THE CHARTERED
Accountant
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ZIM'S FDI CONUNDRUM

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Your opinion matters!

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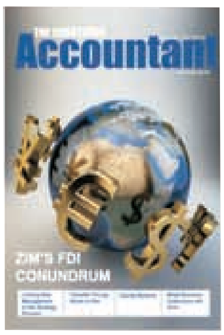

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ICAZ committed to reviving Zim

GREETINGS to you all our esteemed members!

I feel greatly honoured and indeed humbled to have been elected to the Office of the President of The Institute of Chartered Accountants of Zimbabwe (ICAZ).

I would like to thank you for trusting me with such a role. It is indeed an honour and it is very humbling.

At this moment when our country is going through economic difficulties and members of our profession are facing increased pressures arising from the economic environment and the broad range of challenges that we have to meet each day, we are all called upon to exercise our minds, and to come up with solutions to make Zimbabwe work again.

As Chartered Accountants, I believe that we have an obligation to act as an increasingly effective and respected voice. It is not an easy task, it requires thinking, hard work and perseverance from all of us. As we gear ourselves to fully participate in the revival of our economy, Council will be implementing the following initiatives during the coming year:

Engaging for influence

We will continue engaging with Government at all levels so that we give our input to influence the speed and shape of our economic revival.

In addition, the Institute, in conjunction with our members in South Africa, will be holding an Investor Conference in Polokwane, South Africa from 2-5 October 2014. We have also established an Economics Unit at ICAZ. The unit will be manned by a "part-time" Economist. An Economics Affairs Committee made up of members in practice and commerce has been established and has commenced meeting.

I believe the Economics Unit and Economics Affairs Committee would be able to give us well thought out and researched proposals to enable us to contribute meaningfully to the moulding of our country's economic destiny.

Education

In order to ensure that the profession continues to attract the best brains from all our High Schools and Universities, the Institute will be consulting the World Bank, South African Institute of Chartered Accountants and Institute of Chartered Accountants Of England and Wales on how we can redesign the pathways to the CA qualification.

Reporting

To attract investment into Zimbabwe our financial statements must be "believable" and relied upon by potential investors. To this end, the application of International Financial Reporting Standards is of paramount importance. The Institute, through the Accounting Procedures Committee and Auditing and Professional Standards Committee, will continue to review the accounting standards and provide guidance to their application where necessary.

Legislative changes

The Institute, through PAAB, will be engaging with the Securities and Exchange Commission and the Zimbabwe Stock Exchange with regards the implementation of the new Listing Rules.

Mutual Recognition Agreements (MRAs)

ICAZ is a proudly Zimbabwe brand. It is a brand we are all proud of. It competes with other international accounting brands. I would like to say the brand has done exceedingly well as shown by the fact that our members are in demand all over the world. In order to ensure that ICAZ remains a premium brand, we will continue to maintain MRAs with SAICA, ICAEW, Canada, Ireland, Hong Kong and Scotland. In addition we will continue discussions with Australia to renew MRA with their institute. We will also commence to work on an MRA with USA.

Enhance service to members

We will continue to review our services to members to ensure that we all get value for money for our annual subscriptions.
In addition we will enhance communication with our members in the Diaspora. I am looking forward to the formation of more Diaspora Chapters in all countries where our members are based. We would want these Diaspora Chapters to establish networks for attracting Foreign Direct Investment into Zimbabwe. In addition these chapters can become platforms for Zimbabweans in the diaspora to participate in the revival of the Zimbabwe economy.

I would like to thank Council for their unwavering support and also to Matts Kunaka and his staff at the Secretariat for the good work they are doing to ensure ICAZ remains a solid professional body.

Bothwell Nyajeka
ICAZ President


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Zim's FDI *conundrum*

Phillimon Mhlanga explores the need for Zimbabwe to improve Foreign Direct Investment if the country is to emerge from the doldrums.

ZIMBABWE must swiftly move to review its policies to create a conducive environment for foreign direct investment (FDI) to flourish as failure to reform will see scores of potential capital being redirected to competing markets in the region.

The southern African country, which has a large resource bequest, has been projecting that future growth would be anchored on the mining industry. FDI is considered to be the lifeblood of economic development in developing and underdeveloped markets.

Government has been seeking to reposition Zimbabwe, which last received significant FDIs in 1998 following huge investment by Zimplats in Ngezi — as an attractive destination for FDIs.

The country has been attracting less than one percent of FDIs to Africa, which topped US$65 billion in 2012. This is despite Zimbabwe possessing vast natural resources. Global FDI reached US$1,3 trillion in 2012, with Africa receiving five percent of that.

Foreign investors have been repelled by indigenisation policy, which compels foreign-owned companies with a net asset value of US$1 or more to sell, cede or donate a 51 percent stake to indigenous people by 2015.

Lack of clarity and consistency on the part of the Indigenisation and Economic Empowerment Act concerns investors and this has been affecting FDI flows into the country. This needs urgent redress.

