



FORMS OF FOREIGN CURRENCY LEAKAGES IN THE ECONOMY

**SUPPLEMENT TO
THE FIRST HALF 2006
MONETARY POLICY REVIEW STATEMENT**



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July 2006**

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1. INTRODUCTION

- 1.1 Over the past 30 months of our turnaround programme it has become starkly apparent that the evils of **indiscipline, corruption and speculation** are much more damaging to our economy than the declared and undeclared sanctions on Zimbabwe.
- 1.2 This realisation directly implies that as Zimbabweans across the board, both private sector or public sector, we have a shared responsibility to address these main blockages to the turnaround programme, most of which have resulted in damaging leakages of foreign exchange, precious minerals and other national valuables, to the detriment of the economy's recovery.
- 1.3 At first, these illicit activities were taking place under cover of darkness, but now, and this under our very own collective noses, the disruptive speculation, indiscipline and corruption is being orchestrated in broad day-light.
- 1.4 The result of this is all too clear for the whole nation, our regional peers and the world at large to see.
- 1.5 We have emerged to be the highest inflation economy in the world in contemporary times as if to conform to our being the last in the alphabet of nations, itself a random occurrence.
- 1.6 In an effort to use the lessons of the past and our aspirations for the future to motivate our collective redemption and unity of purpose to heal our economy, we catalogue in this Supplement some of the main forms of foreign exchange leakages that are threatening to bring our very own productive systems to their knees.
- 1.7 Elusive as some of the modes of indiscipline are, the depictions in this supplement are not necessarily exhaustive but we believe the coverage is broad enough to facilitate meaningful remedial action to be taken collectively.

2. FORMS OF FOREIGN CURRENCY LEAKAGES

- 2.1 Broadly, foreign currency leakages occur in two forms;
 - (i). Leakages of foreign exchange from the official system to the black market within the country. This entails increased trading of foreign exchange outside the formal banking system - meaning that the monetary authorities would have lost control over a significant portion of foreign currency trading in the country. *In such cases, the country benefits from the importation of goods and services.*

- (ii) Leakages of foreign currency through externalisation. This means that illegal foreign currency dealers purchase the foreign currency from the parallel and black market for purposes of illegally remitting such funds to offshore destinations. *In such cases, there is total prejudice to the country.*

2.2 The forms of foreign currency leakages chronicled hereunder are as follows:

2.2.1 Illegal foreign currency dealings

2.2.2 Smuggling of goods outside the country

2.2.3 Non payment of third party insurance by foreign travelers

2.2.4 Under pricing and overcharging of commission on agricultural exports.

2.2.5 Transfer pricing

2.2.6 Offsetting of export proceeds.

2.2.7 Abuse of payments through the voucher system and non remittance of other payments that are made offshore in the tourism sector.

2.2.8 Unrecorded organised illegal hunting and under-invoicing of trophy fees.

2.2.9 Non performing cross-border investments

2.2.10 The “Hawala system” – leakages through money transfers.

2.2.11 Selling and renting of properties in foreign currency

2.2.12 Cross-border trading

2.2.13 Refining of mineral exports offshore.

2.2.14 Smuggling of minerals.

2.2.15 Repair and return of exports.

2.2.16 Abuse of foreign currency by clearing agents

2. PARALLEL AND BLACK MARKET DEALING

- 2.1 Parallel and black market dealings have increased over the past six months as illegal foreign currency dealers continue to trade foreign exchange outside the formal banking system.
- 2.2 In some cases, foreign currency trading in banks has been conducted at parallel market exchange rates through match making of exporters and importers.
- 2.3 Currently, illegal foreign currency black market dealing is being undertaken at the following places;
 - 2.1.1 Harare – Road Port, Ximex Mall, Africa Unity Square and Eastgate Shopping Mall
 - 2.1.2 Mutare – Moto Moto area
 - 2.1.3 Bulawayo – ‘World Bank’
 - 2.1.4 Kwekwe – OK supermarket
 - 2.1.5 Gweru – Kudzanayi Bus Terminus
 - 2.1.6 Victoria Falls – Soppers Arcade
 - 2.1.7 Beitbridge Border Post
 - 2.1.8 Plumtree Border Post
 - 2.1.9 Nyamapanda Border Post
 - 2.1.10 Chirundu Border Post
 - 2.1.11 In households
- 2.2 *Joint operations are being carried out regularly in conjunction with ZRP and arrests being effected.*
- 2.3 The parallel market in Victoria Falls is being funded through large amounts of local currency, which are couriered from Harare and Bulawayo to the Resort town. This money is then distributed among black market traders who buy foreign currency on commission.

