transactions on behalf of sanctioned individuals; and some state-owned enterprises (SOEs) have claimed to have failed to receive foreign direct investment (FDI) as transactions were blocked due to sanctions (examples are provided in Annexure 2). Further, individuals and firms on the OFAC list have learned, over time, how to move money while avoiding the American correspondent banking system, and developed relationships with individuals who have experience evading sanctions, such as John Bredenkamp, who is alleged to have played a key role in exporting tobacco from and arms into Rhodesia when it was under UN sanctions in the 1970s.⁵⁷ These relationships and the knowledge acquired has crystallised into cartel behaviour by the OFAC-listed individuals and firms.

It is worth pointing out here that the Zimbabwean government itself recognises that they have very

weak institutional capacity for combatting corruption and money-laundering. The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), to which Zimbabwe is a member, has received adverse reports to this effect in Mutual Evaluation Reports (MER), the last being in 2019.⁵⁸

Using the Financial Action Task Force (FAFT) methodology, Zimbabwe was in 2019 rated (in agreement with Zimbabwean authorities) as non-compliant or partially compliant in 12 of 40 technical areas that the country was assessed on, and only one quarter was rated as fully compliant. As regards the risk areas, six major areas of concern out of a possible 21 were identified are being relevant to Zimbabwe:



Photo by unsplash.com – Justus Menke

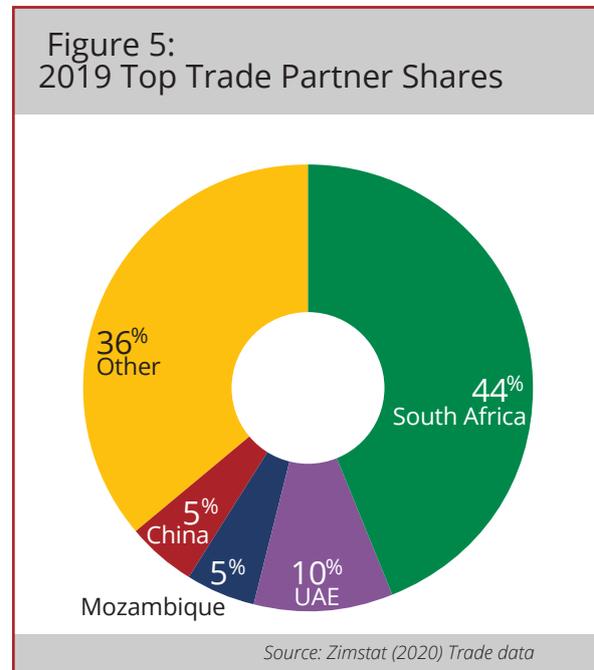
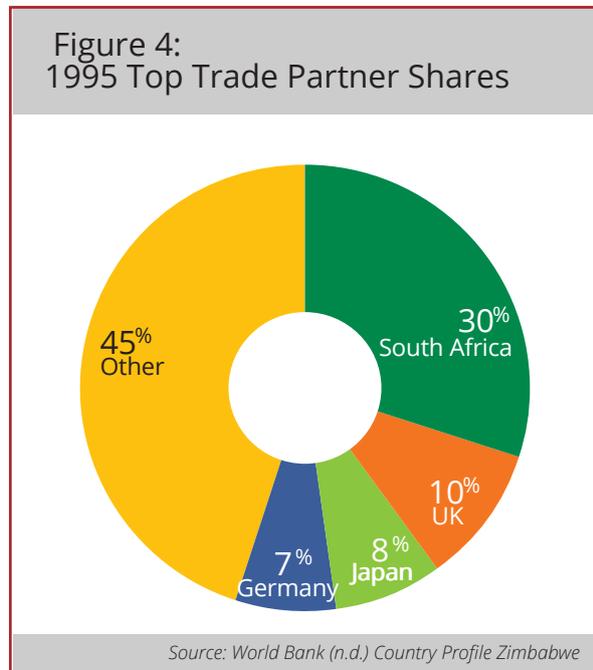
- Drug trafficking;
- Illegal trade and smuggling of precious minerals, metals and stones;
- Parallel market activities involving foreign currency and commodities by individuals and companies;
- Corruption, and in particular, in practices in the fuel industry involving both private and public institutions;
- Misrepresentation of quality, nature and value of exports; and
- Armed robbery and theft of motor vehicles and stolen vehicle re-registration.

The international sanctions regime increased Zimbabwe's reliance on non-Western countries, such as China, South Africa and the UAE, and companies registered in tax havens to enable trade and

investment. These countries are either financially secretive or have weak anti-money laundering legislation, which then allows for economic actors (Zimbabwean and foreign alike) to exploit these vulnerabilities by engaging in

cartel behaviour.

In many cases, these actors are private individuals but, in some cases, they are connected to state apparatus, as will be shown by examples in the case studies.



i) Key Actors in Cartels and their Power Structures

This section describes the types of relationships that exist among the various actors that are involved in cartels in Zimbabwe. It is important to stress that this **section does not attempt to provide an exhaustive list of all individuals and companies that are involved in cartels**, but rather use some of the individuals and companies as examples. The key aim of this section is to describe how relationships are

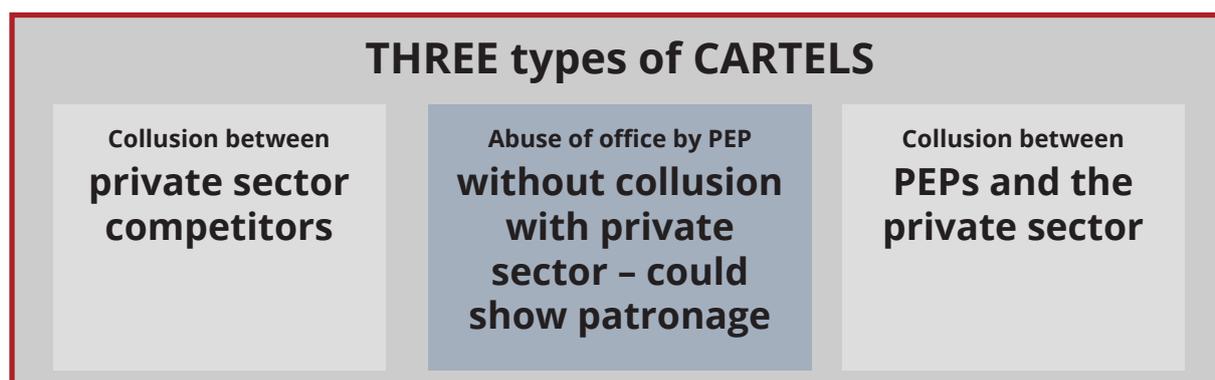
formed, sustained and evolve over time, and the power dynamics among the actors. This description is expected to provide a framing around which the power relations within cartels that exist today can be understood, as well as help the reader understand the relationships that exist within cartels not covered by this study.

Cartels exist in different forms, and range from organised criminal syndicates to respected private sector enterprises engaging in illicit activities within the confines

of the law. The study finds that the typology of cartels is a spectrum whose two extremes are,

1) illegal collusion between private sector companies, conducted without the involvement of PEPs⁵⁹ and

2) abuse of public funds by a PEP without the involvement of a private sector actor. Between these two extremes exists a wide variety of collusive relationships between PEPs and the private sector, which are described in more detail below.



CATEGORY 1: Collusion between private sector competitors

Collusion between competitors falls in line with the economic and legal definitions of cartels and includes those private sector companies that eliminate competition and dominate their industry by restricting supply; fixing prices and terms of trade; syndication; and assigning members, customers or geographic locations to monopolise.

Collusion takes place as a result of **weak institutions that are unable to mitigate against it, or through the corruption of key individuals** in these institutions. Colluding companies can also participate in bid-rigging by agreeing amongst themselves to take turns as the lowest bidder. This results in a price higher than what would result from a fair competitive procurement process.

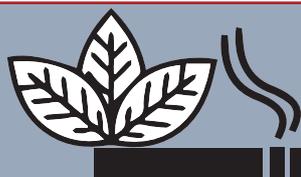
Actors in this category typically engage as **equals**, or in the case where there is a clear dominant firm, they **follow the lead of the dominant firm**. The firms often form industry associations through which anti-competitive decisions, such as a sharing of the market and price fixing is institutionalised, often

times in a manner that contravenes the Competition and Tariffs Act.

Agricultural experts and farmers accuse cotton and tobacco contract financing companies of colluding to overprice the inputs they provide to farmers.⁶⁰ By doing so, they illicitly transfer wealth from the farmers to themselves. Small-scale farmers usually have no alternative financing sources and have little bargaining power when negotiating with these companies. One study found that inputs for cotton farmers were overpriced by US\$142 per hectare.⁶¹

Colluding companies also can form an export cartel through an arrangement between exporting firms to charge a specified export price. The foreign currency retention policy and capital controls serve as strong incentives for exporters to find ways of keeping as much foreign currency out of Zimbabwe as possible.

There is clear evidence of trade misinvoicing in the exports of chrome,⁶² platinum⁶³ and tobacco. Trade misinvoicing is harder to track when all exporters collude to ensure that regulators do not pick up on the difference between the declared export price and the actual price received from the export market.



BOX 1:

UNDER-INVOCING OF TOBACCO EXPORTS

China reported to the UN's Comtrade system that it imported 55 million kilograms of tobacco from Zimbabwe in 2019 at an average price of US\$9.06 per kg while South Africa reported imports of 85 million kilograms. However, Zimbabwe reported that it only exported 4.8 million kilograms to China at an average price of US\$7.46 per kg in the same year and exported 141 million kilograms to South Africa at an average price of US\$5.34 per kg.⁶⁴

This points to under-pricing of exports, where tobacco, which is being directly exported to China at market price, is purported to be exported to a South African middleman who receives the payment from China, retains a significant amount in South Africa, and remits a smaller amount to Zimbabwe as the export price. Given that 99.5 per cent of tobacco exported to China from Zimbabwe between 2014-18 was falsely declared as exports to South Africa, there are clear indications that certain exporters are colluding to keep the export prices low. One key interviewee noted "prices at which the tobacco is actually sold are higher than the prices declared by the exporters to government".⁶⁵



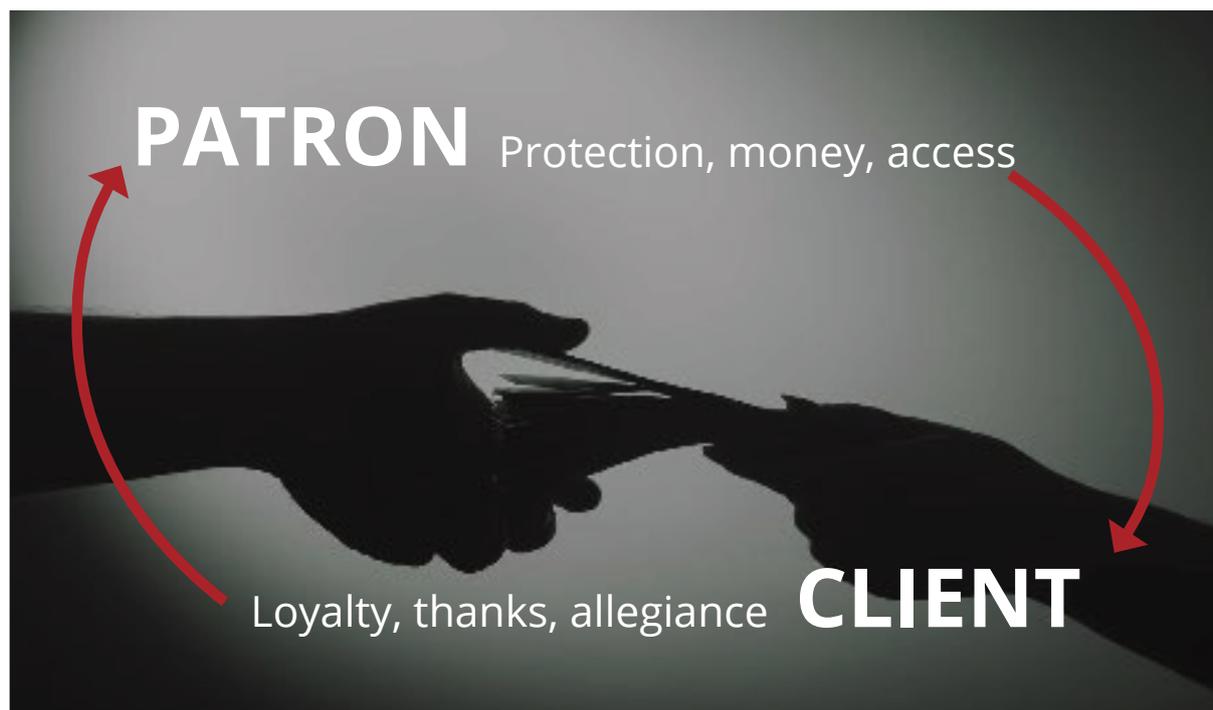
CATEGORY 2: Abuse of Office by PEP without collusion with Private Sector

This abuse typically occurs as self-dealing, for example, when a public official approves the contracting of a service-providing company in which they have an ownership stake or the disposal of a public asset to themselves at a heavily discounted value.

Abuse of office is typically conducted by PEPs with the acquiescence of a political patron. The power relationships are classic **patron-client relationships** where the powerful patron is allowing the client (the PEP) to profit from the abuse of office as a reward for their loyalty and support.

Each of these patrons has their own set of clients among the

PEPs in control of the government ministries, departments, agencies and SOEs. These patrons hold key positions in the Cabinet, as Permanent Secretaries, on the boards and in executive management of SOEs, in the Judiciary, and in the security sector. These patron-client networks coalesce as the factions that compete for control of the state and its resources.



In 2007, President Mugabe allowed a large number of political elites, senior security sector officials, senior members of the judiciary, senior bureaucrats, and religious leaders, as well as his family members and business associates to take agricultural equipment as loans from the US\$200 million Farm Mechanisation Programme, which was run by the RBZ.

Most of the beneficiaries did not pay back the loan, and the few who did, paid back in a virtually worthless Zimbabwean dollar. Following this, a ZANU-PF majority in Parliament passed an Act in 2015 for taxpayers to assume the debt and the RBZ withheld the list of beneficiaries from the public. However, in July 2020, an

exposé by lawyer and political commentator Alex Magaisa began revealing some actors' names.

Beyond the usual ZANU-PF members and senior bureaucrats, unusual beneficiaries included the late President **Bingu wa Mutharika** of Malawi, and influential clergymen such as **Reverend Wutawunashe, Ezekiel Guti and Bishop Mutendi**.⁶⁶

Under the Mnangagwa Administration, reports suggest PEPs continue to abuse their offices (without collusion with the private sector) in the hiring of buses by ZUPCO, a joint venture company in which Government has a controlling stake.⁶⁷

As a result of government's response to the January 2019

protests and the COVID-19 pandemic, ZUPCO commanded a virtual monopoly over urban transportation at the time of this study.^{68, 69} After years of inactivity, ZUPCO has been resuscitated through acquisition and the hiring of buses.⁷⁰ ZUPCO is alleged to have hired buses from companies owned by PEPs.⁷¹

This abuse by PEPs has been compounded by collusion between PEPs and the private sector (described in Category 3 below). A total of 162 buses have been bought by **Landela Investments** at an alleged price of US\$58,900 each and sold to SOE **CMED (Pvt) Ltd** at US\$212,962 each on a hire-purchase agreement.^{72, 73}

Category 3: Collusion between PEPs and the private sector

This collusion takes many forms, which include:

- Manipulation of policies to create monopoly or dominant market positions for a private sector entity. PEPs may either receive a bribe or shares in the company.
- Sale of state assets to a private sector actor at a discounted price. PEPs may either receive a bribe or a share of the profits made from the sale of state assets.
- PEP facilitating preferential access for a private sector entity to subsidies, public contracts, state subsidies or tax incentives.
- PEP protecting a private sector entity from being held accountable for illicit activity.

This category is the main focus of the study and is typically characterised by the aforementioned patron-client networks colluding with private sector entities.

Collusion with the private sector allows access to larger economic rents from public contracts and concealment of the PEP's role. In a context where PEPs are involved in competing factions and where Cabinet reshuffles regularly occur, the concealment of a PEP's role may allow them to continue benefitting from economic rent-seeking in a ministry or government department they have left, while simultaneously allowing the private sector partner to re-negotiate terms with the incoming office-holder to maintain control of the economic rents.

The private sector actors who participate in

collusive arrangements can be categorised into "runners" and "money men".

Runners are proxies for PEPs who are in an asymmetrical relationship with the PEP and basically run a private sector entity on behalf of the PEP. They are typically loyal to one PEP or faction and oftentimes are a member of the PEP's extended family; a family friend; associated with the same social group the PEP is associated with, for example a church, or clubs and alumni groups; or have provided services to the PEP (e.g., legal services or financial advice).

The fortunes of a runner are usually tied to the fortunes of their benefactor. Runners are beholden to their benefactors and may act as a scapegoat when the corrupt dealings of a PEP are exposed, allowing the PEP plausible deniability in the knowledge that they will be rewarded for their loyalty.

Money men, in contrast, can become powerful enough in their own respect to command an equal footing with some PEP's. This allows them to engage in relationships with multiple PEPs, even those who are rivals, and in some cases the opposition. The PEPs, in turn, attempt to control money men by using state institutions or political influence to pressure them into staying loyal or to lure them from the patronage networks of rivals. Money men can sometimes survive the fall of their benefactors.

The involvement of runners and money men in cartels is not mutually exclusive as runners are often assigned by PEPs to work hand in glove with money men, in order to protect the PEP's interests.



BOX 2:

THE SECOND CONGO WAR (1998-2003)

Interviewees pointed to the Second Congo War as a key juncture at which collusion between PEPs and the private sector gained prominence in the Zimbabwean political economy. ⁷⁴

The War broke out in 1998 between the government of the Democratic Republic of Congo (DRC) and rebels backed by Rwanda and Uganda, and eventually drew in eight countries. Zimbabwe's army supported the DRC government and was described by the UN as "a major guarantor of the security of the [DRC] government" (United Nations, 2003). ⁷⁵

Despite this commendation, the war effort came at a considerable cost to Zimbabweans – an estimated US\$1 million a day ⁷⁶ at a time when the country was defaulting on its loans to the IMF, World Bank and Paris Club creditors. This profligacy was motivated by the self-enrichment of senior military and government officials through looting of diamonds, timber and other resources from DRC. Collusion between these state officials and private sector actors led to the creation of cartels in DRC, which are estimated to have transferred US\$5 billion worth of mineral assets from the DRC state into private hands.