"Inward foreign direct investment into Zimbabwe has remained disappointingly low over the years," Finance Minister Patrick Chinamasa told delegates at the Institute's Winter School held in July in Victoria Falls.

"We cannot assume to be oblivious of the developments on the international financial and investment markets. It is therefore stands to reason that the business environment should be attractive to potential investment; otherwise investment will go to those destinations with good conditions for profitable business. However, we are in the process of synchronising our policies in order to ensure consistency and clarity especially the Indigenisation and Economic Empowerment Law."

Zambian based mining consultant, John Woods who is with Deloitte Zambia emphasised on the need for Zimbabwe to have respect for property rights to get investors' confidence.

"Mining investment can only be attractive where deposits are located in an economy with stable governance where sound economic policies are being practised. There is need for the right infrastructure and respect of property rights so that the investors' confidence is boosted."

Woods also spoke of the need for value addition and beneficiation in order to maximise profits in the mining sector. He added that government should intensify mining exploration work to determine the extent of the country's mineral wealth.

Although Zimbabwe is a mineral-rich country, it has not carried out comprehensive exploration over the past three decades owing to lack of long-term financing.

Mineral exploration, which is the most important part of the mining circle, is the process through which commercial concentrations of mineral resources are discovered. It covers activities from the preliminary collection of existing geological data to drilling and sample assays.

Recently, government resuscitated its mineral exploration company, the State Exploration Company, to explore mineral deposits after research showed that more than 40 percent of mineral deposits worth billions of dollars were lying idle across the country.

The company is expected to be operational by year-end and this is a step in the right direction as it will estimate mineral reserves on a national level.

According to the 2012 Chamber of Mines annual report, US$7 billion would be required to explore 40 percent of the mineral deposits in the next five years. It also said exploration is expected to lure foreign direct investments in the mining sector.

"It is an involving process especially on determining the value of the minerals but through explorations it is possible," Woods said.

Woods also said focus should be on establishing cheaper means of transport such as railway lines to link up with all areas where the mineral resources are located.

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Transfer pricing *rules* in Zim

By Faith Mberi

TRASFER pricing is increasingly becoming a key focus of tax authorities across the globe with a lot of multinational entities being accused of taking advantage of loopholes in the tax legislation in the various tax jurisdictions to avoid paying taxes.

This has seen a hive of activity on the transfer pricing landscape with more developing countries introducing new transfer pricing legislation and a number of developed countries advancing their existing transfer pricing legislation. In Zimbabwe, the much anticipated transfer pricing rules were publicly released in April 2014 and are being applied retrospectively from January 1, 2014. The new provisions include definitions of persons deemed to be associates and persons deemed to control a company (herein loosely referred to as related parties).

The recently introduced Zimbabwean transfer pricing legislation targets related party transactions aimed at income splitting, specifically in cases where there is transfer of income or property that produces income where the sole or main reason of the transfer is to lower tax payable of the parties involved.

The recently introduced Zimbabwean transfer pricing legislation targets related party transactions aimed at income splitting, specifically in cases where there is transfer of income or property that produces income where the sole or main reason of the transfer is to lower tax payable of the parties involved. Furthermore, transactions between related parties also need to be at arm's length and this includes transactions between persons who are in an employer-employee relationship.

The Commissioner has the power to adjust or recharacterise transactions as he or she considers necessary in order to reflect the arm's length principle. The legislation applies not only to cross border transactions but also to domestic transactions between related parties.

In the context of domestic transactions, it can be argued that the extent of manipulation of transactions is not as significant as for cross border transactions given that the tax rates applicable to taxpayers in the same tax jurisdiction do not vary as much as cross border tax rates.

However, risk would generally exist in cases where taxpayers have built up assessed losses as non-arm's length transactions in such cases may result in a saving in the overall tax liability for the parties involved.

For example, an entity in an assessed loss situation can simply reduce its assessed loss where it is the entity receiving income in a related party transaction while the other party reduces its taxable income by claiming a deduction. The risk associated with cross border transactions is quite clear and it relates to the shifting of profits from high tax jurisdictions to low tax jurisdictions by way of excessive deductions or understated income in the high tax jurisdictions.

Typical transactions that are targeted by most revenue authorities and that are seen as aggressive tax planning tools used by entities to eventually deprive countries/entities where profits are actually earned include the following, among other things:

a) Provision of services between group companies, the most popular one being excessive management fees. The key question that needs to be asked with management fees is whether the service has actually been provided and what the appropriate arm's length charge should be;
b) Procurement of goods from related parties at non-arm's length prices;
c) Financing agreements between group companies that are not at arm's length, for example excessive interest expense for inbound loans or understated interest income for outbound loans;
d) Transfer of ownership of intangibles from high tax jurisdictions to tax havens at very little or no cost and subsequently charging royalties for the use of those intangibles thereby reducing taxable profits in high tax jurisdictions;
e) Complex financial structures in the form of hybrid mismatch arrangements whose intended effects include:

- Double deduction schemes: deduction claimed twice in two different countries for the same contractual obligation; and
- No inclusion schemes: deduction created in one country (typically interest expenses) but no corresponding inclusion in the other country; and

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Weak revenue collections hit govt

With fewer companies now contributing to the tax purse, ZIMRA officers have been spending long hours camped at the few institutions that are still contributing to the fiscus, writes

Shame Makoshori

Gershom Pasi

REVENUE being remitted into the fiscus has suffered a major knock since the beginning of the year owing to a worsening liquidity crisis that is feared could escalate a pronounced contraction.

