

ECOGAD7/2016

FOR USE BY AUTHORISED DEALERS AND THE PUBLIC



EXCHANGE CONTROL OPERATIONAL GUIDELINES AND COMPLIANCE FRAMEWORK TO AUTHORISED DEALERS

On

**Exchange Control Policies and Compliance Measures Issued in the
January 2016 Monetary Policy Statement**

8 February 2016

This ECOGAD7/2016 is issued as an addendum to Exchange Control Directive RR27 dated 8 February 2016 as part of policy and administrative guidelines for new policy measures and Compliance Measures announced in the January Monetary Policy Statement issued by the Governor, Dr. J. P. Mangudya.

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1. **TREATMENT OF INDIVIDUAL TRANSACTIONS**

- 1.1 During the Zimbabwe Dollar era, both residents and non-residents were allowed to open individual foreign currency accounts using funds emanating from offshore. These funds were deposited with Authorized Dealers and were treated as free funds as they did not emanate from local sources.
- 1.2 Following the adoption of the multicurrency system and the subsequent liberalisation of the Current Account in February 2009, individuals were allowed to operate Individual Foreign Currency Accounts (IFCAs). However, as money is fungible, deposits into individual FCAs were no longer limited to offshore funds but also included salaries, donations, alimony, proceeds from sale of property, sole trader business, farming and sale of shares among others.
- 1.3 Given that money is fungible and the fact that the country is using multi-currencies, there is no longer any difference between foreign currency earned from offshore sources or domestic activities. It should also be noted that under the multicurrency system, the country's sources of liquidity are;
 - i. Exports;
 - ii. Diaspora remittances;
 - iii. External loans and grants; and
 - iv. Foreign investments.
- 1.4 These sources of liquidity need to be sustained for the progressive betterment and development of the country.

1.5 Consequently, the new policy to align the treatment of individual and corporate funds in a manner that takes into cognisance the fungibility status of money, is meant to achieve the following objectives:

- i. Aligning the country's treatment of individual transactions to regional and global best practices;
- ii. Mitigating against malpractices of circumventing regulations by transferring company funds into individual accounts, for the purposes of externalisation under the guise of free funds;
- iii. Account for the country's foreign currency resources;
- iv. Reduce incidences of illicit financial flows and implementation of anti-money laundering regulations in line with international best practices;
- v. Promote internal investments which in turn will usher in numerous opportunities in the various sectors of the economy;
- vi. Enhancing market liquidity by allowing internal circulation of the limited foreign currency;
- vii. Promoting market confidence; and
- viii. Promoting the operation of corporate accounts by businesses and sole traders.

1.6 Given the need to attain the aforementioned objectives, Authorised Dealers are hereby directed that all individual cross border payments, for both goods and services, require to be supported by relevant invoices from suppliers and service providers to ensure that they are **bona-fide transactions**.

1.7 Individual imports with a value in excess of USD5,000 require to be acquitted in the CEBAS system by the Authorised Dealer.

1.8 In this regard, individual importers shall submit **Bills of Entry (Import)** to the Authorised Dealer to confirm receipt of goods into the country within 90 days from the date of effecting payment. Failure to account for one’s imports shall be a violation of Exchange Control Regulations. Authorised Dealers are also directed that, with immediate effect, payments for external services shall only be effected upon production of relevant invoices clearly showing the service providers and the amount involved.

1.9 In order to simplify and reduce the administrative burden on Authorised Dealers when dealing with individual transactions, Exchange Control hereby provides the check list for specific individual transactions. While the check list is meant to assist Authorised Dealers in administering individual cross border transactions, Authorised Dealers are advised to apply the Know Your Customer (KYC) and Customer Due Diligence (CDD).