The collusive arrangements included PEPs such as military and government officials (including President Mnangagwa) on the one hand and private sector individuals on the other. The former facilitated the acquisition of mineral (and other) assets held by the DRC state at very low prices. The latter in the short term, developed and exploited the mining assets, but had the long-term goal of selling the assets for a windfall profit. Most of the mining assets were held by a DRC SOE, Gecamines.

Examples of these collusive arrangements include:

- Tremalt Limited – a DRC company controlled through 80% ownership by John Bredenkamp, ^{77, 78} whose beneficial relationship was opaque due to its ownership by a network of trusts and holding companies registered in the Isle of Man and British Virgin Islands. ^{79, 80}

The current Minister of Foreign Affairs Sibusiso Moyo was both the Director General of COSLEG ⁸¹ and an adviser to Tremalt. The latter paid the DRC Government just US\$400,000 for copper and cobalt mining concessions that were estimated to be worth over US\$1 billion.

As part of the deal, Tremalt agreed to supply the DRC and Zimbabwe armies with military vehicles and cash, which would be subtracted from the profit share of the two countries. ⁸² In 2006, Tremalt was sold to the Israeli-American businessman Dan Gertler ⁸³ for an alleged sum of about US\$60 million. ⁸⁴

- Oryx Diamonds Ltd – a diamond mining company in which entities linked to the Zimbabwean military and the Congolese president had large shareholdings. The concession on which the venture was based was valued at \$1 billion and had been taken from a state mining company by decree. ⁸⁵

Oryx Natural Resources, a third shareholder owned by an Omani businessman, made illegal donations to ZANU-PF during the 2000 Parliamentary elections. ⁸⁶ Colonel Muammar Gaddafi later became a shareholder in Oryx Diamond mine. ⁸⁷

Throughout this report, the study refers to the military as a monolith – a singular institutional stakeholder. However, the military is a bit more complex. For example, in addition to its institutional character, senior officers in the military have their own motivation and interests which spill over into cartel behaviour at an individual level, without direct involvement of the institution.

Where it is possible to distinguish between the two as is the case with the preceding paragraphs, the study does so – identifying the names of companies and individuals with connections to the military. However, where the military's role is clear, but the deeper details of its involvement are unclear, the study refers to the military as a monolith.

ii) Case Studies

This study does not seek to exhaustively identify every PEP, runner and money man engaged in every cartel in the economy. Rather, key examples are used

to demonstrate the power dynamics that exist among patron-client relationships, PEPs and their private sector co-conspirators.

CASE STUDIES 1

THE ZIMBABWE NATIONAL ROAD AUTHORITY (ZINARA) PATRON-CLIENT NETWORK

ZINARA, established in 2002, manages the Road Fund – by far the largest statutory fund in Zimbabwe – receiving revenues of approximately US\$200 million annually.⁸⁸ Expenditure by the Road Fund is not approved by Parliament⁸⁹ despite requirements for such oversight in the Constitution⁹⁰, and in a Supreme Court ruling.⁹¹ The management of ZINARA has been ironically described by Obert Mpofu as “not accountable to anybody”.⁹²

This lack of Parliamentary oversight makes the Road Fund a target for economic rent-seeking. During the Mugabe administration, Mugabe appointed his clients to chair the ZINARA Board – **Abdullah Kassim** (2009-14), a lawyer who was Mugabe’s front man in a dairy business,⁹³ and his nephew, **Albert Mugabe** (2014-18).

Between 2009 and 2018, ZINARA engaged in illicit public procurement deals, and awarded an ‘overpriced’ contract for tollgate collection software to Univern Enterprises, without following the tender process.⁹⁴

A 2019 inquiry by parliament’s Public Accounts Committee indicated that Univern received between 12 and 22 per cent of the revenue raised in each of the areas of ZINARA’s operations for which the company held a contract,⁹⁵ but those figures may be conservative. A sector specialist, who has provided advisory support to ZINARA, alleged that Univern is paid 80 per cent of toll collection revenue for the provision of associated software.⁹⁶

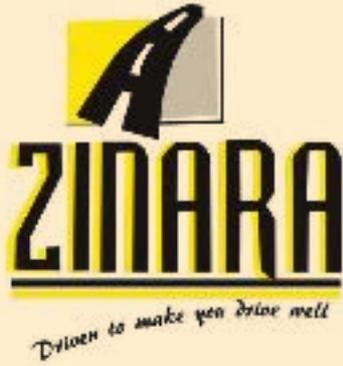
Univern also received other contracts during the Mugabe era, including a contract for 40 motorised graders worth US\$8 million in 2012 where other bidders had quoted for US\$5.2 million.⁹⁷ ZINARA ordered 40 more machines in 2013, despite criticism that the graders were inappropriate for Zimbabwean conditions.⁹⁸

It has been alleged that former Minister **Supa Mandiwanzira** is a shareholder of Univern.⁹⁹ Supa Mandiwanzira also appears to own a company named Tarcon,^{100, 101} whose Board chairperson during the time the tender awards were made was **Ms. Florence Ziumbe**.¹⁰² At the time, Ms Ziumbe was also serving as the deputy chairperson at the **State Procurement Board**,¹⁰³ which Board oversaw the awarding of tenders and had charged Univern and ZINARA a fine of just US\$900 for flouting the procurement regulations in these tender awards.¹⁰⁴

With the departure of Mugabe, the Mnangagwa administration dismissed the Albert Mugabe-led Board, but the whiff of corruption lingers.

In the past three years, ZINARA has had two Board Chairs and three CEOs. The current Board Chair, **Engineer Michael Madanha**, is a ZANU-PF Provincial Vice Chairperson who previously served as a Deputy Minister for Transport and ZANU-PF MP for **Vice President Chiwenga’s** home constituency, Hwedza South.¹⁰⁵ He is related to **Chiwenga**,¹⁰⁶ and has defended the Univern deals.¹⁰⁷ He and **Supa Mandiwanzira** are both reported to have the same political patron in Chiwenga.^{108, 109} Madanha was suspended in September 2020 while he was facing charges for criminal abuse of power.¹¹⁰

ZINARA manages the largest amount of public money outside of the National Budget. It does so with very limited transparency or oversight from Parliament. This makes it a target for corruption. Under both Mugabe and Mnangagwa, the Presidency has been deeply enmeshed in the corruption that takes place at ZINARA, the majority of which involves inflated state contracts.



ZINARA Board patronage



**(Former) President
Mugabe**

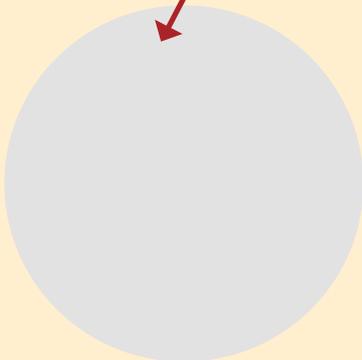


Vice President Chiwenga

Family

Nephew

Relative



**Abdullah Kassim
(2009-14)**



**Albert Mugabe
(2014-18)**



**Michael Madanha
(2018 to date)**

Members of the ZINARA and their connections to the President of Zimbabwe.

CASE STUDIES 2

THE FUEL CARTELS

The fuel industry is comprised of:

- the state-owned entities that regulate the sector (Zimbabwe Energy Regulatory Agency, ZERA) and manages state-owned assets (National Oil Infrastructure Company of Zimbabwe (Pvt) Ltd, NOIC and PetroZim Line (Pvt) Ltd); and
- fuel-retailing businesses that sell fuel to consumers. These range from large companies with many fuel outlets such as Puma, Total, Zuva and Engen to small-scale retailers with one fuel station.
- fuel-importing businesses that sell fuel to retailers. These range from global commodity traders such as Trafigura and Glencore to small domestic trading companies.

There is a substantial amount of integration between the fuel retailing and fuel importing businesses. For example, Trafigura owns Puma, while Glencore has shareholding in Zuva.

The key economic rent in the fuel industry is the cheap foreign currency the sector receives from the RBZ. Fuel importing companies acquire forex from the RBZ at the official exchange rate by changing local currency (ZW\$) for U.S. dollars.

As previously explained, this official rate

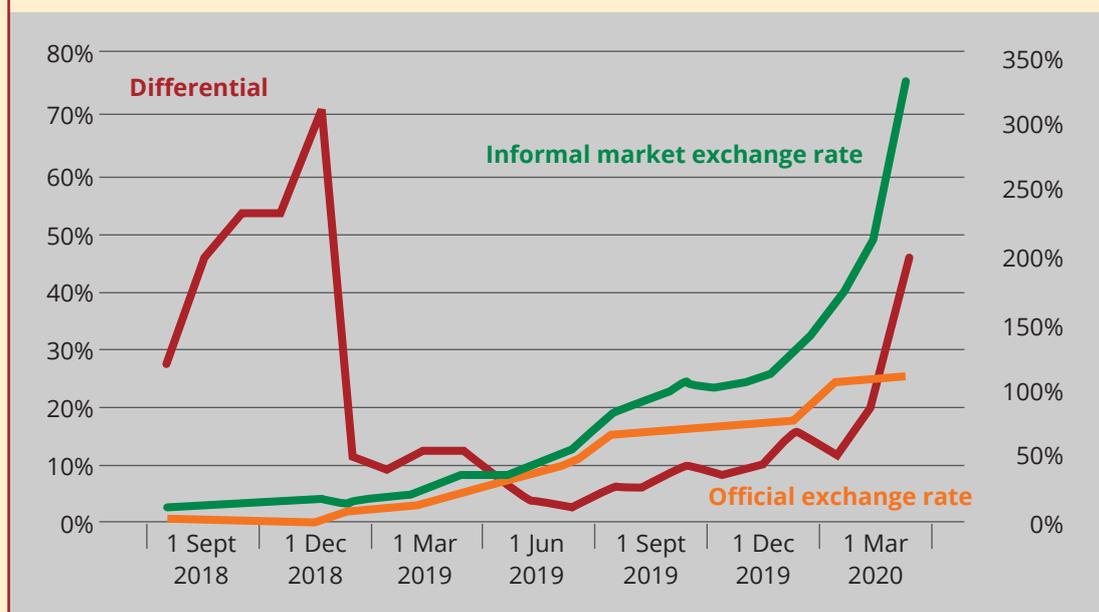
is substantially lower than the parallel market exchange rate. At the time of writing, the official exchange rate was 1:83.4 ¹¹¹ and the informal rate was around 1:100. ¹¹²

To capture the economic rent, a fuel importing company will have to use the cheap foreign currency to acquire local currency on the parallel market. This allows the company to increase its local currency.

For example, Fuel Company A can take ZW\$83 million to RBZ and receive US\$1 million, then exchange the US\$1 million on the parallel market and receive ZW\$100 million. Company A can then return to RBZ with ZW\$83 million and exchange it for another US\$1 million and keep ZW\$17 million (equivalent to US\$170,000) as profit. This is done without importing any fuel and leads to fuel shortages.

Control of the Feruka-Harare pipeline is critical to capturing the economic rent, as government has pushed for most fuel to be imported through the pipeline. ¹¹³ By controlling the pipeline, a company will attain a higher allocation of the pipeline's capacity, which equates to a higher allocation of the foreign currency earmarked for the fuel industry by the RBZ. ¹¹⁴ The 504-km pipeline between Beira and Harare was constructed in 1964.

Figure 3: Official and Informal Exchange Rates between the ZW\$ and US\$ September 2018 - May 2020



Source: Official rate is from RBZ website

Unofficial rate is from ZimBollar website

Today, the segment of the pipeline from Beira to Feruka (just outside Mutare) is owned by Companhia do Pipeline Moçambique Zimbabwe (CPMZ)¹¹⁵ while the Feruka-Harare segment is owned by **Petrozim Line (Pvt) Ltd**, a wholly owned subsidiary of the SOE **National Oil Infrastructure Company of Zimbabwe (Pvt) Ltd** (NOIC).¹¹⁶ The military influences NOIC and Petrozim¹¹⁷ through retired **Air Vice Marshall Chiganze** who chairs the Petrozim board and sits on the NOIC board with **Brigadier General S Bhebhe**.¹¹⁸

Under the former administration, Robert Mugabe's patronage allowed **Kudakwashe Tagwirei** to attain a significant allocation of the pipeline's capacity. In 2014, the Mugabe administration entered into an agreement with Tagwirei's **Sakunda Supplies** (Private) Limited in which Sakunda would finance the refurbishment of the pipeline and its loading and off-loading infrastructure at Beira, Mozambique and in Harare.^{119, 120} In return, Sakunda was allowed to use the pipeline to import fuel or charge other importers for use of the pipeline. This monopoly position was temporarily bolstered in 2017 when Government banned the transportation of fuel via road.¹²¹

Sakunda was able to finance the refurbishment with investment from the Swiss-based Trafigura which acquired 49% of Sakunda Supplies (the fuel importing and retailing unit of Sakunda Holdings) in 2014.¹²² It is important to note that Trafigura's acquisition of Sakunda Supplies was limited to 49% by the Indigenisation and Economic Empowerment Act.

Sakunda Supplies' fuel importing division was later rebranded as Trafigura Zimbabwe¹²³ while its fuel retailing division was rebranded as Puma Energy.¹²⁴ Trafigura Zimbabwe used its advantageous position to monopolise the sourcing of fuel transported through the pipeline from a related entity, **Puma Energy**,¹²⁵ based in Singapore, a country that Mugabe frequented and where he was when he died. Eighty-two per cent of Zimbabwe's fuel imports over the period, 2017-19, came from Singapore.¹²⁶

Under the Mnangagwa administration, several factors led to significant changes to this cartel.

Firstly, Mnangagwa's alleged association with Puma Energy's direct competitor, **Zuva Energy**

¹²⁷ and his alleged support for a second pipeline¹²⁸ weakened political support for the cartel. However, Puma retained the political support of key patrons such as Vice-President Chiwenga and the military.¹²⁹

Secondly, in 2018 *Mnangagwa's* administration amended the Indigenisation and Economic Empowerment Act to allow for foreign ownership of most businesses.¹³⁰

Thirdly, in 2020, the IMF warned the government to stop corrupt payments to Tagwirei's Sakunda Holdings, which were leading to depreciation of the local currency.

Lastly, local and international actors began lobbying for the US Government to put sanctions on Kudakwashe Tagwirei and Sakunda.¹³¹

These factors motivated Trafigura to take over the 51 per cent shareholding held by Kudakwashe Tagwirei's Sakunda in 2019.¹³² However, Tagwirei is alleged to have still retained control of the pipeline. He is further alleged to have established **Sotic International** in 2019, some of the employees of which are former employees of Trafigura and Puma.¹³³ Sotic is a Mauritius-based company, which is backed by Cayman Islands-registered Almas Global Opportunity Fund.¹³⁴

Sotic entered into a US\$1.2 billion pre-payment agreement with NOIC. Under the agreement, Sotic advanced a loan of US\$1.2 billion to NOIC payable over 10 years at an interest rate of 6 per cent per annum.¹³⁵ In return, SOTIC was allocated a pipeline capacity of 130 million litres of fuel per month for 10 years – Zimbabwe's fuel consumption was measured at 165 million litres per month in 2019.¹³⁷ This agreement establishes a monopoly position for Sotic over the pipeline and assures it of access to foreign currency from RBZ for 10 years.

Due to its takeover of Trafigura Zimbabwe, Trafigura remains unaffected by the U.S. sanctions on Tagwirei and Sakunda. Both Sotic International and Tagwirei¹³⁸ have denied any relationship between them and, at the time of writing, Sotic was not under U.S. sanctions. Further, Tagwirei is alleged to also have beneficial ownership in another fuel retail company, Trek.¹³⁹

CASE STUDIES 2

The fuel cartels (Continued)

Former ZANU-PF youth leader Godfrey Tsenengamu was fired from the party for describing Tagwirei as “a guy who controls [the] pipeline”.¹⁴⁰ In August 2020, the US Treasury Department imposed sanctions on Tagwirei and noted that he had “utilised his relationships with high level Zimbabwean officials (including the President Mnangagwa and Vice President Chiwenga) to gain state contracts and receive favoured access to hard currency” from RBZ.¹⁴¹

Following the ascendancy of **Mnangagwa** to the presidency, a tug-of-war had ensued between Mnangagwa and **Chiwenga** to lure Tagwirei into their patronage networks.

Tagwirei, who falls into this paper’s categorisation of money men, deftly managed the two by financing ZANU-PF’s 2018 election campaign¹⁴² and gifting both Mnangagwa and Chiwenga, their spouses and several top government and ZANU-PF officials with vehicles that were imported duty-free under the Command Agriculture Program (CAP).^{143, 144} Tagwirei was recently described by President Mnangagwa as his favourite disciple,¹⁴⁵ and Vice-President Chiwenga allegedly stormed out of a ZANU-PF politburo meeting when youths accused Tagwirei of corruption.¹⁴⁶

In addition to illicitly obtaining foreign currency, Tagwirei’s Sakunda has imported duty-free fuel and sold it at local market prices that included the import duty, basically appropriating the duty for itself. Sakunda was given National Project Status (NPS) for the **Dema Diesel Power Plant**,¹⁴⁷ which allowed for the importation of 25 million litres of duty-free diesel a month, when the power plant only consumed 12 million litres a month.¹⁴⁸

ZERA justified this decision by claiming the extra fuel was for ‘emergency purposes’.¹⁴⁹ Sakunda is alleged to have sold the extra 13 million litres of diesel to consumers at retail price and by so doing, transferred to itself¹⁵⁰ an estimated US\$6.8 million¹⁵¹ a month that consumers believed was going to the government. In addition, Sakunda was given another NPS in 2015 for the Africa Chrome Fields venture where it partnered the Moti Group and the military.¹⁵² ACF imported 12 million litres of duty-free diesel monthly.¹⁵³

Another cartel in the fuel industry is the ethanol cartel. Fuel is mandatorily blended with

ethanol in Zimbabwe in the ratio of 80 per cent petrol to 20 per cent ethanol.¹⁵⁴ **Green Fuel** is a joint venture company between the state-owned **Agricultural and Rural Development Authority (ARDA)** and companies linked to Zimbabwean businessman, **Billy Rautenbach**,¹⁵⁵ who was heavily involved with ZANU-PF during the DRC war.¹⁵⁶

Green Fuel is one of two operations that supplies ethanol to fuel companies – the other is Triangle Limited which produces sugar, and ethanol as a by-product.¹⁵⁷ Under the Mugabe administration, Green Fuel enjoyed a monopoly over the ethanol market as the sole licenced ethanol supplier.¹⁵⁸ In addition to its own production, Green Fuel would reportedly acquire ethanol from Triangle and sell it as its own.

