

FOR USE BY AUTHORISED DEALERS ONLY



EXCHANGE CONTROL GUIDELINES TO AUTHORISED DEALERS

on

**External Sector Policy Measures Issued in the July 2014
Monetary Policy Statement.**

1 SEPTEMBER 2014

ECOGAD1/2014 is issued as an attachment to Exchange Control Directive RP141: dated 1 September 2014, as part of operational and administrative modalities for External Sector Policy Measures announced in the July 2014 Monetary Policy Statement by the Governor, Dr. J. P. Mangudya

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ABBREVIATIONS AND DEFINITIONS

Authorised Dealers	:	Local Commercial and Merchant banks licenced by the Exchange Control to deal in foreign currency.
CEBAS	:	Computerised Exchange Control Batch Application System
CENAMS	:	Computerised Exchange Control Nostro Accounting and Monitoring System
CEPECS	:	Computerised Exports Payments Exchange Control System
CSD	:	Central Securities Depository
ECAAD1	:	Exchange Control Absolute Amnesty Declaration Form
ECBED	:	Exchange Control No Bill of Entry Declaration Form
ECGEB	:	Exchange Control Guidelines for External Borrowings
ECGAD	:	Exchange Control Guidelines to Authorised Dealers
ECSPAD	:	Exchange Control Service Payments Declaration
ELECRC	:	External Loans and Exchange Control Review Committee
Exchange Control	:	Exchange Control arm of the Reserve Bank of Zimbabwe, unless otherwise stated.
EXCORS	:	Exchange Control Compliance Rating System
Exporter	:	Any person or company in Zimbabwe who takes goods or causes goods to be taken out of Zimbabwe
FCA	:	Foreign Currency Account
Foreign Investor	:	An individual, consortium or corporate entity holding equity or shares in a local company.
Form EC-2L	:	Declaration Form for all foreign currency inflows
Form CD1	:	Currency/Customs Declaration Form specifying the value of exports, commissions and freight.
Form CD3	:	Foreign Currency Declaration form completed by locally registered freighters
Form PTS1	:	Posts & Telecommunications Form
Form TRAS1	:	Foreign currency declaration form for non-consumptive tourism
IPO	:	Initial Public Offer
MPS	:	Monetary Policy Statement
OFAC	:	Office of Foreign Asset Control
RTGS	:	Real Time Gross Settlements
ZDMO	:	Zimbabwe Debt Management Office
ZIMRA	:	Zimbabwe Revenue Authority
ZSE	:	Zimbabwe Stock Exchange

1. Introduction

- 1.1 Pursuant to the July 2014 Monetary Policy Statement announced by the Governor, Dr. J. P. Mangudya, on 25 August 2014, the Guidelines detailed herein are intended for use by Authorised Dealers in the implementation of external sector policy measures contained therein.
- 1.2 These Guidelines are issued to detail in a convenient form to the law contained in the Exchange Control Act, [Chapter 22:05] and the Exchange Control Regulations. Furthermore, these Guidelines are issued to clearly communicate to Authorised Dealers a comprehensive operational and administrative Exchange Control framework for processing of transactions covered under the aforementioned external sector policy measures. Authorised Dealers should at all times adhere to the minimum provisions outlined in these Guidelines to ensure operational efficiency and administrative effectiveness.
- 1.3 These Guidelines shall also form the basis for establishing compliance by Authorised Dealers in terms of the Exchange Control Compliance Rating System (EXCORS).

Any enquiries relating to these Guidelines should be addressed to:

The Director
Exchange Control Division
Reserve Bank of Zimbabwe
80 Samora Machel Avenue
P O Box 1283

HARARE

Email: bmpofu@rbz.co.zw

Tel: +263(04)703000: Fax: +263(04)703716

Website: www.rbz.co.zw

2. Amnesty to Non-Compliant Market Participants

- 2.0 In order to ensure the resolution and closure to all recurring and outstanding foreign exchange related compliance issues, the Reserve Bank shall grant an amnesty (pardon) to market participants that are committed to regularize all anomalies with Exchange Control.
- 2.1 In terms of Section 38 of the Exchange Control Regulations, Statutory Instrument 109 of 1996, which states that “*Notwithstanding any other provision of these regulations, an exchange control authority may issue a direction **exempting** any person from any obligation imposed by or prohibition contained in these regulations*”, the Reserve Bank hereby grants exemptions in the form of an amnesty to eligible market participants.
- 2.2 Under this framework, two categories of amnesty on Exchange Control violations shall be granted with effect from **1 September 2014**.

3. Provisions for Absolute Amnesty

- 3.0 This category entails the complete exceptional reprieve of prior Exchange Control violations. The pardon, which is subject to an approved eligibility criteria, is permanent in that it completely strikes off the violation from the Exchange Control register.

3.1. Absolute Amnesty Application Criteria

3.1.0 In order to implement an effective, fair and transparent Absolute Amnesty to deserving applicants, the following framework shall apply:

- (i) Applications for Absolute Amnesty shall be submitted to Exchange Control, through an Authorised Dealer, during **the period 1 September to 31 December 2014**. Only applications received by Exchange Control during this period, shall be considered for Absolute Amnesty;
- (ii) Each application for Absolute Amnesty must be addressed to the Director, Exchange Control and **clearly marked “Application for Absolute Amnesty”** and accompanied by an **Exchange Control Absolute Amnesty Declaration Form, ECAAD** (See Annexure 1).
- (iii) The Authorised Dealer should clearly state the **Category** under which the application is being submitted.
- (iv) The applicant and the Authorised Dealer shall justify the application and attach supporting documentation, indicating the relevant CD1 numbers;
- (v) The application should clearly state the total amount to be granted Absolute Amnesty;

- (vi) Applications for Absolute Amnesty shall be assessed and approved by the External Loans and Exchange Control Review Committee; and
- (vii) Exchange Control letters of approval for Absolute Amnesty shall be issued by the Director, Exchange Control Division.

3.1.1 The following categories have been identified under the permanent reprieve:-

- (i) Exporters with **non-recoverable** overdue export proceeds; and
- (ii) Machinery and equipment exported under **repair and return**, and was declared obsolete.

3.2. **Exporters with Non-Recoverable Overdue Export Proceeds**

3.2.0. In terms of current policy, all export receipts should be repatriated into the country within 90 days from the date of export or when contractually due, and within any other period approved by Exchange Control. As at 30 June 2014, the total overdue export proceeds (Forms CD1/CD3/PTS1) amounted to **USD303.2 million**. Of this amount, **USD108.4 million** accumulated before January 2010 is **not recoverable** owing to the following reasons:

- (i) Some exporters engaged in unauthorised set offs of export proceeds against value of imported goods;
- (ii) Some companies declared external receivables as bad debts without seeking approval from Exchange Control;

- (iii) Some consignees faced operational challenges and ended up being closed or were liquidated;
- (iv) Some exporters relocated outside the country without notifying Exchange Control; and
- (v) Some exporters who have been under sanctions had their export proceeds seized by the US Department of the Treasury through the Office of Foreign Assets Control (OFAC).

In this regard, **all non-acquitted Forms CD1, CD3 and PTS1 raised prior to 31 December 2010 (i.e. period under review)**, shall qualify for **absolute amnesty**, under the following modalities:

3.2.1. Category 1: Forms CD1 Raised by Individual Cross-border Traders

- (i) All Forms CD1 raised by Individual Cross-Border traders registered under an individual's name shall be eligible for acquittal using the amount declared on the respective Forms CD1;
- (ii) Authorised Dealers shall pre-acquit the relevant Forms CD1 using the declared amount in line with the application criteria in 3.1. above; and
- (iii) Exchange Control will carry out the final acquittal after approval by the External Loans and Exchange Control Review Committee (ELECRC).

3.2.2. Category 2: Exporters who cannot be traced by Authorised Dealer

- (i) Where the Authorised Dealer has failed to locate the exporter, the respective Authorised Dealers shall initiate an application declaring that they followed up, failed to locate the exporter and surrendered the exporter to Exchange Control;
- (ii) The declaration by the bank should also show when the customer last traded with the bank; and
- (iii) After prudential assessment of the declaration and relevant approvals granted, Exchange Control shall authorize the respective bank to pre-acquit the relevant Forms CD1 before final acquittal by Exchange Control.

3.2.3. Category 3: Overdue Export Receipts administered by Banks under Curatorship

- (i) Export documentation raised with banks that were put under curatorship or whose banking licenses were later cancelled during the period under review shall be pre-acquitted and final acquittal shall be done by Exchange Control after consultation with the curator to establish eligibility.

