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President Robert Mugabe (1980-present) celebrates his 93rd birthday on 21 February amid growing concern over his fitness to stand as Zimbabwe African National Union-Patriotic Front (Zanu-PF)'s presidential candidate in the 2018 elections. The government anticipates economic expansion of 3.7% in the 2017 financial year, an upward revision from the 1.7% predicted in the 2017 National Budget, as a result of positive spinoffs from ongoing economic reforms and agriculture. State-owned power utility Zimbabwe Electricity Supply Authority (ZESA) seals an electricity supply deal with South Africa's state-owned power utility Eskom, which will see Eskom continue to supply 300MW of electricity to Zimbabwe under a government guarantee arrangement. Zimbabwe has been importing additional electricity from regional utilities to supplement its constrained domestic production.

Mugabe: 93 and no plans to retire ...

President **Robert Mugabe** (1980-present) celebrated his 93rd birthday on 21 February 2017. In his birthday speech, Mugabe signaled that he has no intention of retiring, at least not before the next elections in 2018.¹ Despite visible signs of old age and frailty, Mugabe stated that he still has a mandate to complete and the energy to carry on, and would step down only if the ruling **Zimbabwe African National Union-Patriotic Front (Zanu-PF)** party formally asks him to do so.² Mugabe also hinted in his birthday remarks that neither of his deputies, **Emmerson Mnangagwa** and **Phelekezela Mphoko**, both appointed in 2014, is qualified to succeed him.

"They want me to stand for elections. If I feel I cannot do it any more, I will say so to my party so they relieve me. For now, I think I can't say so. Also the majority of the people feel that there is no replacement actually, no successor who to them is acceptable as I am."³

Mugabe, currently the world's oldest serving leader and president since 1980, has overseen an economic decline that has reportedly left about 90% of Zimbabwe's work force without formal employment.⁴ Despite this and his advanced age, Zanu-PF nominated Mugabe as the party's presidential candidate for the 2018 elections. However, Mugabe's continued stay in power is threatening to split Zanu-PF, as various leaders position themselves to succeed him.⁵ Two Zanu-PF factions, one fronted by young politicians popularly referred to as the "**Generation 40**" (**G40**) and the other coalescing around Mnangagwa calling itself "**Team Lacoste**", plan to succeed Mugabe when he finally leaves office.⁶

"Despite his insistence about staying in office and being the Zanu-PF candidate in the 2018 election, Mugabe's age-induced frailty will make this difficult, if not impossible. It is likely

¹ Herald, 23 Feb 2017.

² Herald, 23 Feb 2017.

³ Mugabe as quoted in the Herald, 23 Feb 2017.

⁴ Bloomberg, 21 Feb 2017.

⁵ Bloomberg, 21 Feb 2017.

⁶ Bloomberg, 21 Feb 2017.

*that he is staying on to buy some time and allow [his wife] **Grace Mugabe** to build political standing and strategic alliances, which would provide a cushion of political security once Mugabe dies or leaves office.”⁷*

Mugabe’s birthday remarks remove predictability in the succession race.⁸ Although Mnangagwa has publicly distanced himself from “Team Lacoste” and its members who claim to speak on his behalf, Mugabe’s statement undermines Mnangagwa’s presidential ambitions.⁹ **University of Zimbabwe** lecturer **Eldred Masunungure** said Mugabe’s comments defeat the purpose of his having deputies, since this ought to facilitate a smooth transfer of power, in addition to assisting with the president’s duties.¹⁰ Instead, Mugabe has supported the recent rise of Grace Mugabe in Zanu-PF structures.¹¹ After formally joining active politics in 2014, Grace Mugabe has quickly risen to become the leader of **Zanu-PF Women’s League**, from which she attacks and discredits her rivals.¹² This has fueled suggestions that Mugabe is grooming Grace Mugabe to take over from him, having failed to get someone he can fully trust to continue safeguarding his legacy and to ensure the security of his fairly young family.¹³ Grace Mugabe has been holding political rallies across the country since 2014 to build political clout, before deciding to support a candidate or to get into the race herself. However, Grace Mugabe’s political ambitions are likely to fail if she enters the presidential race, as she lacks support beyond her husband’s presidential authority.¹⁴ Other possible contenders such as Mnangagwa have the support of the military, war veterans and other security sectors, which would provide leverage in the event of a violently contested transition.¹⁵

Mugabe’s refusal to hand over power is not surprising. Since coming to power at independence from **Britain** in 1980, he has not groomed a successor within Zanu-PF. This has led to the formation of rival factions within the ruling party, whose leaders he neither trusts nor deems capable of leading it. Should Mugabe consider anointing a successor, it would probably be one of the much weaker members, and not Mnangagwa who commands the support of the powerful **Zimbabwe National Liberal War Veterans Association**. Mugabe would prefer a candidate whom he can control while he is still alive or at least guarantee the security of his family when he passes on.

