

## AFRICA RISK CONSULTING

### Zimbabwe Monthly Briefing November 2014

---

#### Zimbabwe Summary 29 November 2014

*President Robert Mugabe (1980-present) has asserted control over the ruling Zimbabwe African National Union Patriotic Front (Zanu-PF) factions. The party's December congress promises to be its usual stage-managed affair. While it appears that vice-president Joyce Mujuru's faction has lost ground in the run-up to the congress, in reality Zanu-PF remains deeply divided. Desperate to kick-start its moribund economy, Zimbabwe has embarked on an investment promotion drive, initially targeting South Africa, its largest trading partner in sub-Saharan Africa. The government despatches three senior ministers and the central bank governor to pitch Zimbabwe's case to investors in Johannesburg, but without any concrete pledges to attract investment. Investors acknowledge Zimbabwe's potential, but are wary about both political and economic stability, as well as lack of policy clarity and consistency.*

---

#### Factional fights continue...

President **Robert Mugabe** (1980 - present) enters his party's December congress with a tighter grip on power after purging the **Zimbabwe African National Union Patriotic Front (Zanu-PF)** ranks of potential rivals and amending the party's constitution to keep them at bay. However, the factional fights that have divided his party are unlikely to end at the congress. Vice-president **Joice Mujuru's** previously-ascendant faction has had its wings clipped after a campaign that began with the elevation of First Lady **Grace Mugabe** to the post of head of the party's influential **Women's League**. The rival faction to Mujuru, led by justice minister **Emmerson Mnangagwa** (and which allied with Grace Mugabe) now controls most of the party's arms, but it remains to be seen how long that control lasts.

After weeks of pressure on Mujuru, the telling blow ahead of the congress came when Mujuru and her allies were either barred from contesting for a seat on the Zanu-PF **Central Committee** or were defeated in internal elections to sit on the committee.<sup>1</sup> The Central Committee implements the policies set at congress. The strategic value of a seat on the committee lies in access to the top council, the **Politburo**. Mugabe picks the Politburo from the Central Committee. No longer having any seats on the Central Committee has severely weakened Mujuru and her allies.

Zimbabwe's state-run media – essentially a Mugabe mouthpiece – have accused Mujuru of being overambitious and plotting to overthrow or even assassinate Mugabe. Mujuru has denied this vehemently and threatened legal action.

*"The [alleged] plot entailed creating a competing centre of power with the vice-president as de facto leader of the party and government; recruiting MPs to push for a vote of no confidence in the president; and then ultimately humiliating President Mugabe at the party's Congress in December."<sup>2</sup>*

Apart from clearing out the Mujuru faction, Mugabe has pushed through amendments to the Zanu-PF constitution to allow him to elect his deputies. Previously, a candidate became vice-president after being nominated by the majority of the party's ten provinces. Mujuru's allies had dominated the

---

<sup>1</sup> The Herald, 26 Nov 2014.

<sup>2</sup> Sunday Mail, 23 Nov 2014.

provinces, putting her in a good position not only to retain her post, but also possibly to challenge Mugabe himself.

While the amendments to the Zanu-PF constitution damaged Mujuru, they will not entirely resolve the uncertainty around Mugabe's succession. Mugabe has previously refused to name a successor, but his own new amendments to allow him to appoint a deputy may force him to finally show his preference. In the past he has not wanted to do this, knowing that whatever choice he makes will anger some of the competing interests in his party.<sup>3</sup>

According to a clause in Zimbabwe's constitution, should the president die in office or leave office, his party would have to elect a successor. This means that Mugabe's new deputy may not be guaranteed to lead the party post-Mugabe and that internal strife will continue even after the congress.

*"While the December Congress will give some direction on who is favoured to succeed Mugabe, that on its own will not be the end of the matter, and those who are 'dead' as of now, might find some room for resurrection, although that would be a remote possibility. Still, the point is that whomever is appointed VP after Congress will not be guaranteed [to succeed] Mugabe."*<sup>4</sup>

The purge of Mujuru and her allies itself will not cause a splinter in Zanu-PF, as Mugabe may still need to keep Mujuru in some leadership position, if only to avoid the risk of her defecting or openly opposing him (both unlikely scenarios).<sup>5</sup> Breakaways are rare in Zanu-PF, a party bound together by liberation sentiment and Mugabe's patronage system.

*"At most, those who are being purged will not leave Zanu-PF. They will stay in Zanu-PF and get their turn eventually; it's going to be a reversal of fortunes."*<sup>6</sup>

The Zanu-PF infighting has deepened pessimism in Zimbabwe on the economy, as the party's attention (some would argue obsession) on its own internal politics continues to drive an economic policy that offers no solutions to the country's ongoing economic crisis. In an editorial, the official **Herald** newspaper said it hoped that, after the congress, the government would focus on ending the economic crisis.<sup>7</sup>

### **...as Chinamasa presents an uninspiring budget**

Zimbabwe remains unable (or unwilling) to meet the demands of foreign aid donors or international financial institutions for the resumption of aid and investment, and will have to continue looking to domestic taxation to fund operations. The **International Monetary Fund (IMF)** has insisted on deep cuts to Zimbabwe's public sector wage bill and moderate revisions to the country's controversial indigenisation (black empowerment) policies as conditions for the resumption of loans and agreement to debt relief.<sup>8</sup> Reducing the wage bill would (in practice) require the government to lay off many of its 200,000 workers, who form Zimbabwe's largest workforce. This presents a political risk that the government is reluctant to take.

