

AFRICA RISK CONSULTING

Country briefing – Zimbabwe

24 December 2013

1 Summary

National and Zanu PF vice president Joice Mujuru secures the support of nine out of 10 provinces and becomes frontrunner to succeed President Robert Mugabe in the event of his resignation or death. Rival Emmerson Mnangagwa's security services-backed faction secures support of one province. Gideon Gono steps down as Reserve Bank governor. Deputy governors Charity Dhlwayo and Kupukile Mlambo will be in charge until Mugabe makes a permanent appointment. Former British Prime Minister Tony Blair denies claims by former South African president Thabo Mbeki that Blair's government plotted to remove Mugabe by military force in 2000. Revelations that in 2008 Zanu PF gave mining concessions to Russia and China in exchange for arms evoke calls for transparency and review of concessions. Despite the difficult economic environment finance minister Patrick Chinamasa predicts 6.1% economic growth in 2014. The banking sector faces a liquidity crisis and food insecurity deepens. Zimbabwe auctions diamonds in Antwerp following lifting of EU sanctions. Harare faces a potential cholera outbreak this summer.

2.1 Mujuru 'bags' the presidency

Zimbabwe African National Union Patriotic Front (Zanu PF) vice president **Joice Mujuru** looks set to succeed President **Robert Mugabe** (1980 – present) bringing an end to one of Zimbabwe's fundamental political uncertainties. Mujuru's allies won nine of the ten provinces in Zanu PF's provincial elections: **Midlands, Mashonaland Central** and **Manicaland** in early November, and **Harare, Bulawayo, Mashonaland East** and **West, Masvingo**, and **Matabeleland South** on 30 November.¹ Mujuru's rival, **Emmerson Mnangagwa** won only **Matabeleland North**, trouncing the Zanu PF military security faction's leadership aspirations.² Mugabe is expected to step down in the 2014 Zanu PF elective conference. The new constitution empowers Mujuru as vice president to lead Zanu PF into a national presidential election if Mugabe dies or resigns.³

¹ Nehandaradio Online, 2 December 2013

² Nehanda Radio Online, 2 December 2013

³ The Telegraph, 3 December 2013

Mujuru has the liberation leadership credentials necessary to lead Zanu PF but voters also see her as more democratic and conciliatory than Mnangagwa and his more hawkish supporters. She joined Zanu (as it was then known) in 1973 as a teenager and claims to have single-handedly shot down a **Rhodesian Air Force** helicopter during the **Rhodesian War** (1972-1979), killing all aboard.⁴ Mujuru was 25 years old when she was appointed minister of youth, sport and recreation at independence in 1980 and Mugabe appointed her national vice-president in 2004.⁵

Mujuru's late husband **Solomon Mujuru** (*nom de guerre* **Rex Nhongo**) was the former head of the armed forces and a liberation war hero who was critical to her ascent. The armed forces and regional liberation parties held him in high regard. Within Zanu PF and to some extent among the MDC, Solomon was regarded a 'political kingmaker' and his death in a suspicious fire at his home on 16 August 2011 shocked the country.⁶ The family demanded an inquest amid speculation that political rivals had murdered him either on Mugabe's orders or at least with his consent in order to thwart his wife's political ambitions and as a warning to other hopefuls. The inquest's findings were inconclusive.⁷

Solomon Mujuru's business interests from the mid-1990s, especially in Zimbabwe's ill-conceived foray into southern **Democratic Republic of Congo (DRC)**, sullied his stature. The couple separated in the 1980s but their continued joint business dealings were controversial. Their daughter **Nyasha Mujuru del Campo** tried to sell 3.7 tonnes of Congolese gold in January 2009. She exported the metal to **Kenya** and tried to sell it to **European** company **Firststar**. When Firststar requested \$200m in insurance she emailed her father and copied a Firststar director at which point the company withdrew from the deal due to pressure from the **European Union (EU)**.⁸

Mujuru developed a close and conciliatory working relationship with then prime minister and **Movement for Democratic Change-Tsvangirai (MDC-T)** president **Morgan Tsvangirai** during the **Government of National Unity** (2009-2013).⁹ She met secretly with the US Ambassador **Charles Ray** in December 2009.¹⁰ Mujuru remains subject to the US Special Designated Nationals sanctions list but the EU lifted travel and financial restrictions on her in March 2013.¹¹