A Deputy Minister of Energy in the Mugabe administration revealed that, in 2015, Triangle was selling ethanol at US\$0.78 per litre while Green Fuel was selling it at US\$0.88 per litre.¹⁵⁹ The U.S. Department of Agriculture has explained that “ethanol produced by Triangle is from molasses and is cheaper than the ethanol produced by Green Fuels from fermentable sugars.”¹⁶⁰ Currently, ethanol is produced by Green Fuel at an estimated cost of US\$0.45 per litre,¹⁶¹ but is sold to NOIC and fuel companies at US\$1.10 per litre,¹⁶² generating significant economic rents.

As with the fuel cartel, the Mnangagwa administration has brought changes.

In January 2019, the administration issued a licence to Triangle Limited.¹⁶³ Triangle had in 2018 attempted to acquire the licence by partnering NOIC in a joint venture with the Fuel Ethanol Company of Zimbabwe (Private) Limited (FECZ).¹⁶⁴ However, Green Fuel succeeded in lobbying against the licencing of the joint venture.¹⁶⁵

Green Fuel’s viability and competitiveness is threatened by the licencing of Triangle.¹⁶⁶ So far, Green Fuel’s production has been unaffected, and it has consistently produced 56 million litres of ethanol in each of the last two marketing years whilst Triangle has also maintained production at 26.1 million litres in each marketing year.¹⁶⁷

Zimbabwe requires 120 million litres of ethanol a year to achieve a blending ratio of 20% ethanol (E20) therefore current production is still below demand.¹⁶⁸

CASE STUDIES **3**

The agriculture cartels



Photo by Todd Trapani on Pexels

Public expenditure on agriculture (mostly maize production) has accounted for close to 10 per cent of GDP over the period 2016-2019, rising from US\$173 million in 2011 to US\$1.2 billion in 2017.¹⁶⁹ This expenditure was directed towards the Command Agriculture Program (CAP), the GMB subsidies and the Presidential Input Scheme (PIS). In 2017, the government spent US\$391 million on CAP, US\$513 million on the GMB subsidies and US\$125 million on the PIS in 2017.¹⁷⁰

Command Agriculture

The CAP was driven by **Kudakwashe Tagwirei's Sakunda Holdings**, under which Sakunda provided farmers with farming inputs for the production of maize and wheat and recouped the financing from the government.¹⁷¹

The government provided the guarantee on farmers' repayment and collected repayments from the delivery of agricultural products to GMB. What looked like a sensible plan on paper was described by Minister of Finance, **Professor Mthuli Ncube**, as a programme that "created opportunities for arbitrage, leakages and corruption",¹⁷² while the government's Debt Management Office (DMO) bemoaned that the agreement between government and Sakunda did not specify the prices of inputs, leaving room for overpricing.¹⁷³

The **RBZ** issued non-tradeable Treasury Bills to Sakunda.¹⁷⁴ Then, instead of buying farming inputs directly from suppliers, government contracted Sakunda to raise finance from banks, using the Bills, and then purchased inputs on behalf of the government.¹⁷⁵

The CAP was initiated during the **Mugabe** era, but was largely steered by the **Mnangagwa**

faction¹⁷⁶ and the **military**.¹⁷⁷ The inputs were procured from SOEs and a network of companies, some of which are closely linked to Tagwirei, Mnangagwa and the military. These include:

- Fuel from **Puma** and **Trek**, companies in which Sakunda had shareholding,¹⁷⁸ and from **Zuva**, which has been linked to Mnangagwa. (Two former ministers, Tendai Biti (MDC) and Walter Mzembe (ZANU-PF), alleged that **President Mnangagwa** has beneficial ownership in Zuva.^{179, 180})
- **Fertiliser from Fertiliser, Seed and Grain (Pvt) Ltd (FSG)**, a company run by Steve Morland, which was registered in 2010¹⁸¹ and had negligible market share¹⁸² until it started supplying CAP inputs.¹⁸³
- Fertiliser from **Sable Chemicals** and **ZFC Limited**.¹⁸⁴ Both companies are jointly-owned by the SOE **Industrial Development Corporation** (IDC)¹⁸⁵ and the publicly-listed **TA Holdings**, which is majority-owned by **Shingi Mutasa's Masawara Mauritius Ltd**.¹⁸⁶
- Agrochemicals from **Fossil Agro**, a subsidiary of Sakunda, whose CEO **Dr Obey Chimuka** is a key Tagwirei proxy.^{187, 188} A Parliamentary investigation on diamond mining in Marange found that Chimuka illegally traded in diamonds,¹⁸⁹ pointing to possible involvement by Tagwirei in diamond looting. Chimuka sat on the board of Sakunda Supplies and sits on the board of Great Dyke Investments.¹⁹⁰
- Lime from **Chemplex**,¹⁹¹ a subsidiary of the SOE, IDC.¹⁹²

In 2019, depreciation of the Zimbabwean dollar left Sakunda with a huge loss, as the repayment due to it for the CAP was significantly less than

CASE STUDIES 3

The agriculture cartels (Continued)

the money it had invested. Sakunda received a preferential revaluation of its repayment and received over ZW\$3 billion, instead of the ZW\$330 million due to it. This money was created by the RBZ and led to a significant further devaluation of the Zimbabwean dollar, by 23%.¹⁹³

For its role in CAP, Sakunda was slapped with U.S. sanctions in August 2020.¹⁹⁴ CAP was scaled down in the 2019/2020 farming season with the financing being provided by CBZ Holdings and Agribank, while in the 2020/2021 season the financing is being provided by CBZ, Agribank, Stanbic and the Zimbabwe Women's Microfinance Bank.¹⁹⁵

Millers' Subsidy and Foreign Currency Allocation

The government has made longstanding policy efforts to make the staple food, maize meal, as affordable as possible. In recent years, a millers' subsidy was used. Millers, companies that process maize into maize meal, were allowed to purchase maize from SOE GMB at a substantially low price.¹⁹⁶ Government spent hundreds of millions of dollars on this subsidy.¹⁹⁷

To gain the rent, millers could: 1) sell the subsidised maize back to GMB and receive double what they had paid; 2) sell the maize on the informal market; 3) export the maize to neighbouring countries such as DRC and Mozambique for foreign currency; or 4) produce high end products from the subsidised maize.

Grain millers are able to cooperate and collude in this practice through their association, the **Grain Millers Association of Zimbabwe (GMAZ)**, headed by **Tafadzwa Musarara**.¹⁹⁸ Tafadzwa Musarara is alleged to enjoy the patronage of **Vice-President Chiwenga**,¹⁹⁹ and has been an ardent defender of diamond mining companies operating in Marange.²⁰⁰ This collusion has faced strong opposition from the **Mnangagwa** faction, with Mnangagwa's alleged ally, **Justice Wadyajena**,²⁰¹ leading a public Parliamentary hearing on the abuse of the millers' subsidy and foreign currency allocations by GMAZ and millers.²⁰²

The Parliamentary hearing heard that RBZ allocated US\$27 million to GMAZ to import wheat on behalf of millers between 2017-19, and

Musarara used his personal company, **Drotsky (Pvt) Ltd**, to make the imports.²⁰³ Wadyajena alleged that the wheat import was fake, and no wheat had been brought into the country.²⁰⁴ Musarara claimed to have provided US\$9 million to GMB to finance repairs of its silos, but GMB denied receiving the money.²⁰⁵

The Ministry of Finance's efforts to end the costly millers' subsidy were resisted by GMAZ,²⁰⁶ and publicly denounced by President Mnangagwa.²⁰⁷ Despite this powerful opposition, the Ministry of Finance succeeded in pushing through a policy to replace the miller's subsidy with cash transfers.²⁰⁸ As often happened under Mugabe, who would publicly denounce unpopular policies that he was privately orchestrating, this success may point to Mnangagwa's subtle support for the ending of the subsidy.

During the Parliamentary hearings, small-scale millers alleged under oath that some large millers were receiving maize allocations far higher than they were supposed to receive as determined by their milling capacity, in connivance with GMB's Operations Director, **Lawrence Jasi**.²⁰⁹

The allegations were that this maize then would be illegally exported to DRC by a cartel that comprised of 1) haulage truck companies whose trucks carried copper exports from DRC and Zambia to South Africa and returned empty; 2) **ZIMRA** officials at Beitbridge border post that prepared falsified paperwork that claimed the trucks were carrying maize from South Africa; and 3) millers who would load the trucks with subsidised maize.

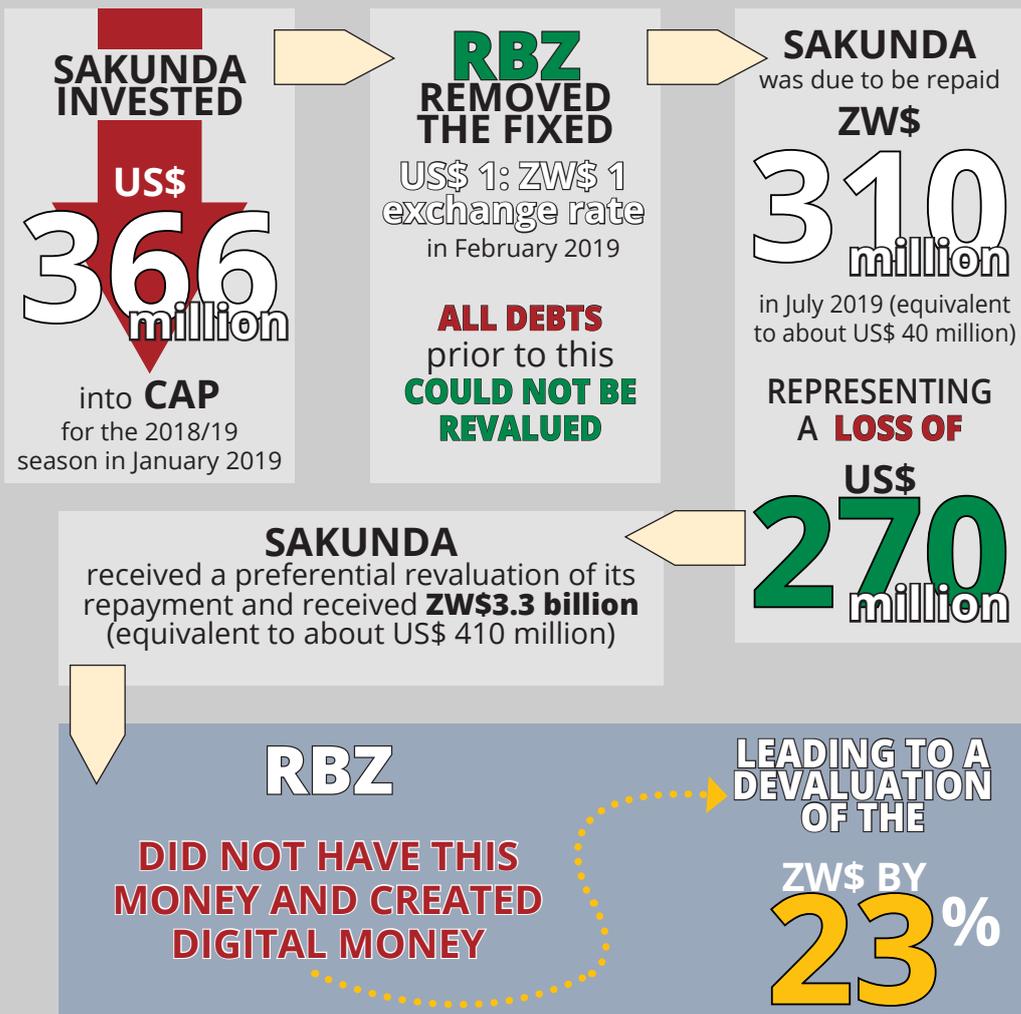
Innscor-owned National Foods and Blue Ribbon have been investigated by the police²¹⁰ and have denied the charges of being involved in exporting subsidised maize.²¹¹

One tenth of public expenditure goes to the agricultural sector. The majority of the funds go to subsidy programmes such as the Command Agriculture Programme (CAP), Presidential Input Scheme and Millers' subsidy. Public procurement of agricultural inputs and access to subsidised agricultural produce sold by state bodies has been captured by individuals and companies that are connected to politically exposed persons.



Photo by Jan Kopřiva on Unsplash

How RBZ's Illicit Repayment to Sakunda Led to the Zimbabwe Dollar Losing Over 23% Value Overnight



CASE STUDIES **4**

The cigarette cartels



The cigarette industry is liable for sin taxes in Zimbabwe and South Africa, which account for a substantial proportion of the cigarettes' prices.

As highlighted by **Simon Rudland**, "the financial reward for not paying the sin tax on cigarettes is very attractive."²¹² Cigarette smuggling cartels are attracted by the economic rents that arise from tax evasion. The tax evasion is conducted in different ways in Zimbabwe and South Africa.

In Zimbabwe, the cartels obtain illicit rebates on excise duty. In Zimbabwe, cigarette producers are charged an excise duty of US\$7 per 1,000 cigarettes plus 40% of the cigarettes' factory price.²¹³ Zimbabwe allows export of cigarettes. If the cigarettes are exported, the exporter is entitled to a refund (rebate) of this excise duty. Cigarette cartels make legal declarations of exports of cigarettes at the country's borders, obtain the excise duty rebate from ZIMRA and then go on to bring the cigarettes back into Zimbabwe to sell them on the informal market or smuggle them into South Africa.

South Africa has banned the mass import of tobacco products.²¹⁴ In South Africa, excise duty on cigarettes is 40%.²¹⁵ Cigarettes that are smuggled into South Africa do not pay this

duty and can therefore be sold for far cheaper than cigarettes that are legally produced in South Africa, creating a significant arbitrage opportunity. It is estimated that the cigarette smuggling cartels supply 27% of the cigarettes consumed in South Africa annually.^{216, 217}

The main cigarette smuggling cartels comprise of 1) political patrons who allow the cartels to operate with impunity, 2) transport companies that ferry the cigarettes and 3) distribution networks in South Africa.

Under the Mugabe administration, the majority of cigarettes smuggled to South Africa (Pacific Cigarettes Gold Leaf Tobacco brands)²¹⁸ were produced by members of Mugabe's patronage network. Pacific cigarettes are the most seized brand by South African law enforcement agencies.²¹⁹

Pacific Cigarette Company (PCC) is owned by **Adam Molai**, Robert Mugabe's nephew-in-law and a Chinese state-owned cigarette manufacturing company.²²⁰ In 2012, President Mugabe accused **British American Tobacco (BAT)** of spying on PCC and hijacking its trucks stating, "if this is what you are doing in order to kill competition and you do it in a bad way, somebody will answer for it".²²¹

The **Gold Leaf Tobacco Zimbabwe (GLTZ)** is

owned by the **Rudland family** and it is alleged that the late **John Bredenkamp** had some beneficial ownership in the company.²²² The Rudlands enjoyed the patronage of Mugabe as evidenced by Mugabe leasing one of his farms to **Hamish Rudland**. GLTZ is headed by **Simon Rudland**^{224, 225} who was once arrested for cigarette smuggling in South Africa in the mid-2000s.²²⁶

The cigarettes are smuggled to South Africa via rail, road and air. **Lonrho Ltd** stands out as a key transporter of smuggled cigarettes. Law enforcement agencies have intercepted smuggled cigarettes that have been transported via road using the South African registered **Rollex (Pvt) Ltd's** haulage trucks.²²⁷ Rollex, founded by **Paul de Robillard**, is a subsidiary of Lonrho.²²⁸

The Rudland family own two haulage trucking businesses, **Pioneer Corporation Africa (PCA)** and **Unifreight Africa Limited (UAL)**. Law enforcement agencies have also intercepted smuggled cigarettes on an airline, **Fastjet** which is another Lonrho subsidiary.

Smuggled cigarettes have also been found in rail wagons hidden beneath timber poles.²²⁹ It has been alleged some cigarettes that are smuggled using rail are transported to the premises of PFC Integration, a company run by **Paul de Robillard** – a total of 23 shipments with 44 wagons of “timber poles” were shipped by rail to PFC Integration between 2012 and 2013.²³⁰

The South African Revenue Service (SARS) has investigated several individuals and companies for distributing smuggled cigarettes, including **Amalgamated Tobacco Manufacturers (ATM)**²³¹ which is owned by **Yusuf Kajee**. It is alleged that ATM was established with the assistance of **John Bredenkamp**,²³² while ATM's operations in Mozambique are run by the aforementioned **Paul de Robillard**.²³³

These investigations were a key battleground in the **Africa National Congress (ANC)** factional fights, with Minister of Finance **Pravin Gordhan** (a member of the Ramaphosa faction) directing a unit of the tax collector, South African Revenue Service (SARS), to investigate the cartels in 2015.²³⁴ The Zuma faction responded by replacing the head of SARS with a loyalist who disbanded what was then described as a “rogue unit”.²³⁵

The cigarette cartels, and key players in them, survived Mugabe's fall. Under the Mnangagwa administration, cigarette smuggling has continued to thrive, and the operations of the aforementioned money men have been unhindered. The ban on the sale of cigarettes during the COVID-19 pandemic in South Africa significantly increased the market and prices for smuggled cigarettes.²³⁶

In 2015 Mnangagwa, like Mugabe, “declared that he would personally ensure that [PCC] was protected from what he called international mafia that he accused of sabotaging Molai's company”²³⁷. Adam Molai has been under investigation by the Mnangagwa administration for a US\$304 million state contract he won without going to tender as required by law.²³⁸

Zimbabwe is Africa's largest tobacco producer while, South Africa is one of the top tobacco consuming countries in Africa. Laws and policies aimed at preventing Zimbabwean cigarettes from supplying South Africa's large demand for cheap cigarettes have largely failed. They have created a sprawling underground network of cigarette smuggling whose tentacles have reached the top offices in both countries.



