

AFRICA RISK CONSULTING

Zimbabwe Monthly Briefing December 2014

Zimbabwe Summary 18 December 2014

Internal strife in the ruling Zimbabwe African National Union Patriotic Front (Zanu-PF) continues despite Emmerson Mnangagwa's appointment as vice-president and the victory of his faction over its main rival led by former vice-president Joice Mujuru. Zanu-PF begins purging Mujuru loyalists from the party and the civil service, a process likely to take time as Mnangagwa's group tries to gain a hold on the party. President Robert Mugabe's (1980-present) nationalist economic policies continue unchanged for now. A mini-cabinet reshuffle leaves key ministries unchanged. The notable (negative) exception is the dismissal of the minister in charge of the empowerment portfolio, Francis Nhema, a reported pragmatist on 'indigenisation' policy. Zimbabwe introduces new "bonded" coins to ease a chronic shortage of lower denominated currency that began with the disappearance of the Zimbabwe dollar and the introduction of a multi-currency system more than five years ago.

Mnangagwa's appointment unlikely to see softening of policies...

President **Robert Mugabe** (1980-present) appointed **Emmerson Mnangagwa** as one of the two state vice-presidents and his heir-apparent at the ruling **Zimbabwe African National Union Patriotic Front (Zanu-PF)** congress in December. The apparent victory of his faction over that of his main rival, **Joice Mujuru**, is unlikely to result in any immediate softening of Mugabe's nationalist economic policies.

At the congress, Mugabe's wife, **Grace Mugabe**, was – as expected – appointed head of the party's influential women's league. The other vice-president was named as **Phelekezela Mphoko**, a 74-year-old former veteran of the **Rhodesian Bush War** of the 1960s and 1970s. Mugabe swore in both his deputies on 12 December. On his instructions, Zanu-PF has begun purging Mujuru loyalists from the party and the civil service, a process likely to continue as Mnangagwa's group tries to build and consolidate a hold on the party, including at provincial and local levels.

Mujuru was viewed as the more moderate of the two rivals vying to succeed Mugabe. Mnangagwa, who has close links to Zimbabwe's senior generals and its intelligence services, has long been viewed as a "hardliner"¹ and "securocrat". He is widely reviled in **Matabeleland** for his role in suppressing opposition there in the 1980s, which resulted in the reported deaths of several tens of thousands of people. He has also struggled to build a political constituency of his own beyond the security forces, or allies within Zanu-PF from other regions. He could not even win a parliamentary seat in his home region of the **Midlands** a decade or so ago.

Observers note that, while Mnangagwa will avoid any public deviation from Mugabe's policies, he will, at some point, have to take a more pragmatic approach if he wants any hope of inheriting a functioning economy or party. **Eddie Cross**, secretary for economic affairs in the opposition **Movement for Democratic Change (MDC)**, says a future Mnangagwa would also be less tolerant regarding corruption than a Mujuru leadership would have been.

"He understands business and, [unlike Mujuru], did not take advantage of the "land reform programme" to [steal] land – he has bought his farms. His [personal wealth] is not founded on

¹ Daily News, 7 December, 2014

*corruption but on gold buying and trading. The talk is that he would remove [both] Mujuru loyalists and corrupt elements, install technocrats and then try to get the economy growing rapidly with broad based economic reforms. [Finance minister **Patrick**] **Chinamasa**] is in his corner and, if you listen to him speak on what is needed, you get the impression that they know exactly what is needed to turn the economy around.”²*

Mnangagwa also played a key role in the negotiations that led to the formation of the **Government of National Unity** in Zimbabwe between 2009 and 2013.

“There is a history of pragmatism, both in negotiation and in practice.”³

Mnangagwa has said Zanu-PF will target urban voters by delivering on promises of economic turnaround. Urban voters in Zimbabwe have predominantly voted for the MDC in recent elections. Given his past record of suppressing opponents, such language may instill a degree of fear in urban communities.

“We believe we need to dialogue with urban Zimbabweans, we need to share our vision about the future with them... We are going to do some concentration and some focus in the urban areas.”⁴

Although Mugabe appears to have finally picked a successor, there are fears that reprisals within the party may cause instability, which will continue to overshadow the implementation of economic policies. Zanu-PF’s new political commissar (the party’s senior organiser) is Mnangagwa ally **Saviour Kasukuwere**. He announced on 15 December that there would be a process of “*cleansing and strengthening the [party’s] structures*”.⁵ This process could well lead to conflict between Mnangagwa loyalists and remnants of the Mujuru faction at provincial and local levels, especially in parts of **Mashonaland** and **Manicaland**, where they have (until now) been dominant. The clear-out of Mujuru loyalists may also target senior civil servants with links to her which could undermine what little effective policymaking and service delivery functions the Zimbabwean public sector still carries out.