2.4 *The Reserve Bank of Zimbabwe in conjunction with ZRP arrested a young man from Harare who had Z\$1.4 billion that was meant to purchase foreign currency in Victoria Falls. The matter is still under investigation*

2.5 It is important to note that incidences of foreign currency leakages arise through parallel and black market trading where purchases of foreign exchange are not largely meant for the importation of goods and services to benefit the country.

2.6 Instead, these purchases are done for the purposes of externalisation, which is why the exchange rate of the local currency unit in this illegal market continues to plummet.

2.7 As shown in Chart 1 below, over the last six months, January to June 2006 the parallel market exchange rate has depreciated from ZWD 100,000.00/USD 1 to current levels of over ZWD 450,000.00/USD 1 as black market traders continue to purposefully bid the price upwards with the ultimate objective of purchasing foreign currency for externalisation.

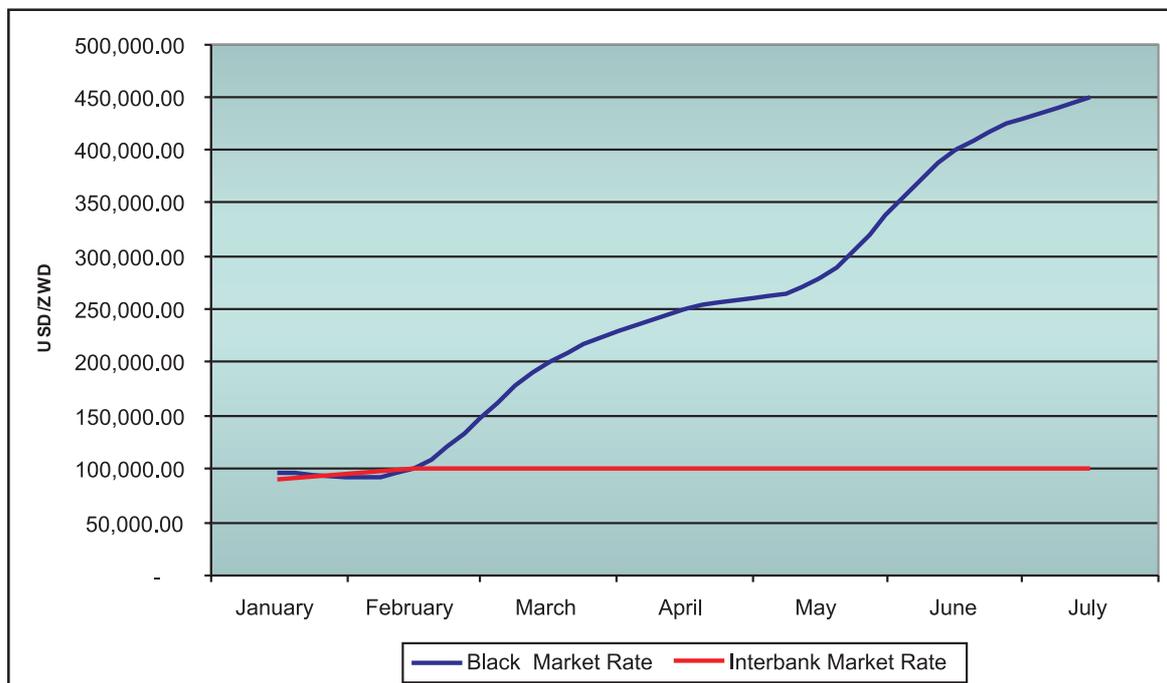


Chart 1: Parallel Market VS Interbank Exchange Rates

3. SMUGGLING

- 3.1 Smuggling is the illegal importation and exportation of goods and services from or into Zimbabwe.
- 3.2 There is smuggling of kapenta from Lake Kariba to Zambia at night by fisheries and boat operators.
- 3.3 Zimbabwean fishermen meet with their Zambian counterparts in the midst of Lake Kariba to exchange fish for foreign currency. There are allegations that some officials responsible for policing the Lake are soliciting bribes in foreign currency from fishermen.
- 3.4 Other goods being smuggled to neighbouring countries include; cigarettes, maize meal, sugar, beer and spirits.
- 3.5 Hard currency itself has also been smuggled out of the country. Bona-fide Zimbabweans (who include cross border traders) and certain specific nationalities are well known for this phenomenon.
- 3.6 Incidences of foreign currency leakages occur because the exported goods are not accounted for through Exchange Control's Form CD1s. In addition, the foreign currency exchanged for such goods is not necessarily used for importation of goods and services, but may be externalised.
- 3.7 *The matter is still under investigation. Reserve Bank of Zimbabwe is in the process of engaging other stakeholders in order to curb such activities.*