3.2.4. Category 4: Exports not Under Contract of Sale

- (i) Exports not under Contracts of Sale refer to repair and return of equipment and machinery, gifts, samples, temporary emigration, etc raised during the period under review shall be

eligible for acquittal after prudential assessment of the application.

- (ii) An application by an Authorised Dealer under this category should justify the granting of absolute amnesty.
- (iii) The exporter shall make an appropriate declaration under Form ECAAD.

3.2.5. Category 5: Unauthorised Set-Offs Against Export Proceeds

- (i) Under the prevailing Exchange Control requirements, exporters are required to justify set-offs through seeking prior Exchange Control approval and provide documentary evidence of expenses incurred offshore;
- (ii) During the amnesty period, exporters who are eligible for exemption under this category, and where documentary evidence is not available, shall be required to declare under Form ECAAD, the details of expenses and the payment beneficiaries offshore which should tally with the un-acquitted export proceeds;

3.2.6. Category 6: Exporters' Declaration of Bad Debts

- (i) The current Exchange Control policy requires that no exporter shall declare a bad debt on external receivables and acquit the respective Forms CD 1 without prior Exchange Control approval; and
- (ii) Under absolute amnesty, Exchange Control shall consider applications for exceptional acquittal of the relevant Forms CD1 linked to bad debts by the respective exporters.

- (iii) In the event that the affected exporter cannot get acceptable evidence from the external customer, this amnesty will allow the exporter to submit a board resolution of debt write off to allow consideration for exceptional acquittal of the overdue export proceeds.

3.2.7. Category 7: Unauthorised Use of Export Proceeds to establish Cross-border Companies

- (i) Exporters that fall under this category shall submit applications accompanied by a board resolution declaring and approving the use of export proceeds to establish the cross-border investment.
- (ii) The respective Forms CD1 shall be eligible for acquittal after prudential assessment of the application which will only be approved on the strict understanding that the cross-border investment shall be regularized with Exchange Control.
- (iii) Final Exchange Control warning shall be issued to such exporters.

3.2.8. Category 8: Exporters that have been placed under Sanctions

- (i) Exporters that fall under this category shall submit applications to Exchange Control accompanied with documentary evidence of such funds being seized.
- (ii) The respective Forms CD1 shall be eligible for “ring-fencing” after prudential assessment of the application until the status of the seized funds changes.

3.3. Exporters of Machinery and Equipment for Repair and Return

3.3.0 Companies raise Forms CD1 for export of machinery and equipment for repair and return, which forms are normally acquitted upon submission of Bills of Entry (Imports) as evidence of being returned into the country after repair.

3.3.1 Authorised Dealers are advised that absolute amnesty are granted to deserving cases of exported machinery and equipment for repair and return, and later declared as obsolete.

3.3.2 Authorised Dealers shall require every deserving case for absolute amnesty to submit the following information for consideration by Exchange Control;

- i) Application letter by the exporter;
- ii) Confirmation by the consignee that the machinery and equipment was declared obsolete; and
- iii) In the event that the information requested in (ii) above is not available, a duly completed Exchange Control Declaration for Absolute Amnesty (Form ECAAD).

4. Provisions for Conditional Amnesty

4.0. Under this category, the affected parties are accorded a reprieve of 90 days within which to regularise and make good the violation(s). The following cases have been identified under this category:-

- (i) Exporters with recoverable overdue export proceeds;
- (ii) Unauthorised external loans;
- (iii) Unauthorised cross-border investments;
- (iv) Non-repatriation of investment income; and
- (v) Importers with outstanding Bills of Entry (Imports).

4.1. **Exporters with Recoverable Overdue Export Proceeds**

4.1.0 In this regard, **all non-acquitted Forms CD1, CD3 and PTS1 raised after 1 January 2011 to date**, shall qualify for **conditional amnesty** on the following modalities:-

- (a) Under this category, exporters whose export receipts are overdue, and categorised by Exchange Control as recoverable, shall be granted conditional amnesty to regularise their overdue positions **within 90 days (1 September - 30 November 2014)**.
- (b) The applicable temporary reprieve on such exporters will be in the form of a graduated relief on administrative penalties currently being imposed on non-acquittals of export documentation using the flagging criterion.
- (c) The following graduated administrative penalties shall apply with effect from 1 September to 30 November 2014:

Table 1: Graduated Exchange Control Flagging for Exporters (1 Sept to 30 Nov 2014)

Number of days from date of export or value of overdue amount	Status	CEPECS Flagging	Export Documentation Access fee or penalty fee per Form (USD)
Advance payment	Not Overdue	White	5
< or = 90	Not Overdue	Green	10
91 – 120	Overdue	Orange	15
121 – 180	Overdue	Red	USD30 or 1% of Export value of the Form CD1 being raised, whichever is greater
181 – 365 or overdue amount between USD100 001 to USD150 000	Overdue	Purple	USD75 or 2% of Export value of the Form CD1 being raised, whichever is greater
366 and above or more than USD150 000	Overdue	Black	USD150 or 3% of Export value of the Form CD1 being raised, whichever is greater

4.1.1 As from **1 December 2014**, after expiry of the conditional amnesty period, the following Exchange Control Flagging Framework for Exporters shall apply:

Table 2: Exchange Control Flagging Framework after Reprieve Period

Number of days from date of export or value of overdue amount	Status	CEPECS Flagging	Export Documentation Access fee or penalty fee per Form (USD)
Advance payment	Not Overdue	White	5
< or = 90	Not Overdue	Green	10
91 – 120	Overdue	Orange	USD30 or 1% of the Export value of the Form CD1 being raised, whichever is greater
121 – 180 or overdue amount between USD100 001 and USD150 000	Overdue	Red	USD75 or 2% of Export value of the Form CD1 being raised, whichever is greater
181 – 365 or USD150 001 to USD500 000	Overdue	Purple	USD150 or 3% of Export value of the Form CD1 being raised, whichever is greater
366 and above or more than USD500 000	Overdue	Black	USD250 or 5% of Export value of the Form CD1 being raised, whichever is greater

4.2. Conditional Amnesty on Unauthorised External Loans

4.2.0. In order to facilitate a once off regularization exercise of such offshore borrowings, Exchange Control is giving Authorised Dealers and their clients, a 90 day conditional amnesty (1 September -30 November 2014) within which all unregistered loans shall be submitted for regularization.

4.2.1. To facilitate the processing of such applications, applicants should furnish the following information to Exchange Control;

- a) Standard Term Sheet which spells out the loan amount, indicative terms of interest rate and fees, the loan tenure, grace period, the purpose of external loan and the proposed collateral security.
- b) Loan agreement
- c) Proof of receipt of loan funds in the form of inward telegraphic transfers and/or Bills of Entry (Imports) evidencing receipt of equipment or goods paid for by the lender on behalf of the borrower.
- d) Status of the loan in terms of draw-downs, outstanding draw-downs, loan balance and outstanding repayment.

4.3. Conditional Amnesty on Unauthorised Cross-border Investments

4.3.0. Exchange Control has observed that there are a number of outward foreign direct investments into foreign markets, established by Zimbabwean residents, that are not yet registered with Exchange Control.

4.3.1. In order to fully account for these cross-border investments, Exchange Control is extending a 90 day conditional amnesty for the regularization of all these businesses with Exchange Control.

4.3.2. In this regard, Authorised Dealers are advised to submit the following information to Exchange Control to facilitate the regularization of the investments;

- i) The name of the company and the country where the cross-border investment was established;
- ii) Date of establishment of the cross-border investment;

- iii) Detailed ownership structure, including residential status of the shareholders of the company;
- iv) The company's main business focus;
- v) The rationale for investing offshore as well as the company's focus on the new proposed project;
- vi) The amount invested offshore;
- vii) A five year historical analysis of the company's operations;
- viii) The performance and financial position of the cross-border investment as well as the future plans of the investment;
- ix) Company's Board resolution sanctioning the investment.

4.4. Conditional Amnesty on Non Remittance of Investment Income

4.4.0. In terms of Previous policy, dividends, technical fees and management fees declared by a cross-border venture in favour of the parent company in Zimbabwe, are expected to be repatriated back home as and when they are due. Where the initial capital outlay for a cross-border investment was funded from foreign currency sourced from the local market, dividend income, technical fees and management fees remitted into Zimbabwe shall first payback the initial amount within a period of four (4) years from the inception of the cross-border investment.

4.4.1. Exchange Control has noted with concern that cross-border ventures continue to delay the repatriation of such income beyond the first four years of their operations offshore.