⁴ 'Who's who - Joice Mujuru profile', Africa Confidential,

⁵ 'Joice Mujuru profile', Africa Confidential; 'Mujuru sworn in as vice president', Irin News, 6 December 2004

⁶ Source: relative and prominent businessman; MDC government minister (2011)

⁷ 'Zimbabwe inquest of Solomon Mujuru achieved nothing', BBC, 16 March 2012

⁸ 'Dirty gold is a family affair', SW Radio, January 2009

⁹ The Telegraph, 3 December 2013

¹⁰ Wikileaks: full text, Charles Ray meeting 16 December 2009

¹¹ 'Mnangagwa, Mujuru off sanctions', DailyNews, 26 March 2013

Her rival Mnangagwa is less popular because of his involvement in the 1982 *Gukurahundi* massacres in Matabeleland and Zimbabwe's ill-fated participation in the DRC war (1998 – 2003). Mujuru commands grassroots support and is more charismatic than Mnangagwa.¹² Like Mujuru, Mnangagwa remains subject to US sanctions but the EU lifted travel and financial restrictions on him in March. Mnangagwa and the securocrats' reaction to Mujuru's de-facto candidacy will be an important test of the party's cohesion after Mugabe's departure.

2.2 Gideon Gono steps down

Gideon Gono ended his ten-year tenure at the helm of the **Reserve Bank of Zimbabwe (RBZ)** on 30 November 2013. Under his stewardship, Zimbabwe's economy reached historic levels of instability and set hyperinflation records that reached a peak of 231m% in 2008. Stability was only restored when companies and individuals refused payment in Zimbabwe dollars forcing the bank to introduce a multicurrency regime in 2009.¹³ Gono plans to represent Zanu PF in an election to fill a vacant senatorial seat in **Buhera district** (Manicaland province).¹⁴

Succeeding **Leonard Tsumba** in 2003, Gono's greatest attribute was Mugabe's confidence in him. Gono was reportedly Mugabe's personal banker.¹⁵ He frequently conducted quasi-fiscal activities that he justified as "*extraordinary measures to tackle extraordinary economic circumstances.*"¹⁶ Gono printed money to finance programmes whose sole objective was to garner political support for Mugabe in the rural areas notably including:

- The **Agricultural Sector Productivity Enhancement Facility (ASPEF)** which gave cheap finance to rural farmers and helped to mobilise significant political support for Mugabe in the rural areas¹⁷
- The **Parastatals and Local Authorities Reorientation Programme (PLARP)**, and
- **Basic Commodities Supply Side Intervention (BACOSI)**¹⁸.

Gono's legacy also includes a US\$1 billion raid of foreign currency accounts of citizens and companies.¹⁹ In 2007 the RBZ "centralised" all foreign currency accounts held at commercial banks claiming this was an attempt to stem inflation and stabilise the economy.²⁰ In reality the RBZ facilitated the looting of private accounts for individuals in and linked to the Zanu PF government.

¹² Daily news, 3 December 2013

¹³ The Herald, 14 November 2013

¹⁴ The Zimbabwe Mail, 9 December 2013

¹⁵ The Telegraph, 28 July 2013

¹⁶ SW Radio Africa, 2 December 2013

¹⁷ Business Day, 29 November 2013

¹⁸ The Standard, 1 December 2013

¹⁹ Business Day, 29 November 2013

²⁰ SW Radio Africa, 2 December 2013

Gono's foreign exchange seizures paralysed local company operations and saw several international firms mothball their local operations. Gold miners were then forced to sell their gold to the RBZ.²¹ The **Zimbabwe Aids Network** charity organisation lost US\$500 000 to the RBZ plunder in 2008 and the case is currently before the high court.²²

Despite his central role in the calamitous implosion of the Zimbabwe economy Gono nevertheless managed to maintain Zimbabwe's membership of the **International Monetary Fund (IMF)**.²³ Another potentially positive achievement included securing US\$13m to cover national fixed telecommunications company **TelOne's** debt to **Belgium's ING Bank**.²⁴

The process to replace Gono may take several months. Finance minister **Patrick Chinamasa** will draft recommendations of candidates and Mugabe will then make the appointment. Potential candidates include

- **John Mangudya**, CEO of **CBZ Holdings**;
- **Nyasha Makuvishe**, former CBZ CEO;
- **Mthuli Ncube**, chief economist of **African Development Bank (AfDB)**;
- **Andrew Bvumbe**, former AfDB executive director and head of debt and aid management with the ministry of finance.²⁵

Deputy governor **Charity Dhlwayo** will be acting governor until February. Dhlwayo has been at the RBZ for 25 years, of which nine have been as deputy governor responsible for bank supervision and surveillance.²⁶ Deputy governor **Kupukile Mlambo** will oversee the next three-month interval until 31 May if Mugabe has not made an appointment by then.²⁷ Mlambo has been with the RBZ since July 2012 after a ten-year term as the policy adviser to the president of the AfDB²⁸.