CASE STUDIES **5**

The mining cartels



Accounting for 60 per cent of the country's export revenue and a substantial share of foreign direct investment (FDI), the mining sector has long been attractive to economic rent seekers. A wide range of illicit activities occur in the sector. These range from trade misinvoicing to tax evasion; and smuggling of minerals to speculative hoarding of mineral concessions. This case study focuses on the latter two to illuminate the activities of cartels in the sector.

Speculative hoarding of platinum deposits

In Zimbabwe, mineral deposits are not sold or auctioned by the state. By law, mineral deposits are state resources, and the private sector can only be licensed to extract the resources in return for licencing fees, ground rental fees and royalties charged on mineral output.

Licensing fees are relatively negligible amounts of money, while royalties range from 1 per cent to 15 per cent of the value of the minerals produced, depending on the mineral. While mineral licences are transferrable with the approval of the Ministry of Mines, most actors register the licence in the name of a company and then sell the company, with the value of

the mineral deposit reflected in the value of the company.

For example, Company A can acquire a platinum deposit worth US\$1 billion from the state by obtaining a licence to explore and/or mine the deposit for a relatively small amount of money. The beneficial owners of Company A can then sell the deposit for US\$100 million to a larger multinational mining company and make an astronomical profit. It is this larger company that will then go on to produce the platinum and realise the full value of US\$1 billion over a long period of time, while paying royalties, fees and taxes to the government.

The looting of Marange diamonds is a well-studied case that does not need repeating. Mugabe, **Obert Mpofu** and elites in the military, police, **Zimbabwe Prison Service (ZPS)** and **Central Intelligence Organization (CIO)** enriched themselves through diamond mining ventures in which local entities formed joint ventures with Chinese, Russian, South African and Lebanese investors.^{239, 240, 241} Following substantial depletion of the alluvial diamonds in Marange,²⁴² cartels have shifted their attention to the gold, nickel and platinum deposits.

The government has twice expropriated mineral deposits from **Zimplats Holdings Limited**, a company that is majority-owned by the South African platinum producer, **Implats**.²⁴³ The expropriation covered 68 per cent of the deposits that Zimplats initially held – 36 per cent of the resources were expropriated between 2006-09,²⁴⁴ and a further 32 per cent in 2018.²⁴⁵

These resources were then licensed, respectively, to 1) **Great Dyke Investments (GDI)**,²⁴⁶ a joint venture between **Afromet JSC**, a subsidiary of the Russian company **Vi Holding**,²⁴⁷ and **Pen East Mining Company**²⁴⁸ (a company owned by **ZMDC** and the **military**²⁴⁹) and to 2) a joint venture between a **Government investment vehicle** and **Karo Resources**, owned by **Loucas Pouroulis**,²⁵⁰ whose links to **President Mnangagwa** date back to the second DRC War.²⁵¹

More recently **Landela Mining (Pvt) Ltd**, which is allegedly owned by Kuda Tagwirei,^{252, 153, 154} acquired the 50% stake in GDI held by Pen East Mining Company.²⁵⁵

The GDI project has engaged **Afreximbank** to help it seek financing of US\$500 million for a first phase of the mine's development.²⁵⁶ Afreximbank President **Benedict Oramah** is reportedly closely linked to **Alexander Zingman**,²⁵⁷ a Belarussian businessman whom Mnangagwa appointed as Honorary Consul to Belarus.²⁵⁸ Zingman has apparently been the middleman in deals that have seen Hwange Colliery (a company jointly-owned by the government and controversial British businessman, **Nicholas van Hoogstraten**) and the **Zimbabwe Consolidated Diamond Company (ZCDC)**, an SOE, receiving mining equipment from Belarus on credit, and 500 buses expected to be manufactured in Belarus and assembled in Zimbabwe.²⁵⁹

Other sources suggest that the key player in the GDI initiative is not Afreximbank Bank, but the Trade and Development Bank (TBD), formerly the Eastern and Southern African Trade and Development Bank (PTA), headed by **Adamasu Tadesse**, reportedly very close to Mnangagwa. Either way, the deal is clouded in opacity.

Kudakwashe Tagwirei is alleged to have recently moved into the gold mining sector

through Mauritius-based **Sotic International**,²⁶⁰ Sotic has acquired Bindura Nickel Company (BNC), Freda Rebecca gold mine, Shamva Mine²⁶¹ and a coal-bed methane concession.²⁶² These assets are mined by **Landela Mining Venture (Pvt) Ltd**.²⁶³ Landela's CEO is **David Brown**, a former CEO of Implats²⁶⁴, which owns Zimplats and half of Mimosa²⁶⁵. Brown is therefore the former boss **Winston Chitando**, the Minister of Mines and Mining Development, since Chitando was employed at Mimosa before becoming Minister.²⁶⁶

Gold Smuggling

A substantial amount of gold is smuggled out of Zimbabwe. Due to the secrecy under which smuggling is done, it is difficult to ascertain how much gold is smuggled out.

The Minister of Home Affairs, Kazembe Kazembe, has stated that close to US\$ 1.2 billion worth of gold is smuggled annually;²⁶⁷ while Finance Minister Ncube has suggested that between 30 and 34 tonnes of gold were being smuggled to South Africa each year,²⁶⁸ - valued at around US\$1.8 to 2 billion at current global gold prices. More conservative estimates put the volume of smuggled gold at close to 3 tonnes a year.²⁶⁹

Official trade data points to significant smuggling of gold. Zimbabwe reports exporting US\$611 million worth of gold to the UAE in 2018. However, the UAE reports that US\$ 821 million worth of gold was imported from Zimbabwe.²⁷⁰ Therefore, US\$210 million worth of gold was taken out of Zimbabwe with no official reports of the exports made to government.

A large proportion of the smuggled gold comes from artisanal and small-scale gold miners. Zimbabwe has an abundance of gold and has some of the highest presence of gold per square kilometre in the world.²⁷¹ This has attracted a large number of unemployed Zimbabweans to mine for gold in largely informal operations.

It is estimated that 1 in 30 Zimbabweans (14% of the labour force) actively engages in artisanal and small-scale gold mining (ASGM).²⁷² These miners produce more gold than the large-scale mining companies – in 2019 they produced 63% of the gold marketed formally in Zimbabwe, contributing 1.2% of Zimbabwe's GDP.²⁷³

Smuggling is driven by the relatively low gold

CASE STUDIES 5

The mining cartels (Continued)

prices offered by the State²⁷⁴ and the economic rent-seeking behaviour of PEPs and some money men.

In Zimbabwe, the marketing and export of gold is controlled by the state. A subsidiary of RBZ, Fidelity Printers and Refinery (FPR), is mandated to buy all gold.²⁷⁵ FPR buys gold at the world price and collects the royalty on gold on behalf of ZIMRA. For ASGM operators, this royalty is 1%. However, due to RBZ's forex retention policies, FPR pays ASGM operators partly in US dollars (currently 70%) and partly in Zimbabwean dollars (currently 30%).²⁷⁶

As explained in Annexure 2, state control leads to a loss in value for the ASGM operators. The miners often choose to sell to informal gold traders who pay in foreign currency. This illicitly-traded gold is often smuggled out of the country and sold in markets with a high demand and/or lax due diligence on the source of the gold such as South Africa²⁷⁷ and the UAE.²⁷⁸

While illegal gold trading and smuggling is diffused and involves a large number of actors, the smuggling of significant amounts of gold usually involves cartels. PEPs are widely reported to control the production and trading of gold in many parts of Zimbabwe. **President Mnangagwa** is widely reported to control violent gangs of miners²⁷⁹ and have vested interests in ASGM.²⁸⁰

PEPs also collude with money men in gold smuggling, and PEPs ensure that the smugglers evade border controls²⁸¹ and access gold at subsidised prices from FPR,²⁸² while the money men purchase the gold or finance the production of the gold. This has gone on for decades as epitomised by naming of **President Mnangagwa** as a beneficiary of the proceeds of illegal gold trading in a 2003 court case in which a Zimbabwean gold miner, **Mark Burden** was on trial.²⁸³

The head of the Zimbabwe Miner's Federation, **Henrietta Rushwaya** is currently on trial for attempting to smuggle gold belonging to Pakistani businessman **Ali Muhamad**.²⁸⁴ It has been alleged that Rushwaya, the First Lady, **Auxillia Mnangagwa** and one of the President's sons, **Collins Mnangagwa** are part of "an elite trafficking cartel" that smuggles gold out of Zimbabwe.²⁸⁵

It is important to note that the financial impact of gold smuggling is not as significant as often reported. A large proportion of the proceeds of smuggling go to paying for the production of the gold and conversely, the royalty for ASGM-produced gold is 1% while that for gold produced by large-scale mining companies is 5%.

Government loses 1 cent for every dollar's worth of ASGM-produced gold smuggled out of Zimbabwe. However, like other illicit activities, gold smuggling has an impact on investor attractiveness, degradation of democratic governance and poor service delivery as described in the next section.

The lack of investment in Zimbabwe for the last two decades has created two key dynamics for the mining sector: (1) the country is under-explored, and it is one of the few frontiers left in the world, and (2) the informal sector has taken over the spaces left by the formal sector. Cartels have been formed to expropriate and hoard mineral deposits, which are then sold on for large profits. The informal mining activities have become a key source of gold and gemstones that cartels smuggle out of the country.



III) IMPACTS OF CARTELS



The citizens of Zimbabwe are under-served, and three-fifths of the population do not have access to electricity,²⁸⁶ one-fifth have no access to improved sources of drinking water, and one-third do not have access to a toilet.²⁸⁷

The fortunate few who have access to basic amenities have to contend with widespread shortages of both water and electricity.

The public health system is so under-resourced and fragile²⁸⁸ that in the second half of 2019, over 500 junior doctors went on strike while nurses reduced their working hours.

While access to education is relatively high, the quality of education is adversely affected by poor resourcing.

In addition, citizens have limited voice, and struggle to hold those in power to account.

Cartels are partly responsible for this sad state in which Zimbabweans find themselves, and are a key obstacle to the improvement of living conditions for Zimbabweans. The impact of cartels includes:

Entrenchment of the autocratic state

Cartels are critical to ZANU-PF's political financing, and help it stay



in power. The economic rents cartels provide for the military elites, judiciary, police and MPs to make the institutions they serve subservient to the interests of the cartels rather than citizens. The mutually beneficial relationships that exist between actors in the cartels lead to a mutual desire to maintain ZANU-PF's hold on power. Further, some cartels feel threatened by more inclusive and more transparent governance, and are opposed to any efforts for national dialogue.

Prior to **Kudakwashe Tagwirei's** substantial role in financing ZANU-PF's 2018 election,²⁸⁹ another cartel saved Mugabe and ZANU-PF when they were at their closest to losing power.

In March 2008, Mugabe lost the first round of presidential elections to Morgan Tsvangirai²⁹⁰ at a time when Zimbabwe was experiencing the second-worst hyperinflationary period in global history,²⁹¹ a cholera outbreak was claiming lives across urban areas²⁹² and the Mujuru faction was actively sabotaging Mugabe.²⁹³ The second round of elections were set for July 2008 and a divided ZANU-PF faced defeat.²⁹⁴ A cartel came to the rescue.

In the early 2000s, **Anglo American Platinum** discovered



the rich Bokai Platinum deposit and sold it for US\$142 million²⁹⁵ to **Todal Mining (Pvt) Ltd**,²⁹⁶ a joint venture company between the state-owned **Zimbabwe Mining Development Corporation (ZMDC)** (60 per cent) and **Lefever Finance Ltd** (40 per cent).²⁹⁷ Lefever is registered in the British Virgin Islands, a tax haven.²⁹⁸

In April 2008, a month after Robert Mugabe's electoral loss, Lefever Finance Ltd was sold to **Central African Mining & Exploration Company Plc (CAMEC)**, a UK-registered company with mining assets in DR Congo.²⁹⁹ Among CAMEC's shareholders was **Billy Rautenbach**.³⁰⁰ As part of the acquisition of Lefever Finance Ltd, CAMEC gave the Government of Zimbabwe a loan of US\$100 million.

To raise the money, CAMEC collateralised its shares and took a loan from **Och-Ziff Capital Management Group LLC** (Och-Ziff), a New York hedge fund.³⁰¹ The US\$100 million is believed to have been used by the Mugabe administration to run a violent run-off election campaign between April and July 2009 during which 200 people were killed, 5,000 more injured and over 36,000 were displaced.^{302, 303}

In 2009, CAMEC was bought by

Eurasian Natural Resource Corporation (ENRC), a Kazakhstan company, bringing Lefever Finance Ltd under the control of ENRC.³⁰⁴ ENRC has since re-branded to ERG LLP after it was investigated by UK's serious frauds office for its activities in DRC.³⁰⁵ It is registered in Luxembourg³⁰⁶ and owns the Zimbabwean-registered **SABOT Haulage company** which it bought from Billy Rautenbach.³⁰⁷

Deterioration of the macro-economic environment

Cartels have contributed to **deliberate missteps** by public officials in policymaking, which have led to significant deterioration in the macro-economic environment. Most notably, the cartels in the importing business, such as the fuel cartels and the millers, have lobbied for high levels of foreign currency retention and a controlled exchange rate between the U.S. dollar and Zimbabwean dollar. This creates large economic rents for the importers.

The retention rates serve to disincentivise exporters to bring all their export revenue to Zimbabwe, leading to high levels of trade misinvoicing and a widening trade deficit. In turn, a controlled exchange rate creates cheap U.S. dollars for the importers who then dump them on the parallel market, driving the rate up and increasing inflation.

The illicit payment of ZW\$3.3 billion to Sakunda in 2019, instead of ZW\$330 million, caused the devaluation of the Zimbabwean dollar by 23 per cent,³⁰⁸ eroding the incomes and savings of millions of Zimbabweans overnight.

Cartels influence PEPs to take on more public debt than the state can sustainably service, leading to a ballooning public debt, which leaves the country with a poor credit rating, and increases the fragility of the state.

Poor service delivery

The overpricing of goods and services procured by the state from cartels delivers low value-for-money for taxpayers and citizens.

Citizens receive less medicine, fewer kilometres of road, poorer education and less private consumption than they should. This entrenches and increases poverty, and widens the gap between the poor and the rich.

Cartels in the private sector, can create price hikes of goods and services, which would then erode the spending power of citizens.

Civil servants who are able to create economic rent-seeking opportunities for cartels are more likely to get promoted thereby reducing the meritocracy of the bureaucracy.³⁰⁹

The cartels aforementioned contribution to deliberate missteps by public officials in policy making led to a rise in inflation from 2018 to 2020, and have significantly reduced the value of public funding for health.

Per capita public funding for health fell from US\$24.18 in 2018³¹⁰ to an estimated US\$3.98 in 2020.³¹¹ Zimbabwe has fallen even further behind the SADC average, which is US\$106.88 per capita³¹² and fallen short of the WHO recommendation of US\$86 per capita.

The outcomes are serious, particularly for the most impoverished Zimbabweans. Five in every hundred infants die before they turn five years old, while one in every two hundred women dies while giving birth. A fifth of births take place with no skilled health professional present.³¹³ It was recently reported that of eight babies delivered on one shift at Parirenyatwa Hospital, only one survived.³¹⁴

In contrast, the corrupt Drax Consul deal was worth US\$60 million and would have cost US\$4 per capita³¹⁵ – equivalent to the full annual allocation by the government to the Ministry of Health.³¹⁶

Uncompetitive business climate

Cartels lead to an uncompetitive business climate, which is unattractive to responsible investors in multiple ways:

- Cartels lead to multiple distortions in the economy and an unstable policy environment, factors that dissuade long-term institutional investment. This leaves the country to settle for and actively attract the wrong type of investors who seek to replicate the behaviour of the cartels.
- Cartels themselves misallocate their own capital to economic rent-seeking activities that do not create wealth for the nation, but rather only serve to transfer wealth from citizens and the public fund to themselves. This capital could have been better used in more productive ways to generate new wealth, create sustainable jobs and generate tax revenue for the state to use in addressing social needs.
- Cartels by their very definition are anti-competitive. In a free market, competition is won by firms that are more innovative and better at allocating scarce resources than others. This leads to efficient investments and technological development. However, cartels stifle innovation and technological development, and lead to poor allocation of capital and other factors of production.

A direct result of an uncompetitive business climate is a lack of job creation, and even a loss in existing jobs.

SADC
average

DISCUSSION & ANALYSIS

» Several key observations stand out from the analysis of the study's findings.

Power shifts barely affect cartels

The findings show that when a patron loses control of the state, most cartels that emerged from collusion between PEPs and the private sector tend to survive the patron's fall. Money men establish or strengthen relationships with the new patron(s). However, most runners lose their privilege and access to economic rents.

Several cartels and money men survived the contentious power shifts in 1980 and 2017 "because they were quickly able to switch allegiance when things happened".³¹⁷ John Bredenkamp is a good example. He ran a smuggling cartel in Rhodesia, which played a key role in evading UN sanctions on the Smith administration, exporting tobacco and importing arms on behalf of the state.³¹⁸

Bredenkamp went on to partner with the Zimbabwean military in diamond mining and arms deals during the second DRC War, help Mugabe equip his farms, and contribute to the construction of the ZANU-PF Headquarters.³¹⁹ He also actively pushed for Mnangagwa's ascendancy to the presidency³²⁰ and was seen as an ally of the military.³²¹

Kudakwashe Tagwirei, Billy Rautenbach, Univern and the Rudland brothers have, in similar fashion, been able to not only survive Mugabe's fall, but also entrench their cartels under the

» Some Cartels and PEPs were able to quickly switch allegiances when Mugabe was removed «

new administration. There is a strong probability that some cartels have already made inroads in forging relationships with former and current leaders of the opposition as a means of ensuring their survival beyond ZANU-PF's fall.