*"Laying off its own workers, especially in an economy that is already bleeding jobs, will only raise public anger against the government. So, instead of laying off workers, what we have seen instead is the government increasing salaries to appease restive workers this year. This is the exact opposite of what lenders want to see. The result is the government will only [be able to draw on domestic taxation] as its source of revenue. This [represents] a huge risk for companies [already in the markets, especially larger ones, who may [find themselves] targeted."*<sup>9</sup>

<sup>3</sup> Political analyst and constitutional law expert, Alex Magaisa, 24 Nov 2014.

<sup>4</sup> Political analyst and constitutional law expert, Alex Magaisa, 24 Nov 2014.

<sup>5</sup> Political analyst Tapiwa Mugaga, 23 Nov 2014.

<sup>6</sup> Political analyst Takura Zhangazha, 25 Nov 2014.

<sup>7</sup> Herald Editorial, 17 Nov 2014.

<sup>8</sup> IMF Staff Monitored Programme Report, 21 Nov 2014.

<sup>9</sup> Economic analyst Richard McCawley, 26 Nov 2014.

In his 2015 budget statement, finance minister **Patrick Chinamasa** said that the government was reluctant to lay off state workers. While he said the government would “clarify indigenisation laws”, foreign investors and lenders will remain sceptical until the detail has been published and they have watched implementation in practice. Chinamasa claimed that the government had made progress in mending relations with the **European Union (EU)** and lenders such as the IMF. He added that Zimbabwe would continue to seek debt relief on the \$8.4 billion it owes foreign lenders, including the IMF and the **World Bank**, by the end of 2015.<sup>10</sup>

So long as the Zimbabwean state fails to cut back on its expenditure, significant foreign aid will remain elusive. Recurrent expenditure will continue to dominate state spending in the 2015 fiscal year, representing 92% of all spending.<sup>11</sup> Of this, 81% goes directly to state workers’ wages.<sup>12</sup> Chinamasa has admitted that government is failing to cut back on wages and that this will damage its hopes of accessing foreign credit or getting debt relief.

Chinamasa presented a \$4.1 billion budget for 2015, largely unchanged from the 2014 budget. His statement offered no new ideas on raising industrial output or increasing state revenue. Currently the Zimbabwean state gets 92% of its revenue from taxes. Chinamasa conceded that growth would remain sluggish in 2015, at 3.2% compared with an estimated 3.1% in 2014 (official Zimbabwean government estimates have proven unreliable in the past). None of the proposals he made in his statement was seen by economic analysts as likely to spur any real growth.

*“He is just going through the formality of presenting a budget. There is nothing in the statement that is based on hard facts. The economy is shrinking and there is no indication in the budget to reflect that. There is a meltdown coming.”<sup>13</sup>*

Chinamasa said the 51% shareholding threshold under the government’s indigenisation policy – which obliges foreign investors in strategic sectors and white Zimbabweans to surrender 51% of their firms – could be negotiated on a case-by-case basis through line ministries. He added that the 51% local ownership requirement was an “*aspiration and not cast in stone*”.<sup>14</sup> However, investors continue to see the law as a threat to investment, due to the government’s record of not keeping its promises and being inconsistent on policy. The government does not want to appear to its supporters as retreating from the indigenisation policy, which was the centrepiece of President Mugabe’s 2013 re-election campaign (and believed to be a pet project of Mugabe). The government will therefore have to continue to rely on internal sources for income, which may mean that large corporations will be squeezed for cash, further worsening investor sentiment.<sup>15</sup>

### **...and Zimbabwe embarks on an investment drive to kick-start economic revival**

Amid the worsening economic crisis, the Zimbabwean government has embarked on what it calls a ‘charm offensive’ to market the country to investors sceptical about the government’s commitment to policy consistency and economic reforms. Pitching Zimbabwe as an investment destination that was “*open for business and not a basket case*”,<sup>16</sup> the government made its first approach in years to investors in **South Africa**, Zimbabwe’s largest trading partner in the region. The South African government is currently encouraging local companies to diversify and expand into Africa.

High-profile South African investors are already prominent in Zimbabwe, including insurer **Old Mutual**, banking groups **Nedbank** and **Standard Bank**, and platinum miner **Anglo Platinum**. South

<sup>10</sup> Patrick Chinamasa, 2015 Budget Statement, 27 Nov 2014.

<sup>11</sup> Patrick Chinamasa, 2015 Budget Statement, 27 Nov 2014.

<sup>12</sup> Patrick Chinamasa, 2015 Budget Statement, 27 Nov 2014.