“Indications are that the cleansing will not end here, [but will] be extended to the state bureaucracy itself, the defence and security forces.”⁶

... as cabinet reshuffle sees economic policies remain unchanged ...

A mini cabinet reshuffle on 11 December is expected to leave Zimbabwe’s economic policies unchanged. A notable exception is Mugabe’s dismissal of **Francis Nhema**, the minister in charge of the empowerment portfolio. The decision to ditch Nhema as youth, indigenisation and economic empowerment minister was no surprise. He was aligned to Joice Mujuru’s faction and has lost his job as part of an ongoing purge of Mujuru loyalists. But Nhema had also been seen by investors and business leaders as pragmatic and sympathetic to their needs; he had been holding meetings with them to understand their concerns about the empowerment policy, and its (negative) effect on investor confidence in a country with an unemployment rate of over 90%.

“I am really disappointed because Nhema was like a breath of fresh air. He was a good listener, had a good idea of how we can move the country forward and we thought we were getting some sense at last until this.”⁷

Mugabe replaced Nhema with one of his close associates, **Chris Mushowe**, a Mnangagwa ally. Barely hours after being appointed, Mushowe fired his first salvo, saying Zimbabwe would not beg for investment, a remark seen by some observers as unfortunate given the already-low levels of foreign direct investment in the country.

² Eddie Cross, 12 Dec 2014.

³ Source, political science lecturer at the University of Zimbabwe

⁴ Mnangagwa, ZBCTV interview, Dec 13 2014.

⁵ Kasukuwere, Zimbabwe Mail, 15 Dec 2014.

⁶ Ibbo Mandaza, political analyst, 12 December 2014

⁷ Source, bank executive, 12 Dec 2014

“The investors should not look at us as beggars, they should not expect us to give in to their demands. Those who want to come and invest in Zimbabwe must [do so] under the laws of Zimbabwe and surely they will get more than the value of their investment.”⁸

Despite this public show of bravado, Mugabe’s government is grappling with an ongoing economic crisis, characterised by chronic unemployment, company closures and weak consumer demand due to lack of liquidity and economic activity. Some analysts have opined that Mugabe’s decision to keep finance minister Patrick Chinamasa and industry and trade minister **Mike Bimha** was meant to reassure sceptical investors that there will not be a policy change, even though (in fact) policy change is what investors are actually looking for. Mugabe maintains Zanu-PF will not back down on plans to ensure foreign investors give up 51% of shares in local firms.

Bimha says he wants to improve the country’s competitiveness, including reforming a host of laws that are frustrating companies attempting to do business in Zimbabwe. This follows a report on 29 October by the **World Bank** which showed that Zimbabwe had slipped two places – to 171 out of 189 countries - in the bank’s latest **“Ease of Doing Business”** report.⁹ Chinamasa has sought to clarify the policy in public, insisting that the government has abandoned its one-size-fits-all approach to indigenisation, and will instead apply the policy on a sector-by-sector basis. In mining, however, the government insists foreign investors will have to give up majority stakes in any venture.

Chinamasa has been engaging with multilateral organisations such as the World Bank and the **International Monetary Fund (IMF)** in an attempt to increase credits and economic liquidity, and thereby kick-start some kind of economic recovery. His major stated aim is an agreement with the IMF to write off Zimbabwe’s arrears or reschedule debt repayments. The World Bank says it is keen to work with Zimbabwe to restore economic growth. On 17 December 2014, it announced plans to raise \$100 million to help the country fund economic reforms, the first such initiative in 15 years. Western governments have already reportedly pledged \$44 million towards the so-called **Zimbabwe Reconstruction Fund**, with the \$100 million target expected to be met in 2015.¹⁰ Chinamasa said priority would be to use the funds to reform loss-making state enterprises that continue to drain the fiscus and plans to carry out due diligence audits on 15 of the 91 state-owned enterprises and parastatals as a first step. Chinamasa also wants to carry out an audit of the public sector wage bill, which currently swallows up more than 80% of the government’s annual spending.

... and Reserve Bank issues bond coins

The **Reserve Bank of Zimbabwe (RBZ)** has introduced new “bonded” coins to ease a chronic shortage of lower denominated currency ever since the collapse and disappearance of the Zimbabwe dollar and the introduction of a multi-currency system over five years ago. The coins, worth \$10 million at face value, began circulating on 18 December amid reports that the government may also import **South African** rand and cent coins worth \$3 million. Although retailers and consumers alike both welcomed the introduction of the coins, there are fears that the government may be planning to re-introduce the Zimbabwe dollar. But Reserve Bank governor **John Mangudya** said that re-introducing the Zimbabwe dollar would amount to *“economic suicide”*.