There are allegations, possibly false, that both John Bredenkamp³²² and Kudakwashe Tagwirei provide donations to opposition election campaigns. It is therefore prudent not to assume that the fall of ZANU-PF would be synonymous with the fall of cartels linked to the current PEPs. While cartels pose a long-standing obstacle to democratisation and power transfer to a victorious opposition, they can also quickly entrench themselves in a new political administration.

Cartels that emerge from self-dealing by PEPs tend to collapse when the PEP loses power. One key interviewee illustrated this by noting, "Saviour Kasukuwere has totally gone with his businesses because he wasn't a businessman

per se. He was just depending on his political positions".³²³ The collapse of businesses run by PEPs, such as Mugabe's³²⁴ former Vice-President Mphoko,³²⁵ since their ouster from power also bears testament.

Power has decentralised under the Mnangagwa Administration

The intense factionalism in ZANU-PF and notable "devolution of the centre of power"³²⁶ since Mugabe's loss of power has created multiple patrons in President Mnangagwa, his Vice-Presidents and military leadership. These patrons engage simultaneously in cooperation and competition across many fronts and their relationships are very fluid. However, the preservation of power is a goal that brings them together. The most notable tension exists between President Mnangagwa and Vice-President Chiwenga.

The study finds that Mugabe maintained a firm hold on power and was the single most powerful patron during the majority of his

time in office. One key interviewee put it succinctly, “during the Mugabe era, no matter what was going on you knew Mugabe had the final say”.³²⁷

Mnangagwa’s singular hold on power is weaker, and there are cartels that operate outside of his patronage network leading to “a fracturing of alliances”.³²⁸ These cartels are mostly loyal to Chiwenga, members of the military elite and, to a lesser extent, other individuals such as S.B. Moyo. One key interviewee contends that cartels are “closer to power now than they were under Mugabe”.³²⁹

Patrons actively use state power to enforce loyalty

The coercive power of the state is actively used by patrons to enforce the loyalty of money men who are perceived as no longer serving the interests of the patron.

Mugabe actively treated disloyalty the same way he treated the political opposition by having John Bredenkamp arrested for pushing for Mnangagwa to replace him as President; expropriating the Marange diamond fields from the military and its acolytes when the military also pushed for Mnangagwa to replace Mugabe; and charging John Moxon with corruption leading to his arrest in 2009.³³⁰

Mnangagwa has done the same, as attested by his consistency in threatening the Chiwenga-linked Rautenbach,^{331, 332} His proxies in Parliament have exposed the dealings of Tafadzwa Musarara, who is also linked to Chiwenga.

Similarly, First Lady Auxilia Mnangagwa’s “fact-finding visits”³³³ to Natpharm resulted in the incumbent Managing Director being dismissed and replaced by Flora Sikefu who was handpicked by the First Lady. Flora Sikefu was integral to the awarding of an overpriced tender for COVID-19 medical supplies that was awarded to Drax Consul SAGL, a company closely linked to the First Lady.³³⁴

Factional fights are exposing long-hidden cartels

Factional fights in ZANU-PF are revealing the activities of cartels, as each faction tries to dent the popularity of the other. Revelations around the fuel, grain, NSSA, medical import and Marange diamonds cartels have emerged from factional fights. Such revelations are not targeted at triggering genuine reform, but rather serve to spread factional propaganda.

One key interviewee noted that “exposures in corruption have always been political and there is no real political will to deal with cartels”.³³⁵



Photo by Samantha Sophia @ Unsplashd



» To protect his economic rents, Tagwirei has been able to influence PEPs to grant companies associated with him licences to buy and export gold «

Photo by Pixabay

Kudakwashe Tagwirei's close relationships with several patrons, notably Mnangagwa, Chiwenga and Mugabe,³³⁶ makes him a constant target in ZANU-PF factional fights.^{337, 338}

One key interviewee noted that several key ZANU-PF officials see Tagwirei as taking over economic rent seeking opportunities from them and favouring some party members over others in the gifting of cars.³³⁹ This could explain why Tagwirei's activities are scrutinised much more by the media and public than those of money men who have run cartels for longer, and may still be generating more economic rents than he is. Individuals, such as the Rudland brothers, Billy Rautenbach and the late John Bredenkamp, face far less scrutiny than Tagwirei.

Any advocacy against cartels should remain focused on Tagwirei but must not ignore these individuals.

Cartel behaviour did not necessarily increase post-coup. The unravelling of Mugabe's patronage network and intense public competition for the loyalty of money men by the Mnangagwa and Chiwenga factions (and to a lesser extent the smaller factions and the military) has brought the actions of cartels to the public attention to an extent not quite seen before.

The public exposure by

state media of the cartels that coalesced around the Mujuru faction in 2014 attests to the fact "cartels remain secretive until factional fights become acute".³⁴⁰ These exposures, however, are not meant to curb cartel behaviour.

Tagwirei's shift to export sectors has the potential to alter policymaking

Cartels based on collusive relationships between PEPs and money men have mostly focused on the country's key imports such as fuel, grains, medical supplies and fertilisers.

The export sector has therefore been losing substantial economic rents to importers since the RBZ retains significant proportions of their foreign currency in exchange for below-market amounts of local currency. Following his ouster from Trafigura Zimbabwe, Tagwirei has allegedly gone on a buying spree of mining assets and is already actively exporting gold and nickel.

To protect his economic rents, Tagwirei has been able to influence PEPs to grant companies associated with him (Landela and CBZ Bank) licences to buy and export gold,^{341, 342} which then allows him to not only circumvent Fidelity Printers and Refinery (FPR), which retains U.S. dollars from gold producers, but also buy gold from artisanal miners at below-market prices and generate

economic rents from exporting the gold.

It therefore remains to be seen if such emerging reforms, that undercut importers economic rents, will be extended to more players in the mining sector or if they will be specifically crafted for the benefit of Tagwirei's companies.

Reform of the Indigenisation laws has undercut the power of local actors

Several local money men and PEPs capitalised on the 51 per cent with local equity requirements to partner foreign investors in cartels.

Often, the foreign investors have loaned the local actors money to acquire the 51 per cent local equity. Such is the case in former Vice-President Phekezela Mphoko's acquisition of a controlling stake in Choppies Zimbabwe,^{344, 345} and Shingi Mutasa's acquisition of the former BP & Shell assets.³⁴⁶

The indigenisation laws were removed for all sectors of the economy except diamond and platinum mining in 2018,³⁴⁷ and the 2021 Budget Statement has created a loophole for diamond and platinum mining operations to avoid complying with the laws³⁴⁸. This has led to foreign investors buying out their local partners, as has happened with Tagwirei in Trafigura Zimbabwe³⁴⁹ and Mphoko in Choppies.³⁵⁰

CONCLUSIONS & RECOMMENDATIONS

»» *While every effort was made to discuss as many cartels and actors as feasible, the authors are aware that the roles of some very prominent actors were not adequately highlighted in this study. The authors' hope that the high-level description of cartel typologies creates a conceptual framework around which the roles of these actors and many others, as well as future actors, can be understood.*

The findings of this study show that curbing the activities and impact of cartels is a very daunting task for which there is little political will among those in power. A clear majority of the actors whose responsibility it is to address cartel behaviour have become financially dependent on, and complicit in, the activities of the cartels. Despite the difficulties, there are opportunities for stakeholders to fight cartels, and there are a small number of individuals and institutions with some interest and political will to fight cartels.

The Zimbabwean government has very limited political will to stop the cartels, which enable ZANU-PP's hold on power. However, the government also is aware that cartels are a key reason behind the economic crisis that Zimbabwe faces, and the failure of the "Open for Business" mantra to attract meaningful investment in the country. The study shows that various forms of cartels are driven by multiple motivations and institutional deficiencies. Therefore, stopping cartels requires action from multiple stakeholders on multiple fronts, and the following key actions are recommended:

Gathering evidence

CSOs and the media have a key role to play in gathering evidence on cartels.

As this study demonstrates, a large amount of public data exists, but there have been limited efforts to piece together the data into rich, compelling descriptions of the patron-client networks and collusive relationships with the private sector. Such evidence would be useful in predicting corrupt acts and applying pressure or increasing scrutiny before the criminal acts are committed.

The current practice in Zimbabwe is that

investigative journalists piece together the data after the corruption has taken place and public resources have been abused. It is recommended that investment be made into studying cartels that exist in sectors such as banking, telecommunications, tourism and food imports, and in the provision of illicit tax breaks. The banking sector is particularly key to cartels in Zimbabwe.

Visualising the findings

The data provided in this study would benefit from visualisation. This could be done in two ways.

Firstly, in the short term a visual database of key cartel actors and their relationships can be developed using the Kumu tool,³⁵¹ which develops interactive relationship maps that can be updated and expanded over time.

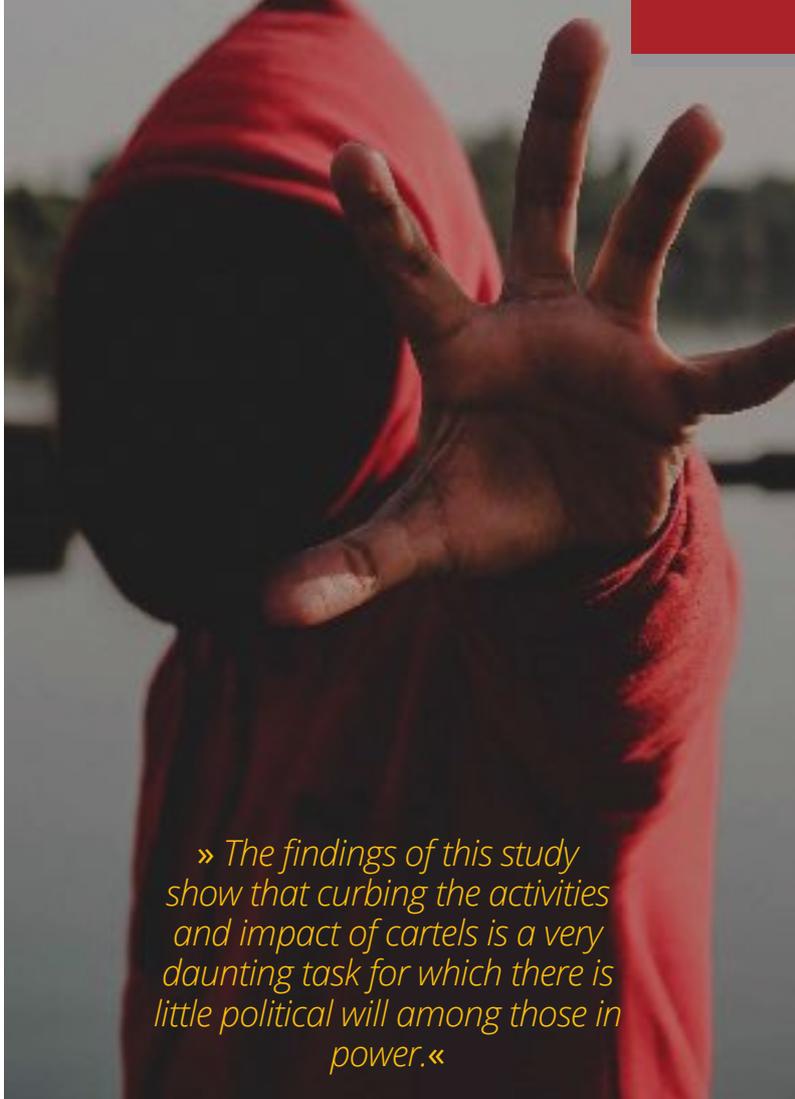
Secondly, as recommended by some interviewees, a video documentary can be produced. A documentary would substantially increase the accessibility of the findings to citizens and external actors who can contribute to the fight against cartels. If produced well, a documentary can tell the story of the human impact of cartels in a way in which words and numbers cannot. Netflix hosts several documentaries that expose corruption and cartels such as "The Mechanism", "Rotten" and "Dirty Money", all of which have elicited outrage from citizens of the countries covered.

Litigation or prosecution

It is recommended that litigation or prosecution be pursued to address cases where cartels have clearly contravened national laws and/or the Constitution.

Zimbabwe's Constitution outlines the requirement for PEPs to act in the public interest and for the state to be transparent to citizens. While, as one key interviewee alluded, "the Constitution has failed to deliver change",³⁵² there has been some success in challenging government policy on the basis of the Constitution.

Despite resistance from the state, civil society has successfully lobbied for the implementation of devolution on the basis of the Constitution. For example, ZINARA's acquisition of publicly guaranteed debt was achieved without the approval



» *The findings of this study show that curbing the activities and impact of cartels is a very daunting task for which there is little political will among those in power.*«

of Parliament, as is required by the Constitution.

Many cartels also abuse the secretive nature of the retention and statutory funds, whose expenditure does not require approval from Parliament. The allocation of these funds is unconstitutional, and this presents stakeholders with an opportunity to advocate and litigate as a means to ensure they operate in accordance with the Constitution.

Applying external pressure

Where internal pressure on cartels involving international investors or international trade is weak, actors are encouraged to seek out ways of applying external, international pressure.

Several multinational companies are actively engaged in cartels in Zimbabwe. Progressive

stakeholders can lobby their home governments and civil society organisations in the home countries of these companies to pressure them into disengaging from cartels in Zimbabwe, and becoming more transparent in their dealings.

This strategy would work better with companies that are domiciled in more democratic and transparent countries such as Canada, Australia and the UK. As an example, the only company that fully implemented indigenisation in Zimbabwe is the Canadian company Caledonia Mining Corporation.

Actors can take advantage of the growing momentum in the West to require companies to implement responsible business legislation and policies that focus on the mining sector that include the

UN Global Compact, Extractives Industries Transparency Initiative (EITI), Canada's Extractive Sector Transparency Measures Act (ESTMA), the U.S. Dodd-Frank Act, and the EU's Accounting and Transparency Directives.

Local CSOs can join global networks to tap into global capacity to hold multinational companies to account, which include the Financial Transparency Coalition and Tax Justice Network Africa.

In addition, actors can leverage international trade law to fight the provision of state subsidies to cartels that are producing exports. The World Trade Organization (WTO) lists the provision of a subsidy to exported goods as an unfair trade practice.

Leveraging Parliament's oversight role

ZANU-PF holds a majority in Zimbabwe's Parliament, and can be expected to effectively serve as a rubberstamp for the Mnangagwa administration on key policy issues until 2023. However, the various Parliamentary Portfolio Committees have become key arenas in ZANU-PF's factional fights, with cartels being exposed by bipartisan efforts from the opposition and ZANU-PF factions that are not benefitting from a cartel.

Mnangagwa's faction has helped the opposition expose cartels abusing the miller's subsidy and those looting diamonds. This presents an opportunity to provide key champions in the opposition with timely, detailed evidence on cartel activities, which they can then use to seek bipartisan support to hold PEPs and private sector actors to account.

Actors are also recommended to hold opposition members to account for their own financial activities as a means of curbing their involvement with cartels, setting an example for future leaders, and demonstrating the political neutrality in the fight against cartels.

Safeguarding the resilience of “champions” in the state

There are several state actors who have either the political will or incentives to actively expose cartels and thereby end their activities.

The Office of the Auditor General (OAG) has for years exposed the corrupt acts of cartels, and OAG reports have been a key source of evidence for Parliament, the media and civil society. An attempt by the Mugabe administration to reassign the Auditor General, Ms Mildred Chisi, was resisted by multiple stakeholders and she was reinstated.

Progressive stakeholders in civil society and among development agencies should continue to safeguard the institution’s independence and develop its capacity.

The Ministry of Finance and Economic Development (MOFED)’s principals, while complicit in many acts of corruption, face a unique incentive that leads them to often seek ways to stop cartels from abusing public funds. MOFED is under constant pressure to deliver fiscal resources needed to pay salaries for public sector workers, acquire medical supplies, fund the President’s trips and develop the country’s infrastructure.

Any abuse of public funds only makes their work more difficult, but MOFED has in the past two years successfully stopped cartels abusing Command Agriculture Program funds, and the miller’s subsidy. MOFED was, however, unsuccessful in stopping the fuel cartel.

This need for MOFED to deliver fiscal resources is a pressure point that progressive stakeholders should exploit to push the Ministry to prevent abuse of public funds by cartels.

Engaging key institutions

Some institutions key to stopping cartels, such as ZACC and the CTC, have been shown to lack the independence, resources and the capacity they require to stop cartels.

In the short term, there is limited hope that these institutions will be reformed to fully implement their mandate. There is, however, the need to continuously engage them by supporting capacity development, sharing knowledge and evidence, and lobbying actively for their independence and resourcing in the medium to long term.

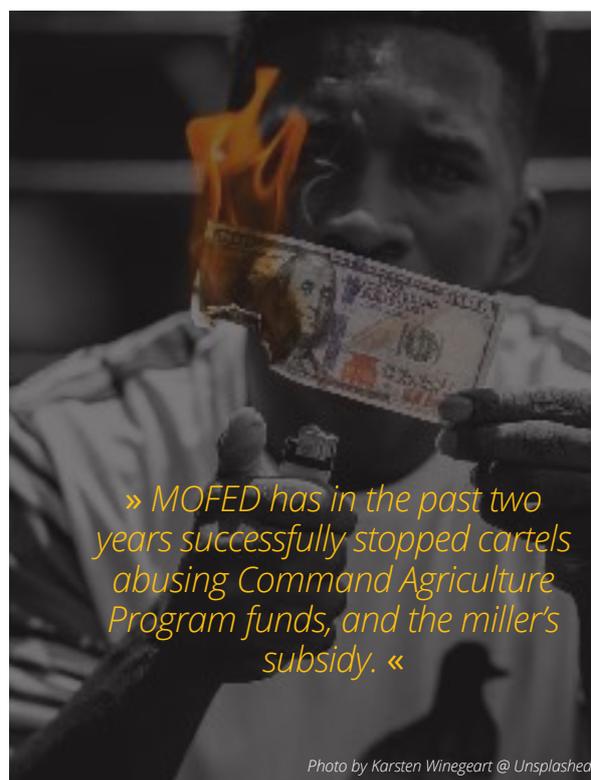
The issue of cartels should also be mainstreamed in engagement with all Commissions, including as a human rights and national question issue with the Zimbabwe Human Rights Commission (ZHRC) and the National Peace and Reconciliation Commission (NPRC)

Reforming mineral licencing

The acquisition of mining licences is a key economic rent that cartels seek.