The interim appointments at the RBZ complicate Zimbabwe's negotiations with the IMF and other creditors. Dhlwayo's first task is to offload the RBZ debt accrued under Gono. The government will assume the bank's \$1.35 billion debt by issuing five year treasury bills at a rate of 5% per annum and recapitalise the bank with \$200m by 31 March 2014.²⁹

2.3 Mbeki claims Blair plotted to invade Zimbabwe

²¹ The Herald, 12 November 2013

²² SW Radio Africa, 4 December 2013

²³ The Standard, 1 December 2013

²⁴ The Standard, 1 December 2013

²⁵ The Zimbabwe Mail, 29 November 2013

²⁶ Zim Eye, 8 November 2013

²⁷ The Zimbabwe Mail, 29 November 2013

²⁸ Zim Eye, 8 November 2013

²⁹ 2014 Budget, Ministry of Finance, 19 December 2013

Former **South African** president **Thabo Mbeki** claims that the former **British** Prime Minister **Tony Blair** plotted to remove Mugabe in 2000.³⁰ In an **Al Jazeera** interview Mbeki said that Blair put pressure on him in early 2000 to take part in planning a military operation. Mbeki refused to cooperate because he felt that leadership changes were Zimbabwe's responsibility.³¹ Former British Chief of Staff **Lord Guthrie** noted in a 2007 interview that the British government considered the option to remove Mugabe by force and corroborated this claim.³² This confirms Mugabe's frequent claims of threats of **Western**-backed regime change efforts. Britain allegedly approached at least three unnamed countries to support the plot.³³ Two rejected outright and one initially considered the request then backtracked after the Zimbabwe government communicated that it was aware of the plot.³⁴

Retired **Zimbabwe National Army (ZNA)** general **Mike Nyambuya** described the invasion plot as 'naïve' because the ZNA was equipped to repel any such attack.³⁵ Other government-aligned commentators applauded Mbeki's stance.³⁶ Former **Namibian** president **Sam Nujoma** commented that any attack on Zimbabwe would be an attack on the **Southern African Development Community (SADC)** and would thus attract a SADC-wide military response.³⁷ Tony Blair denies that such a plot ever took place.³⁸

2.4 Chinamasa's Christmas budget fails to dispel economic gloom

Finance minister **Patrick Chinamasa** delivered his inaugural budget speech based on optimistic growth forecasts amid a bank liquidity crisis, deepening food insecurity, high debt and economic doldrums. The \$4.4 billion 2014 budget assumes real economic growth rising to 6.1% in 2014 from 3.4% in 2013 and 10.6% in 2012.³⁹ The main driver for growth is a recovery in agriculture to a 9.0% increase in 2014 after a 1.3% decline in 2013 and a 7.8% gain in 2012. The mining sector is projected to grow by 11.4% in 2014 from 6.5% in 2013 and 8.0% in 2012. The treasury will raise mining royalties from 10% to 15% in an attempt to grow its revenue base.⁴⁰ The manufacturing sector is forecast to remain in the doldrums with growth of only 3.2% in 2014 from 1.5% in 2013 and 5.3% in 2012.⁴¹

30 Daily Mail Online, 28 November 2013

31 Daily Mail Online, 28 November 2013

32 Daily Mail Online, 28 November 2013

33 The Herald, 4 December 2013

34 The Herald, 4 December 2013

35 The Herald, 27 November 2013

36 The Herald, 27 November 2013

37 The Herald, 4 December 2013

38 The Daily Mail Online, 27 November 2013

39 2014 Budget, Ministry of Finance, 19 December 2013

40 Business Day, 23 December 2013

41 2014 Budget, Ministry of Finance, 19 December 2013

The optimistic forecasts do not tally with the poor state of the economy or the major risks Chinamasa cites: poor rainfall; budget pressure for higher public sector wages; low foreign direct investment due to tepid foreign investor interest particularly over a lack of clarity on key policies such as the **Indigenisation and Economic Empowerment (IEE)** programme; slow progress on implementation of key policies; and a slow recovery in the global economy. Tax revenues in recent months have been below target as economic activity has slowed.

