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Zimbabwe continues to take small steps towards normalising relations with western donors to repair its damaged and crumbling economy. The government holds its first bilateral meeting with the International Finance Corporation (IFC) since 2001. The talks follow recent similar engagements with the International Monetary Fund (IMF), the World Bank and the African Development Bank (AfDB). Vice-president Emmerson Mnangagwa appears to be slowly consolidating his grip on power as he has virtually taken over running the country while President Robert Mugabe (1980- present) travels across Africa attending to continental duties. Since assuming chairmanship of both the 54-member African Union (AU) and 15-member Southern African Development Community (SADC) in August last year and January this year respectively, Mugabe has spent most of his time away from Zimbabwe. In his absence, Mnangagwa has been acting as president, giving him opportunity to not only influence policy, but more importantly, to entrench his power in government and the ruling Zimbabwe African National Union-Patriotic Front (Zanu-PF) party. Proplastics, the unbundled manufacturing division of Masimba Holdings, lists on the Zimbabwe Stock Exchange (ZSE), the first ZSE listing since 2012.

First direct talks with International Finance Corporation amid private sector gloom

Zimbabwe continues to take small steps towards normalising relations with western donors to repair its damaged and crumbling economy. On 11 June, it held its first bilateral meeting with the **International Finance Corporation (IFC)** since 2001. The talks, whose success could herald the resumption of much-needed credit for the struggling economy and private sector, follow recent similar engagements with the **International Monetary Fund (IMF)**, the **World Bank** and the **African Development Bank (AfDB)**. Harare has also started opening up to its former colonial power, the **United Kingdom (UK)**, and other **European Union (EU)** members such as **France** and **Germany**. The talks took place amid economic gloom, particularly as more companies apply to retrench staff. Others are cutting wages or introducing short working hours to protect both their business and jobs. **Econet Wireless**, the country's largest mobile phone operator by market share and subscriber numbers, announced on 19 June it was slashing staff salaries by 35% across the board to stave off looming losses in the face of declining voice revenues and a regulatory imposed tariff cut.

The meeting with the IFC is particularly important. As the private sector arm of the World Bank, it was actively funding the private sector in Zimbabwe prior to the economic downturn triggered by forced land seizures that started in 2001. Zimbabwe is hoping the IFC can be persuaded to open its cheque book again, although it may wait for signals from the World Bank, which has previously insisted the government first clear its outstanding debt with it and other multilateral organisations. IFC director **Cheik Oumar Seydi**, who headed the mission's talks with the government, promised to engage with companies in the agri-business and infrastructure sectors to help economic recovery.

Zimbabwe's economy, whose growth in 2015 is expected to be between 2.8%-3% from earlier projections of 3.1%, continues to struggle. Manufacturers, seen as key to GDP growth and job creation, are battling to access cheap credit, while consumer demand appears to be faltering as more workers are retrenched. Statistics show that since the ruling **Zimbabwe African National Union-Patriotic**

Front (Zanu-PF) party won the 2013 elections, over 7,000 workers have lost their jobs. More than 1,500 workers lost jobs in the first quarter of 2015. Analysts expect more companies to apply to reduce their labour force as costs bite and revenues dip, an embarrassing prospect for Zanu-PF which had promised that 2.8 million jobs would be created by 2018. The government has since been forced to issue a directive that any company planning to retrench must prove that laying off was the only option.¹

The government admits it has no cash to pay civil servants, let alone fund infrastructure and basic services, but is holding out an olive branch to donors, promising that its plans to reform the economy are on course. Political and regulatory uncertainty remains, resulting in investors adopting a wait-and-see approach with the likely exception of the **Chinese** and **Russians**.

Harare views the meeting with the IFC as positive progress in attempts to mend relations with donors. This is because Zimbabwe owes about \$9 billion in arrears to the IMF, the World Bank, AfDB and the **Paris Club**, a group of Western creditors. Zimbabwe wants the debt cancelled, but the IMF says Zimbabwe does not qualify for such debt relief, and prefers to work out a payment plan. Finance minister **Patrick Chinamasa** has already met donors in Harare where they agreed to help Zimbabwe repay its debt. French deputy secretary of foreign affairs **Rémy Riou** says France will support Zimbabwe, on condition it clears its foreign debt.²

Chinamasa made a further call of help to donors on 22 June after he announced plans to re-engage the **International Fund for Agricultural Development (IFAD)** to reschedule payment of a \$40 million loan Zimbabwe owes the organisation.