As such Government has revised its growth targets for 2014 to three percent, from 6,1 percent.

Across all sectors of the country's tottering economy, the trading environment has further deteriorated, with nearly all companies struggling to stay afloat due to depressed demand and the inability by cash-strapped customers to pay for goods and services on time.

The result has been an unhealthy working capital situation that has seen most companies lagging behind with payments for their raw materials and other inputs, salaries, medical aid and pension contributions as well as statutory payments such as taxes.

Regardless, the taxman has been demanding his dues, thereby driving most companies to brink of closure.

The Zimbabwe Revenue Authority (ZIMRA) is now turning to desperate measures to collect every penny it can get to sustain government operations. Instead of trimming its bloated waistline and adjusting its priorities to suit the tough economic conditions, government's penchant for spending what it does not have continues unabated.
Its expenditure far exceeds what it is generating in terms of revenue from penalties, taxes, grants, donations and foreign direct investments hence sustaining its appetite for cash is presenting serious headaches for ZIMRA. In an unprecedented but frank warning to the nation of how bad the situation is on the ground, ZIMRA Commissioner General, Gershem Pasi said the nation should brace for difficultt times ahead due to a non-performing economy.

ZIMRA's revenue collection base has been shrinking on the back of company closures, worsening retrenchments and creative accounting being devised by taxpayers who are desperate to lessen the tax pressures on their businesses. With fewer companies now contributing to the tax purse, ZIMRA officers have been spending long hours camped at the few institutions that are still contributing to the fiscus.

Where they would have dictated negative variances between what was declared and what should have been paid to government, the officers have wasted no time in imposing heavy penalties and garnishee orders to recover whatever would have been lost.

This is, however, escalating the collapse of businesses, since the penalties are too high to be afforded by companies that are already haemorrhaging due to a difficult operating environment.
Confederation of Zimbabwe Industries (CZI) president, Charles Msipa says the blitz could become the biggest threat to industries following years of liquidity problems and difficulties in accessing funding to retool industries and reboot working capital.

"If it was just a normal case of companies avoiding taxes that would be defendable since companies have a statutory obligation to pay taxes," Msipa says.

"What is very worrying is that government owes companies over US$90 million for goods and services supplied, and yet government says the same companies that have not been paid must pay taxes. I have proposed a moratorium for garnishes for companies that government has not paid," he says.

Zimbabwe National Chamber of Commerce president, Hlanganiso Matangaidze, says the chamber had sought audience with government because "the problem is cash flow, some companies are making profits on paper but they don't have the cash. They have huge debtors' books".

While ZIMRA officials acknowledge the difficulties industry is going through, they said they were also under pressure from Treasury to apply the law and generate revenue needed to sustain government operations.

New ICAZ presidium

Before joining the TA Group, Bothwell Nyajeka worked for the Anglo American Corporation Group and ZHL limited. Nyajeka is deputised by Roy Chimanikire, who is finance director at Econet Wireless Zimbabwe while NICOZDiamond's general manager, corporate services and company secretary Gloria Zvaravanhu is the new junior vice president.

Bothwell Nyajeka

BOTHWEL Nyajeka, TA Holdings' group chief financial officer, has been elected the new president of the Institute at the annual congress held in July in Victoria Falls.

Nyajeka, who was the Institute's senior vice president for the past year, takes over from Tinanshe Rwodzi, managing partner at Pricewaterhousecoopers who stepped down after the expiry of his one year term.

Nyajeka is a Chartered Accountant and holds a Bachelor of Accountancy (Honours) degree from the University of Zimbabwe and a Masters' degree in Business Leadership from the University of South Africa.

Before joining the TA Group, Nyajeka worked for the Anglo American Corporation Group and ZHL limited.
Nyajeka is deputised by Roy Chimanikire, who is finance director at Econet Wireless Zimbabwe while NICOZDiamond's general manager, corporate services and company secretary Gloria Zvaravanhu is the new junior vice president.

Chimanikire joined Econet Wireless Zimbabwe in 2009 from Deloitte, where he was a Partner.

He is a qualified Chartered Accountant and holds a Bachelor of Accounting Science (Honours) Degree from UNISA, and a Certificate in the Theory of Accounting from the Institute of Chartered Accountants Zimbabwe (ICAZ).

Roy Chimanikire

Zvaravanhu is a qualified Chartered Accountant who is a member of both the Institute of Chartered Accountants Zimbabwe (ICAZ) and South African Institute of Chartered Accountants.

Gloria Zvaravanhu

She holds a Masters degree in Business Leadership from UNISA and a Bachelor's in Accountancy from Rhodes University.