Table 1: Check list for Individual Transactions

TRANSACTION TYPE	CHECKLIST
Business Travel Expenses	<ul style="list-style-type: none"> • Confirmation of travel from company. • Use of credit/debit cards • Maximum cash on person USD5,000
Medical Expenses	<ul style="list-style-type: none"> • A referral letter from a local specialist. • Pro forma invoices for the foreign hospital or specialist confirming cost of treatment.
Education: Tuition Fees, Living Expenses & Pocket Money	<p>Authorised Dealers are allowed to process educational fees to meet all expenses directly related to full time or correspondence course of study, including pocket money and living expenses for education, provided the following information shall be submitted;</p> <ul style="list-style-type: none"> • Letters of admission in case of new students; • Invoice and /or statement of account from college university; or • Any suitable documentary evidence from the institutions.

TRANSACTION TYPE	CHECKLIST
Examination Fees	The remittance of fees by local universities and colleges may be approved on submission of the following:- <ul style="list-style-type: none"> • A list of the students' names • Documentary evidence from the external Examination Boards confirming amount payable.
Expatriates	The Authorised Dealer is allowed to remit part of the salary, provided the information detailed under is submitted; <ul style="list-style-type: none"> • Letter of appointment from employer; • Copy of payslip.
Alimony and Child Maintenance	<ul style="list-style-type: none"> • Application letter; • Divorce order where applicable; and • Children's birth certificate(s).
Repairs, Legal Fees and Subscriptions	<ul style="list-style-type: none"> • Invoices and/ or; • Statements of account; and • Renewal notices.
Sale of Tours	Payment of all-inclusive or package holiday tours outside Zimbabwe is permitted. Payment must be made direct to the travel agent or tour operator outside the country subject to submission of the following in the name of the local tour operator:- <ul style="list-style-type: none"> • A breakdown of the cost of the tour; and • A brochure
Airfares	<ul style="list-style-type: none"> • Invoice
Cash donations	<ul style="list-style-type: none"> • Beneficiary; • Banking details; • Relationship; and • Motivation for the donation. • ZIMRA Tax clearance certificate <p>Amounts in excess of USD10,000 per transaction require prior Exchange Control approval.</p>
Pension remittances	<ul style="list-style-type: none"> • Letter from pension fund • Emigration authority
Family Upkeep	<ul style="list-style-type: none"> • Application letter <p>Amounts in excess of USD10,000 per transaction require prior Exchange Control approval.</p>
Rentals due to non-resident residential property owners	<ul style="list-style-type: none"> • Lease agreement

1.10 Depending on frequency and amounts involved, Authorised Dealers shall report suspicious transactions to the Reserve Bank.

1.11 Any request that is not covered under Table 1 above requires prior Exchange Control approval.

1.12 In addition, prior Exchange Control approval shall be required for the following transactions as is the case;

- i. Remittance of property sale proceeds;
- ii. Inheritance transactions involving non-residents;
- iii. Emigration including temporary and permanent export of personal and household effects.

1.13 In order to easily track and monitor transactions by individuals, the CEBAS system will be enhanced to enable Authorised Dealers to register individuals conducting cross border payments using their client database, with the National Identity Number (ID) being used as the unique reference number for residents and passport number for non-residents.

1.14 For accounting purposes under this revised framework, all foreign currency receipts that were previously coded as free funds will now be reported as Diaspora Remittances on ECFORM 1 and coded as follows;

Type of Receipt	-	Diaspora Remittances
Receipt Code	-	DREMIT
SectorCodes	-	INDIV (individuals)
	-	NGOs (NGOs)
	-	EMBS (Embassies)

1.15 The new list of receipts and respective codes will be as follows;

Table 2: Revised Foreign Currency Receipts Coding Framework

TYPE OF RECEIPT	RECEIPT CODE
Export Proceeds	EXPRO
Loan Proceeds	LPROC
Diaspora Remittances	DREMIT
Income Receipts (Royalties)	INRECEPT (R)
Income Receipts (Dividends)	INRECEPT (D)
Income Receipts (Other)	INRECEPT (O)
Capital Investments	KINVEST

Compliance Parameter

1.16 Authorised Dealers shall apply KYC, CDD and ensure that all the requisite information is furnished to the Authorised Dealer before effecting payment, to the extent possible and practicable.

