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President Robert Mugabe (1980-present) reshuffles his cabinet, rewarding loyalists and dismissing vice-president Emmerson Mnangagwa's allies in government. The reshuffle is likely to weaken Mnangagwa in the ongoing internal succession rivalry in the ruling Zimbabwe African National Union- Patriotic Front (Zanu-PF) party. Foreign currency shortages in Zimbabwe cause commodity shortages and drive up inflation. The government plans to consolidate import laws to promote local industries and the consumption of locally produced products.

Mugabe reshuffles his cabinet, weakens Mnangagwa's succession prospects...

President **Robert Mugabe** (1980- present) reshuffled his cabinet on 9 October, rewarding loyalists and sidelining perceived allies of the vice-president, **Emmerson Mnangagwa**. The reshuffle is likely a move to weaken Mnangagwa politically, given the public attacks that first lady **Grace Mugabe** and co-vice president **Phelekezela Mphoko** made against him in September.¹ The reshuffle followed Mugabe's announcement on 7 October that he would reshuffle his "underperforming" cabinet.² The announcement came after Mugabe's public spat with Mnangagwa at **Harare International Airport** when Mugabe returned from the second **Zimbabwe-South Africa Bi-National Commission in Pretoria (South Africa)** on 4 October.³ Mphoko and Grace Mugabe are both believed to be in the **Generation 40 (G40)** faction that is engaged in a struggle against Mnangagwa's 'Lacoste' group in the race to succeed 93-year-old President Mugabe.⁴

Although Mugabe had claimed that the reshuffle was based on performance, it appeared to reward political loyalty.⁵ He removed or redeployed from strategic portfolios all ministers seen as allies of Mnangagwa and replaced them with trusted loyalists. Mugabe removed Mnangagwa from the influential justice, legal and parliamentary affairs portfolio, and transferred Mnangagwa's perceived ally, **Patrick Chinamasa**, from the finance ministry to the less influential and newly created cyber security, threat detection and mitigation ministry.⁶ Chinamasa had been finance minister since 2013.

Political analyst **Alex Magaisa** said that Chinamasa's removal from the national treasury to 'superintendent' of the Internet – essentially equivalent to a director's role in a more substantive ministry – is tantamount to a dismissal.⁷ Other Mnangagwa loyalists whom Mugabe replaced include **Faber Chidarikire** as minister of state for **Mashonaland West**

¹ The Zimbabwe Independent, 13 Oct 2017.

² The Zimbabwe Independent, 13 Oct 2017.

³ The Zimbabwe Independent, 13 Oct 2017.

⁴ Daily News, 13 Oct 2017

⁵ The Zimbabwe Independent, 13 Oct 2017.

⁶ The Zimbabwe Independent, 13 Oct 2017.

⁷ Daily News, 13 Oct 2017.

Province, replaced by **Webster Shamu**; and the public service, labour and social welfare minister, **Prisca Mupfumira** who lost her portfolio to Mugabe's nephew, **Patrick Zhuwao**.⁸

“Mugabe’s cabinet reshuffle was mainly concerned with succession and preparations for the Zanu-PF conference in December, which could be turned into a congress to amend the party’s constitution and further consolidate power into the first family by installing Grace Mugabe into the presidium. Mugabe thus needed to weaken Mnangagwa before then, through demoting or dismissing his allies, which would make it difficult for Mnangagwa to resist his removal from office. These developments have an uncanny resemblance to the circumstances that preceded the removal of former vice president Joice Mujuru in 2014.”⁹

Mnangagwa’s loss of the justice ministry is a notable demotion. The portfolio gave him political authority over the country’s judicial system as well as control over government business in parliament. It placed him at the centre of government, making him more powerful than co-vice president Mphoko.¹⁰ Mphoko retains his peace and reconciliation portfolio, while Mnangagwa is now a vice-president without portfolio. By removing Mnangagwa from the justice ministry and replacing him with **Happyton Bonyongwe**, the current director general of the **Central Intelligence Organisation (CIO)**, Mugabe appears to be signaling that the intelligence operatives and military officials loyal to him will now oversee his succession.¹¹

Foreign currency shortages cause commodity shortages and trigger inflation

A leading financial research firm, **Equity Axis**, reported on 2 October that the Zimbabwe economy is still in decline despite the appearance of economic stability that use of the **United States (US)** dollar imparts.¹² Zimbabwe’s worsening foreign currency shortages are causing a further deterioration of the economy.¹³ Several companies in the retail industry are struggling to restock products, resulting in intermittent shortages.¹⁴ The situation is likely to worsen in the run up to the general elections in 2018, which may contribute to increased risk of political violence.¹⁵ The foreign currency shortages have caused the informal market to flourish, as more people take advantage of the real time gross settlement system (RTGS) money transfer facility.¹⁶

The ongoing foreign currency shortages are a result of various economic factors: the government’s budget overruns; constant government overdraft demands; possible election funding demands; and the doubling of the bond notes circulating in the market.¹⁷ However, the government has tried to allay fears of a deteriorating economic situation. The **Zimbabwe National Statistics Agency (Zimstat)** reported in August that annual inflation was 0.14%,

⁸ Daily News, 13 Oct 2017.