Zvaravanhu started her accounting career at KPMG Chartered Accountants where she did her articles. She has more than 10 years experience, in financial management, auditing, corporate finance, administration and treasury.

In his acceptance speech, Nyajeka said it was an honour to be elected president of the institute.
"It is indeed an honour and privilege for me to be leading this institution for the next year (2014/15).
"I look forward to working closely and to the best of my ability with the Presidium, the Council, the CEO, Secretariat and all fellow ICAZ members as we take our unsurpassed professional body to the next level."

Linking risk management to the strategy process

Companies have always practiced risk management since time immemorial. What has changed over time with risk management is the ever increasing need to manage risks in a more holistic manner. Enterprise Risk Management (ERM) provides an excellent framework of this holistic approach, writes Rabiro Mangena

THE time for strategy setting is upon us and as the review of the 2014 strategy will reveal, a lot of companies will miss their targets.

This is not unexpected given the unforgiving economic environment. But one hopes that when developing the strategy for 2015, the chief executive officers (CEOs) will also consider how to minimise the risk of failing to meet those targets.

This is the heart of strategic risk management, which focuses on the management of the consequential and significant risks to the attainment of organisational strategic objectives.

Companies have always practiced risk management since time immemorial. What has changed over time with risk management is the ever increasing need to manage risks in a more holistic manner.

Enterprise Risk Management (ERM) provides an excellent framework of this holistic approach. I have written in an earlier instalment in more detail about the ERM.

In this article, I will explore the means through which ERM can be integrated with an organisation's strategy process. The relationship between strategy and risk management is that the former is about aiming to reach for set targets while the latter is about identifying and treating the impediments to reaching those targets. Risk management in relation to strategy can therefore be seen as the process of anticipating, identifying and managing threats to the strategy attainment. Some of the critical benefits of linking risk management to the strategic process are that it;

- forces management to consider and measure risks for each objective and accepting only the objectives where the attendant inherent risks are within the company's risk appetite,
- provides a good idea of the amount of resources and effort required to manage the risks that could impede the attainment of a strategic objective,
- significantly improves an organisation's chances of attaining its objectives,

Integrating risk management and the strategy should start at the strategy assessment stage, normally denoted by SWOT. This should be done as part of the preparation for the strategy development session where an enterprise-wide risk assessment is undertaken to establish a company's risk management capabilities.

Risk assessment should also be considered during the strategy development phase. For each objective set, the strategy team must identify the potential risks to achieving the particular objective. Let us take an example of a company that imports its raw materials from South Africa to fully understand how the fusion process will work.

The objective could be to increase sales. Management will understand that increasing sales is partly a function of volumes, which could be affected by the price of the product. Management could then resolve to maintain the price at the existing levels to push more volumes.

But if they end there, they may not anticipate the effect of a possible strengthening of the rand on the product's cost structure. A risk analysis around this objective may identify the risk of a firming rand whose impact may to affect the budgeted cost structure.

Having identified the major risks, the strategy team should then prioritise allocation of resources for the treatment and management of the most likely and consequential strategic risk events.

In the example above, management may, after carrying a cost benefit analysis between early purchase of raw materials, purchase of the rand now, and storage and opportunity costs, decide that the risks will not be fully mitigated against.

Management could then look at other areas in the manufacturing value chain where cost savings are possible.

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Linking risk management to the strategy process

From Page 10

This may entail budgeting for a process review and improvement exercise to identify areas of inefficiencies.

It is possible that a strategic objective could be discarded or altered as a result of the levels of risks identified, and the consequent risk treatment costs.

The results of the strategic risk assessment could be summarised in a Risk Scorecard, a parallel of the Balanced Score Card. For each strategy objective, key risk events that would prevent objective attainment are identified and matrices that would be early warning signs are developed.

Implementing strategic risk management at the strategy planning stage ensures that all objectives will be interrogated and possible risks or impediments to attainment of the objectives identified and treated or managed. This means that only objectives with inherent risk that are within a company's risk appetite are accepted.

Also, because management is able to anticipate risk events, their ability to manage those events when they materialise is enhanced. The overall result will be an organisation that is better able to withstand the impact of the risk events as it engages on its strategic journey.

While strategic risk management will not by itself ensure that a company will achieve all its objectives, it will certainly minimise the variability between target and actual performance and ensure that management does not unnecessarily expose the company by pursuing strategic options solely on the basis of their perceived returns to the company.

Rabiro Mangena consults on risk management and corporate finance issues under BDO Zimbabwe. He writes in his own capacity.

Zim's FDI *conundrum*

From Page 4

"Any country that can have a cost efficient rail sector and shipping can benefit from its mineral resources," he said. Woods' presentation comes on the backdrop of the captains of industry's call to promote beneficiation in the mining sector since the country has been exporting unfinished products such as diamonds.

However, despite the abundance of such minerals, Zimbabwe is not deriving meaningful benefit from its mineral reserves as the country has always been exporting its mineral wealth in raw form, save for chrome.