4.4.2. In order to fully account for the income generated by cross-border investments, all companies with approved cross-border investments are hereby granted a 90 day reprieve to submit the quarterly declaration of

financial reports and investment income in the form of declared dividends to Zimbabwe. Companies whose funds have been affected by sanctions and have had their funds frozen under OFAC, shall be granted an indefinite reprieve, until such funds have been freed.

4.5. **Importers with Outstanding Bills of Entry (Imports)**

4.5.0. In terms of Exchange Control policy, imports of goods paid for in advance and those under credit terms, are required to be acquitted in CEBAS within 90 days of payment, on submission of the relevant Bills of Entry (Imports).

4.5.1. Under conditional amnesty, those importers who had not discharged their Bills of Entry (Imports) as at 30 June 2014 shall be granted a reprieve to regularize their position within the amnesty period of 1 September 2014 to 30 November 2014.

4.5.2. In the event that the importer cannot avail the requisite Bills of Entry (Imports), the Chief Executive Officer of the importing company, shall be required to obtain a Board Resolution confirming that a Bill of Entry (Imports) is not available and that the imports paid through the Authorised Dealer were received into the country. Such a declaration by the company shall be made on the **Exchange Control No-Bills of Entry Declaration Form (Form ECOBED)**. (See Annexure 2).

4.5.3. In instances where there were no imports being sourced, the funds externalized should be repatriated back to Zimbabwe during this amnesty period. Exchange Control will accordingly acquit import payments where there are no corresponding Bills of Entry (Imports) and where documentary evidence of the return of funds into the importer's account has been

confirmed and certified by Exchange Control through the importer's Authorised Dealer.

4.5.4. Authorised Dealers are advised that where the importer fails to account for outstanding Bills of Entry (Imports) after the amnesty period, such cases shall be referred for possible prosecution.

4.5.5. After the expiry of this 90 day moratorium, non compliance will attract an administrative penalty levied on the importer of 1% of the outstanding value of outstanding Bills of Entry (Imports) every time the importer wants to make a payment for imports.

4.5.6. Authorised Dealers shall use the CEBAS flagging framework to establish the status of the importer prior to effecting payment. As shown in the flagging framework hereunder, which shall become applicable from 1 December 2014, an importer **flagged green** shall make import payments without any penalty and an importer **flagged red** shall be required to pay the applicable levy.

Table 3: Exchange Control Flagging of Corporate Importers

Number of days from date of payment	Status	CEBAS Flagging	Penalty fee per Payment (USD)
< or = 90	Not Overdue	Green	Nil
Over 90 days	Overdue	Red	1% of the value of the outstanding Bill(s) Of Entry (Imports)

- 4.5.7. The CEBAS system will be reconfigured to accommodate this new flagging framework. In this regard, Authorised Dealers shall be required to register all their importing corporate clients with effect from 1 October 2014 to 30 November 2014, using an online template on the CEBAS system.
- 4.5.8. In order to operationalise these measures, Authorised Dealers are advised to collect these penalties from each importer and on a weekly basis and make direct transfers to the Reserve Bank Head Office Account through the RTGS system every Monday by 1200hrs, for charges collected for the previous week.
- 4.5.9. Furthermore, Authorised Dealers are advised that where corporates use credit cards to effect payments, such payments must be reported and acquitted on CEBAS, in line with the new dispensation.
- 4.5.10. Authorised Dealers are advised that Exchange Control Directive RM80 dated 1 August 2011, **clause 6.1**, which required Authorised Dealers to upload payments on CEBAS within 24 hours of effecting payment, remains applicable.

5. Cases Not Eligible for Amnesty

- 5.0. Authorised Dealers are advised that the following cases shall not qualify for exceptional acquittal under the amnesty:-
- (i) Forms CD1 for export of machinery and equipment that are **still** under repair;

- (ii) Forms CD1 for export of machinery and equipment under contracts that are **still** in force; and
- (iii) Forms CD1/CD3/PTS1 for cases which are **currently being investigated for possible externalization** by the responsible authorities as well as cases that are pending **before the Courts of Law**.

6. Registration of Service Agreements and Acquittal of Service Payments

6.0 In order to curb externalization of foreign currency through transfer pricing in the payment for foreign services that have not been provided and overpricing of foreign services, Authorised Dealers are advised that with effect from 1 September 2014, Exchange Control shall conduct on-site and off-site validation of all payments for foreign services by local corporates.

6.1 Authorised Dealers are advised that with effect from 1 September 2014, Exchange Control shall introduce a new accounting system to cater for the payment for foreign services by local corporates. In this regard, the CEBAS system shall be reconfigured to cater for acquittal of payments for foreign services through the submission of an **Exchange Control Service Payments Declaration Form (ECSPAD)** which is consistent with the Service Agreement registered with Exchange Control. **(See Annexure 3)**.

6.2 **Form ECSPAD** shall be evidence that the service has been rendered and appropriate remuneration paid.

7. Review of Nostro Account Balances Threshold

- 7.0 Previously, Authorised Dealers were required to maintain a maximum of **30% of their Foreign Currency Account (FCA) balances which exclude domestic FCA balances** in Nostro Accounts to meet their clients' day to day international payment obligations.
- 7.1 In order to enhance and sustain the gains achieved by the policy on improving market liquidity and to simplify the method of calculating the compliance threshold, **with immediate effect, the maximum Nostro Account compliance threshold is reviewed from the previous 30% of FCA balances excluding domestic FCAs, to a simplified threshold of 5% of total FCA balances (total bank deposits).**
- 7.2 Authorised Dealers shall be allowed the normal **48-hour adjustment period** in the event that account movements result in them exceeding the maximum threshold.
- 7.3 Exchange Control shall continue to monitor Authorised Dealers' Nostro Account movements through the Computerised Exchange Control Nostro Accounts Monitoring System (CENAMS). In order to enhance the monitoring and accounting framework for Nostro Accounts, the second phase of CENAMS shall be implemented with effect from 1 October 2014.
- 7.4 Exchange Control shall levy an administrative penalty of **2.5% of the excess balances** after the expiry of the 48-hour adjustment period. These penalties

shall be automatically calculated through CENAMS and Authorised Dealers shall be debited accordingly. Authorised Dealers should ensure that payments of debited amounts are transferred to the Reserve Bank within 48 hours.

- 7.5 Genuine cases where the payment requirements from Nostro Account may result in the Authorised Dealer exceeding the Exchange Control 5% threshold on Nostro Account balances, the Authorised Dealer shall be allowed to request, the Director, Financial Markets Division to transfer the required excess amount from their RTGS holding at the Reserve Bank to their Nostro Account. These adjustments will not require prior Exchange Control approval. **It remains the Authorised Dealer's responsibility to ensure that the 5% threshold on the Nostro Account is adhered to at all times.**

8. Limit of Foreign Currency Cash Holdings by Authorised Dealers

- 8.0 The Reserve Bank noted with concern the increased abuse of cash by market players and as part of its mandate to fight against money laundering; it is expected to closely monitor the movement of cash.
- 8.1 In order to avoid this abuse by market players and to comply with anti-money laundering measures, total cash holdings of each Authorised Dealer shall not exceed 15% of total FCA balances (total bank deposits) with effect from 1 September 2014. Similarly, Authorised Dealers shall be allowed a 48-hour adjustment period.
- 8.2 Exchange Control shall levy an administrative penalty of **2.5% of the excess cash holdings** after the 48-hour adjustment period. These penalties shall be

automatically calculated through CENAMS and Authorised Dealers shall be debited accordingly. Authorised Dealers should ensure that payments of debited amounts are transferred to the Reserve Bank within 48 hours.

- 8.3 In terms Exchange Control Directive RM80 dated 1 August 2011, Authorised Dealers were required to seek prior Exchange Control approval for the exportation of foreign currency cash, including soiled notes. With immediate effect, Authorised Dealers are advised that the exportation of foreign currency cash, including soiled notes no longer requires prior Exchange Control approval. However, the audit process of all cash repatriations by banks, remains the same.
- 8.4 In this regard, all cash repatriations shall be witnessed by the Authorised Dealer's Internal Audit/Risk Departments.
- 8.5 Authorised Dealers shall therefore submit names of staff from Risk and Internal Audit Departments who will be responsible for overseeing the cash repatriation process for Exchange Control designation and training.
- 8.6 Authorised Dealers must within 24hours, submit copy of insurance showing value exported and an Airway Bill. Authorised Dealers shall continue to submit Nostro Account statements to Exchange Control within 14 days of cash export.
- 8.7 **The relaxation of controls on both importation and exportation of foreign currency cash will allow the Authorised Dealers to have flexibility in funding their cash holdings and adhering to the Exchange Control 15% cash holding limit with ease. (See Section 8 below).**

8.8 Exchange Control will work closely with Bank Use Promotion and Suppression of Money Laundering Unit to monitor adherence to the aforementioned Exchange Control provisions.

