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The government needs foreign donor aid to kick-start economic growth and create jobs as the economic climate worsens. The International Monetary Fund (IMF) asks the Zimbabwe African National Union-Patriotic Front (Zanu-PF) government for a plan to clear debt arrears before aid resumes. Western donors echo this stance. At the same time, investors fear the government will not respect the rule of the law or property rights. Zanu-PF is set to face its first test since winning general elections in July 2013 as the party prepares to contest by-elections in at least 14 constituencies. An opposition splinter group threat to boycott the elections may mean the by-election is a non-event.

IMF tells Zanu-PF government to produce credible payment plan of debt owed

The **Zimbabwe African National Union-Patriotic Front (Zanu-PF**) government is unable to manage its external debt, deepening the country's economic crisis and undermining fledgling investor confidence built under the former **Government of National Unity (GNU)** (2009-2013). An **International Monetary Fund (IMF)** mission concluded a review of its staff monitored programme (SMP) for Zimbabwe on 9 March in response to the government's request that multilateral creditors cancel all or part of the country's multilateral debt. The IMF mission, led by **Domenico Fanizza,** visited **Harare** from 25 February to 9 March to conduct the first review under the 15-month SMP approved by IMF management in November 2014.[1] The IMF noted the government's efforts to discuss repayments to it and the **World Bank**, and also to develop a plan of how the debt could be rescheduled under the umbrella of the **Paris Club of Creditor Nations**. The IMF acknowledged that the government had made progress in implementing the SMP, meeting all quantitative targets and structural benchmarks for the first review, but asked the government to provide a plan to clear its debt arrears before aid can resume.[2]

Finance minister **Patrick Chinamasa** has said that the country has no capacity to repay its debt, given its current economic crisis. International donors estimate external debt at $9 billion.[3] The government is currently paying just $150,000 towards IMF debt estimated at $145m.[4]

The IMF described the country as *"in debt distress"* which would hurt growth despite falling oil prices.[5] It has urged an economic reform policy agenda that will produce economic growth and create jobs. It has also called on the government to focus on balancing the primary fiscal account, restoring confidence in the financial sector, improving the investment climate and regaining the confidence of external donors.[6] The government would have to slash its huge wage bill to restore the fiscal stability that the IMF demands.

The **Reserve Bank of Zimbabwe (RBZ)** claims that deflation alongside lower oil prices will boost the economy. The price of bread and mobile phone charges have come down as deflation prompts a softening of prices, most of which are in **United States (US)** dollars.[7] However, with an average monthly wage of $100,

[1] IMF press release, 9 Mar 2015.
[2] IMF press release, 9 Mar 2015.
[3] VOA News, 10 Mar 2015.
[4] Financial Gazette,10 Mar 2015.
[5] IMF press release, 9 Mar 2015.
[6] IMF press release, 9 Mar 2015.
[7] Zimbabwe National Chamber of Commerce economic outlook, 15 Mar 2015.

Zimbabweans struggle to make ends meet even in a deflationary environment. The World Bank estimates 2015 growth to stagnate at just 3.1%, little changed from 3% in 2014.[8]

> *"This leaves the consumer as well as the economy worse off, contrary to RBZ's views."*[9]

Private sector organisations echo the IMF view and do not hold much hope for economic recovery or output by the manufacturing sector. The **Zimbabwe National Chamber of Commerce (ZNCC)**'s March economic outlook says that despite falling oil prices, companies' output is unlikely to increase *"due to fading margins as the majority [of companies] had already been operating unprofitably*".[10]

External relations with EU's powerhouse are restored

Germany on 23 March sent its first government delegation to **Harare** since the **European Union (EU**) imposed direct sanctions against President **Robert Mugabe** (1980-present) and the ruling elite.[11] Finance minister Patrick Chinamasa said the purpose of the visit was to discuss how Zimbabwe can repay the $739m debt it owes the **Eurozone's** biggest economy.

> *"We have agreed that they (Germany) are going to invite us to **Berlin** to talk about debt, to talk about our economic relationship and how we can move on."* [12]

German foreign office **sub-Saharan Africa** director **Georg Schmidt** led the delegation and said Germany would take its cue from the IMF. His comments mirror sentiments of other recent delegations from the **United Kingdom (UK), France** and **Belgium**. Donor countries, Germany included, will not release more aid unless an IMF agreement is in place.

Schmidt raised investors' main fears with Chinamasa:

- whether a Zanu-PF government would respect the rule of local and international law;
- the indigenisation programme where black Zimbabweans must own 51% of any local entity of a foreign-owned company; and
- the issue of property rights following Zanu-PF's decade-long, violent land reform programme that mainly benefited Mugabe and Zanu-PF allies.

Chinamasa promises white farmers compensation

In an apparent bid to placate international donor organisations, Chinamasa has claimed that the indigenisation law is not cast in stone. Chinamasa has previously suggested it would be applied on a sector-by-sector basis, giving as an example the country's four foreign-owned banks, which have not been forced to cede majority stake to local ownership.[13] He went further and promised a comprehensive audit to calculate how much is owed to the white commercial farmers who lost property and farms during Zanu-PF's so-called "fast-track" land reform programme launched in 2000.[14] He promised to compensate white commercial farmers whose farms were compulsorily acquired by the government more than a decade ago, but did not say where the government would get the compensation funds:

> *"We need a determination of what we owe the farmers and a commitment from government. To compute what we owe, we need to do evaluations. Once it is clear to everyone that we are no longer quarrelling, that improves confidence in a great way. We do not have the money to compensate the farmers, but we can at least undertake the preliminary steps."* [15]

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[8] www.worldbank.org
[9] Zimbabwe National Chamber of Commerce statement, 15 Mar 2015.
[10] Zimbabwe National Chamber of Commerce economic outlook, 15 Mar 2015.
[11] www.newzimbabwe.com, 24 Mar 2015.
[12] www.newzimbabwe.com, 24 Mar 2015.
[13] Zimbabwe Independent, 28 Mar 2015.
[14] Financial Gazette, 10 Mar 2015.
[15] Financial Gazette, 10 Mar 2015.