The Mines and Minerals Amendment Bill is currently being drafted. It is recommended that there is active lobbying to have mining licences granted through auction in a manner that addresses speculative hoarding of licences.

Further, mineral exploration licenses should be automatically convertible to mining licenses in order to safeguard the property rights of companies that invest in exploration, and who currently face the risk of having their licences expropriated and handed over to cartels once they discover mineral resources.



» MOFED has in the past two years successfully stopped cartels abusing Command Agriculture Program funds, and the miller’s subsidy. «

Photo by Karsten Winegeart @ Unsplash

CHALLENGES

»» *The main challenges to implementing these recommendations are the vested interests of those who benefit from cartels. These include Zimbabwe's military, the Reserve Bank of Zimbabwe, ZANU-PF and government bureaucrats.*

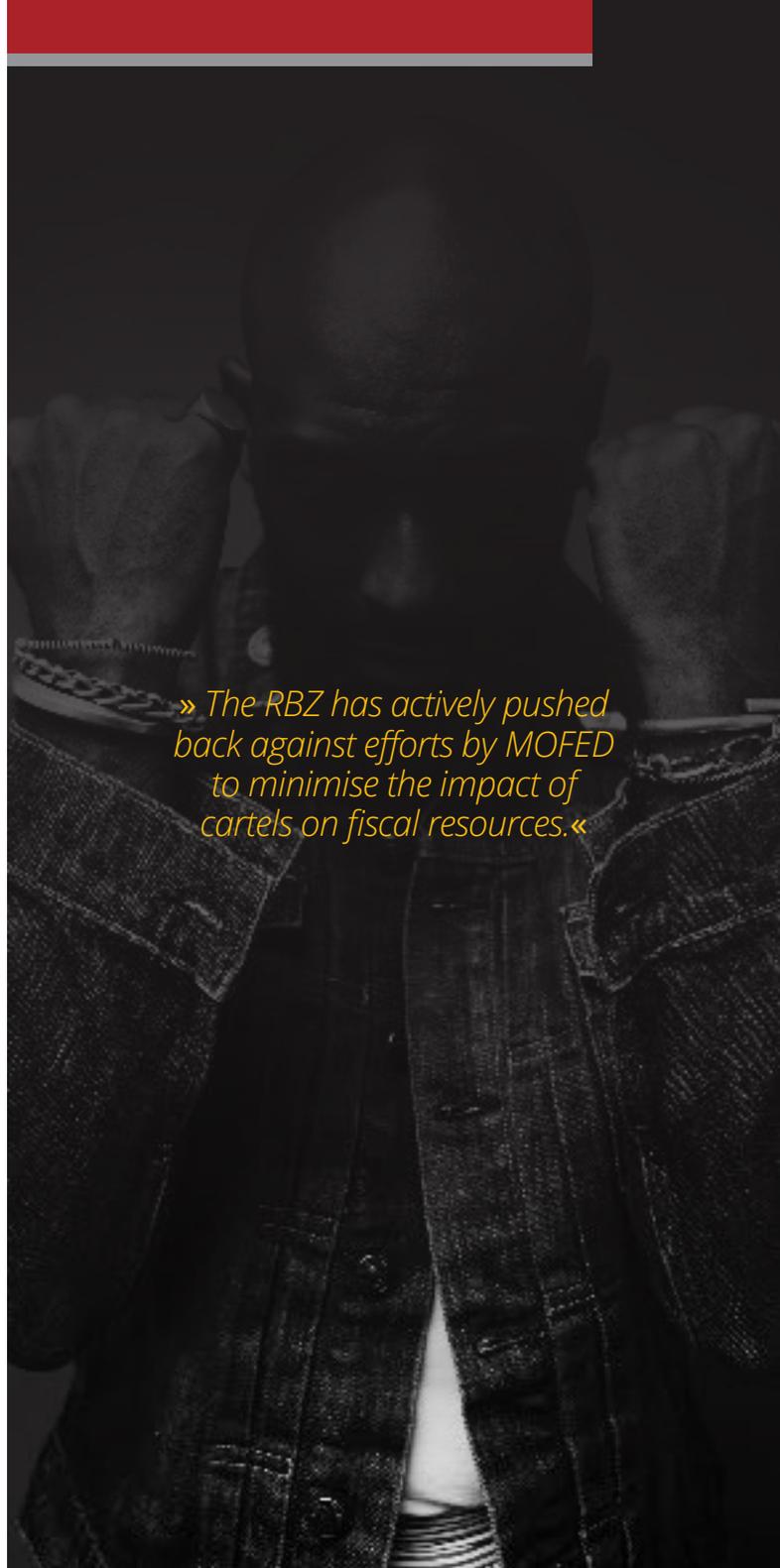
Eddie Cross (*Eddie Cross is a former opposition legislator and a member of the RBZ's Monetary Policy Committee*) has said the RBZ Governor's "ability to sweep what foreign currency [is] available into the accounts of the central bank and then allocate it to economic and political players [makes] him one of the most powerful figures in the country". ³⁵³

Actors seeking to curb cartels should be aware that the RBZ is likely, in the short to medium term, to remain a key spoiler of such efforts. The RBZ has actively pushed back against efforts by MOFED to minimise the impact of cartels on fiscal resources.

The use of foreign state sanctions against key actors in cartels has been mooted as an option in addressing cartels and money men such as Kudakwashe Tagwirei, who was recently placed on the U.S. sanctions list.

Whilst serving as a strong and symbolic gesture, and a constraint on money men's ability to freely conduct business with the West, sanctions have a very limited impact within Zimbabwe as can be seen by how John Bredenkamp, Nic Hoogstraten and Billy Rautenbach continued to run cartels while Zimbabwe was subjected to economic sanctions. Further, these individuals are known to invest in legitimate business in which honest businesspeople and ordinary Zimbabweans depend for their livelihood. Imposition of sanctions should be carefully considered to overcome this challenge.

» *The RBZ has actively pushed back against efforts by MOFED to minimise the impact of cartels on fiscal resources.* «



ANNEXURES

ANNEXURE 1: SEMI-STRUCTURED INTERVIEW GUIDE

Introduction and Ethics

Hello, I am working on report that aims to collect and analyse information about cartel power dynamics in Zimbabwe. This evidence will be used to support advocacy actions to curb cartels.

I am kindly seeking your cooperation in this exercise based on your knowledge and expertise. The information that you will provide will be confidential. This interview will take approximately 20 to 45 minutes of your time. No name will be attached to any information you give me and it will be shared on an anonymity basis, unless otherwise agreed.

Do you agree to participate in this discussion? (Please tick accordingly)

Yes, I agree

Verbal consent provided

No, I do not agree

Optional:

Name

Position

Organisation

Signature

Date

Male

Female

Core research questions

The research will be framed around the following core research questions:

- What cartels exist in Zimbabwe and who is behind them?
- How do different stakeholders understand the impacts of cartels on democratisation and prospects for economic development?
- How are public funds being abused to the benefit of cartels?
- Who are the key actors in cartels in Zimbabwe, and how do these key actors relate to one another?
- How is the Government of Zimbabwe responding to cartels?
- How are media and civic actors holding cartels and Government to account?
- In what ways is the COVID-19 pandemic affecting cartels and multi-stakeholder responses to cartels?

SEMI-STRUCTURED INTERVIEW GUIDE QUESTIONS

A. Introduction to the Informant

1. Can you describe for me the role(s) you currently have that interact with Zimbabwe's economy and governance?
 - a) If you engage in advocacy, what issues do you focus on?

B. Structural and Historical Issues

2. Is it your sense that cartels exist in Zimbabwe?
 - a) If so, can you provide examples?
 - b) Which sectors of the economy are most prone to cartels and why?
3. Are cartels more active now than in the past?
4. Who participates in cartels and what motivates them to do so?
5. How are private companies involved in or affected by cartels?
 - a) What about Government?
 - b) And political parties?
 - c) Are there other stakeholder groups that are affected adversely or positively by these cartels?
6. Geographically, are there parts of the country where cartels are more prevalent?

C. Impact of the COVID-19 Pandemic

7. Have you noticed a change in the activity of cartels during the COVID-19 pandemic?
 - a) Have any new cartels or cartel behaviour emerged?
 - b) How has the pandemic affected your ability to monitor the activity of cartels?
8. To what extent is the economic crisis contributing to cartel activity?

D. Impact of Cartels

9. Do cartels have an impact on politics and, in particular, elections in Zimbabwe?
 - a) How about their impact on the rule of law?
10. What are the socio-economic impacts of cartels?

E. Formal and Informal Institutions

11. From your perspective, which state institutions (within the Executive, Judiciary or Parliament) have enabled cartels?
 - a) Which ones are taking actions to prevent cartel behaviour and are supportive of fighting cartels? What have been the results?
 - b) What are the challenges government is facing in fighting cartels?
 - c) Are independent commissions taking any action?
12. Is the legal, policy and institutional framework in Zimbabwe sufficient for combating cartels?
 - a) If not, what gaps exist and how are they being exploited?
 - b) What policies or practices would make the biggest difference in reducing the incidence of cartels?
13. Have politicians enabled or prevented cartels?
 - a) What about the private sector?
 - b) Are there specific individuals, companies or other groupings (formal or informal) who play a prominent role in cartels?
14. Are there places where you feel you've made progress with your advocacy or engagement on these issues?
 - a) What constraints do you face?
 - b) Are you able to conduct this advocacy freely without fear of retribution?

F. The role of civic actors

15. What actions do civic actors in Zimbabwe take to combat cartels?
16. How effective have interest groups outside of government (e.g., private sector, NGOs, consumer groups, the media) been in highlighting illicit activity by cartels and influencing policy on illicit financing?

G. Recommendations

17. What recommendations would you make for government and other stakeholders to better curb cartels?

ANNEXURE 2: ENABLERS OF CARTELS

WHAT IS THE IMPACT TO CARTELS ON ZIMBABWE

The cartels impact Zimbabweans in four main ways

1 entrenching their patrons' hold on power

2 slowing down democratisation

3 destroying service delivery for citizens

4 • creating an uncompetitive business climate
• this leaves Zimbabweans poorer, more severely under-served by their government and disempowered to hold the state to account

WHAT IS A CARTEL?

Dictionary definitions of the word *cartel* highlight three features: they are composed of **multiple colluding** entities who **oppose competition, control output** and **fix prices** of a product they **supply** in order to **increase their profits**.³⁵⁴

A commonly cited example of a cartel is the Organization of the Petroleum Exporting Countries (OPEC), which uses the dominance of its members over the supply of petroleum to influence its price.

Economists have dedicated a branch of their field to the study of cartels, known as cartel theory, and conceded that the **term cartel means something different in every country**.³⁵⁴ Economists agree though that economic cartels lead to **overpricing, misallocation of capital and slowing down of innovation and technological advancement**.

Lawyers too have dedicated a branch of the legal field to addressing cartels (i.e., competition or antitrust law, which views cartels as **anti-competitive behaviour**). Competition law has three key features:

- 1) eliminating practices that restrict free trade and competition, which includes prohibiting cartel behaviour;
- 2) prohibiting abusive behaviour by dominant firms; and
- 3) supervising mergers and acquisitions and joint ventures.³⁵⁶

In Zimbabwe, the Competition Act (Chapter 14:28) prohibits a broad range of unfair business practices, including the holding of **monopoly positions, restrictive business practices** by entities with substantial market share, bid-rigging, collusion between competitors, price fixing, restricting output, preventing the use of the most efficient/economical means of production, preventing the introduction of technical improvements of a product and preventing competition from new entrants.³⁵⁷ Unfair trade practices include the provision of state subsidies to exported goods.

The word cartel is used widely across Zimbabwean society to describe **corrupt business practices with the collusion of political leaders**. It is a word that has featured prominently in key national discourse, including in the President's State of the Nation address, where President Emmerson Mnangagwa described cartels as "entities that **stifle competition** and engage in unjustified **price hikes**"³⁵⁸ and in Cabinet discussions, where the Minister of Finance described them as a result of **collusion** and contributing to **price hikes**.³⁵⁹

The word was used fourteen times in four sittings of the House of Assembly between 26 February and 11 March 2020 to describe

- 1) politicians who are illegally influencing the Prosecutor General;

- 2) gold buyers receiving preferential access to monetary incentives and importers receiving **preferential access** to foreign currency from the RBZ due to their **collusive relationships** with state officials;
- 3) Econet's near **monopoly** over the mobile telecommunications sector; and 4) Green Fuel's **monopoly** over the supply of ethanol to the fuel industry. ³⁶⁰

The Prosecutor General has publicly remarked that cartels influence the state's ability to hold them accountable for their illegal activities as they control parts of the judiciary, the police and the National Prosecutors Authority (NPA). ³⁶¹

Cartels are also mentioned across the political divide. The ruling party ZANU-PF's rhetoric around cartels centres around their ability to **influence prices, cause shortages of products** and the ability to **corrupt leaders** of the party. This is demonstrated by the utterances of the former deputy youth leader, Lewis Matutu ³⁶² and the Speaker of Parliament, Adv Mudenda. ³⁶³

Cartels are typically mentioned in intra-party factional disputes where exposure of leaders involved with cartels is aimed at point-scoring rather than accountability or censure. In opposition parties, the president of the largest opposition party, Advocate Nelson Chamisa, has described cartels as entities that have **captured the state** so as to engage in corruption. ³⁶⁴

The word "cartel" is also widely used in Zimbabwe's media to describe "**crookedness** by selfish individuals, social classes or groups and institutions to fleece an already sorry population without caring too far about it" (Majoni, 2019), ³⁶⁵ **monopolistic positions** that "strangely" escape the scrutiny of the CTC, such as Delta Beverage's owning a controlling share of its main competitor, African Distillers, ³⁶⁶ **bid-rigging**, ³⁶⁷ **collusive overpricing** of drug imports by entities with dealership rights from Indian manufacturers, ³⁶⁸ and the "heavy involvement" of the army in the fuel and mining sectors. ³⁶⁹

Other journalists have stated that "cartels and the **ruling elite** are one and the same thing" ³⁷⁰ and "**anti-competition** enterprises are supported by or include **influential politicians**" (Masuku, 2013). ³⁷¹

Academics have discussed cartels in the discourse around **state capture** in Zimbabwe, ³⁷² the country's economic history where white commercial tobacco farmers have been described as having operated as a cartel, ³⁷³ the influence of social media

on political narratives, ³⁷⁴ the limits of competition law to address cartels, ³⁷⁵ and the **collusive** behaviour of cotton ginners. ³⁷⁶

One key interviewee, a leading voice in Zimbabwe's civil society, defined a cartel as "the complicity of the state elite and the business community for the purpose of self-enrichment". ³⁷⁷

ECONOMIC RENTS, THE STATE AND BUSINESS VALUE CHAINS

The state has a central role to play in the distribution of economic rents since it controls access to natural economic rents such as land, mineral rights, subsidies and foreign currency, while making decisions that determine the number of competitors that can operate in some sectors of the economy.

More importantly, the state oversees the behaviour of private market players and determines whether or not illicit activity that generates economic rents is allowed to happen or is curbed. Economic rent-seekers are therefore motivated to influence the allocative and decision-making functions of the state to allow them to capture economic rents, and thereby leading to corruption.

The study finds that the key economic rents in Zimbabwe are often concentrated in a particular phase of a business value-chain. Cartels, therefore, do not typically seek to monopolise entire value-chains, but rather attempt to capture the stage(s) of the value-chain where economic rents are concentrated.

Examples of these stages are provided below:

a) State subsidies

State subsidies generate man-made economic rents which are, in some cases, misappropriated by cartels. State subsidies are typically designed for poor Zimbabweans to access affordable food and transport. They carry a significant cost and, as the current Minister of Finance has admitted, have "placed a huge burden on the fiscus". ³⁷⁸

Subsidies are typically paid to service providers to allow them to provide subsidised goods and services. For example, the government provides subsidies to maize farmers and millers to that ensure consumers get affordable mealie-meal, Zimbabwe's staple food. These subsidies comprise free or cheap farming inputs, an artificially high purchase price offered by the Grain Marketing Board (GMB) to farmers and onward sale of the maize to millers at an artificially low price. This makes GMB a perennially loss-making entity.

b) Corrupt procurement

Overpricing of goods and services quoted in public contracts offers opportunities to create economic rents, and so does receiving the payment and non-delivering of goods and services contracted for.

In a recent case, a company with links to the First Family, Drax Consult SAGL, was awarded a sole-source multi-million contract to provide medical supplies for which it charged the government twice the market price.³⁷⁹

c) Fuel import and production

The imposition of import taxes on fuel creates significant man-made economic rents.

In 1980, taxes charged on the import of fuel were near zero,³⁸⁰ but in 2020 they amount to 101 per cent of the value of the fuel³⁸¹. These taxes are meant to serve as a transfer of wealth from consumers to the state. However, this wealth can be captured by economic rent seekers through tax evasion where a retailer of fuel is able to collect the taxes from consumers and not hand them over to the government.

d) Foreign currency allocations from the RBZ for imports

The RBZ has until recently allocated the foreign currency it retains from exporters to importers at an official exchange rate that has been artificially low. This allows market

participants to capture the economic rents if they sell the foreign currency at the informal market rate.