2. UTILISATION OF CREDIT/DEBIT CARDS BY INDIVIDUALS

2.1 For individuals, Authorised Dealers are advised that the issuance of debit/credit cards shall continue to meet individual purchases. However, Authorised Dealers shall be required to report separately **all** credit/debit card transactions and acquit **all** transactions in excess of USD10,000 per transaction on CEBAS by the 14th day of the following month reporting transactions of the previous month. For acquittal, Authorised Dealers shall request for Bills of Entry (Import) for goods and completion of Form ECSPAD for services.

- 2.2 Any card transactions below the USD10,000 threshold shall continue to be lumped per card holder and reported on CEBAS by the 14th day of the following month reporting transactions of the previous month.
- 2.3 Failure to account for one's imports shall be a violation of Exchange Control Regulations and or Anti-Money Laundering Regulations.
- 2.4 To safeguard against abuse of these cards by individuals, Authorised Dealers are advised to apply the KYC and CDD at all times.

3. **CROSS BORDER (OFFSHORE) INVESTMENTS BY INDIVIDUALS**

- 3.1 In order to foster a culture of transparency and accountability, with immediate effect, any resident who wishes to invest externally in the form of offshore individual foreign currency account, external money market investments, purchase of shares in private or public companies, immovable property and any other external investment regardless of the amount, is required to obtain prior Exchange Control approval. The following information shall be submitted when such requests are made;
- i. Amount to be invested;
 - ii. Source of funds;
 - iii. Destination for the investment;
 - iv. Nature of investment and the rationale for the external investment;
 - v. Tenure of investment;
 - vi. Expected returns; and
 - vii. A tax clearance certificate from ZIMRA for the investing individual.

4. **TREATMENT OF FUNDS FOR NGOS, EMBASSIES, INTERNATIONAL ORGANISATIONS AND NON-RESIDENT INDIVIDUALS & CORPORATES**

- 4.1 Authorised Dealers are advised to exercise KYC and CDD principles as is the common practice in conducting cross border transactions by NGOs, Embassies and International Organisations. In addition, transactions for non-resident individuals and corporates, operating Individual FCA (Non-Resident) and Corporate FCA (Non-Resident) respectively **funded from offshore**, do not require prior Exchange Control approval. However, payments from these accounts shall be reported on CEBAS for accounting purposes.
- 4.2 For good corporate governance purposes, acceptable supporting documents may be availed to the Authorised Dealer.

5. **PROMOTION OF PLASTIC MONEY AND BANK TRANSFERS**

Policy and Administrative Guideline

- 5.1 The Reserve Bank has noted that numerous transactions are being conducted on a cash basis, requiring customers to first withdraw cash in order to make payments. In light of this handicap, banks are encouraged to promote the use of plastic money, to avoid unnecessary carrying of cash by the transacting public.
- 5.2 Where the use of cash is unavoidable, Authorised Dealers are advised that all cash withdrawals of above **USD10,000 per bank per person** or its equivalence in other currencies shall with immediate effect, require at least one (1) day notice. This measure is intended to suppress money laundering activities.

Compliance Parameters

- 5.3 Authorised Dealers should ensure that the requirement for at least one (1) day notice for cash withdrawals of above USD10,000 has been communicated to all their customers.
- 5.4 Multiple currency transactions must be treated as a single transaction if the Authorised Dealer has knowledge that;
- (a) they are conducted by or on behalf of the same person; and
 - (b) the resultant cash disbursed by the Authorised Dealer is more than USD10,000.

6. ENHANCEMENT OF THE RTGS SYSTEM TO CATER FOR MULTIPLE CURRENCIES

- 6.1 Authorised Dealers are advised that the Reserve Bank is currently upgrading the RTGS platform to enable it to handle multiple currencies, resulting in each currency being traded on its own to manage foreign exchange risk.
- 6.2 The Reserve Bank reiterates that the Zimbabwe Multi-currency system is made up of nine (9) trading currencies with the USD as the settlement currency for the Real Time Gross Settlement (RTGS) and Central Securities Depository (CSD) systems. These are;
- (i) United States Dollar;
 - (ii) South African Rand;
 - (iii) Euro;
 - (iv) British Pound Sterling;
 - (v) Chinese Yuan/Renmimbi;

- (vi) Botswana Pula;
- (vii) Australian Dollar;
- (viii) Indian Rupee; and
- (ix) Japanese Yen.

