

**AFRICA RISK CONSULTING****Country briefing – Zimbabwe****28 October 2014****1 Summary**

*State-owned Zimbabwe Electricity Supply Authority (ZESA) signs a flurry of deals with foreign investors and power utilities to boost electricity generation capacity. First Lady Grace Mugabe steps up her campaign to gain more support within the ruling Zimbabwe African National Union Patriotic Front (Zanu-PF) and to eliminate any opposition to her ascendancy. She makes dramatic attacks against vice president Joyce Mujuru, whom she accuses of corruption and abuse of office. The International Monetary Fund (IMF) throws Zimbabwe a potential life-line with a raft of proposed measures to help restore growth to the ailing economy. If implemented, the proposals could lay the groundwork for the resumption of IMF credit and possible support from donors such as the World Bank.*

**1.1 Power in the spotlight**

Zimbabwe has signed a number of deals to improve energy supply but the power crisis is unlikely to end in the short term as most proposed projects – even if they come to fruition – will take at least four years to complete. The state-owned **Zimbabwe Electricity Supply Authority (ZESA)** is currently unable to provide sufficient power for domestic and commercial use. Daily electricity demand stands at 2,200 MW, but Zimbabwe has installed capacity of only 1,100MW. The country's two main power sources, the coal-based **Hwange** power plant and the hydroelectric facility at **Kariba**, were only producing a combined 800MW in October, according to the power utility.<sup>1</sup> Compounding the problem, **Mozambique's Hydro Cahora Bassa**, Zimbabwe's primary source of imported energy, has reduced power exports to Zimbabwe from 400MW to 50MW due to increased power demand from coal mines in northern Mozambique.

To improve power supply Zimbabwe has looked to **China** for investment in new plants. In October, the Zimbabwe government signed a \$1.5 billion deal with **Sinohydro** to expand Hwange. President **Robert Mugabe** (1980-present) has also commissioned a \$533m project, partly funded by the **China Export Import Bank**, to expand the Kariba facility. The Hwange expansion, if implemented, would add an extra 600MW of capacity to the plant. **The Kariba South Expansion** project could add 300MW.

---

<sup>1</sup> Fullard Gwasira, spokesperson for ZESA Holdings, 24 Oct 2014.

Zimbabwe has also awarded a number of contracts for the extraction of gas fields and also for the installation of solar power plants in **Gwayi**, a region in the south of the country. **Southern Africa Shanghai Energiser Company**, a consortium of Chinese firms – China’s **Shanghai Electric, Shenergy Co Ltd** and **Nan Jiang Group** – has also won a contract to mine coal and build a new power plant on a coal-mining belt in the western region of the country.

The government has cautioned that the new projects will not in themselves end the power crisis. Both the Hwange and Kariba projects will only come on stream in 2018, according to energy minister **Dzikamai Mavhaire** in remarks he made at a business meeting on 20 October. He added that “load-shedding”, power cuts meant to manage short supply, would continue until 2017.

*“The long term solution to power supply in Zimbabwe lies in the expansion of our generation capacity. Hwange will give us electricity in 2017, and the solar panels we are constructing will be complete in 2016. Load-shedding will be with us for some time.”<sup>2</sup>*

The Zimbabwe government is licensing independent private producers (IPPs) to cover the deficit. The **Zimbabwe Energy Regulatory Authority**, which licenses IPPs, has awarded 20 such licences. However, most IPPs are yet to take off as they are failing to attract investors due, in part, to Zimbabwe’s high credit risk.<sup>3</sup> For example, a coal-fired power plant planned by mining company **Rio Zim**, supposed to generate 1400MW, is “yet to get off the ground as the company [has failed] to secure offshore funding”.<sup>4</sup>

The **Confederation of Zimbabwe Industries (CZI)** says power shortages were cited in a survey of its members as “top of the list of the five most problematic infrastructure factors” affecting their operations.<sup>5</sup> The CZI survey says:

*“Power is one of the many infrastructural utilities which... play an enabling role in the economy... The state of Zimbabwe’s infrastructure is deplorable. Eighty percent of the respondents indicated that the state of infrastructure was generally poor and would not be able to sustain medium to long term economic growth.”<sup>6</sup>*

## 1.2 More uncertainty as Grace Mugabe enters field

First Lady **Grace Mugabe** has stepped up her campaign to gain more support within **Zimbabwe African National Union Patriotic Front (Zanu-PF)** and to eliminate any opposition to her as a

<sup>2</sup> Address to CZI, 20 Oct 2014.

<sup>3</sup> Gloria Magorimbo, CEO of Zimbabwe Energy Regulatory Authority, 24 Oct 2014.

<sup>4</sup> The Herald, 27 October, 2014

<sup>5</sup> CZI 2014 Manufacturing Report, p 19

<sup>6</sup> CZI 2014 Manufacturing Report, p 19

successor to her nonagenarian husband. In doing so, she has exposed and widened divisions within Zanu-PF, which were always known but which party and government officials have massaged for some years. Such divisions threaten further paralysis within the government over the short to medium term.