9. Importation of Foreign Currency Notes and Coins by Banks

9.0. Following the introduction of the Exchange Control Compliance Rating Systems (EXCORS), Authorised Dealers have significantly demonstrated improved compliance status. In this regard, with immediate effect, Authorised Dealers shall be allowed to import foreign currency notes and coins from their Nostro Accounts without prior Exchange Control approval.

9.1. However, Authorised Dealers shall be required to submit returns to Exchange Control in the form of **Nostro Account Statements** confirming deduction of the imported cash and the relevant **Airway Bill**, within 7 days of importation of foreign currency notes and/or coins.

9.2. Authorised Dealers are advised that the CEBAS system shall be reconfigured accordingly, to allow reporting of all cash imports by Authorised Dealers and submission of relevant returns upon receipt of the foreign currency cash in Zimbabwe.

9.3. The importation of cash by banks should take into account the Exchange Control provisions regarding the 15% threshold of cash holding by Authorised Dealers. **(See paragraph 8.1 above).**

10. Limits on Export of Foreign Currency Cash by Individuals

- 10.0. In order to comply with the international anti-money laundering measures and consistent with other regional countries' limits on export of cash and the need to promote the use of plastic money, the limit on export of cash on person or in baggage has, **with effect from 26 August 2014**, been reduced from US\$10,000 to **US\$5,000 per exit**.
- 10.1. Authorised Dealers are advised to seek prior Exchange Control approval, where there is justification for an individual to export foreign currency cash more than the stipulated limit.
- 10.2. The Zimbabwe Revenue Authority (ZIMRA) shall implement this policy in terms of the Exchange Control Regulations, Statutory Instrument 109 of 1996.

11. Review of External Loans Approval Limit

- 11.0. Previous Exchange Control policy stated that all external loans of USD1 million and above required prior External Loans Coordinating Committee (ELECRC) approval, while external loans below USD1 million were approved at the Authorised Dealers' level.
- 11.1. Following the improved compliance levels by Authorised Dealers after the implementation of EXCORS and given the need to streamline the approval processes and enhance the timeous accessing of offshore finance by the

productive sector, **Authorised Dealers are hereby advised that the approval limit of external loans and/or trade credits has been reviewed upwards from USD1million to USD7.5 million with immediate effect.**

- 11.2.** All external loans and/or trade credits below USD7.5 million and whose terms are consistent with **Exchange Control Guidelines on External Borrowings (ECGEB) (See Annexure 4)**, shall be processed and granted formal approval at Authorised Dealer Level and assigned a reference code (BANKCODE/EL00NO/WEEK-MONTH-YEAR) and registered with Exchange Control **weekly** through EC Form 2L. This form shall now be submitted by 1000hrs every Monday, registering External Loan Transactions for the previous week. **(See Annexure 5)**
- 11.3. All external private or public loans exceeding **USD7.5 million** shall require approval from the External Loans and Exchange Control Review Committee (ELECRC) approval.
- 11.4. All other reporting and administrative procedures remain unchanged.

12. Foreign Investment Promotion Facilitation

12.1 External Loans and Exchange Control Review Committee (ELECRC)

- 12.1.0 In order to ensure efficient and effective service delivery to foreign investors by creating an expeditious and market friendly processing framework for investment related applications/requests, all applications pertaining to the contraction of external debt shall be submitted to Exchange Control Division

for consideration by the consolidated and synchronised External Loans and Exchange Control Review Committee (ELECRC).

12.1.1 All applications for foreign investment (debt and equity), shall be addressed to:

The Director
Exchange Control Division
Reserve Bank of Zimbabwe
80 Samora Machel Avenue
P. O. Box 1283

Harare

12.2 Authorized Dealers are reminded to ensure that all foreign investments and debt related applications submitted to Exchange Control for consideration fully meet the minimum information requirements given in these Exchange Control Guidelines. Furthermore, where additional information has been requested by Exchange Control to support the application, such information shall be submitted to Exchange Control within seven (7) working days of the request. Failure of which, the application shall be removed from the pending list and the Authorized Dealer shall be required to resubmit the application as a new request.

12.3 Authorized Dealers are further advised that all foreign investment and debt related applications submitted for consideration by ELECRC shall have a normal processing period of not more than seven (7) working days. However, special accommodation to expedite urgent applications, especially those that relate to capital inflows shall always be considered.

12.4 Participation by Foreign Investors on the Bond Market

12.4.0 In terms of previous policy on investment, in the bond market, foreign investors could subscribe up to 35% of primary issue of bonds. The same policy also prohibited foreign investors from making purchases from the secondary market.

12.4.1 In order to promote investment by foreign investors in the bond market, with immediate effect, **foreign investors are now permitted to freely invest up to 100% of the bond issue.** Authorised Dealers are required to ensure that the purchase of the bonds is financed by inward transfer of funds through normal banking channels, under advice to Exchange Control.

12.4.2 Furthermore, foreign investors are now permitted to make purchases of bonds on the secondary market, without any restrictions.

12.5 Removal of Restrictions on Capital Remittances

12.5.0 In terms of previous Exchange Control policy on capital remittances, all disinvestment proceeds arising from pre-May 1993 investments and required prior Exchange Control approval, were eligible for re-investment on the domestic market for a period of five (5) years prior to remittance.

12.5.1 Authorised Dealers are advised that in line with the phased and gradual liberalization framework, with immediate effect, **all disinvestment proceeds shall now be 100% remittable after prior approval by Exchange Control.**

12.5.2 To facilitate the processing of such proposals the following details must be furnished to Exchange Control with the application:-

- i. The date when the investment was undertaken;
- ii. The disinvesting company's registration documents, as well as the liquidation and distribution account from a reputable firm of auditors;
- iii. Details on how the foreign investment was funded originally as well as documentary evidence of the receipt of the funds in foreign currency through normal banking channels;
- iv. Latest audited financial statements;
- v. Justification of valuation methods used to deduce the share disposal value,
- vi. A valuation certificate from a reputable independent valuator, in case where the initial investment was in the form of physical assets;
- vii. A sale agreement, where the disinvestment is by way of sale of shares, giving full names of the buyer(s) and their respective residential status.
- viii. Indication whether the shares (if any) are being disposed at par, premium or at a discount¹.

12.5.3 Investors may remit the initial capital outlay plus appreciation after Exchange Control approval has been granted.

¹ In cases where share disposal is to a local, the minimum requirement is that the shares be disposed at par or at a discount.

12.5.4 In this regard, Authorised Dealers are no longer required to open blocked accounts on behalf of the foreign investors' remittances.

12.5.5 Furthermore, Exchange Control advises that Authorised Dealers are also no longer required to maintain blocked accounts on behalf of emigrants for depositing pension remittances. All current pension remittances shall be eligible for immediate remittance to the beneficiary.

12.6 Participation by Non-Resident Zimbabweans on the ZSE

12.6.0 Previous policy provided that Zimbabweans in the Diaspora could invest on the Zimbabwe Stock Exchange up to 70% per counter compared to the 40% limit applicable to foreign investors.

12.6.1 In recognition of the critical role that international remittances play in the development of developing countries and to allow Zimbabweans in the Diaspora to fully participate in Zimbabwe's economic development, Authorised Dealers are hereby advised that the threshold for investment by Zimbabweans in the diaspora on the Zimbabwe Stock Exchange has been **reviewed upward from 70% to 100%**.

12.6.2 In order to ensure full accounting of foreign currency receipts from investments on the ZSE, the Transfer Secretaries shall ensure that the buyer exhibits evidence of receipt of funds through normal banking channels, prior to transfer of the security to the Zimbabwean in the diaspora and endorsement of Non-Resident status.

12.6.3 Disinvestment proceeds emanating from the sale of the shares, dividends, profits and capital appreciation shall be 100% remittable upon submission of the following documentation to the Authorised Dealer:

- (i) Documentary evidence of inward transfer of funds for the initial investment.
- (ii) Copy of the Share Certificate.
- (iii) Instruction from the investor to the Stockbroker ordering the disinvestment.
- (iv) Documentary evidence of payment of all statutory obligations such as capital gains and other taxes levied on sales of shares in Zimbabwe.

12.6.4 These requirements are applicable to both non-resident Zimbabweans and foreign investors disinvesting from the ZSE.

