

## AFRICA RISK CONSULTING

### Zimbabwe Monthly Briefing October 2015

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#### Zimbabwe Summary 26 October 2015

*Opposition political parties accuse First Lady Grace Mugabe of buying votes and abusing a state loan facility when she “donated” farming equipment, clothing, food and grocery packages to her supporters in the ruling Zimbabwe African National Union-Patriotic Front (Zanu-PF) party. The actions fuel speculation regarding her alleged ambitions to succeed her husband, President Robert Mugabe (1980-present). The government orders industries to cut electricity consumption by 25% and plans electricity tariff hikes as it battles to cope with the current energy crisis. This threatens productivity, especially in mining, which accounts for over half of the country’s annual export revenue. Low agricultural productivity continues to affect manufacturing industries that rely on the sector for raw materials.*

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#### Opposition accuses Grace Mugabe of abusing state loan facility

Opposition political parties have accused First Lady **Grace Mugabe** of abusing state resources for vote buying during her latest countrywide **Zimbabwe African National Union-Patriotic Front (Zanu-PF)** political rallies.<sup>1</sup> Mugabe, who also leads the party’s **Women’s League**, addressed two rallies in October in **Manicaland** and **Mashonaland Central** provinces.<sup>2</sup> At both rallies she donated agricultural equipment, which the government had procured under a loan facility from **Brazil**, to Zanu-PF supporters.<sup>3</sup>

Brazil awarded Zimbabwe \$98m under the **Zimbabwe-Brazil More Food for Africa Programme**, which President **Robert Mugabe** (1980-present) commissioned in May.<sup>4</sup> The loan included farming equipment such as tractors, disc harrows, planters, fertilizer spreaders and knapsack sprayers.<sup>5</sup> Brazil extended the loan in three phases. The equipment that Grace Mugabe donated is part of the first distribution phase, worth approximately \$30m.<sup>6</sup> She also gave out maize and other food packages allegedly funded by Zanu-PF linked businesspeople supportive of her yet-to-be-stated political ambitions.<sup>7</sup> Grace Mugabe’s abuse of the facility has reportedly irked Brazil, which extended the loan as part of its development programme in several countries. This will potentially have a bearing on its disbursement of the remaining equipment and, subsequently, on the agricultural sector it was meant to support.<sup>8</sup>

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<sup>1</sup> Zimbabwe Independent, 17 Oct 2015

<sup>2</sup> Zimbabwe Independent, 17 Oct 2015

<sup>3</sup> Zimbabwe Independent, 17 Oct 2015.

<sup>4</sup> News24, 19 Oct 2015

<sup>5</sup> Zimbabwe Independent, 17 Oct 2015.

<sup>6</sup> News Day, 21 Oct 2015

<sup>7</sup> Zimbabwe Independent, 23 Oct 2015.

<sup>8</sup> New Zimbabwe, 17 Oct 2015

Vice president **Emerson Mnangagwa** confirmed that Grace Mugabe was donating government equipment, following intense questioning by opposition legislators in parliament on 21 October.<sup>9</sup> The opposition **Movement for Democratic Change (MDC)** criticised the apparent abuse of state resources, as well as Grace Mugabe's pretense that these were hers, not the government's, donations.<sup>10</sup> Mnangagwa defended her, arguing that Mugabe had handed over the equipment on the government's behalf, since the minister of agriculture, **Joseph Made**, was present at both rallies.<sup>11</sup> However, he could not explain the capacity in which Grace performed these duties as she is not a government official. Opposition political parties are reportedly considering filing a collective lawsuit against Mugabe for her abuse of the loan facility.<sup>12</sup> MDC spokesperson **Douglas Mwonzora** said that the abuse is a wake-up call for donors seeking to re-engage with Zimbabwe, suggesting that they set strict conditions to avoid similar instances of Zanu-PF's politicisation of aid in the future.<sup>13</sup>

Analysts speculate that Grace is interested in succeeding her husband, President Mugabe, who is likely to vacate office before his current term ends in 2018. Her statements at the political rallies that she acquired the farming equipment in her personal capacity can be interpreted as a campaign to garner party support for her and the **Generation 40 (G40)** faction that allegedly supports her. The G40 is a young generation of politicians who are trying to wrestle power from Mnangagwa ahead of the 2018 election.<sup>14</sup> The vice president has been conspicuously absent from Grace Mugabe's rallies that co-vice president **Phelekezela Mphoko** and half of the Zanu-PF cabinet attended.<sup>15</sup>

Grace Mugabe's recent political activities are indicative of the power vacuum resulting from the 91-year-old president's increasingly poor health. It also highlights the lack of legal and institutional distinction between the ruling Zanu-PF party and the government. Zanu-PF is split into two political factions, with Mnangagwa, supported by war veterans, pitted against Grace Mugabe and the G40.