4. BORDER POSTS

- 4.1 There are significant foreign currency resources that should be earned from third party insurance levied on foreign motorists.
- 4.2 However, the designation of border posts as "security zones" has resulted in Zimbabwean Third Party Insurance Companies being pushed out of the border, resulting in some foreign motorists not buying insurance upon clearance by ZIMRA. This represents foreign currency loss for the country.
- 4.3 *The National Committee on Economic Surveillance has been advised of this development with a recommendation to be made to the Committee on Tourism to consider allowing these Insurance Companies to undertake their business from*

within the Security Zones.

5. AGRICULTURAL EXPORTS

- 5.1 There are incidences of under-invoicing of horticultural exports, for example, during *Valentine period* the price variance of flowers sold to the same market by different exporters was significant, giving an indication of under-pricing.
 - 5.1.1 For example, exports to the Dutch market by some companies were fetching an average price of 1,4 EUR cents/stem whilst others were fetching 9 EUR cents/stem. The average during that period was 6 EUR cents/stem.
 - 5.1.2 It was also noted that some companies were raising too many credit notes, 60% of such notes could not be accounted for.
- 5.2 *There are efforts to establish benchmarks of international price databases which will assist in comparing local producer prices. The Reserve Bank of Zimbabwe has ascertained the prejudice and the recovery measures have been put in place. One company in this sector has already been fined to the tune of Z\$32 billion.*
- 5.3 Some exporters enter into Agent agreements, where a commission of 10-15% is being paid. This is in excess of the maximum of 7.5% as provided in Exchange Control Regulations.
- 5.4 *Exporters have been instructed to recover the excess commission paid and have been strongly warned against this practice.*
- 5.5 The Reserve Bank has also identified foreign currency leakages in the form of under-pricing with regards to the exportation of hides and skins.
- 5.6 There is also under-invoicing of citrus products exported to other countries, especially to South Africa and United Arab Emirates by Beitbridge Citrus growers.
- 5.7 Prejudice has been ascertained and recovery measures have been put in place.
- 5.8 Offsetting payments from export proceeds without Exchange Control approval resulting in overdue Forms CD1 position which also results in foreign currency leakages.
- 5.9 In this case, Reserve Bank requires the affected exporter to compulsorily liquidate

their FCA balances so that they remain in compliance.

6. TOURISM AND TRANSPORT SECTORS

- 6.1 The process of buying the holiday experience, which is normally done through Foreign Agents, who pay through a Local Agent, creates a major loophole in externalisation of foreign currency.
- 6.2 Incidences of foreign currency externalisation also occur through delayed receipt of foreign exchange by tour operators using the voucher payment system.
- 6.3 *An Exchange Control Directive was issued to the market to the effect that payments for all vouchers must be received within 30 days of providing the service.*
- 6.4 Some operators under-invoice for the services they offer through agents, while they benefit by having access to the foreign currency proceeds offshore.
- 6.5 *Verification of rates is done by Reserve Bank Inspectors during full scope inspections.*
- 6.6 Some operators in Victoria Falls with cross border investments in Livingstone (Zambia) are using Zimbabwe as a cost centre and banking the foreign currency in Zambia.
- 6.7 Organised illegal (unrecorded) hunting, granting excessive commissions to foreign agents by safari operators and non declaration of foreign currency by curio market operators are other forms of foreign currency leakages in the tourism sector.
- 6.8 *Reserve Bank engaged all players in the resort town of Victoria Falls in an effort to ensure compliance with standing Exchange Control rules and regulations.*
- 6.9 Offsetting payments from export proceeds without Exchange Control approval resulting in an overdue Forms CD3 position which also results in foreign currency leakages. This is rampant in the transport sector.
- 6.10 *In this case, Reserve Bank requires the affected exporter to compulsorily liquidate their FCA balances.*

7. MANUFACTURING SECTOR

- 7.1 There are cross-border investments, which are being established with a view of creating sister companies which are then used as conduits for externalisation of foreign currency.
- 7.2 The Reserve Bank has conducted inspections on various cross-border investment proposals sanctioned in the last five years, and established that over 80% of these investments have not performed or paid back the foreign currency repatriated for investment purposes.
- 7.3 Other forms of externalisation in the manufacturing sector include; under invoicing of exports; passing of credit notes purported to be cancellations or reversal of damaged goods and importation of goods for third parties resulting in parallel market activities.
- 7.4 *Reserve Bank is carrying out company visits to accurately cost all exports and validate all imports.*