12.7 Promotion of Multi-National or Cross-Border Investments

12.7.0 In order to facilitate investments by locally incorporated entities aspiring to establish cross-border investments, list on external bourses or establish offshore holding companies (multi-national corporations) owning local assets, the following information shall be submitted to Exchange Control with the application for consideration;

12.7.1 Cross-Border Investments

12.7.1.1 This relates to outward foreign direct investment by Zimbabwean residents into foreign or offshore markets. Cross-border investments can be in the form of the establishment of offshore branches or subsidiaries, marketing offices, joint ventures. All cross-border investment proposals

require prior Exchange Control approval, where consideration shall be on a case by case basis.

12.7.1.2 The following information must be submitted to Exchange Control with the application for cross-border investment:-

- i) The name of the company investing offshore;
- ii) Detailed ownership structure, including residential status of the shareholders of the company;
- iii) The company's local and foreign business focus;
- iv) The rationale for investing offshore as well as the company's focus on the new proposed project;
- v) The initial capital requirement, i.e. purchase consideration or payment terms (source of funding);
- vi) Audited financial statements including the latest covering five (5) years where applicable;
- vii) In the absence of audited financial statements, especially, for startup companies or small to medium enterprises, management accounts may be considered;
- viii) Export track record where applicable, supported by suitable documentary evidence;
- ix) A five-year cash-flow projection, clearly showing the investments anticipated, annual turnover, total costs, net profits, dividends and other income accruing to Zimbabwe from the cross-border investment;
- x) Board resolution supporting the cross-border investment proposal;

- xi) Other regulatory approvals where applicable depending on the sector in which the company operates in.

12.7.1.3 Once the cross-border proposal is considered and approved by the ELECRC, the Authorised Dealer and the local company is required to sign an **Exchange Control Undertaking**² to abide by the terms and conditions of approval which include, but not limited to;

- i) Submission to Exchange Control of quarterly performance reports of the approved cross-border investment.
- ii) Submission to Exchange Control of annual audited statements for the cross-border investment.
- iii) Remittance to Zimbabwe, of income realized from the cross-border investment in the form of dividends, profits or management fees. The remittances should be supported by relevant copies of telegraphic transfers confirming receipt of funds into the country.
- iv) On-site visits to the cross-border investment by Exchange Control officials, with the objective of assessing the operations of the cross-border investment.
- v) The Authorised Dealer's commitment to administer the terms and conditions of approval to ensure the client's compliance.

12.7.2 Listing on External Stock Exchanges (Bourses)

12.7.2.1 In order to improve liquidity in the economy, Exchange Control is currently considering proposals by local companies seeking to have a primary or secondary listing on an offshore stock exchange. In

² The Exchange Control Undertaking is customized by Exchange Control taking into account the terms and conditions for approval.

considering such proposals, Exchange Control shall pay special attention to the following requirements;

- i) The level of compliance by the company with indigenization regulations and any other statutory requirements.
- ii) The amount of money which the local company intends to raise on an external stock exchange.
- iii) Application or utilisation of the funds to be raised on an external stock exchange in Zimbabwe.
- iv) For local entities intending to have a primary listing offshore, concrete plans and timelines indicating when the local company intends to have a secondary listing on the Zimbabwe Stock Exchange (ZSE).

12.7.2.2 Incorporating the abovementioned key considerations, local entities aspiring to list on an external stock exchange should submit and meet the following minimum requirements;

- i) Company profile which should clearly specify the nature of operations and existing shareholders and their residential status.
- ii) Audited financial statements including the latest, covering a period of five (5) years.
- iii) Management accounts may be considered for startup companies.
- iv) Draft or final Prospectus for offshore listing, clearly highlighting among other issues, the quantity of shares to be listed offshore, share price, listing expenses and amount to be raised offshore.

- v) Where the investment is not through an Initial Public Offer (IPO), details of investment acquisition/mergers or share swaps.
- vi) Board resolution supporting the primary or secondary listing offshore.
- vii) A copy of the approved indigenization plan by the Ministry of Youth, Indigenisation and Economic Empowerment.
- viii) For local companies intending to have a primary listing offshore, a concrete road map with timelines indicating when a secondary listing will take place on the ZSE.

12.7.2.3 Once the offshore listing proposal is considered and approved by the ELECRC, the Authorised Dealer and the local company is required to sign an **Exchange Control Undertaking** to abide by the terms and conditions of approval which include, but not limited to;

- i) At any given time, the shareholding of indigenous investors shall not go below 51% unless Authorised by Exchange Control and the Ministry of Youth, Indigenisation and Economic Empowerment.
- ii) Submission to Exchange Control of quarterly share trading performance of the listed company and a list of all shareholders showing residential status and percentage shareholding at the end of each reporting period.
- iii) Submission to Exchange Control of annual audited statements for the local company.
- iv) Remittance to Zimbabwe of capital raised from initial offshore listing and disposal of shares by individual investors. The remittances should be supported by relevant copies of

telegraphic transfers confirming receipt of funds into the country.

- v) The Authorised Dealer's commitment to administer the terms and conditions of approval to ensure the client's compliance.

12.7.3 Establishment of Offshore Companies Owning Local Assets

12.7.3.1 In order to militate against perceived risk leveled against the country by some foreign investors and to mobilize offshore funding for local use in a sustainable manner, Exchange Control shall consider proposals by local companies wishing to establish offshore companies through share swaps.

12.7.3.2 Such applications shall be accompanied by the following information for consideration by Exchange Control;

- i) Company profile of the entity establishing an offshore holding company;
- ii) Detailed ownership structure, including residential status of the shareholders of the company;
- iii) The rationale for establishing an offshore holding company;
- iv) Basis of share swap where establishment is through a reverse takeover or share swap;
- v) The intended methodology of mobilizing capital offshore ie through equity or debt instruments;
- vi) The targeted amount to be raised and its application to support local operations;

- vii) Audited financial statements including the latest covering five (5) years where applicable;
- viii) In the absence of audited financial statements especially for startup companies or small to medium enterprises, management accounts may be considered;
- ix) Board resolution supporting the offshore structure;
- x) Approval letter for the proposed offshore structure by the Ministry of Youth, Indigenisation and Economic Empowerment;
- xi) Other regulatory approvals where applicable, depending on the sector in which the company operates in.

12.7.3.3 Once the offshore investment structure has been considered and approved by the ELECRC, the Authorised Dealer and the local company shall be required to sign an **Exchange Control Undertaking** to abide by the terms and conditions of approval which include, but not limited to;

- i) At any given time, the shareholding of indigenous investors shall not go below 51% unless Authorised by Exchange Control and the Ministry of Youth, Indigenisation and Economic Empowerment.
- ii) Submission to Exchange Control of quarterly performance reports of the offshore investment structure.
- iii) Submission to Exchange Control of annual audited statements or latest management accounts for the local company.

- iv) Commitment that all funds to be raised offshore shall be repatriated to Zimbabwe for local utilisation and that supporting documentary evidence in the form of copies of telegraphic transfers confirming receipt of funds into the country will be availed to Exchange Control.
- v) The Authorised Dealer's commitment to administer the terms and conditions of approval to ensure the client's compliance.

12.7.4 **Enhanced Compliance Monitoring of Cross-Border Investments**

- 12.7.4.1 Authorised Dealers are advised that while the Reserve Bank supports investments that create Zimbabwean offshore companies and have a potential to yield quick and long-term gains to the country, the key success of these investments is the promotion of discipline by local investors.
- 12.7.4.2 Exchange Control shall give priority for consideration of offshore investment applications that have limited foreign currency cash repatriation as initial capital outlay.
- 12.7.4.3 Exchange Control will enhance its monitoring framework for these approved investments, and Authorised Dealers shall ensure the timely remittance of investment income in the form of profits, dividends and other income earnings back into the country. Exchange Control's monitoring framework will require periodic reporting and carrying out of on-site audits and visits, at the expense of the applicant, to verify reported investments and performance.

13. Purchase of Immoveable Property

13.1 In terms of previous Exchange Control policy, the purchase of property by foreign individuals and foreign corporate bodies formed the basis of specific applications to be lodged with Exchange Control.

13.2 In order to attract new investments into the immovable property sector by foreigners, with immediate effect, individuals with external financial resources (local and foreign residents)³ are now allowed to freely invest in the property market through purchase of residential buildings without seeking Exchange Control approval.

13.3 Authorised Dealers are, therefore, required to ensure that all purchases of property by individuals with external financial resources are registered with Exchange Control within 14 days of transfer of property between the transacting parties.

13.4 The ex-post registration of investments into the property market by individuals with external financial resources, shall be accompanied by the following documentation;

- i. Copy of sale agreement duly signed by the seller and purchaser or their nominees.
- ii. Proof of inward receipt of funds from outside supported by copies of telegraphic transfers.
- iii. Documentary evidence confirming payment of Capital Gains tax due to Zimbabwe Revenue Authority (ZIMRA).