Government revises 2017 economic growth upwards

The government has revised the 2017 gross domestic product (GDP) growth rate upwards from the 1.7% anticipated in the 2017 national budget to 3.7%, as it expects high yields from the current farming season.¹⁶ The government also expects the economy to benefit from positive results from its ongoing economic reforms and policies across different sectors, which are already beginning to trickle in.¹⁷ Finance and economic development minister **Patrick Chinamasa** is promoting several reforms, including improving the ease of doing business, policy clarity, and re-engagement with the international community to revive the economy.¹⁸ The government’s prospects for a good

⁷ Source, analyst, Harare

⁸ The Financial Gazette, 9 Mar 2017.

⁹ The Financial Gazette, 9 Mar 2017.

¹⁰ The Financial Gazette, 9 Mar 2017.

¹¹ The Financial Gazette, 9 Mar 2017.

¹² The Financial Gazette, 9 Mar 2017.

¹³ The Financial Gazette, 9 Mar 2017.

¹⁴ The Financial Gazette, 9 Mar 2017.

¹⁵ Newsday Zimbabwe 8 Mar 2017.

¹⁶ The Herald, 10 Mar 2017.

¹⁷ The Herald, 10 Mar 2017.

¹⁸ The Herald, 10 Mar 2017.

harvest come from the **Targeted Command Agriculture (TCA)** initiative, which it expects to produce enough maize for national consumption (see *ARC Briefing Zimbabwe February 2017*). According to the latest **African Economic Outlook** forecast, agriculture contributes approximately 14% to Zimbabwe's gross domestic product (GDP).¹⁹ The government expects the TCA programme and other support schemes extended to farmers around the country to yield three million tonnes of maize.²⁰ The government also expects high cotton output after investing over \$40m to support cotton farmers.²¹ Chinamasa indicated that the government forecasts a harvest of over 150,000 tonnes this season after only 30,000 tonnes in 2016.²² The government is planning to extend the TCA to winter wheat production following its success with the 2017 maize crop.²³

However, analysts suggest that Chinamasa's reports are inaccurate, and allege he invented a more positive message to counter the pessimism about Zimbabwe after a recent increase in negative economic coverage:

*"In the last two months, the economic news coming out of Zimbabwe was worrying, contrary to Chinamasa's statements: Zimbabwe suffered a 15% stock market crash in December 2016, a sudden devaluation of the bond notes after its introduction in November last year, and the lacklustre economic activity suggested that the economy would miss the official target annual growth for 2017. The pessimism about the Zimbabwean economy is further exacerbated by policy inconsistencies, lack of reliable data on the economy and the opacity of the government's processes of economic policy-making and its intentions."*²⁴

The government is reportedly turning to treasury bills (TBs) to finance its commitments, which include a bloated civil service wage bill, workers' pension contributions, and medical insurance.²⁵ Doctors and nurses have recently gone on strike, citing low wages and poor working conditions. The government also gave in to civil servants' demands and added an unbudgeted \$180m to its \$4 billion 2017 budget in order to pay its 300,000 workers overdue bonuses, fueling the fears of the abuse of treasury bills.²⁶

The economic situation has also worsened, with bond notes losing value and facing rejection from Zimbabweans, while **United States (US)** dollars are increasingly disappearing from the open market.²⁷ The government introduced bond notes at par with the US dollar in November 2016. These notes are limited for domestic commerce, as traders still require US dollars to procure goods from abroad. Businesses are reportedly resorting to the black market to get US dollars, paying a premium of up to 25%.²⁸ As a result, some retailers reportedly place different price tags on goods, depending on the currency used to pay for the item.²⁹ In some instances, firms' prices reflect that one US dollar in hard cash is equivalent to \$1.30 in bond notes, meaning that the surrogate currency has already lost 30% of its value. Consumers ultimately absorb the premium through increases in the prices of goods and services.³⁰

¹⁹ African Economic Outlook, 2016 Report

²⁰ The Herald, 10 Mar 2017.

²¹ The Herald, 10 Mar 2017.

²² The Herald, 10 Mar 2017.