The 'fast track' reform programme gained notoriety as militia gangs of former liberation struggle veterans invaded and occupied land in a systematic programme of expropriation without compensation. This was also Zanu-PF's response to a previous tough IMF-led economic reform programme launched in 1995.

At the same time as Chinamasa promised compensation, the **Commercial Farmers Union (CFU)** reported fresh Zanu-PF attempts to evict remaining white farmers in March.[16] However, this time white farmers are not the only targets. Black farmers, including beneficiaries of the land reform programme, are at risk of Zanu-PF nationalising or expropriating their farms. President Mugabe, architect of the land reform programme, complained at the **Kutama Mission** centenary celebrations in **Zvimba District** on 23 March that most of the large farms allocated to blacks were being under-utilised.[17] He said that the government would carry out an audit to assess productivity with a view to taking back under-utilised farms.[18]

By-elections may test Zanu-PF popularity

The expulsion from parliament of 21 opposition MPs has triggered by-elections that are likely to be keenly contested. Opposition **Movement for Democratic Change (MDC-T**) leader **Morgan Tsvangirai** expelled 21 MPs who joined former finance minister **Tendai Biti** to form a splinter group called **MDC-Renewals** on 17 March.[19] Zanu-PF has already started organising for the by-elections. According to one senior Zanu-PF stalwart:

> *"We are already going to the people and we are confident we will make huge gains in these by-elections."*[20]

There is some doubt that the government will be able find the $50m needed to hold by-elections in 14 urban constituencies. The opposition MDC-T, meanwhile, was due to discuss whether or not to participate in the election. The party has lodged a court application to stop any new elections, arguing that no new elections can be held before reforms are made to laws governing polls in the country.[21] The MDC-T is banking on Zanu-PF being so desperate to have the by-elections that it could be pushed to institute the reforms it resisted throughout the five years the rivals were in a coalition government. Most analysts say it is unlikely that Zanu-PF will agree to any new reforms.

The debate within the opposition may lead to further division. MDC-T's tactics could backfire: should the MDC-T not participate, Zanu-PF will further increase its numbers in parliament where it already enjoys a two-thirds majority, which it gained in the 2013 elections.[22]

If elections go ahead, Zanu-PF and the MDC-T will both try to show they remain intact and retain popular support after bouts of internal rupturing. Internal divisions have wracked both MDC-T and Zanu-PF since the 2013 general election. Former secretary-general Biti challenged Tsvangirai's leadership while Zanu-PF has purged its ranks of all those loyal to former deputy president **Joice Mujuru**. While the **MDC-T** is unsure about contesting the election, Zanu-PF seems able to organise despite its public infighting.

> *"Are we going to see Zanu-PF becoming weaker as we have seen the MDC going? Unlikely. Mugabe is the glue holding the party together in whatever state."*[23]

The by-elections will be held amid rising tensions, the result of a sharp decline in the economy dramatised by an acceleration of job cuts. Retrenchments rose 40% in 2014 and may worsen in 2015.[24] Analysts however do not expect violence around the by-elections, which are expected by June 2015.

[16] www.cfuzim.org, 23 Mar 2015.
[17] The Herald, 23 Mar 2015.
[18] The Herald, 23 Mar 2015.
[19] BBC, 17 Mar 2015.
[20] Saviour Kasukuwere, Zanu-PF political commissar, 20 Mar 2015
[21] MDC-T Organising Secretary, Douglas Mwonzora, 16 Mar 2015
[22] Stewart Chabwinja quoted in Zimbabwe Independent, 20 Mar 2015
[23] Source, political analyst, Harare
[24] RBZ Quarterly Report, 2015

> *"There is anger everywhere and people can't cope with the difficulties and tensions anymore. Anything is possible now, but there is little appetite for the kind of violence we have witnessed in the past."* [25]

Implications

Zimbabwe is at a crossroads. The Zanu-PF government is unable to manage the country's external debt and has called on international donors for debt forgiveness and relief and for bilateral and multilateral aid flows to the country to resume. The slow pace of negotiations with western donors underpins donor's lack of confidence in the Zanu-PF government's willingness to reform or implement the programme of action proposed to the IMF. Zanu-PF, under Robert Mugabe's rule, has a history of disregard for the IMF and the western donor community. The government is desperate for an IMF deal, which could unlock substantial foreign investment flows. Long-term investment prospects in Zimbabwe are substantial but Zanu-PF's poor record of respecting the rule of law or property rights acts as a deterrent.

Donor support comes at a price: a commitment to substantial cuts to the state sector wage bill. Without donor support the finance minister will have difficulty paying the significant public sector wage bill. This comes at a time when, politically, the government is under pressure to deliver on its election promises.

Meanwhile, an appreciating US dollar is adding to pressures on the economy, which may lead to further company closures adding to worsening poverty and unemployment. Into this potentially volatile picture, the country is due to host by-elections in 14 keenly contested opposition seats. Without external aid, the government may not be able to host a $50m by-election. If the elections do go ahead they are likely to spark fresh bouts of political violence between Zanu-PF and MDC-T but could also spark political violence within an acutely divided Zanu-PF itself.

[25] Source, political analyst

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