*"Grace Mugabe's actions are a symptom of the ongoing factionalism within the ruling party. The presence of the G40, made up of young politicians such as **Saviour Kasukuwere, Patrick Zhuwao, Jonathan Moyo** and others, indicates that the First Lady is surrounded by Young Turks angling to take over from President Mugabe once he leaves office. Moyo, in particular, publicly stated that Mnangagwa would not be guaranteed to succeed Mugabe, shortly after he became vice president... Grace Mugabe has also made thinly veiled references regarding thwarting Mnangagwa's presidential ambitions."<sup>16</sup>*

### Government orders reductions in electricity consumption

The government has ordered all mining companies and other energy intensive industries for an indefinite period to reduce their electricity consumption levels due to continuing electricity shortages.<sup>17</sup> Energy and power development minister **Samuel Undenge** announced on 6 October that the **Zimbabwe Electricity Transmission and Distribution**

<sup>9</sup> NewsDay, 22 Oct 2015

<sup>10</sup> Zimbabwe Independent, 23 Oct 2015

<sup>11</sup> NewsDay, 21 Oct 2015

<sup>12</sup> News24, 19 Oct 2015

<sup>13</sup> New Zimbabwe, 17 Oct 2015

<sup>14</sup> Zimbabwe Independent, 23 Oct 2015.

<sup>15</sup> New Zimbabwe, 17 Oct 2015

<sup>16</sup> Source, analyst

<sup>17</sup> News Day, 7 Oct 2015.

**Company (ZETDC)** has asked major residential power users to reduce their electricity usage by up to 25% on the basis of existing contracts with the state-owned utility. The forced reduction in electricity usage is likely to cause a large drop in production and profits across multiple industrial sectors, especially mining and manufacturing, which already face several structural constraints.<sup>18</sup> Affected companies include the **Mimosa, Unki, and Zimplats** platinum mines, chrome miner **Zimasco**, chrome refiner **Zim Alloys**, steel smelter **Afrochine**, and other major electricity consumers.<sup>19</sup>

Undenge also requested the security sectors – the **Zimbabwe National Army (ZNA)** and **Zimbabwe Republic Police (ZRP)** – to voluntarily reduce non-critical and residential electricity loads in their organisations in order to share the burden with the rest of the country.<sup>20</sup> He announced a raft of other measures to ease pressure on the national grid, including use of gas for cooking, solar energy development, and a ban on hot water heaters and incandescent bulbs. Undenge proposed that load shedding be equal for all areas except critical entities, such as hospitals.<sup>21</sup> While these measures may ease the energy shortage in the short-term, some observers are sceptical of the long-term solution to the current crisis:

*“The stop-gap measures announced by the minister show the dreadful lack of foresight and planning by a government which has done little, if anything, to improve the energy situation in the country since independence. Power generation is a capital-intensive sector and it requires huge investments, which are currently lacking in Zimbabwe. Promises of funding for this sector from **China**, pledged during the president’s visit have not yet materialised. Besides, energy is very strategic to the country’s economic well-being, thus strategic policies are needed to facilitate investment in this important sector for long term security.”<sup>22</sup>*

The government is also mooting electricity tariff hikes from the beginning of 2016.<sup>23</sup> While these are intended to be only interim measures, the power minister indicated that the government needed to implement tariff adjustments while it seeks more sustainable local electricity generation sources. Undenge indicated that the government would bring emergency gas and diesel fueled power plants online as soon as possible.<sup>24</sup> Electricity consumers currently pay 9.86c per kilowatt hour (kWh), and the use of diesel generators will increase the cost by approximately 40% to 14c/kWh.<sup>25</sup>

The proposed tariff increase will have a negative impact on the already ailing economy. The **Zimbabwe Chamber of Mines** estimates that mining constitutes 16% of the country’s GDP, slightly behind agriculture, which stands at 17%.<sup>26</sup> Mining alone accounts for approximately 60% of Zimbabwe’s annual export earnings.<sup>27</sup> Mining companies have requested the government to reconsider the power cuts to avoid mass job losses, missed growth targets and further economic weakness.<sup>28</sup>

<sup>18</sup> The Herald, 8 Oct 2015

<sup>19</sup> The Herald, 8 Oct 2015

<sup>20</sup> News Day, 7 Oct 2015.

<sup>21</sup> News Day, 7 Oct 2015.

<sup>22</sup> Source, analyst, Zimbabwe

<sup>23</sup> The Herald, 26 Oct 2015.

<sup>24</sup> The Herald, 26 Oct 2015.

<sup>25</sup> The Herald, 26 Oct 2015.

<sup>26</sup> The Herald, 8 Oct 2015

<sup>27</sup> The Chronicle, 8 Oct 2015

<sup>28</sup> The Chronicle, Oct 2015

Zimbabwe is struggling with a major electrical energy deficit. The current generating capacity is 861MW, against a peak demand of about 2,000MW.<sup>29</sup> The country is experiencing persistent power cuts which affect both commercial and household consumers. The government has attributed the current power crisis to the low water levels in **Kariba Dam**, which supplies water to the biggest hydro-powered generation plant in the country.<sup>30</sup> However, the government has been unable to secure sufficient capital to finance the rehabilitation of existing power plants and establish new ones to support escalating demand. Several countries in the **Southern African** region, especially **Botswana, South Africa** and **Zambia** (which jointly owns the Kariba Dam) also face power shortages due to higher household and commercial consumption overtaking local power generation. In all cases this has had a severe negative effect on economic growth and productivity.