²³ The Herald, 10 Mar 2017.

²⁴ Source, analyst, Harare

²⁵ Daily News Live, 11 Mar 2017.

²⁶ Daily News Live, 11 Mar 2017.

²⁷ Daily News Live, 11 Mar 2017.

²⁸ Daily News, 11 Mar 2017.

²⁹ Daily News, 11 Mar 2017.

³⁰ Daily News, 11 Mar 2017.

Zimbabwe's economy continues to face seemingly relentless headwinds. In 2016 economic growth slipped into negative territory, with the economy contracting by 0.5% – the first time since 2008. The weak performance is attributed to a struggling agricultural sector, poor liquidity, and a deteriorating fiscal and political environment. The agricultural sector is expected to improve this season, mainly due to abundant rainfall in the region. However, the revised 3.7% economic growth projection could be too high, in light of other challenges that the country is facing. Cash shortages have limited liquidity, depressing aggregate demand, while the bond notes have not solved the limited liquidity problem. The suppressed manufacturing sector, already crippled by electricity shortages as well as low private investment, will further constrain the economy. In addition, political risks are constraining investment, reducing foreign exchange in the country.

ZESA renews power supply deal with Eskom

State-owned electricity utility **Zimbabwe Electricity Supply Authority (ZESA)** announced on 13 March that it signed a power supply deal with **South Africa's** state-owned power company, **Eskom** for a monthly supply of 300MW of electricity.³¹ Zimbabwe energy minister **Samuel Undenge** said that the new agreement would allow the continuation of power imports to Zimbabwe to alleviate current shortages.³² Eskom reportedly has excess power generation capacity of around 5,000MW for the next five to 10 years, which it is attempting to sell to other regional utilities.³³ Zimbabwe also imports 50MW per month from **Mozambique's Hydro Cahora Bassa (HCB)**.³⁴ Zimbabwe pays an average of \$10.5m monthly to Eskom and \$2.6m to HCB, and reportedly owes \$30m in power imports to regional utilities.³⁵

“ZESA has no capacity to meet demand from domestic consumers and industry. The renewal of the deal with Eskom will certainly ensure uninterrupted supply in the medium term. In light of previous threats by regional utilities to switch off the country over debts, continual supply will depend on ZESA's ability to pay its arrears and to honour its payments going forward.”³⁶

Zimbabwe is currently working on several projects to increase generation capacity, such as the expansion of the 750MW **Kariba South** hydro power station, which will increase by 300MW, and the extension of the 920MW **Hwange Power Station** by 600MW.³⁷ According to the **Zimbabwe Power Company**, Zimbabwe has an installed capacity of 1,960MW, but its five power stations at Hwange, Kariba, **Harare**, **Munyati** and **Bulawayo** generate less than 1,000MW, against a peak demand of 1,600MW.³⁸ The stations face serious operational constraints due to aging equipment.³⁹

Although Zimbabwe is struggling to service its electricity debts, Eskom sees Zimbabwe as a suitable market. The deal benefits both parties as Eskom has oversupply of electricity while Zimbabwe is struggling with shortages. Oversupply on Eskom's part has meant that Zimbabwe is now buying electricity at a slightly cheaper rate than before. Reports say that under the terms of the new deal, Zimbabwe is expected to buy electricity at a much lower rate than the \$0.13 per kilowatt hour (kWh) Eskom is currently charging for the 300MW it is supplying to Zimbabwe.⁴⁰ This would also save ZESA from procuring expensive power from the **Dema Diesel Power Plant**, an

³¹ The Herald, 14 Mar 2017.

³² The Herald, 14 Mar 2017.

³³ The Herald, 14 Mar 2017.

³⁴ The Herald, 14 Mar 2017.

³⁵ The Herald, 14 Mar 2017.

³⁶ Source, analyst, Harare

³⁷ The Herald, 14 Mar 2017.

³⁸ Financial Gazette, 15 Mar 2017.

³⁹ NewsDay Zimbabwe, 14 Mar 2017.

⁴⁰ Financial Gazette, 15 Mar 2017.

independent power producer owned by **Sakunda Holdings**.⁴¹ ZESA is reportedly procuring about 100MW of electricity from Dema at \$0.15 per kWh.⁴² Analysts suggest that this deal might force ZESA to close some of its small power stations, where there is limited production due to obsolete equipment.

⁴¹ Financial Gazette, 15 Mar 2017.

⁴² Financial Gazette, 15 Mar 2017.

About Africa Risk Consulting:

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