7. **SERVICE AGREEMENTS BETWEEN RELATED & UNRELATED COMPANIES**

Policy and Administrative Guideline

- 7.1 In order to guard against Illicit Financial Flows (IFFs) through payments arising from service agreements between related and unrelated companies, with immediate effect, the **aggregate of service payments by local companies to all related and unrelated companies shall not exceed 3% of audited gross annual revenue.**
- 7.2 Over and above the requirement for acquittal of the service payments to ensure that the country receives fair value, Exchange Control shall also conduct onsite and ex-post validation of the companies involved in such arrangements.
- 7.3 It should, however, be noted that the aggregated 3% of annual gross revenue, does not apply to agreements already registered with Exchange Control.

Compliance Parameters

- 7.4 When submitting applications for registration of service agreements, Authorized Dealers shall ensure that local companies provide the following information:
- i. Details of the relationship between the companies.

- ii. Revenue for the previous year and projected revenue for the current year.
- iii. Details of other service contracts already registered under the new dispensation and their contract values.
- iv. ZIMRA Tax clearance certificate for the local company.

7.5 In addition, the local company shall, in its application letter, declare that the payments under the agreement submitted for registration will not make the consolidated service payments exceed the 3% of annual gross revenue threshold.

7.6 Authorised Dealers shall continue to ensure that a Certificate of Completion of Works has been declared and submitted to Authorised Dealer and that the EC Form ECSPAD has been acquitted in CEBAS.

Registration of Service Agreements by State-Owned Enterprises

7.7 In order to promote good corporate governance in the public sector, the registration of external service contracts by State-Owned Enterprises now requires support letters from line Ministries where the contract value is below the State Procurement Board's minimum threshold or tender approval from the State Procurement Board for contracts with values starting from the minimum threshold.

7.8 Upon registration of the agreements, payments can be effected for a period of 1 year without seeking prior Exchange Control approval. Thereafter, the service agreement shall be renewed annually for Exchange Control purposes.

Compliance Parameters

- 7.9 When submitting applications for registration of service agreements for State-Owned Enterprises, Authorized Dealers shall ensure that State-Owned Enterprises provide either a support letter from the line Ministry or an approval from the State Procurement Board depending on the contract value.
- 7.10 Authorised Dealers shall continue to ensure that a Certificate of Completion of Works has been declared and submitted to Authorised Dealer and that the EC Form ECSPAD has been acquitted in CEBAS.

8. PURCHASE OF SOUTH AFRICAN RAND AND OTHER CURRENCIES BY THE RESERVE BANK OF ZIMBABWE

- 8.1 In order to create a conducive financial environment, and consistent with efforts towards improving the country's ease of doing business and ameliorating the burden of exchange losses on consumers, with immediate effect, Authorised Dealers are directed to purchase South African Rand and/or any other currencies within the multi-currency basket from the banking public at the official exchange rate for onward selling to the Reserve Bank of Zimbabwe.

9. INVESTMENTS ON STOCK MARKET

Single Investor Limit increased from 10% to 15% on Zimbabwe Stock Exchange

Policy and Administrative Guideline

- 9.1 Current Exchange Control policy allows a single foreign investor to acquire listed shares on Zimbabwe Stock Exchange up to 10% per counter. In order to promote portfolio investments by foreign investors on the Zimbabwe Stock Exchange with the overall objective of enhancing market liquidity, going forward, Authorised Dealers are advised that a single investor is now permitted to acquire up to 15% of listed shares per counter.

Review of 40% threshold for foreign investors on Zimbabwe Stock Exchange to 49%

Policy and Administrative Guideline

- 9.2 In terms of existing Exchange Control policy, foreign investors' overall ownership in a listed company is 40%. In order to align the Exchange Control threshold of 40% to the Indigenisation and Economic Empowerment regulations, foreign investors can now acquire listed shares on the Zimbabwe Stock Exchange up to 49% per counter.