“There are no fundamentals to bring back the local currency. We have no appetite to do so, and we can’t be careless to do so and we won’t do that.”¹¹

The RBZ began distributing bond coins through banks in denominations of 1c, 5c, 10c and 25c on 18 December, with a 50c coin to follow later. The coins’ values are on a par with **United States (US)** cents. Mangudya said the government had secured a five-year \$50m bond to underwrite the coins. The introduction of the coins follows the example of **Ecuador** and **East Timor** when they dollarised

⁸ Chris Mushohwe speaking to reporters in Harare, 12 Dec 2014.

⁹ www.doingbusiness.org

¹⁰ Khundavi Kadiresani, World Bank representative for Zimbabwe, Malawi and Zambia speaking in Harare, 17 December 2014

¹¹ John Mangudya, quoted by The Source, 10 Dec 2014

their economies and subsequently introduced coins that were on par value with the US currency. Mangudya admitted, however, that other currencies that Zimbabwe had allowed to be used as legal tender, such as the **Chinese Yuan**, the **Indian Rupee** and the **Japanese Yen** were not popular.

“We were looking at where Zimbabwe was exporting and importing its goods. We thought naturally that the consumers and business would prefer to deal in those currencies but alas, the demand [for] those currencies has been low.”¹²

Implications

The appointment of Mnangagwa as vice-president puts him in a preferred position to succeed Mugabe in the event of his stepping down or dying in office. His appointment is being seen within Zanu-PF as a new chapter in the history of the party, not least because of the precipitous way in which he rose to the second most powerful political post in the country. All but down-and-out two months ago against an apparently unassailable Mujuru, Mnangagwa now holds the power to place his allies into most of the key government and civil service posts. But this is top-down authority. The way Mugabe manufactured Mnangagwa’s appointment – and that of his wife as head of the women’s league – has ended (once and for all) any pretence that Zanu-PF operates through credible internal democratic systems. Zanu-PF is now, more than ever, the Mugabe party, and when he dies or leaves office, it may struggle to survive in its current form under someone like Mnangagwa.

It would also be a mistake to write Mujuru off. She retains extensive influence in the Zanu-PF rank-and-file, and in key provinces. Mnangagwa will find it difficult to win support, hearts and minds in Matabeleland, for example. In addition, Mujuru has strong influence and backers in the business and financial communities. Under Mnangagwa, Zanu-PF could struggle to maintain an effective local organising or campaigning capability without Mujuru and her allies. Mujuru herself is unlikely – for now – to quit Zanu-PF and set up a new party or go into formal alliance with elements of the MDC. Her most likely response is to lick her wounds and seek to retain (and rebuild) her influence.

Some investors and foreign donors may be tempted to see Mnangagwa’s elevation as a sign there could be a smooth transition in the post Mugabe era. True, Mnangagwa is not only a capable tactician (like Mugabe) but has shown pragmatism in his later career in dealing with opponents. But, the proof of the pudding will be in the eating. Mnangagwa will not change controversial policies like indigenisation and risk Mugabe’s wrath. The government therefore has little room for manoeuvre, and will pin its hopes on gaining new lines of credit from multilateral donors and its resumed dialogue with western governments, among them former colonial power **Britain, Sweden and Norway**.

The **European Union** has already scrapped targeted sanctions against all senior politicians in the ruling party, except Mugabe and his wife, and even these may be removed in 2015. Full resumption of development aid will take longer. Zimbabwe has long been a major recipient of western aid for its collapsed healthcare and other services, even during the height of the targeted sanctions. Increasing investment and trade flows, economic activity and (in turn) employment, depends entirely on having the right macro-economic structures – and micro-economic incentives – in place to attract investors. At present, official policy, e.g. on indigenisation, does the opposite, and acts as a huge disincentive.

The decision to introduce special coins to ease the liquidity crunch should help the retail sector and urban consumers, but economists and business groups say that Zimbabwe’s problems are much deeper than government is admitting. Capacity utilisation in the key manufacturing sector is now below 30% (a continuing de-industrialising trend), companies continue to shut down or retrench and banks continue to struggle to meet cash demands from customers. And there is no sign of much-needed investment in key infrastructure, such as roads and power, or the government trimming its spending on non-essential areas.

¹² John Mangudya, quoted by The Source, 10 Dec 2014