A banking liquidity crisis and low levels of food production evoke memories of pre-2009 economic problems. Angry depositors demanded their money back from transport minister **Obert Mpfu's Allied Bank in Harare** on 16 December and riot police were called in to disperse mobs when the situation got out of hand.⁴² The bank had no cash to dispense to depositors who had been waiting for over a week to withdraw their salaries.⁴³ Banks are limiting withdrawals to between \$200 and \$1,000 per person per day. To address the liquidity crunch, Chinamasa has proposed to introduce a US\$100 million interbank programme supported by the **African Export-Import Bank** as a guarantor with effect from 1 April 2014.⁴⁴ The banking sector's average non-performing loans to total loans ratio increased from 1.8% as at 31 December 2009, to 14.51% at the end of June 2013 and 15.64% at 30 September 2013.

Drought, high food prices and a lack of funds to purchase agricultural inputs have resulted in a 32% increase in the number of food insecure people in Zimbabwe.⁴⁵ According to a recent **Vulnerability Assessment Committee** survey, 2.2 million Zimbabweans, or a quarter of the rural population, will need food assistance between January and March next year. The **International Federation of Red Cross and Red Crescent Societies (IFRC)** will work with local staff and volunteers at the **Zimbabwe Red Cross Society** to assist 10,500 food insecure people in the southern **Gwanda** district in **Matebeleland South** Province.⁴⁶ Gwanda is one of the worst affected areas in the country.

A dip in Zimbabwe's consumer inflation rate in November provided one bright light in an otherwise gloomy economic picture. Zimstats said on 16 December that year-on-year inflation dipped to 0.54% in November from 0.59% y/y in October and 2.98% y/y in February.

⁴² 'Angry depositors storm Allied Bank in Harare', SW Radio 16 December 2013

⁴³ *ibid*

⁴⁴ Businessweek, 20 December 2013

⁴⁵ 2.2 Million Zimbabweans Expected to Need Food Assistance, IFRC, 17 December 2013

⁴⁶ *ibid*

2.5 Diamond revenues and mining concessions should boost government coffers

Zimbabwe could reduce its fiscal deficit and \$6.1 billion external debt⁴⁷ by returning the proceeds of diamond sales to the state treasury. The state-run **Zimbabwe Mining Development Corporation (ZMDC)** held its first ever auction of 300 000 carats of diamonds in **Antwerp, Belgium** on 11 December, three months after the EU lifted sanctions on the corporation. The auction raised \$10.7m of which \$1.6m will accrue to the Zimbabwean government.⁴⁸ The ZMDC operates seven joint-venture mines in the **Marange** diamond fields.⁴⁹ Last year it produced eight million carats and generated \$685 million in exports, but most of this revenue was not remitted to the treasury and remains unaccounted for. Zimbabwe is expected to produce 16.9m carats in 2013 as companies like the **Chinese-Zimbabwean** owned **Anjin Investments** moves from alluvial mining to underground operations.⁵⁰ Belgium, the global diamond trade centre, predicts that lifting EU sanctions will increase Zimbabwe's annual tax revenue by \$400m.

Civil society group **Centre for Natural Resource Governance** has called for a review of mining concessions negotiated over the past decade as "arms for mining concessions" deals come to light.⁵¹ Beginning in 2008, and throughout the duration of the **Government of National Unity** (2009-2013), Zanu PF brokered deals that gave mining concession to **Russian** and Chinese companies in exchange for arms.⁵² Mnangagwa and former ambassador to China, **Chris Mutsvangwa** led the negotiations.⁵³ ZMDC and **China North Industries (Norinco)** made the deals⁵⁴ bypassing the then MDC finance minister Tendai Biti who refused to sanction the deals.⁵⁵ Mpofu was mines minister under the GNU and was pivotal in awarding the Marange licences, managing the 'off the books' diamond sales and remittances that bypassed Biti's treasury. Together with Gono, Mnangagwa and Mpofu were critical to sustaining the Zanu PF regime and the president's inner coterie.