The country has the potential of becoming the "mining basket" of southern Africa only if it can leverage its mineral wealth through beneficiation. Mineral beneficiation simply means adding value to minerals before exporting them. Woods' presentation was also in sync with a presentation by Deputy Minister of Industry and Commerce Chiratidzo Mabuwa who spoke on value addition in raw materials and agriculture exports from Zimbabwe.

Mabuwa said government will develop a data base for all commodities where potential for value addition exists with the aim of the informing policy options on dealing with exportation of raw materials and semi-processed products in the extractive sectors.

SUBSCRIPTION REMINDER

PLEASE note, if you have not yet settled your account, it is now overdue.
From 1 September 2014 interest of 2% per month will be applied on the outstanding balance.

ICAZ mourns the loss of Eric Bloch

THE Institute of Chartered Accountants of Zimbabwe (ICAZ) mourns the untimely loss of Eric Bloch, a renowned financial, management, taxation and economic consultant.

A qualified chartered accountant and past President of ICAZ (2004-5), Bloch who had a long and illustrious career died on September 20 at his home in Khumalo, Bulawayo. He also served in various ICAZ Committees including Council, the ICAZ-RBZ Liaison Committee, Tax & Other Legislations Committee and Public Relations Committee to name but a few.

Eric, a long serving member of ICAZ, will be remembered for his passion towards the development and growth of the accounting profession and the Zimbabwean economy as a whole.

In a statement ICAZ President, Bothwell Nyajeka, said: "The Presidium, Council, Chief Executive Officer and members of The Institute of Chartered Accountants of Zimbabwe (ICAZ) would like to convey our deepest sympathies to the Bloch family.

"Losing a person of his (Bloch) calibre who was dedicated and passionate is indeed a great loss to his family, the nation and our profession. We will dearly miss his wise guidance, commitment and dedication. Our deepest sympathies are with the Bloch Family, relatives, friends and all other stakeholders during this difficult time." he added.

Bloch was born on April 2, 1939 in Johannesburg, South Africa and migrated to Bulawayo with his parents when he was a child. He is survived by four children, Rappi, Mark, Barry and Ruth and 10 grandchildren. His wife Bailey succumbed to heart attack in July 2011.

ICAZ Winter School Photo Gallery

Sitting from left: Honourable Deputy Minister Zhanda, Hon. Minister Chinamasa and Honourable Deputy Minister Mabuwa. Standing from left: Immediate past president(IPP) Mr. Rwodzi, ICAZ CEO, Mr. Kunaka, New ICAZ President, Mr. Nyajeka.

Brian Mabiza-First Prize Golf winner holding the Inaugural ICAZ president's Trophy.

Analysing ICAZ annual report.

Handover of power, Tinashe Rwodzi (right) to Bothwell Nyajeka

ICAZ Secretariat-Serving delegates with a smile!

Netball Winners.

Time to close loss-making parastatals

Phillimon Mhlanga

IN the past, State enterprises and parastatals used to contribute about 40 percent of the country's Gross Domestic Product (GDP).

They are now milking the economy because most of these vital enterprises are undercapitalised and making losses.

Finance and Economic Development Minister, Patrick Chinamasa

Finance and Economic Development Minister, Patrick Chinamasa, believes it is time government shuts down non-performing state-owned companies because they have become a drag on the country's economic recovery efforts.

Chinamasa's comments at the Institute's Winter School held in Victoria Falls under the theme: "Attracting foreign direct investment (FDI) for economic Growth" set the tone for two days of debate over critical issues bedevilling the economy.

State-owned companies have come under the spotlight in recent months after disclosures of executive compensation at several institutions showing that some earn monthly salaries running into hundreds of thousands of dollars. Many are riddled with debts, and there have been reports of corruption and mismanagement.

Chinamasa, who is also chairman for the Cabinet committee on parastatals, State enterprises and local authorities, questioned the calibre of managers at the institutions.He says government has commenced looking into the problems bedevilling the state enterprises.

"We have started tackling problems at State enterprises and parastatals which used to contribute 40 percent to the GDP but now are milking the economy as they are not contributing anything."

He says companies such as the Grain Marketing Board (GMB), Agricultural and Rural Development Authority (Arda) and the Cold Storage Company among others, were struggling adding there was need to establish whether the parastatals should be allowed to continue operating.

"There is no production at all in these entities and the economy can't grow. The challenge is to restore productivity and that also raises questions whether we have the calibre of managers who can drive them back to their feet. This is where we need forensic audit and thorough investigation whether there is a need for them to continue existing or not," he added.

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ICAZ signs MoU with NUST

ICAZ President, Bothwell Nyajeka (right), shakes hands with NUST Registrar, Fidelis Mhlanga after signing the MoU.

THE Institute of Chartered Accountants of Zimbabwe (ICAZ) has signed a memorandum of understanding (MoU) with the National University of Science and Technology (NUST) to offer the Zimbabwe Certificate of Theory Accounting (CTA) programme.

