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Over $3 billion externalised

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Business Editor

Zimbabwe's foreign currency shortages are worsening over massive capital flight amid indications corporates and business tycoons have externalised $3 billion between 2015 and June 2017 mainly to Mauritius and the Far East, a development now under intense investigation.

Of the $3 billion, about $1,8 billion was shipped out illegally while $1,2 billion was expatriated through service fees, management fees, technical fees and royalties, according to sources close to the official investigations. But there are concerns that even the legal flow of funds out of the country is susceptible to manipulation as companies can misinvoice particularly for services which are available in the country.

This comes as deputy governor of the Reserve Bank of Zimbabwe (RBZ) Dr Khupikile Mlambo said recently that Zimbabwe lost an average of $150 million every month in 2015 to illicit financial flows.

Documents gleaned by Business Weekly showed that a number of politicians, business tycoons and related companies (names withheld to allow investigations to continue) were among the long list of individuals suspected to be shipping out cash through various machinations. Sources said the RBZ was closely monitoring people, companies and organisations that have made suspicious transactions such as cash deposits (in neighbouring countries), misinvoicing and transfer pricing.

(Then) Finance and Economic Development Minister Patrick Chinamasa recently told Parliament, Government was investigating individuals and corporates that are externalising foreign currency. Minister Chinamasa singled out externalisation and low exports as the major factors behind the current cash shortages.

The firms that have shipped out funds, through legal channels, mainly to Mauritius and the Far East, to pay various fees have also been put under surveillance. The companies on the central bank's radar include those in the telecommunications industry. Sources said one of the companies had already salted away $60 million in the year to May 2017.

Companies in the financial services sector, Chinese nationals and a failed black Zimbabwean banker, who has a South African identity registration and residence, are also on the list. "What most guys do not know is that central banks are networked and share information through their respective financial intelligence units," a source said.

Also on the list is a shadowy white businessman (name withheld) who made regular cash deposits in neighbouring Botswana amounting to $6 million over the past year. Metallon Gold and ex-Harare City Council Town Clerk Tendai Mahachi are part of the list. Metallon is already in court over this issue. The former Town Clerk, Mahachi, who was arrested for an $800 000 fraud involving City Parking, is accused of transferring the amount to Ghana. Diamond firm Jinan is said to have shipped out $630 million while significant amounts were moved by collapsed MMM Zimbabwe.

Government officials have indicated that plans had been mooted to minimise capital outflows by reviewing royalty agreements, patent and copyright regulations as well as through encouraging foreign companies to register locally and ensuring that their accounts were domiciled in Zimbabwe. Externalisation has a haemorrhaging effect on the economy while it is also contributing to the widening gap between local dollars and foreign currency.

"This intense investigation is real and meant to stop the illegal flows and to help economic recovery." However, the source declined to discuss details of the probe, only saying they were quite advanced. Dr Mlambo told a KPMG seminar that continued externalisation, finance parallel market activities and non-priority and restricted imports at a premium had resulted in an exchange rate between electronic balances and foreign currency.

If the leakages continue, the country will not have capacity to create a capital base locally. There is need therefore to put further controls and to tighten border control. Analysts say that the central bank should consider utilising the methods used in the past under the old Exchange Control Act. Under this Act, many expatriate companies were required to register locally and the retention of all their revenue had a hothouse effect that created huge capacity for capital, which was then invested towards developing the economy.

"As long as foreign currency continues to haemorrhage out of the country it will be difficult to prompt any kind of sustainable economic development," said an economist who requested anonymity. At a much broader level, Africa loses $80 billion a year through illicit flows. UN Economic Commission for Africa (UNECA) acting executive secretary Abdalla Hamdok, at the recently held AU summit, said curtailing illicit financial flows is imperative for the implementation of Africa's ambitious Agenda 2030 and 2063 economic and social development programme.

Given the scale of the matter and the negative impact it has on Africa's development and governance agenda, the issue of illicit financial outflow is no longer just a continental agenda but also an international one, he said. He revealed that currently a consortium comprised of pan-African institutions has been inaugurated and tasked to tackle the problem. Meanwhile, a campaign dubbed "stop the bleeding" was jointly carried out by the UNECA and AU commission.

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