⁹ Source, analyst, Harare

¹⁰ Daily News, 13 Oct 2017.

¹¹ Daily News, 13 Oct 2017.

¹² Daily News, 2 Oct 2017.

¹³ Daily News, 13 Oct 2017.

¹⁴ Daily News, 13 Oct 2017.

¹⁵ Daily News, 12 Oct 2017.

¹⁶ Daily News, 12 Oct 2017.

¹⁷ Daily News, 12 Oct 2017.

which is unchanged from prior months.¹⁸ However, Equity Axis disputed the figures and said that consumers' purchasing power has decreased drastically.¹⁹

Retailers and suppliers of a broad set of products are reportedly using a “*three-pronged pricing system*”, which differentiates prices of goods and services depending on the method of payment.²⁰ There is a paper US dollar price, another for “plastic money” or local US dollar-denominated bank deposits transferable by debit or swipe cards, and a price for parallel paper money, or bond notes.²¹ Customers transacting through bond notes, mobile money transfers, and swipe cards incur additional costs.²² Although the bond notes are pegged at par with the US dollars held at the **Africa Export Import Bank**, this peg has failed to hold and the government has resorted to price controls and imposed a penalty of up to seven years imprisonment for not accepting cash and plastic money at par with the US dollar.²³

The money shortages have seen card and mobile money payments overtake cash sales at retailers, limiting the hard currency that suppliers need for restocking, and driving up food prices. Cash transactions have reportedly shrunk to about 2% of daily takings across **Spar Zimbabwe**'s 33 chain stores, from about 60% a year ago.²⁴ Spar indicated that about 60% of stock on any supermarket shelf in the country is imported, and that without sufficient US dollars, inflation on imported goods has risen by almost 60%.²⁵

Meanwhile, the **Reserve Bank of Zimbabwe** (central bank) has reportedly printed and introduced more bond notes into the system.²⁶ Bond notes are only changeable within Zimbabwe's borders and are not accepted outside the country. Foreign suppliers, including those selling household consumer goods such as oil, agricultural feed and basic foods stuffs, do not accept the bond notes. Informal traders and small shops that mostly stock their supplies from outside the country are charging 30 - 40% more for bond note payments while rejecting mobile money and electronic payments.²⁷ The situation is likely to worsen as long as there is no new foreign direct investment.

“The lack of foreign direct investment and a rising trade and budget deficit are exacerbating the dollar shortages. The difficulties facing Zimbabwe will only get worse if the government continues to believe that its own expenditures are more important than the productive sectors.”²⁸

Ordinary Zimbabweans, particularly those working in the formal sector, will be the most affected by rising inflation. The **Zimbabwe Congress of Trade Unions (ZCTU)** blames the government's unrestrained consumptive spending for triggering inflation, and leading to the devaluation of workers' salaries.²⁹ The resurgence of inflation will also lead to the closure of several of the few businesses that have remained operational throughout the protracted economic decline, thus contributing to the high rate of unemployment in the country.

¹⁸ Daily News, 12 Oct 2017.

¹⁹ Daily News, 2 Oct 2017.

²⁰ Daily News, 2 Oct 2017.

²¹ Daily News, 2 Oct 2017.

²² Daily News, 2 Oct 2017.

²³ Daily News, 2 Oct 2017.

²⁴ Bloomberg News, 3 Oct 2017.

²⁵ Bloomberg News, 3 Oct 2017.

²⁶ Daily News, 2 Oct 2017.

²⁷ Daily News, 2 Oct 2017.

²⁸ Source, analyst, Harare

²⁹ Daily News, 3 Oct 2017.

Government to consolidate import laws to promote local industries

The industry and commerce ministry has consolidated a number of statutory instruments (SIs) issued in 2016 to control the importation of goods that are available on the domestic market.³⁰ It used **Statutory Instrument 122 (SI 122)** on 29 September to create a reference point for several piecemeal statutory instruments.³¹ The most notable was **SI 64** of 2016, which removed about 100 products from the open general licence to encourage the consumption of locally manufactured products.³² The products listed under SI 64 include fertilisers, plastic pipes, wheel barrows, roofing frameworks, tinned fruits and vegetables, dairy products, furniture, coffee creamers and petroleum jellies.³³ Previously, the government gazetted a ban on the importation of batteries, candles, floor polish, tobacco twines, second-hand clothing, blankets, 23 pharmaceutical products, milk, potatoes, onions, biscuits, sugar, poultry, meat products and yeast under a different statutory instrument.