³ Local and foreign residents refers to non-resident Zimbabweans, resident Zimbabweans with offshore funds and foreign residents who are non-Zimbabwean and are using offshore funds to buy property in Zimbabwe.

- iv. Purpose of acquisition (whether for investment purposes or personal occupation).

14. Disposal and Remittance of Immovable Property Proceeds

14.0 Exchange Control regulations require specific applications to be made to Exchange Control for the remittance of proceeds arising from disposal of immovable property. In order to protect the Capital Account, as well as allowing property owners to make use of their sale proceeds in a manner that enhances liquidity in the market, the following shall apply:-

14.1 Property Acquired Using Offshore Funds

14.1.1 The remittance of the proceeds emanating from disposal of immovable property purchased by individuals with external financial resources shall be handled by Authorised Dealers who should ensure that the applicant furnishes the Authorised Dealer with the following documents prior to remittance of sale proceeds;

- i. Proof of inward receipt of funds from outside as supported by copies of telegraphic transfers which were initially used to purchase the property.
- ii. Documentary evidence confirming payment of Capital Gains tax due to Zimbabwe Revenue Authority (ZIMRA).
- iii. Copy of sale agreement duly signed by the seller and purchaser or their nominees.
- iv. Exchange Control authority under which the initial purchase was registered ex-post.

14.2 **Property Acquired Using Local Funds**

- 14.2.1 The remittance of the proceeds emanating from disposal of immovable property purchased by individuals using local financial resources shall be submitted to Exchange Control for consideration.
- 14.2.2 For **emigrating** individuals, Authorised Dealers are required to furnish Exchange Control with the following information;
- i. Completed Form 'A' Emigration clearly indicating the properties currently owned by the emigrant and/or bank balances related to property sale proceeds.
 - ii. Copy of sale agreement duly signed by the seller and purchaser or their nominees.
 - iii. Documentary evidence confirming payment of Capital Gains tax due to Zimbabwe Revenue Authority (ZIMRA).
- 14.2.3 For non-resident individuals who are **beneficiaries of deceased estates**, the Authorised Dealers should ensure that the following information should accompany the application to Exchange Control;
- i. Copy of the will.
 - ii. Final liquidation and distribution account.
 - iii. Copy of the sale agreement.
 - iv. Proof of settlement of Capital Gains tax due to ZIMRA.
 - v. Application letter by the estate beneficiary clearly indicating residential status and banking details.
 - vi. Any supporting documents from estates administrators.

14.3 Remittance of Rental Income

- 14.3.1 Rentals due to non-resident individuals who formally acquired immovable property are freely remittable provided a signed copy of the lease agreement is lodged with the bank.
- 14.3.2 Rentals due to non-resident Zimbabweans (Diaspora) are also freely remittable provided a signed copy of the lease agreement is lodged with the bank.

15 Exchange Control Compliance and Renewal of Authorised Dealership Licences

- 15.0 The liberalization of the current account has seen an increase in Exchange Control transactions at branch level. Consequently, the compliance framework requires renewal of Authorised Dealership licences on an annual basis.
- 15.1 The new compliance monitoring framework is also being automated to apply best practices. Hence, Exchange Control's capacity building programme will be intensified to build the necessary competencies in Exchange Control operations.
- 15.2 In this regard, and pursuant to the new Authorised Dealers licencing framework, the licensing fees have been reviewed from the current **\$400.00** as follows;
- **Head Office USD 1, 000 per annum**
 - **Branch USD 500 per branch per annum**

15.3 Authorised Dealers are therefore advised that following the completion of the Compliance Ratings for end-July 2014, communication to Authorised Dealers by Exchange Control, representations made by Authorised Dealers to Exchange Control, the Reserve Bank shall now issue renewal letters and Authorised Dealership Licences for the period 1 September 2014 to 31 August 2015.

15.4 The Reserve Bank urges banks to exercise extreme caution in the conduct of cross-border transactions, and apply as much as possible, the KYC principle, in order to ensure adherence to the existing Exchange Control framework.

**EXCHANGE CONTROL DIVISION
RESERVE BANK OF ZIMBABWE
1 SEPTEMBER 2014**

Annexure 1: Form ECAAD



EXCHANGE CONTROL ABSOLUTE AMNESTY DECLARATION FORM

Date		
To: The Director, Exchange Control Division, 80 Samora Machel Avenue, Harare		
Name of Authorised Dealer (Bank)		
Name of the Exporter		
Exporter's CEPECS' Registration Number		
Total Amount to be Considered for Amnesty (USD)		
Category of the Amnesty in terms of Exchange Control Directive RP141 dated 1 September 2014		
List of Supporting Documentation Attached e.g.:		
(a) Application letter by the exporter;		1.
(b) Previous correspondence on the matter;		2.
(c) Board of Director's Resolution		3.
		4.
Declaration by the Exporter Representative who should be at the level of the Chief Executive Officer	Full Name & ID	
	Designation/Job Title	
	Signature	
Information Verified by Authorised Dealer (KYC)	Full Name & Designation	
	Signature	
<p>This declaration is made in compliance with the provisions of Section 41 of the Exchange Control Regulations, Statutory Instrument 109 of 1996. I acknowledge that providing false information is a breach of Paragraph (b) of subsection (1) of Section 5 of the Exchange Control Act [Chapter 22.05] and doing so will render me liable to prosecution under the Act.</p>		

Annexure 2: Form ECBED



EXCHANGE CONTROL NO-BILL OF ENTRY DECLARATION FORM

Date		
To: The Director, Exchange Control Division, 80 Samora Machel Avenue, Harare		
Name of Authorised Dealer (Bank)		
Name of the Importer (Goods)		
Date of Payment for Imports		
Total Amount Paid for Goods (USD)		
Board Resolution attached confirming receipt of imported goods and value of imports by the company.		
Declaration by the Chief Executive Officer	Full Name & ID	
	Designation/Job Title	
	Signature	
Information Verified by Authorised Dealer (KYC)	Full Name & Designation	
	Signature	
<p>This declaration is made in compliance with the provisions of Section 41 of the Exchange Control Regulations, Statutory Instrument 109 of 1996. I acknowledge that providing false information is a breach of Paragraph (b) of subsection (1) of Section 5 of the Exchange Control Act [Chapter 22.05] and doing so will render me liable to prosecution under the Act.</p>		

Annexure 3: Form ECSPAD



EXCHANGE CONTROL SERVICE PAYMENTS DECLARATION FORM

Date		
To: The Director, Exchange Control Division, 80 Samora Machel Avenue, Harare		
Name of Authorised Dealer (Bank)		
Name of the Importer (Services)		
Service Agreement Exchange Control Registration Number & Date		
Total Amount Paid for Services Rendered (USD)		
List of Supporting Documentation Attached e.g.:		
(a) Invoice from Service Provider showing nature of work done;		1.
(b) Proof of Payment of Withholding Tax to ZIMRA		2.
		3.
		4.
Declaration by the Importer Representative who should be at the level of the Chief Executive Officer/Finance Director	Full Name & ID	
	Designation/Job Title	
	Signature	
Information Verified by Authorised Dealer (KYC)	Full Name & Designation	
	Signature	
<p>This declaration is made in compliance with the provisions of Section 41 of the Exchange Control Regulations, Statutory Instrument 109 of 1996. I acknowledge that providing false information is a breach of Paragraph (b) of subsection (1) of Section 5 of the Exchange Control Act [Chapter 22:05] and doing so will render me liable to prosecution under the Act.</p>		



**EXCHANGE CONTROL GUIDELINES FOR EXTERNAL BORROWING
ON APPLICATIONS SUBMITTED TO
THE EXTERNAL LOANS AND
EXCHANGE CONTROL REVIEW COMMITTEE (ELECRC)**

EXCHANGE CONTROL DIVISION

1 September 2014

**RESERVE BANK
OF ZIMBABWE**



**MINISTRY OF
FINANCE**



**EXTERNAL LOANS AND EXCHANGE CONTROL
REVIEW COMMITTEE (ELERCC)**

TERMS OF REFERENCE AND GUIDELINES

EXTERNAL LOANS AND EXCHANGE CONTROL REVIEW COMMITTEE (ELECRC) TERMS AND GUIDELINES

The following ELECRC Terms of Reference and Guidelines are intended for use by Authorised Dealers, Corporates and General Public when applying for offshore loans approval. The guidelines will be amended whenever necessary through the replacement of the relevant items.