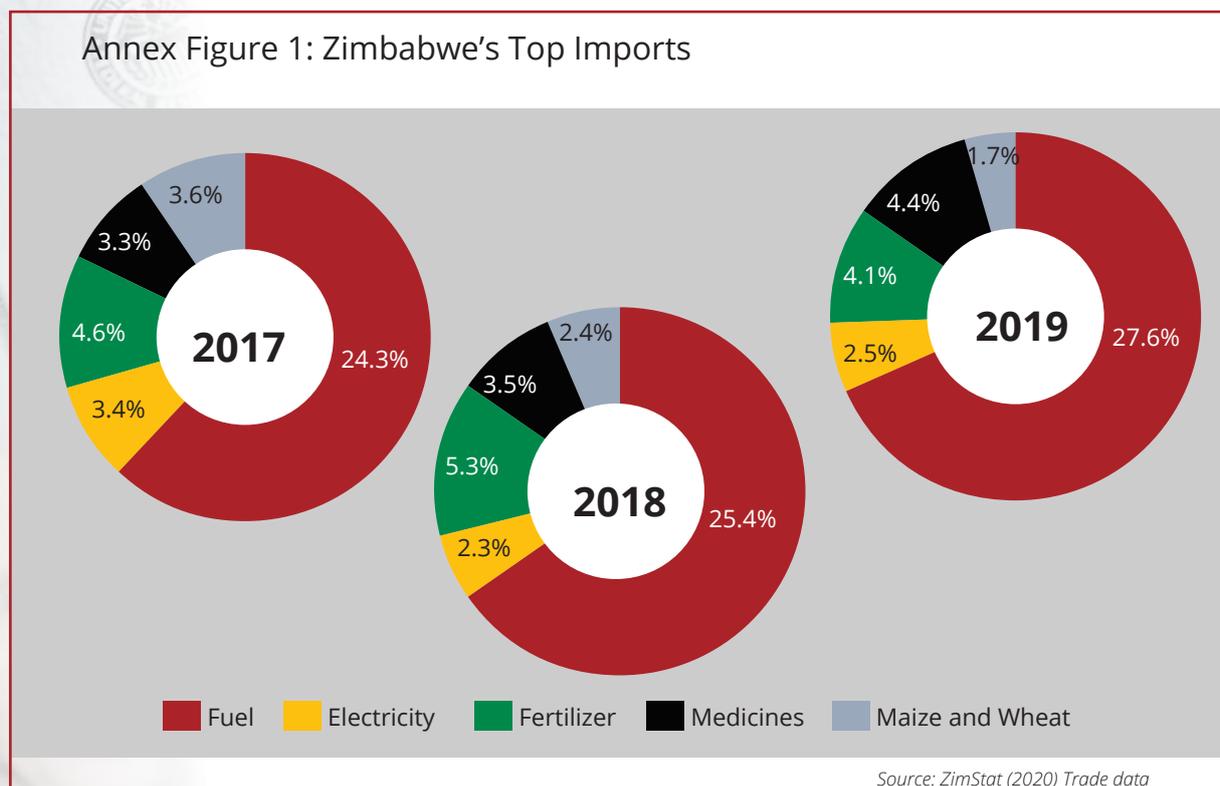
The country's top import is fuel, which accounted for 28 per cent of imports in 2019, as shown in Annex Figure 1. This is followed by medicines, fertilisers, grains (mainly wheat, rice and maize) and soya-bean oil. These imports are affected by cartels which seek to obtain preferential access to U.S. dollars from the RBZ, and engage in arbitrage of foreign currency trading on the informal market.

e) Valuation of traded goods

Trade can be manipulated to create economic rents if one falsifies the value of the traded goods in a process known as trade misinvoicing. Trade misinvoicing is a method for moving money illicitly across borders, and involves the deliberate falsification of the value, volume, and/or type of commodity in an international commercial transaction of goods or services by at least one party to the transaction.³⁸²

Through trade misinvoicing, one can easily and quickly move a substantial amount of value. Through trade misinvoicing, cartels evade taxes and customs duties, illegally obtain tax incentives, and dodge capital controls. This is also a method used to launder the proceeds of crime.

Annex Figure 1: Zimbabwe's Top Imports



Source: ZimStat (2020) Trade data

A study published in the African Development Review found that over the period 2008-13, US\$537 million of mineral exports from Zimbabwe were underdeclared. The research also found suspicious declarations of US\$524 million worth of copper exported from Zimbabwe to Zambia, which Zambian authorities had no record of receiving.

Over-invoicing of US\$5 billion worth of minerals exported to South Africa meant that Zimbabwe apparently received more export revenue than the South African importers claimed to have paid for the exports.³⁸³

The study concludes that it is likely that falsified paperwork is used to justify the movement into Zimbabwe of capital from Zambia and South Africa, where companies could more easily access U.S. dollars during that period.

f) Sale of a mining asset

The speculative acquisition of a mineral deposit can generate large economic rents if the mineral deposit turns out to be rich enough to attract the attention of the global mining giants.

A large economic rent can therefore be gained if one acquires a mineral deposit, quantifies the minerals in it and sells it on – this is done institutionally by companies known as junior miners, the majority of whom are domiciled in Australia and Canada.

An even larger economic rent can be captured if one can expropriate a quantified deposit and sell it to a larger mining company with its own resources to extract the minerals. By so doing, one makes a minimal investment and reaps a large profit.

Due to the reluctance of large, established companies to acquire deposits from **expropriators**, who in some cases are governments and in others are political and military elites, **middlemen** are often involved in buying the deposits at a discounted price and then selling them at a profit later.



Political, economic and social structures enabling cartels

This sub-section unpacks the reasons why cartels exist in Zimbabwe. The findings show that long-standing political, economic and social factors contribute to facilitating cartel activity, and are key to sustaining their existence.

POLITICAL STRUCTURES



In Zimbabwe, political power is acquired and maintained through coercion and manipulation of elections.

After a UN observer mission to Zimbabwe during the 2008 elections, the UN Under-Secretary-General for Political Affairs, B. Lynn Pascoe, briefed the UN Security Council saying, “We believe it is clear that a ‘winner-takes-all’ approach will not bring peace and stability to the country”.³⁸⁴

The two key actors in post-independence politics are the **ZANU-PF party and the military**, who have developed a mutually beneficial relationship in fulfilment of Robert Mugabe’s 1976 speech in which he said, “votes must go together with guns”.³⁸⁵ It has been observed that many military leaders are ideologically committed to ZANU(PF) rule.

Dr Ibbo Mandaza has argued that President Mugabe engaged in **patron-client relationships** with military and other security chiefs, allowing them access to economic rents and to keep their positions

beyond the limitations of their term in return for their loyalty and active elimination of threats to the presidency, while also playing them against each other in a “divide-and-conquer” practice that kept him as the “one-centre-of-power”.³⁸⁶ This form of political organisation is commonly referred to as **patrimonialism**.

Multiple interviewees noted that President Mnangagwa does not control the security chiefs to the extent that Mugabe did, and that multiple centres of power have emerged since the 2017 coup. Loyal members of the state security agencies (especially the military) have been rewarded with access to economic rents, such as land and mining claims, and influential positions within the bureaucracy.

The presidency has engaged in clientelism with not just the military, but also other actors that are key to sustaining power, including the judiciary, senior bureaucrats, traditional leaders, party officials and rural households, where, for example, households aligned with the ZANU-PF party regularly receive agricultural inputs and food handouts from the President’s office. **Deeply entrenched patronage** networks have emerged from this clientelism.³⁸⁷

Some patron-client relationships, particularly those between the patron and elite clients, morph into cartels. Patronage undermines the state bureaucracy, as it gives clients more power than public office holders. For example, one civic actor implementing projects at the local government level, remarked how District Administrators often have to consult with war veterans, traditional leaders and the local ZANU-PF leadership before engaging NGOs who want to operate in their districts.³⁸⁸

Patrimonialism as a model of governance is unfortunately repeated in some non-state organisations such as churches, businesses, civil society and even the opposition, where Alexander and McGregor (2013) noted that the opposition’s access to rural voters was often through “unaccountable patrons, whose paternalism and attitudes marked a continuity with long-standing modes of ‘domestic governance’”.³⁸⁹

In the few instances loss of political power has been epitomised by violent transitions that involve the military. The Smith administration gave way to Mugabe’s after a 15 year-long civil conflict in which over 31,000 lives were lost,³⁹⁰ the majority of whom were civilians. Mugabe’s rule was then ended in a military coup.

The Zimbabwean military, top politicians and

some members of the business sector form a group of elite that has, over time, shaped the country's extractive institutions with the effect of "remov(ing) the majority of the population from participation in political or economic affairs" (Acemoglu & Robinson, 2012).³⁹¹ Extractive institutions favour these elite groups, allowing them to monopolise economic opportunities and resources, and engage in primitive accumulation. This has significantly limited the emergence of entrepreneurs.³⁹²

This non-inclusive governance, however, evokes political dissent among those who feel left out. The U.S. Deputy Secretary of the Treasury has observed, "political and military leaders in Zimbabwe have repeatedly used violence to silence political dissent and peaceful protests".³⁹³

Repression and intolerance of political dissent (represented by opposition political parties, civil society, trade unions, student bodies and even members of the ruling party) has been characteristic of all three regimes that have ruled Zimbabwe over the past six decades.³⁹⁴

Inclusion of the opposition in governance has only taken place for very limited periods, often as a means to end periods of intense violence, and human rights violations. Smith's short-lived Zimbabwe-Rhodesia government (1979) with Rev. Muzorewa, the first post-independence coalition government (1980-83) and the Government of National Unity (2009-13) exemplify this.

The merger of ZANU and ZAPU in 1987 to form ZANU-PF has been the only sustainable inclusion of erstwhile opposition into governance, albeit the criticism that ZAPU was weakened by the Gukurahundi massacres in the 1980s, and it has been a junior partner in the alliance.

The Mnangagwa regime has picked up from where Mugabe left off, constraining the space for active opposition politics, with a few token appointments of opposition politicians into governance structures.

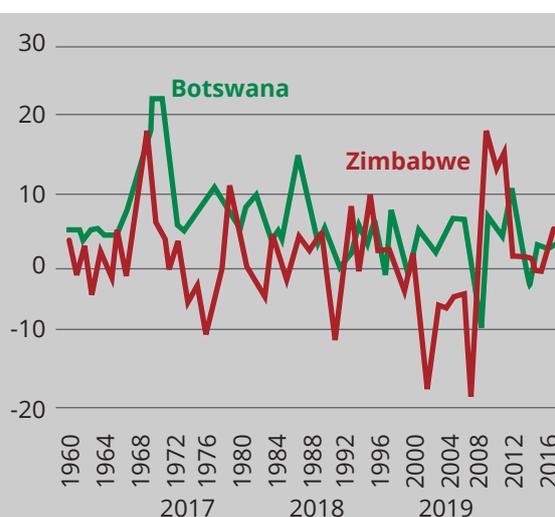
In his September 2019 visit to Zimbabwe, the UN rapporteur on the rights of freedom of peaceful assembly and of association, raised concerns around the excessive use of force, mass arrests and torture during the national "stay-away" in January 2019; the toxic environment for NGOs which are under surveillance in law and in practice, and the considerable number of allegations related to arrests, detentions, and even abduction of trade union leaders.

ECONOMIC STRUCTURES



Economic crises have been the norm, and not the exception, in Zimbabwe over the last 60 years. GDP per capita³⁹⁵ only grew by an average of 0.74 per cent per year over the 50 years, 1960-2010.³⁹⁶ In contrast, Botswana whose GDP per capita was four times smaller than Zimbabwe's in 1960, averaged 5.4 per cent growth in GDP per capita for the 50 years to 2010.³⁹⁷ Such chronic stagnation is the result of long-standing economic structures.

Annex Figure 2: GDP per capita growth in Zimbabwe and Botswana, 1960-2017



Source: World Bank's World Development Indicators:

The World Economic Forum (WEF) ranks Zimbabwe 127th out of 141 countries in terms of economic competitiveness, ranking higher than Mozambique (138th) and Malawi (128th), but below South Africa (60th), Botswana (91st) and Namibia (94th). Zimbabwe is classified as a **factor-driven economy** because its competitiveness depends on its endowments of natural resources (such as land and minerals), and its labour force.

The agricultural and mining sectors are key drivers of the economy, contributing through direct sectoral output and linkages to other sectors of the economy. For example, agriculture contributes 60 per cent of the inputs used in the manufacturing sector, which is largely focused on agri-processing. Both mining and agriculture are top users of transport services, energy and water. ³⁹⁸

Due to this economic structure, businesses in Zimbabwe typically produce basic products and their competition is mainly focused on pricing. For a factor-driven economy to be competitive, there is need for “smooth functioning of public and private institutions, appropriate infrastructure, a stable macro-economic framework, and a healthy and literate workforce” (Jaiswal, n.d.). ³⁹⁹ However, in **Zimbabwe infrastructure is dilapidated, and institutions function poorly** (as explained in the next section), while the **macro-economic framework is notoriously unstable**.

The poor condition of the infrastructure is epitomised by the fact that only 20 percent of the country's roads are paved; most of the railway is in poor condition such that trains are required to abide by speed restrictions on 10 per cent of the rail network; and only three of the country's ten airports can be used for international flights. ⁴⁰⁰

In its recent assessment of Zimbabwe, the IMF expressed that “macroeconomic stability is a challenge”, ⁴⁰¹ characterised by a deep recession, rapid loss of value of the Zimbabwean dollar (ZW\$), high inflation measured at 838 per cent in July 2020, debt distress, and low international currency reserves.

This unstable macro-economic environment makes it very difficult for businesses to operate sustainably in the country, leaving economic space for informal activity. Chronic macroeconomic instability has led to the evolution of the **world's largest informal economy** in Zimbabwe, when measured as a proportion of all economic activity.

The IMF estimates that 67 per cent of economic activity occurs outside of the formal sector. ⁴⁰² Significant sub-sectors of the informal economy, such as artisanal and small-scale mining (ASM), small-scale farming and vending, are tightly controlled by ZANU-PF and participation in them is a

key cog in the patronage machine. ⁴⁰³

The state plays a significantly large role in the economy. **Half of Zimbabwe's GDP is accounted for by public expenditure** that is split equally between 1) spending by the central government from resources allocated through the national budget, and 2) spending by local authorities, state-owned enterprises (SOEs), statutory and retention funds, user fees imposed by schools and medical facilities, and grants from donors made directly to the government. ⁴⁰⁴

State subsidies, particularly in the agricultural and energy sectors, generate large economic rents that cartels seek to capture.

Zimbabwe is at the centre of some of the key road, power and rail networks in Southern Africa. This position as a **key node in the region's infrastructural network** makes Zimbabwe vulnerable to illicit cross-border financial flows, particularly smuggling. Haulage trucks carrying exports from the DRC and Zambia to ports in South Africa and Mozambique travel through Zimbabwe.

Haulage companies seek to avoid empty runs ⁴⁰⁵ on their return from South Africa, and, when they fail to secure contracts in South Africa, they end up smuggling subsidised fuel and maize from Zimbabwe to Zambia and the DRC. This was revealed in a Parliamentary hearing on abuse of maize subsidies where a miller noted, “Trucks that carry copper from Zambia and DRC, going to South Africa, come back empty but at the border they are stamped to have cargo which is maize from South Africa. They come through Harare, pick up that maize, and exit [the country] with Zimbabwean subsidised maize”. ⁴⁰⁶

Notable economic structures in Zimbabwe include a dependence on finite resources such as land and minerals; a lack of macro-economic stability that makes it difficult for the private sector to thrive; a large informal sector; and an economy in which one out of every two dollars spent comes from the state.

These structures create a perfect storm in which the private sector is highly incentivised to

- 1) target public expenditure (public tenders) as its source of income by **colluding with public officials**;
- 2) out-compete the informal sector's prices by **avoiding taxes and statutory fees**; and
- 3) seek ways to avoid the impact of macroeconomic instability on its revenues and savings by, for example, **externalising foreign currency or colluding with public officials** to guarantee access to scarce foreign currency from the RBZ. The economic structures, therefore, create conditions conducive to cartels' success.



» most churches have responded to the state's violations of human rights and corruption with calls for submission of church members to the governing authorities, citing Romans 13:1-7.«

SOCIAL STRUCTURES

A social structure is a distinctive, stable pattern of social relations in a society.⁴⁰⁷ It has been argued that inclusive political and economic institutions are not guaranteed to create economic development in the absence of a powerful society that matches the power of the state.⁴⁰⁸

The co-option of traditional leaders and largely neutral stance of churches on politics has weakened Zimbabwean society's response to the excesses of the power of the state. Without a powerful society, citizens are unable to organise effectively to demand accountability from the state. This weakness is abused by politicians and certain elements of the private sector as they collude to form cartels that abuse public resources.

Zimbabwe is largely rural, and rural societies fall under the administration of traditional leadership comprising almost 300 chiefs, only six of whom are women.⁴⁰⁹ Traditional leadership is rooted in the chieftaincies that existed prior to colonisation, and which were then co-opted by the colonial and settler states to act as administrators in rural areas. Chieftaincies are hereditary and, in most cases, they follow a patriarchal hierarchy.

The role of traditional leaders has remained largely the same in independent Zimbabwe, controlling access to communal land and other resources, and dispensing justice in civil matters.

Traditional leaders thus exercise local power and act as gatekeepers through whom the national political leadership can mobilise rural citizens. This has made them critical members of patron-client relationships with the presidency.

Chiefs are key recipients of the state's largesse, receiving vehicles, farming inputs and salaries, for declaring their loyalty to ZANU-PF.⁴¹⁰ A few chiefs, however, have been critical of the state.

Christianity is the dominant religion with 84 per cent of Zimbabweans identifying as Christians. Churches therefore play a key role in Zimbabwe's society by promoting healing and reconciliation, providing humanitarian assistance and mediating political negotiations.⁴¹¹

As with traditional leadership, few church leaders have been openly critical of the state and most churches have responded to the state's violations of human rights and corruption with calls for submission of church members to the governing authorities, citing Romans 13:1-7.⁴¹² Many sects of the African traditional Christian churches (vaporitori) have openly supported ZANU-PF and participated in the party's events.

Institutional factors that enable cartels

The formal and informal institutions that most affect cartel behaviour in Zimbabwe are those that relate to property rights, law and finance.

Property rights

Property rights are the exclusive authority to determine how a resource is used.⁴¹³ They provide the holder with the rights to use a resource, derive income from it, sell it, and enforce their rights to it. Such resources include land, minerals, airspace, water bodies and buildings. Various types of property rights exist and they vary with respect to the extent to which the holder of can enforce the aforementioned rights.

Private property rights (or freehold tenure), the strongest property rights, allow the holder to use a resource, derive income from it, sell it, and enforce their rights to it. Common property rights, the weakest, only allow the holder to use a resource and derive income from it (with limits). In between these two are public property rights, which are held by the state, and open-access rights, where the resource is not owned by anyone and can be used by everyone (e.g., air).