The donors' quandary is two-fold. First, they realise without credit to kick-start an ailing economy, Zimbabwe will not be able to generate the export receipts needed to replenish its virtually empty foreign reserves, from which it can start repaying its debt. Second, linking resumption of aid to repayment of outstanding debt when the economy is in free-fall is not an option either. Analysts say Zimbabwe needs the west, and the west wants Zimbabwe to work, not least for the benefit of the few western firms in the country, and those seeking opportunities in sectors such as mining, tourism and financial services. The fact that several western governments, among them the UK, France, Germany and the **Netherlands**, have started low-key but still significantly important engagements with Zimbabwe, appears to indicate a softening of attitudes towards the country. The EU has removed so-called "targeted sanctions" against all top leaders from the ruling Zanu-PF, save for those still imposed on President **Robert Mugabe** (1980- present) and his wife, **Grace** (see *ARC Zimbabwe February 2015 Briefing*).

Zimbabwe needs any help it can get to attract foreign investment, which continues to be stalled by unclear laws such as plans to force foreign firms to cede 51% control to black Zimbabweans. Government says the law will be selectively applied, but it appears many investors are yet to be convinced.

Vice-president Emmerson Mnangagwa in pole position to lead

Vice-president **Emmerson Mnangagwa** appears to be slowly consolidating his grip on power as he has virtually taken over running the country while Mugabe travels across Africa attending to continental duties. Mugabe is head of the 54-member **African Union (AU)** and 15-member **Southern African Development Community (SADC)**. Since assuming chairmanship of both organisations in August last year and January this year respectively, Mugabe has spent most of his time away from Zimbabwe. Mnangagwa has been acting president in his absence, giving him opportunity not only to influence policy, but most importantly, to entrench his power in government and the ruling Zanu-PF party. Mnangagwa fought a bruising factional battle with the dismissed former vice-president **Joice Mujuru**, who is now the subject of constant state media attention amid reports that she may be prosecuted for allegedly corrupt activities. Mnangagwa, known as "**Ngwena**" (the crocodile) because

¹ Herald, 2 Jun 2015.

² Reuters, 5 June 2015.

of his wily ways and political survival skills,³ is a trained lawyer and has long aspired to lead the country.⁴ With his elevation to vice-president of Zanu-PF at the party's elective congress in December 2014, and subsequently of the country, this puts him in pole position to take over should Mugabe either retire or die in office.⁵

Mujuru's dismissal (see *ARC Zimbabwe December 2014 Briefing*) led to a major cabinet reshuffle that resulted in the dismissal of ministers and deputy ministers allegedly aligned to her faction. The Zanu-PF purge also resulted in the dismissal or suspension of provincial chairmen accused of supporting Mujuru. Zanu-PF sources say this strengthened Mnangagwa's position as those opposed to his elevation were no longer in the party, nor could they prevent him from assuming presidency of the country were such an opportunity to present itself.

Other Zanu-PF insiders insist that Mnangagwa has no presidential ambitions.⁶ Still, his perceived ambitions come amid calls by some in Zanu-PF for open discussion of the leadership debate.

Nathaniel Manheru, presumed to be Mugabe's president spokesman **George Charamba**, said as much in one of his weekly columns in the state-run **Herald** newspaper.

*"In the twilight of President Mugabe's leadership, we badly need a frank debate on leadership. I am ready to lead the charge right away, from as early as next week. Or else I quit."*⁷

Despite unproven claims that Mnangagwa is a ruthless and autocratic leader, he is seen as a potential reformist with whom the west and investors can engage on the country's future.⁸ He may be able to soothe fears among investors on such issues as the black economic empowerment plans, which include controversial plans to force foreign firms to cede up to 51% control to black Zimbabweans.⁹

Mnangagwa appeared recently to soften the government's stance on the land issue, saying anyone found with multiple farms or under-utilising those allocated under the state's land reform programme would be asked to give them up.¹⁰ The government has also legislated new farm rental fees to raise income for the cash-strapped treasury. It plans to levy an annual land tax of \$5 per hectare for so-called "A2" farmers and \$15 per hectare for "A1" farmers.¹¹ A1 farms are generally villagised arrangements or small, self-contained farms, about five hectares in size, and situated in the more arable regions with higher rainfall.¹² A2 farms are generally small-scale commercial farms that range from 20 to 240 hectares.¹³

It remains to be seen if Mnangagwa will become the next president, as Mugabe has publicly indicated that he will serve his term, and may even seek re-election at the next presidential elections scheduled for 2018.