Upward Review of Full Fungibility status from 40% to 49%

Policy and Administrative Guideline

- 9.3 Current Exchange Control policy allows full fungibility of 40% on selected listed counters. The policy is aimed at ensuring maintenance of shares on the Zimbabwe Stock Exchange register, hence encouraging participation by local investors.

- 9.4 Consistent with the Indigenization and Economic Empowerment policy, Authorised Dealers are advised that, with immediate effect, full fungibility for counters with prior Exchange Control approval has been increased from 40% to 49%. Proceeds arising from the sale of shares within this fungible threshold, must be repatriated into the country through normal banking channels.
- 9.5 Prior Exchange Control approval shall, however, be required for fungibility status.

Compliance Parameters for ZSE

- 9.6 Transfer Secretaries should ensure that the prescribed thresholds are not exceeded. Prior Exchange Control approval shall be required to exceed the set thresholds.

10. REVIEW OF PRICING OF EXTERNAL LOANS

- 10.1 The current pricing structure for external loans does not sufficiently reward long term lenders to such an extent that the majority of external lenders are now preferring the provision of short term loans which do not augur well with the long term capital requirements of the economy.
- 10.2 In order to encourage long term external borrowings for productive purposes, the pricing structure for external loans has been aligned with the domestic interest rates ranging from 6% -10% per annum as shown below.

Table 3: Pricing of external loans

(All charges per annum except L/C Confirmation fees)	Tenor				
	1 Year and less	Between 1 year and 2 years	Between 2 years and 5 years	Between 5 years and 9 years	Above 9 years
Margin Above Reference Rate of up to (p.a)	6.00%	7.00%	8.00%	9.00%	10.00%
Commitment Fees (Only for committed lines)	1.00%	1.00%	1.00%	1.00%	1.00%
TOTAL MARGIN	7.00%	8.00%	9.00%	10.00%	11.00%
L/C Confirmation Fees (per quarter)	1.5%	1.5%	1.5%	1.5%	1.5%
TOTAL FOR FLAT FEES	4.00%	4.00%	4.00%	4.00%	4.00%

10.3 However, tobacco financing, shareholder loans and notional vendor finance shall remain the same as per the following existing external borrowing guidelines;

Table 4: Existing Pricing of External Loans

(All charges per annum except L/C Confirmation fees)	Tobacco Pre/Post Export Finance	All shareholder loans, Including vendor financing loans
Margin Above Reference Rate of up to (p.a)	5.00%	5.00%
Commitment Fees (Only for committed lines)	0.50%	0.50%
TOTAL MARGIN	5.50%	5.50%
L/C Confirmation Fees (per quarter)	1.5%	1.5%
TOTAL FOR FLAT FEES	4.00%	4.00%

11. PROFIT SHARING ARRANGMENTS FOR SELECTED SECTORS

11.1 Currently, the productive sectors of the economy are facing challenges in accessing sustainable financing required to increase productivity. The absence of long term and affordable financing structures are partly responsible for low capacity utilization obtaining in the economy.

11.2 In order to rejuvenate the productive sectors of the economy mainly the mining, agriculture and manufacturing sectors through innovative structured finance models, going forward, foreign investors are now permitted to inject capital into local entities with the view of participating in the risk and return of the company. It should, however, be noted that the funds to be provided under these profit sharing models are **not equity nor debt funds**. Such arrangements would require prior Exchange Control approval.

11.3 The following Greenfield and Brownfield projects are eligible for profit sharing arrangements;

- i. Agriculture;
- ii. Mining operations; and
- iii. Manufacturing.

