

Africa Risk Consulting

Country Briefing-Zimbabwe

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1. Summary

ZANU PF faces a serious funding crisis. It does not have a budget to run the government and fulfil election promises. Finance minister Patrick Chinamasa has postponed the budget presentation due to uncertainty over funding. China, Zimbabwe's largest investor, is a prospective source of funds. Civil servants' salaries will increase from \$297 to \$540 starting in January 2014 but may not be paid. The ZANU PF Politburo meeting endorsed disputed elections and the civil servants' pay hike and discussed the Zim Asset macro-economic policy document. The bid to ban platinum exports appears to be sabre rattling rather than an impending policy move. Foreign entrepreneurs will have to comply with indigenisation laws by 1 January 2014. China agrees to lend \$319m to expand the Kariba South hydroelectric plant.

2.1 Funding gap delays budget

Facing a financial crisis, the **Zimbabwe African National Union Patriotic Front (ZANU PF)** government has been looking for budgetary support from various external sources. The crisis explains finance minister **Patrick Chinamasa's** delay in making the budget presentation for 2014. He told a pre-budget summit in **Victoria Falls** that he will probably make the presentation in December instead of November as expected¹. **Vince Musewe**, a **Harare**-based economist argues that the indigenisation drive exacerbated downscaling of operations and company closures, resulting in a shrinking tax base for the government.² An **International Monetary Fund (IMF)** delegation has been in Zimbabwe since early November. ZANU PF is possibly making overtures for multilateral support but Zimbabwe's poor credit record means support from international financial institutions is unlikely. Chinamasa's **Washington DC** trip in October 2013 to secure funding and debt write-offs was reportedly unsuccessful.³

¹ SW Radio Africa, 5 November 2013

² ibid

³ ibid

Zimbabwe has tabled a request for budgetary support with **China's** ambassador **Lin Lin**.⁴ China has been Zimbabwe's main investor since 2010 with interest in diamonds, gold and chrome. **Sichoni Takoleza**, **Zimbabwe Investment Authority (ZIA)**'s head of operations, indicated that in 2012 China accounted for 72% (\$930m) of approved investor projects.⁵ In October 2013 ZIA approved Chinese investments worth \$347.8m, mainly in energy and mining.⁶ Scant investment and poor government policies which undermine investor confidence have contributed to the under-exploitation of mining in Zimbabwe. Such investments are however a critical source of the government's revenue. The government has premised future growth on the mining sector, expected to unlock \$5 billion dollars over the next five years⁷. Takoleza noted that the ZIA aims to address major problems such as delays in granting permits, corruption, infrastructure, utilities and the absence of beneficiation projects.⁸

Against this background the government pledged to raise civil servants' minimum monthly salary from \$297 to \$540. This is expected to come into effect from January 2014. Zimbabwe's civil service numbers approximately 230 000 and consumes 70% of total government revenues.⁹ Civil servants are sceptical. **Progressive Teachers' Union** president **Takavafira Zhou** notes that ZANU PF is unpredictable and it is too early for civil servants to welcome the wage hike.¹⁰ Deputy minister of public, labour and social welfare **Tongai Muzenda** confirmed that the ZANU PF government cannot afford the salary hikes - it is broke and unable to sustain the proposed minimum wage.¹¹ He noted that the economy has shrunk considerably in the past months with industrial output plummeting by 39%. The government has lost a significant revenue base through loss of taxes as companies downsize and retrench workers.

“Chinamasa is under pressure from Mugabe to deliver on election promises. But where will the funds come from? I can't see the raises (in civil service wages) happening. Certainly not in January.”¹²

⁴ The Daily News, 7 November 2013

⁵ The Sunday Mail, 24 November 2013

⁶ ibid

⁷ SW Radio Africa, 5 November 2013

⁸ The Sunday Mail, 24 November 2013

⁹ New Zimbabwe, 7 November 2013

¹⁰ SW Radio Africa, 14 November 2013

¹¹ Southern Eye, 24 November 2013

¹² based economic analyst

2.2 Outcomes of the ZANU PF Politburo Meeting

ZANU PF recorded several resolutions at its 23 November politburo meeting. The disputed provincial election outcomes in **Manicaland, Midlands** and **Mashonaland Central** were endorsed despite claims of irregularities. These endorsements are widely seen as a victory for vice president **Joice Mujuru** because the winning candidates are from her faction. Having sympathetic provincial executives will increase her chances of winning elections for party president in the event of Mugabe's demise. The remaining seven provincial elections which had been postponed are slated for 30 November.¹³ The politburo also settled controversy over **Mashonaland Central Youth League** chairman-elect **Edson Samambwa** (who is over the 35-year age limit for Youth League members) by endorsing his election.¹⁴ Samambwa is aligned to Mujuru's faction. His election as chairman strengthens Mujuru's position; the Youth League is an invaluable asset in ZANU PF electoral politics.