Minerals most targeted included copper, lead, zinc, gold and silver while arms exchanged ranged from small arms to anti-riot equipment, which Norinco manufactures.⁵⁶ A shipment of arms turned away at **Durban** in 2008 was from Norinco.⁵⁷ ZMDC also has a joint venture with Russian firm **CBC** to mine chrome and platinum in exchange for helicopter gunships.⁵⁸ **Chinese Defence Industries** own 60% of

47 New Zimbabwe, 23 December 2013

48 Business Day, 23 December 2013

49 Reuters, 10 December 2013

50 'Zimbabwe diamond miner Anjin to fire 190 workers as prices slump', Bloomberg, 11 December 2013

51 SW Radio Africa, 5 December 2013

52 Africa Confidential, 4 December 2013

53 Africa Confidential, 4 December 2013

54 Nehanda Radio Online, 5 December 2013

55 Africa Confidential, 4 December 2013

56 Nehanda Radio Online, 5 December 2013

57 Africa Confidential, 4 December 2013

58 Africa Confidential, 4 December 2013



Anjin diamond mining company at Marange diamond fields. The company does not remit taxes or profits to the government; instead, the government gets arms.⁵⁹ However, it appears that in haste and desperation Zimbabwe undervalued its mineral assets, “*mortgaging national resources for individual benefit*”.⁶⁰

2.6 Cholera warning

The international non-governmental organisation **Human Rights Watch** is warning that Zimbabwe faces a cholera outbreak in Harare.⁶¹ In 2008 an estimated 4 000 people died in a severe cholera outbreak. The capital city’s water and sewage infrastructure is outdated and has not been maintained as the population has grown from 600 000 in the mid-1980s to 4m now.⁶² In the past year 3 000 cases of typhoid were recorded in the city but healthcare practitioners believe the real number to be much higher.⁶³

3 Implications

Barring any dramatic events, Mujuru appears to have won the internal Zanu PF battle to succeed Mugabe. This victory is significant as it marks the ascendancy of the pragmatic Mujuru faction at the expense of the securocrat-backed Mnangagwa. Mujuru has engaged in talks with the opposition and the international community about steps to restore the economy and re-integrate Zimbabwe fully into the international community. Mnangagwa’s poor showing in internal Zanu PF elections increases the likelihood of non-violent succession. The security faction has not reacted publicly to the provincial election results but they have extensive commercial interests at stake and may yet seek to assume control on Mugabe’s death or resignation.

Gono leaves the RBZ without a clear successor in a time of deep economic malaise. Zanu PF is expected to appoint a competent yet loyal candidate given the precedent set by Gono. The delay in appointing a governor will slow Zimbabwe’s negotiations with international creditors.

The poor economic conditions and bleak prospects for 2014 create renewed uncertainty about the government’s ability to manage the economy. The limited amount of cash available to consumers

⁵⁹ Africa Confidential, 4 December 2013

⁶⁰ SW Radio Africa, 5 December 2013

⁶¹ “Troubled Water: Burst Pipes, Contaminated Wells, and Open Defecation in Zimbabwe’s Capital”, HRW, November 2013

⁶² ‘Harare at risk of cholera outbreak’, M&G, 22 November 2013

⁶³ ‘Conditions ripe for cholera outbreak in Zimbabwe’, IRIN News, 26 November 2013

already familiar with the hardships of the hyperinflationary era has led to a fresh run on the banks. The government's forecast of 6% growth in 2014 from 3.4% this year is unlikely to materialise as banks are unable to provide the liquidity to oil the wheels of commerce. The government has limited options to kick-start domestic economic activity and attract foreign investment. The non-farming sector faces an uncertain future as the government prepares to enforce the indigenisation policy from 1 January 2014.

If the ZMDC remits revenue from the Antwerp auction to the national fiscus, it will signal that Chinamasa has gained control over the treasury and Zanu PF. It would be an important step to rebuilding Zimbabwe's battered balance sheet. The "mines for arms exchange policy" appears to have ended but its legacy will undermine economic growth efforts as revenue is diverted instead of being ploughed back into the economy. Zanu PF's demand for arms may reflect fears of military removal of Zanu PF. Regardless of the validity of Mbeki's claim that Blair sought to remove Mugabe militarily it will strengthen Mugabe's stature in the region and burnish his image as an anti-imperialist figure to some extent.

The cholera warning is another symptom of years of under-investment in basic infrastructure. Any resulting deaths are unlikely to have any political resonance.