Zimbabwe Stock Exchange gets first new listing since 2012

The **Zimbabwe Stock Exchange (ZSE)** may have completed its first listing since 2012 on 8 June, but this was a rare piece of good news amid ongoing low investor sentiment. The new listing was **Proplastics**, the unbundled manufacturing division of **Masimba Holdings**.¹⁴ An expected **RioZim** rights offer and the scheduled launch of an automated trading platform in July have further contributed to increased confidence in the ZSE. Nevertheless, the Proplastics deal made headlines as it

³ New Zimbabwe, 10 Dec 2014.

⁴ Source, Zanu-PF members, Harare

⁵ Source, politician close to Zanu-PF, Harare

⁶ Source, Zanu-PF members, Harare

⁷ Saturday Herald, 6 Jun 2015.

⁸ Source, western diplomat, Harare

⁹ Source, western diplomat, Harare

¹⁰ The Standard, 17 May 2015.

¹¹ Zimbabwe Independent 29 May 2015

¹² ZimbabweLand.net, 2011

¹³ ZimbabweLand.net, 2011

¹⁴ The Independent, 12 Jun 2015.

is very much the exception with delistings still the norm. Over the past five years, ten companies have delisted from the ZSE with the number of counters now at 64 from a high of 78.¹⁵ A number of these are listed in name only and do not trade, contributing to a decline in volumes traded from 6.80 billion shares in 2010 to 3.18 billion in 2014.¹⁶

The AfDB monthly Zimbabwe report for March ranked the ZSE as Africa's worst performing stock exchange.¹⁷ The ZSE's industrial index lost 5.43% and the mining index 19.51%, with no improvement since then.¹⁸ The most recent data for May shows that turnover declined 20% to \$23.28m, with average daily trades 20% lower than the previous month.¹⁹ Volumes traded declined 51%.²⁰ International investors accounted for 59% of total turnover and 56% of total purchases.²¹

Unbundling as a means of raising capital or shedding debt may be the ZSE's best chance for increased activity. With corporate earnings under pressure, Zimbabwe-based companies are looking to restructure their debt. ZSE-listed agro-industrial company **CFI Holdings Ltd**, for instance, hived off its 14% shareholding in fertiliser producer **Windmill** in June as part of a debt-swap arrangement after shareholder **Nicholas van Hoogstraten** moved to put CFI Holdings under judicial liquidation.²²

Implications

Despite reservations about the political climate, western donors have decided to engage with the government, which continues to appeal for help to revive a crumbling economy. The west seems divided about whether there is hope in a strong opposition that can topple the ruling Zanu-PF party from governing the country, a feat the now split **Movement for Democratic Change (MDC)** almost managed in 2008. Several western governments have started engaging with Harare on how they can help the government restore economic growth, and help the private sector to modernise and expand operations. The country desperately needs any help it can get, not only to arrest a worsening economic crisis, but also to create jobs for the thousands who are being retrenched almost every month as companies battle to survive.

The elevation of Emmerson Mnangagwa as president could mark the beginning of a new era for Zanu-PF, while closing the chapter on Mugabe's leadership since independence in 1980. Mnangagwa is seen as a reformist who may help to open the economy to more western investment. But for now, it is far from certain he will take over. Politics within Zanu-PF have always proved unpredictable. At this stage, however, analysts see no other potential candidate to lead the party should Mugabe opt to retire or were to die while in office.

Renewed investor confidence is required if Zimbabwe is to avoid deflation in the face of low mineral prices and foreign direct investment inflows. While unbundlings alone won't restore investor confidence, they will if used appropriately free up capital and encourage business activity.

¹⁵ The Independent, 19 Jun 2015.

¹⁶ The Independent, 12 Jun 2015.

¹⁷ The Independent, 19 Jun 2015.

¹⁸ The Independent, 19 Jun 2015.

¹⁹ www.source.co.zw.

²⁰ www.source.co.zw.

²¹ www.source.co.zw.

²² Financial Gazette, 25 Jun 2015.

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