ICAZ President, Bothwell Nyajeka, the CEO of ICAZ, Matts Kunaka and Education Committee Chairperson, Arthur Mubaiwa attended the ceremony at NUST in Bulawayo on September 5, 2014.

As per the MoU between the two institutions, NUST will offer the full time CTA programme to students in Bulawayo starting January 2015 with block release classes being planned for those students in Harare and other towns. By offering the CTA programme through NUST, ICAZ hopes to attract more students for the programme and this also gives students options to choose from as they venture into the CTA studies.

Beyond the Rule Book

Governance of Conscience

By Tsistsi Mutasa

"IT's the right thing to do".
This simple statement, spoken with conviction, clarity and characteristically without pretension, is often offered as an explanation for a moral action.

The judgment that something is right or wrong, good or bad, has always defined morality as, "the inner sense of what is right or wrong in one's conduct or motives, impelling one toward right action".

In today's environment, a business corporate governance or corporate conscience is as important as its primary business plan.

Zimbabwe's corporate terrains has been awash with scandals of varying natures, some of which (Salarygate) when considered purely from a legal standpoint are or were not necessarily illegal but morally reprehensible. The other scandals however are both morally and legally questionable.

In my view these scandals were not caused by the absence of structures, systems and policies but by the absence or decay in the moral compasses of the entrusted directors within the said structures.

Policy-makers, regulators and business leaders, are making considerable efforts to remedy the circumstances that have dominated our airwaves.
These efforts rely largely on the introduction of more regulations and revisions to existing codes and or standards.

This is a problem because the efforts presuppose a lack of awareness, robustness and or clarity of the existing instruments.
In Zimbabwe, we have numerous, (if not too many) pieces of legislation and voluntary instruments intended to guide corporate behaviour towards "doing the right thing "but policy makers seem to continue working on the assumption that people are lacking guidance, information and or awareness and as such the efforts are not yielding the desired outcomes because I believe, they are addressing the wrong problem.

The challenge is to think within the context of the guiding values and principles that form an organization's conscience as it

dictates the shared philosophy, practices and culture of an organisation and its employees.

As such, a corporation without a system of corporate governance is like a body without a soul or conscience. Invariably if this shared philosophy breaks down, then corners will be cut, products will be defective and management will grow complacent and corrupt.

The reason most corporate governance codes work on an "apply or explain" (voluntary) basis is because they seek to modify behaviour, where rather than demanding that certain mechanisms be in place, voluntary codes seek to encourage the adoption of good corporate governance through exhortation and (non statutory) enforcement.

Thus making it principle based as opposed to rule-based aimed at behaviour modification.

Management that comes from within — an internal management or self-governance — is more sustaining and more promising for the overall well-being of the business community.

The very foundation of human rights presupposes this capacity of judgment, that we are able to recognise the moral correctness of an action without relying on pre-given norms or laws. Conscience will always be changing how things are seen. In Harper Lee's 1960 novel, *To Kill a Mockingbird,* the lawyer, Atticus Finch states, "The one thing that does not abide by majority rule is a person's conscience".

Boards will need to recommit to high ethical standards which means moving away from merely checking the boxes in support of good corporate governance to actual implementation.

This entails a recalibration of themoral compass of business leaders resulting in an examination of the extent to which senior management, with their boards' approval; enrich themselves at the expense of their shareholders' long-term interests.

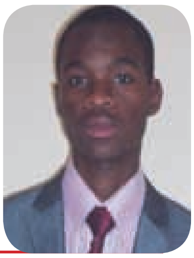
Equally many shareholders disregard obvious signals that should alert them to problems, especially poor selection of board directors
This recalibration requires that directors play a leadership role in promoting an ethical business culture, with the chairman and CEO setting the "tone at the top."
This must be demonstrated – in practice and conduct – to ensure that the right decisions are made and ethical standards are rigorously observed without exception.

Tsitsi Mutasa is Managing Director of ZimLef

Zim capital markets

. . . unbundled potential

Well-functioning and developed capital market infrastructure forms the catalyst to economic growth and recovery efforts, writes, Albert Norumedzo



CAPITAL is no doubt the life blood of economic progression in any economic set-up.

Without it, exploitable profitable projects with potential to add to the economic growth trajectory will remain confined to the blue print.

The architecture of Zimbabwe's capital markets is anchored on two main fronts, public equity and debt. The equities market (the Zimbabwe Stock Exchange) is approximately a US$5 billion market which turns over an average of US$40 million per month.

Economic performance has however limited trading-centralised on a few counters that have realigned their business models in line with the operating environment.

The debt market in other economies usually forms the larger proportion of capital markets due to its diversity in financial product offering and ingenuity. This of course is not the case in Zimbabwe's capital market landscape where the debt market is very much dormant with a few Bond issues at infrequent intervals.

Activity on the debt front is mainly through Term loans advanced to borrowers by financial institutions. As at June 30, 2014, total loans were at US$3.7 billion with 79.8 percent of disbursements going toward companies in various industries while the remaining 21percent went to Individuals.