A significant percentage of agricultural land has been expropriated from private ownership to state ownership, draining property rights of their power. For example, all private rights to water were revoked in 1998, while a large proportion of privately-owned agricultural land was expropriated since 2000 under the controversial fast-track land reform program (FTLRP). Changes to property rights over agricultural land are shown in Figure 1 in the Body of the report.

In addition, the colonial state had intentionally only provided common property rights to 42 per cent of the country's land where the majority of indigenous Zimbabweans resided. This has not changed since independence was achieved in 1980. This is partly due to the socialist world-view of ZANU-PF during its formative years, based on the concept of eradication of private property rights and government ownership of all property rights.⁴¹⁴ It is also due to the patronage opportunities⁴¹⁵ and political leverage over rural citizens that this weak property right provides to the ruling elite. Sixty-six per cent of Zimbabwe's population resides in communal land areas.⁴¹⁶

Weak private property rights have multiple impacts:

- They turn resources such as land and mineral deposits into “dead capital”⁴¹⁷ – valuable resources that cannot be effectively used to raise the capital required to make them optimally productive.
- They reduce the incentive of agents or lessees using the property to fully invest in them.

- They provide too much power to senior government officials who control the property and determine who extracts the rent from it.
- They reduce the incentive to make sustainable use of the resource, resulting in negative outcomes such as over-fishing and environmental degradation.
- They incentivise the use of violence as a means of enforcing or acquiring de facto property rights as seen in the small-scale mining sector where weak protection of property rights has led to a notable rise in machete-attacks by gangs colloquially known as MaShurugwi.⁴¹⁸ Some of these gangs are alleged to be controlled by President Mnangagwa,⁴¹⁹ an example being the Al Shabaab group headed by Owen Ncube,⁴²⁰ whom the President appointed as his Minister of National Security in 2018.⁴²¹

Centralised, corruptible allocation of property rights by public officials makes them valuable accessories to private sector entities that seek to extract economic rents from natural resources.

It is important to note that, not all property rights in Zimbabwe are weak. For example, three land property rights remain strong: urban title to properly allocated residential and commercial land, small-scale commercial agricultural land title granted to indigenous Zimbabweans before independence, and leases provided to resettled farmers before 2000 (old resettlement areas).⁴²²

Rule of law

The rule of law is a durable system of laws, institutions, norms, and community commitment⁴²³ that delivers accountability, just laws, transparency and access to justice. The World Justice Project ranks Zimbabwe in the bottom 10 of the 128 countries ranked in respect of strength of the rule of law, and second lowest in the SADC region, after DRC.

Zimbabwe's governance is characterised by rule by law rather than rule of law. Under *rule of law*,⁴²⁴ law takes precedence over politics and governs everyone in power. However, under *rule by law*, law is used as a tool of political power⁴²⁵ to control citizens, but not to control the state and people in power, thus giving those in authority and their allies the ability to operate with impunity.

For example, while Zimbabwe's legislation is publicised, it is not applied evenly. Even in instances where the legislation meets good practice, such as in public financial management and public procurement, **weak enforcement of legislation** fails to ensure that public funds are adequately

protected from abuse by cartels. Further, the processes to enforce laws are usually opaque and inaccessible to the majority of citizens.

This **lack of transparency** is clearly evident in public procurement where Section 68 of the Public Procurement and Disposal of Public Assets Act (Chapter 22:23 of 2017) requires that notices of public procurement contract awards be made publicly accessible on the Procurement Regulatory Authority of Zimbabwe's (PRAZ) website. The webpage where these notices should be published is, however, blank.⁴²⁶

The **judicial system is notoriously slow and costly**. In some cases, there are deliberate delays in making judgments on issues such as challenges to election results and bail applications by opposition activists.^{427, 428} In the past year, there have been delays in bail hearings for the anti-establishment Chief Ndiweni, three female opposition politicians accused of faking an abduction by state agents, and the Vice-President's estranged wife.

In cases of commercial jurisprudence, the lack of capacity in the judiciary has slowed down the resolution of cases. The 2020 Doing Business report notes that it takes 410 days to enforce a contract and costs 83 per cent of the claim value, as compared to the average of 655 days and 41 per cent in Sub-Saharan Africa.⁴²⁹ Additionally, there is good evidence of political capture of the apex courts, the Constitutional Court and Supreme courts, with the most telling feature being the absence of any dissenting judgments in recent years in all politically-sensitive cases (such as the election petition by the MDC Alliance in 2018)⁴³⁰.

The weakness in the lack of rule of law in Zimbabwe is a key factor in the **limited implementation of the** Competition Act, which was enacted to prevent a range of anti-competitive behaviour, including by cartels. It is implemented by the Competition and Tariffs Commission (CTC), which although quite active, focuses mainly on approvals of large mergers and acquisitions and investigations into restrictive business practices, the decisions on which are disclosed on the CTC website.⁴³¹

The UN Conference on Trade and Development (UNCTAD) conducted a voluntary peer review of the CTC and noted that CTC's "focus is mainly on mergers There is now need to open horizons and venture into area of cartels and abuse of dominance".⁴³² UNCTAD also acknowledged that CTC has had a few success stories in abolishing collusive and cartel-like behaviour in industries



that include "the cement and the coal industry and the dry cleaning and laundry services sector".⁴³³ However, these are industries that face active involvement by politically exposed persons (PEPs).

At its 19 May 2020 sitting, the CTC Board approved one merger and two acquisitions involving the sale of a gold mine, platinum claims and shares of Intertoll Zimbabwe Pvt (Ltd), a joint venture company partly owned by the government through ZINARA, which operates road tolls.

Notable for its absence from the list of decisions made in 2020 is the acquisition of Sakunda Holdings' 51 per cent shareholding in Trafigura Zimbabwe by the Swiss-based Trafigura Pte. It is unclear whether the acquisition has not yet been discussed by the CTC Board, despite its average response time of three months,⁴³⁴ while a key interviewee noted that the acquisition had not yet been approved.⁴³⁵ This may imply that powerful politicians have prevented CTC from making a decision, which many see as not in the interest of Sakunda Holdings.

The Zimbabwe Anti-Corruption Commission (ZACC) is similarly weak and, according to one interviewee, "not independent".⁴³⁶ ZACC is led by Mrs Loice Matanda-Moyo, the wife of the coup announcer and current Minister of Foreign Affairs S.B. Moyo. It has been used by political leaders to pursue their political opponents.

A ZACC commissioner has highlighted the institution's key weaknesses as limited capacity to investigate financial crimes, lack of whistle-blower protection and failure to obtain sufficient evidence of corruption.⁴³⁷

Monetary policy

The management of money supply and interest rates in the economy is known as monetary policy. Ideally, monetary policy should be used to stimulate and sustain business activity as a means of attaining the economic objectives of government.⁴³⁸ However, in Zimbabwe the various elements of monetary policy are: to limit the movement of foreign currency out of the country, finance the fiscal deficit by printing money, and expropriate to the state a portion of the foreign currency earned by exporters.

Zimbabwe has implemented stringent capital controls under the Exchange Control Act (Chapter 22:05 of 1965) in operation since the Smith administration, which limits the ability of companies and individuals to move capital out of Zimbabwe. The Act is implemented by the RBZ and gives individuals and businesses an incentive to find means of moving capital out of Zimbabwe, often through illicit means.

In 2019, the RBZ officially re-introduced the Zimbabwean dollar (Zw\$). The currency has rapidly lost value from parity with the U.S. dollar at its introduction to its current exchange rate of US\$1:Zw\$57.35 on the official market and US\$1:Zw\$107 on the informal market,⁴³⁹ where the real value of the currency is tracked more accurately, as shown in Annex Figure 3. This is largely due to limited confidence in the currency and continuous money creation by the RBZ.

In addition, the RBZ implements export retention levels, a policy that requires exporters to exchange a certain proportion of their foreign currency earnings for Zimbabwean dollars at the official exchange rate. Due to the large disparity between the official and informal exchange rates, exporters incur huge losses by abiding by the retention levels.

For example, exporters of platinum are required to surrender 50 per cent of their foreign currency to the RBZ. Therefore, for an export of US\$10 worth of platinum on 24 June 2020, the mining company would receive US\$5 and Zw\$286.80. However, the value of this amount in local currency on the informal market is US\$2.68, meaning the mine effectively receives the value of US\$7.68 and loses US\$2.32 or 23 per cent of their export earnings.

This then encourages exporters to find illicit means of reducing the amount of export earnings that come to Zimbabwe, often through trade misinvoicing and transfer mispricing.

The foreign currency that the RBZ retains is allocated to importers. Due to the aforementioned disparity in the official and informal exchange rates, there exists a significant arbitrage opportunity to obtain U.S. dollars from the RBZ at the official rate

and sell them on the informal market, thereby effectively gaining the aforementioned 23 per cent that exporters would have lost.

The RBZ is responsible for overseeing the financial sector by regulating banks and monitoring financial transactions. The Financial Intelligence Unit (FIU), a department of the RBZ, is mandated to curb money laundering (i.e., the process of making the proceeds of crime appear to have come from legitimate sources).

The FIU is therefore a key function in addressing cartels. However, an independent review of the anti-money laundering and combating the financing of terrorism and proliferation financing (AML/CFT) policies in Zimbabwe found that the major deficiency was that all money **laundering crimes as defined under the FATF standards are not regarded as serious crimes** and did not allow for confiscation of the proceeds of the crime.⁴⁴⁰

The FIU only acts on reports of suspicious activity that are raised by financial institutions. However, the state has an ownership stake in eight out of the nineteen banks operating in Zimbabwe, thereby reducing its impartiality in regulation of the sector and reducing the probability of bank officials raising suspicious activity reports that implicate senior public officials and their cronies.

Zimbabwe's private sector **struggles to access adequate financing** because international financiers perceive the country as a high-risk borrowing jurisdiction, and domestic financiers struggle to raise enough capital to satisfy the domestic demand for financing.

The Banking Association of Zimbabwe has noted that local banks have to borrow money offshore at high interest rates due to the country's reputation as a high-risk jurisdiction for credit.⁴⁴¹ Further, weak property rights and the unstable macroeconomic environment significantly reduces the number of domestic firms that meet the requirements for accessing finance.

As noted above, the state has a stake in eight banks from which PEPs and their cronies are able to access loans, which they do not pay back. The proportion of unpaid loans reached a high in 2013, where one dollar out of every six dollars that had been lent out was not repaid.

The Zimbabwean government has since introduced various public financing schemes to address the financing gap, all of which have been plagued by high rates of default due to the significant proportion of PEPs among borrowers.⁴⁴² These have included the RBZ's Agricultural Mechanisation Programme, the Command Agriculture Programme and the Youth Fund which had a default rate of 78 per cent.⁴⁴³

MOTIVATION OF KEY ACTORS BEHIND CARTELS

Economic rent seeking

Actors engage in cartels for **self-enrichment and classic primitive accumulation**. Economic rent-seeking is the transfer of wealth to oneself without engaging in voluntary trade with the owner of the wealth.⁴⁴⁴

Economic rents in some sectors of the economy have increased in value over time, making them more attractive to cartels. This increase has been partly due to exogenous factors (particularly for natural economic rents) and partly due to policymaking in the case of man-made economic rents.

Political financing

Financing of political campaigns is critical to electoral victory. In the U.S., over 90 per cent of Congressional candidates who spent more money on their campaigns than their opponent went on to win the election,⁴⁴⁵ while less stringent political financing regulations increase the odds of the incumbent remaining in office.⁴⁴⁶

Notwithstanding the prevalence of electoral malpractice in Zimbabwe, ZANU-PF has traditionally been better financially resourced than the opposition in elections. In the 2018 elections all 290 ZANU-PF candidates for Member of Parliament (MP) were given a brand new 4x4 vehicle and the party acquired 5 million t-shirts, 15 million caps and two million body wrappers,⁴⁴⁷ while MDC-Alliance ran a campaign in which most candidates for MP had to self-finance their campaigns.⁴⁴⁸

To afford its expensive campaigns, ZANU-PF is motivated to involve itself with cartels and other illegal activities.⁴⁴⁹

Political financing is regulated through the Political Parties Act (Chapter 2:11), which mandates that any party that gets at least 5 per cent of the vote in a general election is entitled to receive annual funding from the state proportional to its proportion of the vote. The Act prevents foreign funding of political parties⁴⁵⁰ and requires parties to maintain a record of donations received. The Act is, however, poorly implemented.

Until Mugabe's ouster, MDC-T did not receive its annual funding; in 2013 the ZANU-PF illegally received funding from the Chinese government,⁴⁵¹ and ZANU-PF's Secretary for Finance Patrick Chinamasa has stated publicly that ZANU-PF's source of funds "is confidential" without any censure.⁴⁵²

ZANU-PF's need to finance its campaigns and its daily operations leads to the abuse of public office by leaders who allow cartels to capture economic rents, some of which are then used finance the party.

EXOGENOUS FACTORS

Sanctions

The turn of the century was tumultuous for Zimbabwe when the country was involved in the second Congo War, embarked on the FTLRP, and experienced a sharp rise in election-related violence as ZANU-PF's hegemony was challenged for the first time in two decades. Four jurisdictions placed sanctions on Zimbabwe viz. the U.S., the EU, Canada, and Australia, as a result of the human rights abuses and illicit financial activity that was apparent at the time.

- a) The **U.S. sanctions** on Zimbabwe are the most comprehensive. They consist of
 - 1) the Office of Foreign Assets Control (OFAC) list of individuals and firms on whom an asset freeze has been imposed and with whom U.S. citizens and firms (including U.S. Correspondent Banks) are prohibited from doing business⁴⁵³ and
 - 2) the Zimbabwe Democracy and Economic Recovery Act (ZIDERA) of 2001 (amended in August 2018), which among other restrictions, instructs U.S. representatives to international financial institutions to vote against the provision of new loans to Zimbabwe.
- b) The **EU sanctions** comprise
 - 1) an arms embargo on Zimbabwe;
 - 2) travel restrictions and an asset freeze on Robert Mugabe and Grace Mugabe, and
 - 3) economic sanctions on Zimbabwe Defence Industries. Travel restrictions previously in place for 89 other people are currently suspended.⁴⁵⁴
- c) In 2002, **Australia** imposed sanctions on Zimbabwe, which include: 1) an arms embargo and 2) a travel ban on, and prohibition of Australian individuals and businesses from doing business with, Robert Mugabe, Grace Mugabe, five former and serving service chiefs, and the Zimbabwe Defence Industries (ZDI).
- d) Likewise, **Canada** imposed sanctions on Zimbabwe in 2008 under the Special Economic Measures Act, which comprise:
 - 1) an arms embargo;
 - 2) ban on Zimbabwean aircraft flying over or into Canada; and
 - 3) an asset freeze on 181 Zimbabweans.

The sanctions regime, and U.S. sanctions in particular, have had some unintended negative consequences for various third parties. The list of specific instances below add context to the high-level examples mentioned in the Findings section of this report:

- Zimbabwean banks have been fined very large sums of money for handling transactions for OFAC-listed individuals:
 - Standard Chartered Plc was fined US\$18 million and Barclays US\$2.5 million for handling transactions for an SOE, the Industrial Development Corporation of Zimbabwe (IDC).
 - CBZ Bank was fined US\$385 million for conducting transactions on behalf of the then OFAC-listed ZB Bank.
- Zimbabwean citizens have been denied access to some financial services across the world as part of banks' de-risking strategies, which includes limited access to PayPal and the refusal to open accounts for Zimbabweans by the Industrial and Commercial Bank of China Limited (ICBC).⁴⁵⁵
- Some state-owned enterprises have claimed to have failed to receive foreign direct investment (FDI) as the transactions were blocked due to OFAC regulations. This includes US\$3 million meant for the Small and Medium Enterprises Development Corporation (SMEDCO), US\$20 million for the aforementioned IDC, US\$5 million for Chemplex and US\$30 million in diamond sales revenues meant for the Minerals Marketing Corporation of Zimbabwe (MMCZ).

THE ROLE OF CHINA, SOUTH AFRICA, UNITED ARAB EMIRATES (UAE) AND TAX HAVENS

The international sanctions regime increased Zimbabwe's reliance on non-Western countries such as China, South Africa, the UAE and companies registered in tax havens for trade and investment.

These countries are either financially secretive or have weak anti-money laundering legislation, which allows for economic actors (Zimbabwean and foreign alike) to exploit these vulnerabilities by engaging in cartel behaviour. In many cases, these actors are private individuals but, in some cases, they are connected to the states.

South Africa, the regional economic powerhouse, has consistently been Zimbabwe's top trade partner. However, the UK, Germany and Japan, which formerly were some of Zimbabwe's top trade partners in 1995⁴⁵⁶, have since been overtaken by the UAE, China and Mozambique.⁴⁵⁷

Some of Zimbabwe's top exports are opaquely priced in the trade with China, South Africa and the UAE. Opaque pricing creates an opportunity for cartels to generate excessive profits, by under-declaring their income and profits. This allows them to evade taxes and the ZRB export retention.

Gold, Zimbabwe's top export, has a transparent pricing system and its price is publicly available. However, one key interviewee suggested that Landela Mining was selling gold to the UAE at 20 percent higher than the international gold price.⁴⁵⁸

Tobacco, the second top export, is opaquely priced too. The industry regulator, the Tobacco Industry and Marketing Board's (TIMB) 2019 pricing system lists 1,282 different grades of tobacco, each with a different price that ranges from US\$0.15 to US\$5.23 per kg.⁴⁵⁹ This complicated pricing system makes it possible for the significant under-invoicing of tobacco exports to occur, as described Box 1.

Zimbabwe's top sources of foreign direct investment (FDI) in the 1990s were the UK and U.S., but since the turn of the century, China has become the largest source of FDI, accounting for 74 per cent of FDI into Zimbabwe in 2015.⁴⁶⁰

One key interviewee, a political economy expert, claimed there are "twenty to thirty foreign individuals, mostly from China and South Africa, who are responsible for the formation of cartels as they move from one politician to the other, striking deals".⁴⁶¹

Financial secrecy facilitates corruption, tax evasion and tax avoidance.⁴⁶² A number of domestic and foreign companies operating in Zimbabwe have moved their headquarters from relatively transparent jurisdictions to secretive ones. This allows these companies to engage in illicit activities without scrutiny from their home countries. ■

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