<sup>13</sup> Former finance minister and opposition leader, Tendai Biti, 27 Nov 2014.

<sup>14</sup> Patrick Chinamasa, 2015 Budget Statement, 27 Nov 2014.

<sup>15</sup> Source, economic analyst, Harare

<sup>16</sup> Finance minister Patrick Chinamasa, 21 Nov 2014.

Africa's second largest retail chain by customer numbers, **Pick 'n Pay**, has three stores in **Harare** and is reportedly planning more in other parts of the country.

The investment pitch, made on 21 November, is being seen as part of Zimbabwe's attempt to re-engage with international institutions, in a bid to deal with a spiraling unemployment crisis estimated to have reached 90%, and rising poverty levels. Recently, the **Confederation of Zimbabwe Industries (CZI)**, which represents the country's industrial companies, again warned that de-industrialisation had reached crisis levels, and urgent action was needed to provide affordable credit to companies to re-equip and re-tool their factories.

Making his pitch in Johannesburg, Chinamasa was quoted as saying that Zimbabwe was desperate for investment in infrastructure (roads, power) and mining, and that South Africa had a "*moral and business obligation*" to invest in Zimbabwe.<sup>17</sup> Investors still seem reluctant to open their cheque books until they have some reassurance about the government's commitment to policy consistency and economic reforms. Chinamasa told the conference, and repeated the same message in radio interviews in South Africa, that the indigenisation policy had been a source of concern among investors, but claimed the government would clarify how the policy would be applied to each sector. But it is clear that in mining, the government would require 'local Zimbabweans' to take up the majority stake of up to 51% in any mining venture,

*"...because we own the resources. The reality is we are now politically stable. The perception that we don't respect private property is not true. The land issue [a reference to controversial land seizures a decade ago] has been addressed."*<sup>18</sup>

Zimbabwe's trade and industry minister, **Mike Bimha**, a former business executive, said Zimbabwe would soon sign a bilateral industrial and trade pact with South Africa, and use the framework to implement joint-venture projects between companies from the two countries. He did not say when the agreement would be signed or which companies might be involved.

Zimbabwe has an ageing rail, road and power infrastructure. **Reserve Bank of Zimbabwe (RBZ)** governor **John Mangudya** admitted that this was hampering efforts by existing investors to grow their businesses. **Chinese** investors have notionally agreed to provide loans to expand power generation capacity at **Kariba South Power Station** and the largest thermal power station, **Hwange Power Station**, but progress is slow.

Mangudya claimed that the RBZ was stabilising the banking sector by creating a new unit that would buy non-performing loans of retail banks. This, he added, would allow them to focus on strengthening their balance sheets based on revised capital requirements that were announced in August. He said he did not anticipate bank failures, saying the central bank was satisfied with measures being taken by at least three troubled small banks to recapitalise. Investors and commentators in South Africa are being open-minded in public; in private they are more negative about the prospects of investing in Zimbabwe.

*"While Mr Chinamasa may be correct in asserting that the lack of infrastructure presents an opportunity for investors, they [investors] will stay away as long as the economic and political fundamentals continue to deteriorate."*<sup>19</sup>

A South Africa-based mining executive sums up the paradox that is Zimbabwe:

*"Zimbabwe ... frightens and excites us; [it] frightens because of the [negative perception of the] country and political risk, because we don't trust the Zanu-PF government. On the other hand, it is an exciting place, has all the ingredients for a successful venture when you consider an educated but not skilled workforce, natural resources and a fairly stable infrastructure that only needs to be modernised."*

<sup>17</sup> Finance minister Patrick Chinamasa, 21 Nov 2014.

<sup>18</sup> Finance minister Patrick Chinamasa, 21 Nov 2014.

<sup>19</sup> Business Day South Africa, 26 Nov 2014.

## Implications

Mugabe has once again proved to be a wily, tactical political operator who has re-asserted his grip on both his party and the country. Whether the recent upheaval in the ruling party, and the ousting of powerful party members, will bring stability to the ruling party remains to be seen. Experience from the past record suggests it won't.

Chinamasa's budget statement – and Zanu-PF policy more broadly – offers no new ideas for tackling the strategic problems facing the country, such as a crumbling infrastructure and a de-industrialising economic base. The party's obsession with ideological projects like 'indigenisation' is making things even worse. The party's desperate attempt to woo South African investors (having largely failed to woo anyone else) has at its heart a contradiction – that Zimbabwe is entitled to foreign investors' money and aid on its own terms. Investors are wary about spending money on projects without guarantees of property rights, and safe remittance of profits and dividends.

The paradox is that, in order to tackle the unemployment crisis at home and revive economic growth, Zimbabwe needs the same investors it continues to deter with its indigenisation policy. Experience suggests that Mugabe – who sees 'indigenisation' as the solution to the economic crisis and not the problem – will not let go of it, whatever investors and the economic evidence and data say. It is clear that many senior Zanu-PF officials think differently to Mugabe on indigenisation, but have just witnessed what happens to those – like Mujuru – who appear to challenge his authority.