As the country embarks on a recovery quest, the role of capital and that of capital markets cannot be over emphasized. In a market where foreign direct and portfolio Investments account for an insignificant portion of GDP (approximately 6 percent), the setting up of financial avenues to attract much needed capital injection becomes not only imperative but a direr necessity.

Capital markets will play a resounding role in the country's recovery story. What makes Zimbabwe's capital markets attractive to Investors is the dollar denomination. The United States dollar has been, and is still growing strong against many regional currencies, which makes Zimbabwean capital markets a destination of choice for many investors.

The limited transaction costs relative to other markets also favour Zimbabwe. The recent liberalisation of Exchange control regulations by the central bank will also go a long way in attracting foreign participation on local capital markets.

Recent strides made in the modernisation of the local equity market are also a step in the right direction as far as capital market development is concerned.

Three counters namely CBZ Holdings, Cottco Holdings and FBC Holdings are already on the electronic trading platform with more to follow suit in the coming year.

Among other things capital markets will play an immense role in capital mobilisation and efficient allocation towards productive sectors.

In themselves capital markets are an industry that can grow to contribute immensely to national output. In other developed markets like United States of America, Europe, Asia and South Africa, capital markets contribute immensely to overall economic output. With enabling structural frameworks in place, capital markets capitalisation has been known to significantly outgrow GDP.

Notable examples include USA (Market cap to GDP- 114 percent), UK- 122.7 percent, South Africa -160 percent, to mention but a few. These are huge economies - USA US$16.8 trillion, UK US$2.5 trillion, South Africa US$350 billion.

However to speak of capital market potential without tackling resident problems that have incapacitated local capital markets would be a gross injustice to reality.

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Transfer pricing *rules* in Zim

From Page 10

• Foreign tax credit generator schemes: generation of foreign tax credits that would otherwise not have been available.

Transfer pricing in the international tax world is governed by specific rules and methods to determine the arm's length.

The Organisation for Economic Cooperation and Development (OECD) guidelines are commonly used by most member and non-member countries though some countries also use the United Nations (UN) transfer pricing guidelines which substantially overlap the OECD guidelines.

It is anticipated that ZIMRA will issue guidelines in due course to provide clarity and certainty on its approach to transfer pricing issues and application of the transfer pricing rules.

However, in the meantime, taxpayers are well advised to ensure that their transfer pricing risk has been addressed through documentation that provides sufficient basis for pricing methodologies. Furthermore, there are a number of potential transfer pricing issues that will need to be addressed through the ZIMRA guidelines and these include among other things:

a) Specific documentation requirements;

b) Acceptable methods in the determination of the arm's length price (transfer pricing methods);

c) Guidance on the acceptable arm's length range; and

d) The issues of lack of local comparables which is currently a common challenge faced by most tax authorities especially in the African region.

Given that the burden of proof and onus of ensuring that goods and services provided between related parties are at arm's length rests mainly with the taxpayer, it is crucial to have appropriate documentation in place to be able to cope with the scrutiny from the Commissioner.

We anticipate that there will generally be an increase in the number of transfer pricing audits by ZIMRA but it remains to be seen how they will implement the rules and enforce compliance.

Faith Mberi is a senior Tax Manager with PwC.

************************ Capital markets **********************

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Chief among the problems confronting capital markets is investor apathy due to lack of clarity on key investment policies and government's clarified position on investment in key sectors of the economy.

A noteworthy concern for any investor is the exit strategy after investment.

What are the exit strategies and what risks, regulatory or otherwise, will one face in cashing out of an investment? These are the questions many investors often ask.

Investment thrives on framework certainty- without it no amount of perceived return can induce the slightest bit of Investment.

There is great need to harmonise investment policy and empowerment law towards a common cause that speaks to the prevailing economic challenges.

Perceived country risk- despite signs of improving investor perception, has weighed down on capital market performance.

The spectrum of investors waiting to explore African markets like Zimbabwe is broad, from emerging to developed markets. Investor enthusiasm over Zimbabwe's capital markets is gathering pace, the onus however remains on Zimbabwe to guarantee transparency and certainty of policy on capital markets if they are to live up to their full potential.

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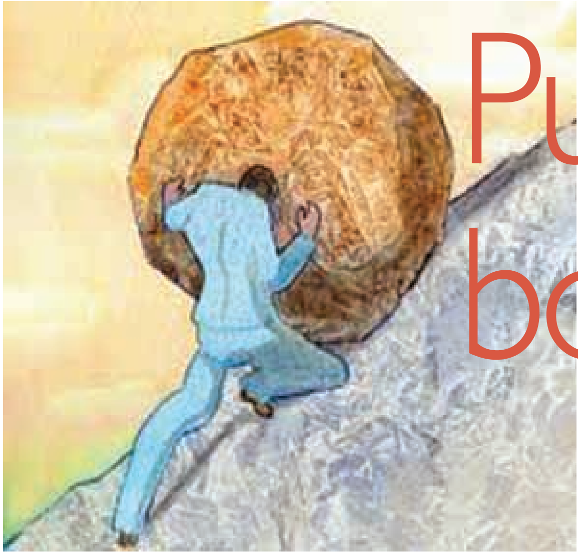

Pushing for a bond market

Phillimon Mhlanga takes a look at the contentious issue of the introduction of a bond market and its implications.