The politburo also debated the succession issue during its six hour meeting.¹⁵ ZANU PF and state president **Robert Mugabe** (1980 – present) was reportedly calm throughout the heated debates.¹⁶ He emphasised unity and success of the party rather than mudslinging and settling intra-party conflicts through the media.¹⁷ The party also resolved to appoint the second party vice president to replace the late **John Nkomo** during the 2014 elective congress, contrary to attempts by other party members to have the elections held during the upcoming December annual people's conference¹⁸. National chairman and former ambassador **Simon Khaya Moyo** is touted as the frontrunner for the post.¹⁹

The politburo also discussed the '**ZIM Asset**' (**Zimbabwe Agenda for Sustainable Socio-Economic Transformation**) document. This is ZANU PF's macro-economic policy blueprint for the next five years. It identifies food security and nutrition, social services, poverty reduction, infrastructure, utilities and beneficiation as key development areas.²⁰ It also

¹³ The Zimbabwe Standard, 24 November 2013

¹⁴ *ibid*

¹⁵ Zim Eye, 24 November 2013

¹⁶ Zim Eye, 24 November 2013, Nkululeko Sibanda/Bulawayo 24, 28 November 2013

¹⁷ Zim Eye, 24 November 2013

¹⁸ New Zimbabwe, 25 November 2013

¹⁹ Footnote

²⁰ Zimbabwe Mail, 11 November 2013

establishes a regulatory framework by the government for securitisation of minerals and mortgaging other assets to raise long term finance. ZIM Asset envisages the creation of a sovereign wealth fund which will be funded through mining royalties and used to support critical government institutions such as **Agribank, Infrastructure Development Bank of Zimbabwe** and the **Small Enterprises Development Corporation (Sedco)**.²¹ Zimbabwe has already secured a \$10 billion loan bailout from China through mortgaging minerals, especially the **Chiadzwa** diamonds. Chinamasa was quoted as saying that securitising minerals to revive industry was a key component of the ZIM Asset programme which is already underway.²²

2.3 Platinum export ban pending

The government has announced plans to ban exports of raw platinum to **South Africa** for processing. This comes after mining companies missed a deadline to commit to the establishment of a local refinery. Platinum contains other minerals such as gold and nickel, prompting the government's drive to export value added minerals instead of raw ore.²³ The three main platinum mining companies (**Impala Platinum, Anglo American and Aquarius Platinum**) have argued that they collectively produce approximately 350 000oz. This is less than the 500 000oz threshold that would justify the establishment of a refinery.²⁴ However, indigenisation policies have negatively impacted production levels due to inability to attract investments for expansion projects which spur increased outputs. The **Zimbabwe Chamber of Mines** indicated that to increase outputs to 500 000oz, \$2.8 billion would be needed for investment in mines, \$2 billion in processing plants and between \$200-500m for adequate power supply.²⁵

While the threat to ban platinum export is real, it may not happen in the near future or at all. The immediate and long term losses for the government significantly outweigh gains. At present there is no capacity to refine locally. Over \$4 billion would be needed for a refinery. Furthermore, platinum accounted for \$424m of the \$1.4 billion of mineral exports between January and September 2013.²⁶ This makes it a bigger revenue generator than diamonds. In the unlikely event that the capital investment for building a refinery is secured, it would take at

²¹ Sunday Mail, 24 November 2013

²² Newsday, 19 November 2013

²³ The Sunday Mail, 24 November 2013

²⁴ New Zimbabwe, 22 November 2013

²⁵ The Daily News, 13 November 2013

²⁶ *ibid*

least five years to construct.²⁷ However, **ZimPlats** (local subsidiary of Impala Platinum) has expressed support for government efforts at value addition and beneficiation by investing \$30m in feasibility studies for setting up a refinery.²⁸ Given the current cash squeeze facing the Zimbabwean government, a ban on platinum exports will not be in its best interests and is thus unlikely.

“The government has been beating the beneficiation drum for years. It must derive greater value from the platinum. But without electricity, a refinery is a non-starter. It's a catch-22 situation. Insufficient revenues, no capital to invest in power-generation, no refinery.”²⁹

The Zimbabwe government has established reforms aimed at increasing production and revenue in mining in general. Informal mining is set to be decriminalised. Informal miners will be forced to sell either diamonds or gold to **Minerals Marketing Corporation of Zimbabwe (MMCZ), Zimbabwe Mining Development Board** or **Fidelity Printers and Refiners** (in the case of gold).³⁰ The move is aimed at plugging revenue leaks and creating a monopoly over the marketing of minerals to maximise revenue. The **Ministry of Mines and Mining Development** also announced a ‘use it or lose it’ policy to compel claim holders to develop idle claims lest the government confiscates them.³¹ Mining minister **Walter Chidakwa** reiterated Mugabe’s plan to ban platinum exports to force platinum companies to refine locally.