Any enquiries relating to these Terms of Reference and Guidelines should be addressed to:

The Director
Exchange Control Division
Reserve Bank of Zimbabwe
80 Samora Machel Avenue
P O Box 1283

Harare

Tel: 263-4-703000/111

1 PREAMBLE

1.1 External debt management is an integral part of macro-economic management in Zimbabwe, which is based on the need to ensure that national external borrowings are sustainable. The country should be able to service its debt without defaulting or rescheduling.

- 1.2 The central element of external debt management is to maintain a sustainable level of external debt servicing and control the types and amounts of foreign borrowing.
- 1.3 Thus, the task of the external debt manager is to examine whether the debt sustainability ratios are consistent with the country's economic and financial situation. This is against the background that external debt policy affects not only the balance of payments and budget but also the overall macro-economic planning. The decisions of the ELECRC should, therefore, be consistent with the macro-economic framework at any particular point in time.

2 OBJECTIVES OF ELECRC

- 2.1 The main objectives of the ELECRC include:
 - i. Ensuring that the overall external debt sustainability is maintained;
 - ii. Ensuring that external debt is raised, managed and retired at the lowest possible cost, consistent with the country's economic and financial situation;
 - iii. Monitoring the country's level of indebtedness;
 - iv. Analysing and reviewing the country's risk exposure;
 - v. Raising awareness on looming debt problems.
- 2.2 Furthermore, ELECRC should:
 - i. Implement an effective debt management policy by sanctioning and monitoring all new loan commitments undertaken by all sectors of the economy.

- ii. Input into the external debt policy formulation and debt strategy.
- iii. Ensure that external borrowings are within the absorptive capacity of the economy and that the external debt portfolio is optimized.
- iv. Create a need for a disciplined process of borrowing by the setting of benchmarks.
- v. Ensure a tolerable structure of external debt and an adequate and manageable spread of maturities.
- vi. Ensure the diversification of borrowing sources.
- vii. Ensure maintenance of an affordable margin of borrowing capacity.
- viii. Ensure maintenance of the country's credit worthiness on international capital markets.
- ix. Bi-annual review on the performance of approved facilities.

3 LEGAL AND REGULATORY FRAMEWORK OF THE ELECRC

- 3.1 **The ELECRC derives its powers from the Public Finance Management Act Chapter 22:19, Audit Office Act Chapter 22:18, Reserve Bank Act Chapter 22:10 and Exchange Control Act Chapter 22:05.**
- 3.2 The **Public Finance Management Act Chapter 22:19** empowers the Minister of Finance to borrow on behalf of the state, while at the same time setting maximum limits to borrowings by the State.
- 3.3 The Minister of Finance is also empowered to manage all public finances by the **Audit Office Act Chapter 22:18.**

3.4 The **Exchange Control Act Chapter 22:05**, empowers the Reserve Bank of Zimbabwe to monitor all external capital flows into and/or out of the country.

4 ELECRC COMMITTEE

4.1 The External Loans and Exchange Control Review Committee comprises of the:

- i. Permanent Secretary, Ministry of Finance and Economic Development and
- ii. Governor, Reserve Bank of Zimbabwe.

5 ELECRC CRITERIA (TERMS OF REFERENCE OR BENCHMARKS)

5.1 General Guidelines on External Borrowings

5.2 All external loans and commercial credit⁴ (buyers' and/or suppliers') proposals above USD7.5 million⁵, for both the private sector and parastatals shall be subject to prior ELECRC approval. **Documentation Required**

5.2.1 All external loan applications to ELECRC must be accompanied by the following:

- i) A standard term sheet completed in the format attached to the guidelines. See Annex 1
- ii) A loan agreement duly signed by both/all parties;

⁴ Commercial and/or trade credits for this purpose categorised as suppliers' and buyers' credits made available by banks, suppliers or by both in tandem. Documentary credits such as L/C confirmation facilities also fall in this category.

⁵ The figure is regularly reviewed by the Reserve Bank to meet the requirements of the economy.

iii) Immediate past 5-Years Cashflow Summary and Next 5 Years Cashflow Projections– mainly for new and/or expansion projects.

External Loans Up To USD7.5 Million

5.2.2 All external loans and/or trade credits below USD7.5 million and whose terms are consistent with Exchange Control Guidelines on External Borrowings shall be processed and granted formal approval at Authorised Dealer Level and assigned a reference code (BANKCODE/EL00NO/WEEK-MONTH-YEAR) and registered with Exchange Control **weekly** through EC Form 2L. This form shall now be submitted by 1000hrs every Monday, registering External Loan Transactions for the previous week. (See Annexure 4)

5.2.3 External Borrowing– Export Related Activities

5.2.4 ELECRC shall approve all external borrowings for the purposes of financing working capital and/or productive capital expenditure related to plant and equipment.

5.2.5 In the case of financing acquisition of second hand equipment, applicants shall need to submit two independent valuations for assessment by Exchange Control.

5.2.6 All this external financing shall be for export related business only.

5.3 External Borrowing To Finance General Imports/Non-Export Related Activities

5.3.1 All external financing for productive businesses that do not export in any way, shall be accommodated under either new lines of credit or existing lines of credit arranged through Authorised Dealers.

5.3.2 ELECRC shall approve all applications for the financing of essential imports such as raw materials, medical drugs, fuel, electricity and grain.

5.3.3 In a multiple currency economy where all players generate foreign currency, general imports may also be accommodated.

5.4 Negative List for External Borrowing

5.4.1 No external borrowing shall be approved by ELECRC to finance commercial activities which include the following:

- i. Purchase of houses/property/real estate.
- ii. Purchase of shares/securities/portfolio.
- iii. Purchase/acquisition of an existing company or assets.
- iv. Private consumption/personal loans, e.g. motor vehicles.
- v. Financing of commodity broking.

5.4.2 Individuals/persons are forbidden from acquiring any external borrowings/loans in their own capacity.

5.4.3 These cannot be financed even from existing lines of credit arranged by Authorised Dealers and globally approved by ELECRC as import finance.

5.4.4 Notwithstanding the above, the ELECRC reserves the right to waiver items on the negative list depending on the country's prevailing economic conditions and aspirations.

6 COMPLIANCE REQUIREMENTS

Compliance with Exchange Control Regulations

6.1 All applications to the ELECRC will only be considered provided the applicants are in compliance with Exchange Control Rules and Regulations.

This includes compliance with the acquittal of all export documentation such as:

- i. CD1 forms for export of goods.
- ii. CD3 forms for transportation services;
- iii. TRAS1 forms for non consumptive tourism services;
- iv. TRAS2 for consumptive tourism services
- v. PTS1 forms for cross border postal and telecommunication services.
- vi. GSD forms for General Service Declaration

6.2 Exporting companies are expected to acquit their export documentation on the basis of gross export proceeds, with any external loan commitments being met from the exporter's foreign currency receipts.

6.3 Opening of Evidence and/or Escrow accounts should be sanctioned by Exchange Control.

Compliance with Zimbabwe Debt Management Office (ZDMO)

6.4 All applicants for external facilities must comply with any existing debt strategy.

Compliance with Prudential Lending Limits

6.5 In terms of Part VI of the third schedule to the Banking Regulations SI 205 of 2000, as read together with Section 15 of the Banking regulations, all external loans and lines of credit submitted for ELECRC approval should fall within prudential lending limits.

7 EXTERNAL BORROWING FOR ZIA APPROVED PROJECTS

- 7.1 Authorised Dealers should ensure that the gearing (debt to equity) ratio meets the Exchange Control threshold of not higher than 1:1 before forwarding such applications to the ELECRC.
- 7.2 ZIA will only approve projects whose external financing terms have been approved by the ELECRC.

8 EXTERNAL BORROWING INDICATIVE TERMS

- 8.1 The ELECRC shall ensure that the average terms of borrowing are lower by setting maximum/ceilings on interest rates on new commitments.
- 8.2 The ELECRC shall set limits on margins above base rates and also ceilings on fixed interest rates. The reference interest rate should be the London Inter-Bank Offer Rate (LIBOR).
- 8.3 Other reference interest rates may be considered by ELECRC where the borrower has proved beyond reasonable doubt that the lender prefers to use the said reference rate.
- 8.4 The ELECRC shall also set maximum/ceilings on other flat fees. Indicative terms are attached as an appendix.
- 8.5 These ceilings shall be reviewed on a need basis.

9 CRITERIA FOR FIXED INTEREST RATES

9.1 The ELECRC shall set the maximum limit on fixed interest rates guided by the term LIBOR rates and the perceived country risk.

9.2 ELECRC will review each case on its own merit.

10 MATURING DEBT/REPAYMENT PROFILES

10.1 The ELECRC shall ensure that repayments are evenly spread as opposed to lumping them on specific periods of time. This will be done at the negotiation and approval stage.