Compliance Parameters

11.4 Upon licensing by ZIA, the locally licensed company shall be required to submit to the Authorised Dealer an application for participation in the profit sharing of the company which should be accompanied by the following information:

- i. A copy of ZIA certificate confirming approval and registration of the Greenfield project;

- ii. Names and residential status of foreign partners;
- iii. Company profile which should clearly specify the nature of operations and existing shareholders and their residential status;
- iv. Copy of the Profit Sharing Agreement between local and foreign partner;
- v. Board resolution by the locally incorporated entity; and
- vi. Cash flow projections covering the tenor of the profit sharing agreement.

11.5 In order for Exchange Control to fully account for the contribution made by the foreign investor, all companies in the profit sharing arrangements shall be required to submit to the Authorised Dealer, the proof of receipt of funds injection by the foreign investor, and also showing whether capital injection was in the form of cash or importation of capital equipment.

11.6 Furthermore, in order for Exchange Control to fully account for the share of profits paid to the foreign investor, all companies operating under the profit sharing arrangement shall be required to submit to the Authorised Dealer copies of financial statements upon which the sharing or distribution of profits was based for each particular period a profit is distributed.

12. **UPWARD REVIEW OF LIMITS ON NOSTRO BALANCES**

Policy and Administrative Guideline

12.1 In an effort to minimize payment gridlocks on cross border payments, Exchange Control has with immediate effect, reviewed nostro limits from 5% to 10% of total FCA deposits held by Authorised Dealers. In this

regard, the Computerized Exchange Control Nostro Accounting and Monitoring System (CENAMS), shall be adjusted accordingly.

Compliance Parameters

- 12.2 Authorized Dealers must adjust their Nostro Balances to the set threshold of 10% of Total FCA Balances, within 48 hours of breach. Where the Authorised Dealer fails to adjust the Nostro balances accordingly within 48 hours, an administrative penalty of 2.5% of the excess funds shall be levied, which proceeds must be transferred to the Reserve Bank.

13. REDUCTION OF ANNUAL BRANCH FEES IN RURAL AREAS

Policy and Administrative Guideline

- 13.1 In an effort to increase remittance access points and to promote financial inclusion, the Authorised Dealers with Limited Authority (ADLAs) branch licensing fees in Rural District Council areas, are with immediate effect, reviewed downwards to USD100 for a new branch and USD50 per year thereafter. The branch licensing fees in urban areas remain the same.

Compliance Parameters

- 13.2 To ensure compliance, ADLAs must now pay USD100 for a newly licensed branch in the rural areas and USD50 per year thereafter.

14. GOLD PRODUCTION POLICY MEASURES

Decriminalisation of Gold Possession

- 14.1 In an effort to increase gold deliveries to Fidelity Printers and Refiners (FPR) by small scale and artisanal miners that have for a long time been

disenfranchised due to the criminalization of many of their activities as a result of stringent laws, Exchange Control is putting in place the following measures which are compliant with the responsible Gold Trading Scheme;

- i. Fidelity Printers and Refiners to buy gold from artisanal miners ‘**on a no questions asked basis**’ through mobile buying centres to be deployed across the country;
- ii. FPR to issue permits to buyers to cover mining areas that have high activity of artisanal miners; and
- iii. FPR, shall in the process, gradually develop a database and account for production by artisanal miners.

Continuous Monitoring

- 14.2 In an effort to improve gold production and compliance by producers on record-keeping and declarations by producers to Fidelity Printers and Refiners, Exchange Control and other relevant Government Departments shall tighten the monitoring of gold sector players.

15. DIAMOND PRODUCTION

Policy and Administrative Guideline

- 15.1 In an effort to enhance transparency and accountability in the contribution of diamonds to the fiscus and economic development, all diamond export sales proceeds by Zimbabwe Consolidated Diamond Company would be accounted for by the Reserve Bank in a transparent manner similar to gold under Fidelity Printers and Refiners.
- 15.2 The relevant modalities shall be availed to the market in due course.

16. **CONCLUSION**

- 16.1 In order to ensure policy effectiveness and attainment of the desired policy objectives, it is imperative that Authorised Dealers fully observe and comply with all the set compliance parameters.
- 16.2 Exchange Control shall continue to ensure full compliance towards the implementation of these prudential policy measures.

EXCHANGE CONTROL DIVISION

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