2.4 Threat to expel foreign entrepreneurs increases

The government has threatened foreigners still operating businesses in economic sectors reserved for locals with arrest by 1 January 2014. ZANU PF MP and chair of the industry and commerce committee **Ray Kaukonde** tabled the parliamentary motion to engage the government to establish why foreign national were still participating in ‘reserved sectors’ of the economy as provided in the **Indigenisation and Empowerment Act**.³² Reserved areas include retail and wholesale, barbershops and beauty salons, bakeries, employment agencies, grain milling, agriculture, transport, estate agencies, advertising agencies, milk processing,

²⁷ The Daily News, 13 November 2012

²⁸ The Sunday Mail, 24 November 2013

²⁹ Harare-based economic analyst

³⁰ The Sunday Mail, 24 November 2013

³¹ ibid

³² The Herald, 6 November 2013

local arts and crafts, and tobacco grading.³³ In order to avoid shortages after the deadline, secretary for Youth, Indigenisation and Economic Empowerment **George Magosvongwe** noted that the government has been identifying locals who will take over affected businesses. The government has given an order for all business owners in affected areas to apply for **Indigenisation Compliance Certificates** before the 1 January deadline.

The need to fulfil electoral promises of job provision has prompted stricter enforcement of the policy, an extension of the populist indigenisation laws which began before the July elections. Indigenisation laws have accelerated economic decline and increased unemployment levels. The law attempts to give local people preferential access to entrepreneurial opportunities by confiscating small businesses held by foreign nationals. This is likely to be perceived as a serious case of economic xenophobia which violates individuals' rights to property. It serves to worsen Zimbabwe's image as an undesirable investment destination at all tiers of the economy. Corrupt practices and politics of patronage are also likely to undermine the effectiveness of this policy.

A foreign business owner in a sector not directly affected by the indigenisation drive says

“How does anyone attract business investment in this environment? (Economic) growth is poor, donors are unsure, (cash) liquidity is tough. Zimbabwean manufacturing imploded years ago. Everything that is sold is from SA (South Africa) or China. Putting local retail business in local hands won't change that.”³⁴

While a muted diplomatic backlash is likely, it may not deter the Zimbabwe government. The Chinese government, unwilling to interfere in local politics, has continued to fund the Zimbabwe government in spite of the policy. The delay by the Chinese and **Nigerian** governments in responding to the threat to evict foreign businesses may weaken criticism from other countries which are not directly affected.

2.5 China funds Kariba deal

China has agreed to lend the government \$319m to expand the **Kariba South** hydroelectric plant. The Zimbabwe government will contribute \$35m, bringing the total cost of the project to

³³ Zim Eye, 24 November 2014

³⁴ Foreign businessman, Harare

\$354m.³⁵ China's **Sinohydro** won the bid to construct two 150 megawatt power units over a period of four years, adding 300 megawatts to the national grid.³⁶ The loan carries 2% interest and binds Zimbabwe to China for a 20 year period.³⁷ Chinamasa argued that the deal will go a long way in alleviating Zimbabwe's power deficit which undermines the country's economic growth.³⁸ The mining industry which holds the largest resource base for Zimbabwe has been hardest hit by power shortages.

However, the deal has been criticised for undermining Zimbabwe's sovereignty over its economy. In addition to being bound to a 20 year loan, Zimbabwe's \$35m investment makes it a minority shareholder in a sensitive national project. This led to senior **Dutch** government official **Pim Kraan** warning the Zimbabwe government over entering into such deals due to the significant loss national sovereignty.³⁹ However, increased electricity supply should bolster Zimbabwe's efforts for exploiting mineral wealth and may also support other industrial sectors which have been weakened by persistent power cuts.

3 *Implications*

Zimbabwe's government has no other clear source of domestic or external funding except China, which has rapidly increased its footprint on Zimbabwe's economy. Deals with China, primarily based on mortgaging minerals, are the main source of Zimbabwe's revenue. This may be used to finance salary increments for civil servants beginning January 2014 but it is an unsustainable policy. The ZANU PF politburo meeting outcomes reflects the party's resolve to avoid dealing with electoral conflicts. Succession remains a contentious topic, with factionalism increasingly becoming more evident.

The threat to ban platinum exports is unlikely to be carried out in the near future. Banning exports would significantly undermine ZANU PF's revenue base. While radical policies such as the land reform programme have been carried out in the past, this was conducted in a context where ZANU PF was facing its first formidable challenge to political power in the early 2000s. The MDC was at its strongest just after its formation from the trade union movement, primarily the **Zimbabwe Congress of Trade Unions (ZCTU)**.

³⁵ Newsday, 19 November 2013

³⁶ The Zimbabwean, 22 November 2013

³⁷ *ibid*

³⁸ Newsday, 19 November 2013

³⁹ The Zimbabwean, 18 November 2013

The ZANU PF government faces no similar threat in the current political context. Its policies since its electoral victory in July 2013 have pointed towards an urgent imperative to raise funds from local resources, primarily through mineral exports. There is no immediate financial incentive or benefit from banning platinum exports or taking over the mines. While diamonds, have an immediate financial turnover, platinum needs specialised refinery processes. Setting up a platinum refinery takes more time (five years) and requires more vast amounts of capital (over \$4 billion) and an adequate power supply.

Chinese and Nigerian entrepreneurs are essentially being sacrificed by ZANU PF in order to fulfil the campaign promise of job provision. A diplomatic backlash is likely but will be weak and unlikely to force the Zimbabwean government to abandon the project.