### Dwindling agricultural production hurts manufacturing industry

Zimbabwe's weak agricultural sector is undermining manufacturing industries as produce continues to diminish. Companies that have traditionally relied on locally sourced produce from the agriculture sector have resorted to importing from neighboring countries, especially South Africa and Botswana.<sup>31</sup> **Bulawayo-based United Refineries** is reportedly buying oil, soya beans, and cottonseed from South Africa to produce its cooking oil and soap products.<sup>32</sup> United Refineries reported that it has traditionally been able to procure 200,000 tonnes of cottonseed from Zimbabwean farmers each season, sufficient for domestic oil production and export.<sup>33</sup> This quantity has decreased due to fewer farmers growing seed crops such as cotton and soya beans. Local food manufacturer **Lobels Biscuits & Sweets** also relies heavily on the local agricultural sector to provide flour for its products. Poor quality of local flour has forced Lobels to buy imported flour at a higher price for its newly opened biscuit-making factory.<sup>34</sup> Domestic production of other agricultural commodities has also decreased from pre-economic crisis production levels. The production of milk and beef has dropped by 80%, coffee by 90%, paprika by 95%, and wheat by 95% since 2001.<sup>35</sup>

Agriculture has been the mainstay of the economy since independence from **Britain** in 1980. It also supported other manufacturing subsectors such as foodstuffs, drinks, tobacco, beverages as well as clothing and footwear. However, agricultural output has drastically reduced in the past fifteen years, mainly due to Zanu-PF's controversial land reform programme.<sup>36</sup> From 2000 onwards the government and party activists have seized prime land which they have given to "new farmers" who lack the knowledge and skills for productive farming.<sup>37</sup> These farmers also lack title deeds to the land and therefore cannot use it as collateral to borrow money from the banks. As a result, under-utilisation of the land has sharply reduced agricultural output.

Consumers are paying the price for the government's land reform programme:

*"When industries rely on imported raw materials, it pushes production and operating costs upwards and this ultimately means that they have to transfer the costs to*

<sup>29</sup> Zimbabwe Power Company, 26 Oct 2015.

<sup>30</sup> NewZimbabwe, 7 Oct 2015.

<sup>31</sup> News Day, 6 Oct 2015.

<sup>32</sup> Bulawayo News24, 6 Oct 2015.

<sup>33</sup> News Day, 6 Oct 2015.

<sup>34</sup> News Day, 6 Oct 2015.

<sup>35</sup> PoliticsWeb, 25 Jul 2015.

<sup>36</sup> News 24, 17 Jul 2015

<sup>37</sup> News 24, 17 Jul 2015

*consumers. The result is visible when one considers the cost of certain locally produced products which are priced higher than imported products of the same range.”<sup>38</sup>*

Manufacturing sector production has reportedly fallen by nearly 70% over the past 14 years.<sup>39</sup> Despite this contraction, the sector remains critical to the Zimbabwean economy. The **Africa Economic Outlook** reports that manufacturing contributed 12.8% to GDP in 2014.<sup>40</sup> Agriculture, forestry, fishing, and hunting contributed about 12.0% to GDP in the same year.<sup>41</sup> Improved performance in these key sectors could drive much-needed economic recovery. However, production in the manufacturing sector is expected to decline further due to competition from imported goods, the high cost of production, lack of capital and financial constrains to the local firms as the country struggles to attract foreign investment.

*“Given the country’s liquidity crunch, especially since the introduction of the dollar economy, sales of the manufactured products will remain low as consumers opt for cheaper imports. In the medium to long term, more manufacturing companies, especially in the food sector will shut down due to low returns and high losses.”<sup>42</sup>*

### Implications

Grace Mugabe’s latest political rallies and donation of state property highlight the country’s weak political governance and the conflation of party and state. It also cements the country’s poor global image as a viable investment destination and may jeopardise the procurement of aid in the future. Although she has not stated her political ambitions, Grace Mugabe’s increasingly prominent political profile indicates her possible role in the post-Robert Mugabe political era. Factional battles within Zanu-PF will sharpen in the lead up to the party’s annual congress in December.

The government’s call for reduced industrial electricity usage will further depress domestic industries, especially mining, which is heavily dependent on electricity. While a region-wide drought has fueled the power crisis, the government’s continued failure to find lasting solutions to it reduces opportunities for reviving the economy or attracting investment.

The weak agricultural sector, a victim of the government’s populist policies, is also threatening the food manufacturing industries. Importing raw materials is a short-term measure, which is unlikely to sustain a viable manufacturing sector in the long term. This will encourage de-industrialisation and the rapidly growing informal market in the country. Extensive macro-economic structural reforms would improve the business environment in order to attract investments in the key sectors of the economy, although this would be possible in a post-Mugabe era.

<sup>38</sup> Source, analyst, Zimbabwe

<sup>39</sup> Politicsweb, 25 Jul 2015.

<sup>40</sup> African Economic Outlook, Report, 2015

<sup>41</sup> African Economic Outlook, Report, 2015

<sup>42</sup> Source, analyst, Zimbabwe

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