SPEAKING at the Institute's Winter School held in Victoria Falls in July, Alban Chirume, the Zimbabwe Stock Exchange's chief executive officer, said the local bourse is planning to introduce a bond market before the end of the year.

Under this market, quasi-government institutions and corporate institutions would be mobilised to raise cash through bonds.

A bond market involves the issuance and trading of debt securities in a financial market where participants can issue new debt, known as the primary market, or buy and sell debt securities as the secondary market.

This is usually in the form of bonds but it may include notes and bills with the primary goal to provide a mechanism for long-term funding of public and private expenditures.

"Just before the end of this year, we are going to introduce a bond market," declares Chirume. "We have already started working on it and we have just done a draft of listing requirements."

"We also need to incubate the market so that they understand what we want to do, reminisces Chirume.

He adds: "The potential insurers of the bond would be government, all quasi-government institutions such as the utility service providers like the Zimbabwe Electricity Supply Authority (ZESA), Zimbabwe National Water Authority (ZIMWA) and so forth and the big corporate will also be able to raise funds using the bonds."

Chirume also reveals that most foreign investors on the local bourse were coming through South African fund managers, a move which he says takes away direct contact.

Out of 67 countries listed on the ZSE, only 15 counters are currently trading positively and the rest are in the red.
Analysts contend that the stock market has lost its glitter, but argue it is one of the only few options left for investors seeking to park their money long term.

For hot funds, there are just no options: a once — thriving Treasury Bill (TB) market is dead, with the only TB instruments issued by the central bank having been for debts to banks, miners and farmers. Traditionally, TB has been used as a debt instrument for government to raise money for short-term projects on the domestic market.

But government is too broke to borrow and able to pay in the short-term. The fact that it has defaulted in several of its payment commitments has meant that the market has been sceptical of lending to government or to support debt instruments in which it is a guarantor. The few bonds that have been issued to the market, primarily by the Infrastructural Development Bank of Zimbabwe (IDBZ) have flopped.

Alban Chirume

In fact, as a result of jittery reception to its previous bond issues, the IDBZ has failed to come back to the market with a planned US$60 million bond to raise funds to bail out struggling State enterprises.
ZSE also plans to make it mandatory for listed companies to publish quarterly results, in a new set of rules meant to increase transparency.

Chirume said the introduction of quarterly reports was to protect investors who require information to make effective investment decisions, which naturally would allow prudent resource deployment in capital markets.


How can I grow and protect my money?

The *human capital* challenge

Many organisations are designed around traditional functional responsibilities resulting in poor integration between specialist silos, writes Phillimon Mhlanga.

Rose Nhamo

Zimbabwean companies need to adopt new strategies in human capital management to remain afloat.

Giving a presentation on performance culture and business restructuring at the Institute's Winter School, Rose Nhamo, managing director at Distinctive Consultancy Services, said there is need to ensure that the right leadership is in place in order to drive performance culture.

"Almost half of all executives fail in their positions within the first two years," Nhamo said.

"The reason is not a lack of technical competence or cognitive ability but a lack of emotional intelligence (EQ) competencies. Most executives have inadequate interpersonal skills, lack sensitivity, are unable to handle conflict constructively and demonstrate poor emotional awareness of others."

Nhamo explained that the higher an executive goes in an organisation, the more important EQ becomes.

At the top, she said, some researchers believe that 90-95 percent of success is driven by EQ, as technical work is handled by individuals at lower levels in the organisation whilst 85 percent of financial success is due to human engineering- that is the ability to communicate, negotiate and lead.

She reiterated that the restructuring of organisation should only be driven by the need to achieve strategic objectives as well as understanding of the current culture in the organisation in order to know how to convert it to a performance culture.

Nhamo said many organisations are designed around traditional functional responsibilities resulting in poor integration between specialist silos.

"Organisations that will survive will have to think seriously about organisational design and engineer their business around two key processes, namely: Winning new business and servicing the customer cost effectively."

Nhamo urged the members to rewrite contractual agreements between key stakeholders, employees, shareholders as well as aligning corporate culture with performance management systems as these are critical issues in any organisation.

She said companies also need to take into consideration new and emerging concepts around how psychological and Personality Profiles that can be used to predict performance and the type of personalities that can drive culture change within organisations.

Culture according to Nhamo refers to "the way we do things around here, customary behaviours, the language, symbols and values that permeate in the way we work."

"The dominant culture in organisations depends on the environment in which the company operates, the organisation's objectives, the belief system of the employees and the company's management style,' she says.

Nhamo also shared her views on the need for Organisational Redesign and Restructuring.

She said the two concepts will help organisations in how companies will organise themselves, how they conduct their business, how they develop a performance management framework and how organisations define performance.


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