8. MONEY TRANSFER AGENCIES

- 8.1 The “Hawala system” has affected the operations of the Homelink system. This is a system where deposits are made in individual accounts in the Diaspora and the Zimbabwe dollar equivalent is disbursed locally with no remittance of the counterpart foreign currency to Zimbabwe.
- 8.2 In some cases, the intercepted foreign exchange is used to fund the importation of fuel and other commodities destined for Zimbabwe. However, in most of the cases, the intercepted foreign exchange is externalised offshore.
- 8.3 Several prosecutions initiated by the Reserve Bank have been effected but indications are that illegal MTAs in various forms, and different operating modes, are still operating within Zimbabwe

9. REAL ESTATE SECTOR

- 9.1 In Zimbabwe, there are also experiences of emigrating Zimbabweans who decide to dispose of their properties in foreign currency, which they find ways of repatriating to their “new” countries of domicile.
- 9.2 Some Zimbabweans on temporary emigration lease out or rent out their properties in foreign currency and receive such proceeds in their individual foreign accounts held offshore.

9.3 *Reserve Bank is now monitoring the Real Estate sector with a view to put a check on these forms of externalisation.*

9.4 Arrests have been made of Estate Agents and their clients for conniving to sell properties or rent them out in foreign currency. Recently a Real Estate Agent and its collaborating clients faced the full wrath of the law in previous months. Three such cases are pending with one culprit in custody, awaiting prosecution.

10. CD1 THRESHOLD FOR NON COMMERCIAL EXPORTS

10.1 Exchange Control noted that goods of a commercial nature were being exported by individuals without Forms CD1. Some companies are using cross-border traders to break exports into small parcels of not more than US\$1 000, thus avoid the completion of CD1 Forms.

10.2 Furthermore CD1 forms were being raised in the names of foreign cross-border traders.

10.3 A clarification directive was issued to ZIMRA indicating that the US\$1 000 threshold does not cover commercial exports and does not apply to non-residents.

11. MINING SECTOR

11.1 Zimbabwe has largely been prejudiced from getting the true and fair value of its mineral exports due to lack of beneficiation capacity (refineries).

11.2 In this regard, the exportation of unrefined Platinum Group Metals (PGM) and the value of refined minerals is determined offshore and this results in the undervaluation of the mineral content exported.

11.3 The rampant illegal dealing in gold by small scale miners and custom millers also results in significant foreign currency leakages.

11.4 The RBZ has embarked on a project to stimulate gold production, and minimise its leakage to the parallel market. The activities are as follows:

11.4.1 Resuscitation of abandoned mining operations have been completed at Globe and Phoenix mine and Chaka plant.

11.4.2 The makorokozas have been provided with appropriate premises in the form of fenced points, to facilitate close monitoring and more so, rehabilitate them from the parallel market.

11.4.3 Kwekwe was chosen as a starting point for this project, for its central position but operations have spread out to Zvishavane, Kadoma, Zhombe and Matebeleland South.

11.4.4 It is worth noting that in May 2006, 310 makorokoza miners were arrested with 61 being given custodial sentences ranging from 3 months with hard labour to a maximum of 4 years. Three ZRP officers were arrested for connivance with miners to steal gold from operating mines in the Kwekwe area.

11.5 The processing of ore from other countries on toll manufacturing arrangements with no proper accounting of toll-fees becomes another form of foreign currency leakage.

11.6 The Mining houses concerned have been directed to account for all the fees earned on toll manufacturing arrangements.

12. Repair and Return

12.1 Some companies have externalised foreign exchange through the exportation of equipment intended for repair and return.

12.2 This has been noted through the increasing number of outstanding CD1s for this category of exports.

12.3 Reserve Bank is following up on non returned equipment and machinery to ensure that the country is not prejudiced.

13. Abuse of Foreign Currency by Clearing Agents

13.1 Clearing agents are receipting foreign currency when they do not have foreign currency accounts. This foreign currency is not accounted for and at the end finds its way to the black market.

13.2 Furthermore, clearing agents are not properly invoicing for services rendered.

13.3 The Reserve Bank of Zimbabwe is now monitoring the activities of clearing agents so as to curb foreign currency leakages in that sector.



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JULY 2006