Local products have struggled to compete with imports on price due to the high cost of production in Zimbabwe. The government hoped that by introducing measures to control the importation of certain goods, local consumers would switch to domestic products and increase revenues for local producers. However, this has been difficult to enforce because of corruption at the borders. Nevertheless, it appears that the strategy helped companies increase their capacity utilisation and brought in some investment in a challenging business environment. A government report in June indicated that SI 64 had unlocked at least \$100m in foreign direct investment (FDI) inflows since its introduction in 2016, and resulted in a 12% increase in exports.³⁴ The industry and commerce ministry reported that apart from FDI inflows, output in some domestic firms doubled as consumers switched to local products.³⁵ The ministry also reported that Zimbabwe saved over \$2 billion in potential import expenses following the introduction of SI 64.³⁶

Some companies that formerly exported to Zimbabwe and were affected by the import controls have reportedly set up manufacturing plants in the country. This includes **India-based Varun Beverages**, which has set up a \$30m bottling plant in **Harare** under the **Pepsi** brand.³⁷ Local company **Hanawa Super Foods** also opened a \$1.5m potato crisp manufacturing plant in Harare after the importation of their products was banned under SI 64. In addition, **South Africa-based Willowton Group** and **Zambia-based Trade Kings** have also invested in the country, with combined FDI estimated at \$65m.³⁸ Willowton Group is building a \$40m factory in **Mutare** to produce cooking oil and soap while Trade Kings Zimbabwe is constructing a \$15m state-of-the-art detergent plant Harare.³⁹

The government is also reportedly working on the formulation of a local content policy that is aimed at enhancing value addition through the utilisation of local resources and localisation of supply chains.⁴⁰ The local content policy is an industrialisation policy strategy aimed at

³⁰ Financial Gazette, 5 Oct 2017.

³¹ Financial Gazette, 5 Oct 2017.

³² Financial Gazette, 5 Oct 2017.

³³ Financial Gazette, 5 Oct 2017.

³⁴ Financial Gazette, 5 Oct 2017.

³⁵ Financial Gazette, 5 Oct 2017.

³⁶ The Herald, 13 Oct 2017.

³⁷ Financial Gazette, 5 Oct 2017.

³⁸ Financial Gazette, 5 Oct 2017.

³⁹ Financial Gazette, 5 Oct 2017.

⁴⁰ The Herald, 13 Oct 2017.

stimulating the production and consumption of locally produced goods through strengthening existing policy interventions and strategies such as the import management programme.⁴¹ Although these policies and initiatives achieve some beneficial results in the short to medium term, Zimbabwe's economy will continue to decline because of unfavourable political conditions under the Zanu-PF government. Loss of investor interest has resulted in a lack of economic expansion, and shrinkage through the closure of manufacturing factories. The country's unstable currency regime and inflation also discourages investments, since profits cannot be guaranteed.

Planner

December 2017 **(Zimbabwe) Zanu-PF** special congress;
 21 February 2018 **(Zimbabwe)** President **Robert Mugabe's** birthday celebrations;
 18 April 2018 **(Zimbabwe) Independence Day** celebrations;
 24 - 28 Apr 2018 **Bulawayo (Zimbabwe)**. ZITF Business Days;
 2018 **(Zimbabwe)** Scheduled elections;

Chronology

16 October 2017. **Harare (Zimbabwe)** *NewsdzeZimbabwe*. Zanu-PF's provinces agree to hold an extra-ordinary congress in December;

12 October 2017. **Harare (Zimbabwe)**. *VOA* Zimbabwe police remove thousands of vendors from the Harare central business district on President **Robert Mugabe's** orders;

9 October 2017. **Harare (Zimbabwe)**. *Newsday* President Robert Mugabe reshuffles his cabinet, dismissing several ministers thought to be loyal to vice-president **Emmerson Mnangagwa**;

7 Oct 2017 **Harare (Zimbabwe)** *Reuters*. President Robert Mugabe says that he may make several cabinet changes in the coming week as part of a cabinet review;

6 Oct 2017 **Harare (Zimbabwe)** *Reuters*. Vice president **Emmerson Mnangagwa** says that poison was the cause of his hospitalisation in August;

6 October 2017. **Harare (Zimbabwe)**. *BBC* First lady **Grace Mugabe** warns of an impending coup plot as struggles to succeed President Robert Mugabe escalate;

5 October 2017. **Harare (Zimbabwe)**. *VOA* Vice president **Phelekezela Mphoko** accuses co-vice president Emmerson Mnangagwa of undermining President Mugabe and fanning tribal politics;

3 October 2017. **Harare (Zimbabwe)** *The Guardian* Police detain a journalist from the **News Day** newspaper for reporting that first lady Grace Mugabe donated used underwear and women's nightgowns to ruling party supporters;

1 October 2017. **Harare (Zimbabwe)**. *Nehanda Radio Zimbabwe Electoral Commission* commissioner **Qhubani Moyo** admits there is a loophole in the biometric voter process which allows multiple registration using different national identity documents;

⁴¹ The Herald, 13 Oct 2017.

29 Sept 2017 **Harare (Zimbabwe)** *AFP*. Police fire teargas at anti-government protesters;
24 Sept 2017 **Harare (Zimbabwe)** *Bloomberg*. The government signs a \$600m loan with the
African Export-Import Bank;

About Africa Risk Consulting:

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