11 EXTERNAL LOANS REGISTRATION AND MONITORING

11.1 All external loans, as may be approved by the ELECRC and Authorised Dealers must be registered with the ELECRC Secretariat as soon as the loan agreements are signed.

Specimen Format of the Term Sheet (See Annexure 1 attached) should accompany the signed loan agreement.

11.2 Authorised Dealers are required to furnish Exchange Control and Economics Divisions with schedules of all transactions and new credit lines up to USD5 million (disbursements and repayments) on a monthly basis in the specified format (i.e. Form EC-2L) – for all project and trade external finance facilities.

12 PROVISION OF FOREIGN EXCHANGE CASHFLOW STATEMENTS

- 12.1 Authorized Dealers should ensure that, all new applications for commercial borrowings submitted to ELECRC on behalf of the borrowers and/or beneficiaries should include foreign exchange cashflow statements (gross payments and receipts).
- 12.2 These statements should cover at least, a 3 year historical period (actual foreign exchange receipts should be confirmed by Authorised Dealers) and projections for the next 5 years or for the period covering the tenure of the external loan, whichever is shorter.
- 12.3 Exchange Control authority shall be required to use shares and immoveable assets as security on external loans.

13 SECTOR SPECIFIC GUIDELINES

Private Sector External Borrowings

- 13.1 All private sector external borrowing in such forms as cash loans and/or trade/commercial credits shall be submitted by Authorised Dealers on behalf of their clients to Exchange Control for consideration by ELECRC.
- 13.2 **The application should be accompanied by a standard term sheet. (*See Appendix 1*).**
- 13.3 Indicative terms of **interest rates and fees** for all borrowings shall be used as general guidelines. (*See Appendix 2*).
- 13.4 The **tenure** of such borrowings shall be medium to long-term except for trade related financing or other commercial credits.

- 13.5 The purpose of external loans in this category shall be for working capital (including trade finance or commercial credit) and/or capital expenditure related to rehabilitation, modernization, expansion (including new projects), or productive investments⁶.
- 13.6 **All external borrowings for financing import requirements for productive (but not export related activities) shall be accommodated under the existing import lines and new lines of credit arranged through Authorized Dealers and already globally approved as commercial credits.**
- 13.7 In a multiple currency environment, general imports can also be considered provided that the company proves beyond reasonable doubt that it has capacity to repay loan.

14 PARASTATALS AND PUBLIC ENTITIES BORROWING REQUIREMENTS⁴

- 14.1 In order to rationalize offshore borrowing, it is necessary for all public enterprises to indicate their foreign financing requirements to the ELECRC on an annual basis.
- 14.2 Such information should be communicated through their parent Ministry to the Ministry of Finance, who will then present the borrowing requirement to the ELECRC.

⁶ Productive investments here refer to projects which generate exports, employment and/or increasing the productive base of the economy

⁴ Public Entities are those commercialized public corporations whose borrowing requirements need Government approval.

- 14.3 This requirement is necessitated by the need to ensure that the country derives maximum benefits from offshore borrowing in terms of interest charges, margins and other flat fee charges.
- 14.4 All offshore borrowings by parastatals/ Public Enterprises (PEs) shall be submitted to Exchange Control for consideration by the ELECRC.
- 14.5 Such borrowings (cash loans and commercial credits) shall be treated on the same lines as those for the private sector provided that government guarantees are not required to fulfill the loan contracts and that the expenditure does not require approval under the Public Sector Investment Programme (PSIP). Those that meet these provisions shall be submitted to ELECRC through the Ministry of Finance for consideration.
- 14.6 Authorised Dealers are expected to submit together with the application; letters of comfort from both the Ministry of Finance and the parent Ministry of the parastatal for which the non-government guaranteed financing is being arranged.
- 14.7 All parastatal external borrowings shall be at indicative terms for private sector borrowings.
- 14.8 For projects, PSIP approval should be obtained, before ELECRC considers the financial packages(s).
- 14.9 Long/Medium term borrowings considered by ELECRC shall have a minimum of 5 years grace period. The ELECRC can vary this requirement provided the project is self-financing in foreign exchange terms.

14.10 All borrowings that require a Government Guarantee, shall obtain such guarantees through the Ministry of Finance, before the ELECRC considers their application.

14.11 All external borrowings by parastatals and public entities shall need to conform to the Public Finance Management Act Chapter 22:19.

15 GOVERNMENT EXTERNAL LOANS

15.1 All External Borrowings by Government shall be submitted to the ELECRC Secretariat by the Ministry of Finance for consideration by ELECRC.

15.2 All Government external borrowings shall use the general guidelines for parastatals and private sector borrowings as indicative terms.

15.3 All borrowings by Government for ministerial projects, should obtain PSIP approval, before ELECRC considers the financial package(s).

15.4 External borrowings for financing public sector projects shall, in general, have a minimum of 5 years grace period. The ELECRC can vary this requirement provided the project is self-financing in foreign exchange terms.

16 CONCESSIONAL BORROWING FOR PUBLIC SECTOR PROJECTS

16.1 Government should avoid contracting commercial loans and/or export credits (either direct and/or to on-lend to parastatals) to finance public sector projects, which are not self-financing in foreign exchange.

16.2 Financing for such projects should have a high grant element of at least 35% and terms equivalent to International Development Association (IDA) terms or better.

16.3 All IDA credits have a 10-year grace period, a zero interest rate, a 0.75% service charge on outstanding balances and extended maturities – 35 years for blend borrowers and 40 years for IDA-only borrowers as indicated in the table below:

17 Indicative Lending Terms for IDA

CREDITOR	GRACE PERIOD (YRS)	MATURITY PERIOD (YEARS)	Service Charges instead of Interest Rate	Commitment Fees	Front-end Fees
IDA IDA-only (for least developing countries)	10	40	0.75%	0-0.5%	0%
Blend (for lower-middle income countries)	10	35	0.75%	0-0.5%	0%

18 DEBT CREATING TRANSACTIONS

18.1 **Authorised dealers should note that all other debt creating transactions shall require prior ELECRC approval.**

19 PENALTIES ON VIOLATION OF ELECRC GUIDELINES

19.1 Authorised dealers who do not comply with the ELECRC Guidelines shall have the following penalties imposed on them depending on the magnitude of the violation:

- i) The authorized dealer shall not be permitted to lodge any application with ELECRC for a specified period;
- ii) The authorized dealership licence can be recommended for withdrawal;
- iii) Any other measure can be taken at the discretion of the Committee.

Appendix 1: Standard Format of the Indicative Term Sheet

1. Borrower
2. Lender
3. Facility/Loan Amount
4. Purpose of Facility/Loan
5. Interest Rate
6. Penalty Rate
7. Arrangement Fees
8. Drawdown/Front-end Fees
9. Commitment Fees
10. Participation Fees
11. Facility Tenor
12. Grace Period
13. Repayment Frequency
14. Source of Repayments
15. Security/Guarantee
16. Governing Law/Jurisdiction
17. Borrower's Business Activity

Appendix 2: INDICATIVE OFFSHORE BORROWING PRICING LIMITS FOR 2014

(All charges per annum except L/C Confirmation fees)	SHORT-TERM TRADE FINANCE ⁷			MEDIUM /LONG TERM PROJECT LOANS	ALL SHAREHOLDER LOANS, INCL.VENDOR FINANCING LOANS ⁸
	Tobacco Pre/Post Export Finance	General Pre/Post Export Finance	Essential & General Import Finance (inc.comm. Credit) ⁹		
Margin Above Reference Rate	5.00%	5.00%	6.00%	7.00%	5.00%
Commitment Fees (only for committed lines)	0.50%	0.50%	1.00%	1.00%	0.50%
TOTAL MARGIN	5.50%	5.50%	7.00%	8.00%	5.50%
L/C Confirmation Fees (per quarter)	1.5%	1.5%	2.50%	1.5%	Nil
TOTAL FOR FLAT FEES¹⁰	4.00%	4.00%	4.00%	4.00%	4.00%

⁷ For Export Credits guaranteed by ECAs, the insurance risk premium will be determined by standard pricing from these agencies.

⁸ Vendor financing loans will be considered as shareholders loans under the Indigenization Framework.

⁹ Essential imports include; fertilizers, grain, fuel, medical drugs, seeds, agro-chemicals, animal health drugs and electricity

¹⁰ **Flat fees includes:** Arrangement fees, Management fees, Underwriting fees, Legal and Administrative, Fees, Participation fees, Drawdown/Front-end fees, Insurance, country risk, Exposure Fees