In a series of campaign rallies during October, Grace Mugabe has targeted most of her attacks on vice president **Joyce Mujuru** whom she accuses of preparing a move to oust Robert Mugabe at the party's December 2014 congress. Grace appears eager to build her own support base. Critics within Zanu-PF and other analysts accuse her of banking on her husband's clout.

*"Grace Mugabe is using borrowed power from her husband to fight."*<sup>7</sup>

Her campaign has so far only succeeded in worsening the infighting in Zanu-PF. Splits in key wings of the party are now more visible. Veterans from the war against white-minority rule in the 1970s, usually enforcers of the party's campaigns, are divided on whether or not to back Grace.<sup>8</sup>

Grace Mugabe has the backing of a faction that rivals Mujuru, and is led by justice minister **Emmerson Mnangagwa**, who has begun holding meetings in his home province to drum up support for Grace and for his own bid to take one of Zimbabwe's vice-presidential posts in December's party congress. At one meeting, a Grace ally said in a speech, that Mnangagwa was "the perfect candidate for the vice presidency".<sup>9</sup> To add to the uncertainty, Grace herself has hinted that she may be angling for higher office, beyond the post of leader of the women's wing.

*"Some say I want to be president. Why not? Am I not Zimbabwean, too?"*<sup>10</sup>

Zanu-PF vice presidents are chosen in elections by all members of the party. However, the Mnangagwa faction is looking to force through amendments that would allow Mugabe to appoint his deputies. The Mnangagwa faction says this is to ensure there are no other "centres of power" outside Mugabe.<sup>11</sup>

However, the move is more likely designed to prevent Mujuru, who enjoys popular support among the party grassroots, from being re-elected to the post in an open party election. The Mnangagwa faction hopes Grace will use her influence to have Mnangagwa replace Mujuru as vice president. Mujuru's

<sup>7</sup> Political scientist Eldred Masunungure, The Standard, 26 Oct 2014.

<sup>8</sup> NewsDay, 27 Oct 2014.

<sup>9</sup> The Standard, 26 Oct 2014.

<sup>10</sup> NewsDay, 24 Oct 2014.

<sup>11</sup> Sunday Mail, 19 Oct 2014.

supporters continue to resist the moves. There was violence in one district at a Grace Mugabe rally when police had to intervene after clashes between youths from the rival factions.

Some analysts believe Mujuru has enough support within the party to stop her rivals.

*"It seems the Mnangagwa faction is going for broke, but I don't see them achieving anything because there is no way they can stop Mujuru; she is through the door already."*<sup>12</sup>

The factional fighting has been so intense that many analysts doubt Zanu-PF will be the same even after the congress is out of the way. The rifts will remain, if not worsen, and this will have a further negative impact on the economy as key decisions will be delayed or run the gamut – and ultimately the stalemate – of factional infighting.

*"There is no doubt that Zanu-PF will be significantly transformed (for the worse) after the conference. It will not be the same party."*<sup>13</sup>

### *1.3 IMF proposes rescue package for Zimbabwe's ailing economy*

The **International Monetary Fund (IMF)** has thrown a potential life-line to Zimbabwe following its decision to propose a raft of measures to help restore growth of the ailing economy. The proposals, announced on 23 October 2014, could (if implemented) lay the groundwork for the resumption of IMF and **World Bank** loans and credits. However, Zimbabwe has been at this juncture many times before and the Zanu-PF government has – to date – always failed to carry out the reforms that would trigger a resumption in external donor financing.

The **African Development Bank (AfDB)** has also been working on a package of proposals to assist Zimbabwe to come out of its two-decade-long economic crisis that has decimated manufacturing output, increased company closures and seen thousands of workers retrenched. The IMF package includes ideas for restoring confidence in the banking sector, clarifying land reform and 'indigenisation' policy, and reducing state debts.

Zimbabwe's external debt will reach \$12.8 billion (94.5% of GDP) by the end of 2014, up from \$10 billion as of December 2013, of which \$5.6 billion is from arrears. Unchecked, the country's external debt is expected to grow to \$22.5 billion (122% of GDP) by 2019.

---

<sup>12</sup> Source, political analyst

<sup>13</sup> Source, political analyst

The IMF believes restoring confidence in the financial sector – where many small banks are struggling with a crippling liquidity crisis and non-performing corporate and individual loans – is key to attracting back investors. Such banks are currently unable to lend because of their inability to access cheap international credit, as global counterpart lenders are concerned about the low economic activity in Zimbabwe and policy risk factors like indigenisation. This has been confirmed by the CZI, which has warned that the economy was deteriorating so fast that de-industrialisation had reached “catastrophic levels”, with potentially dire long-term consequences for the country’s economic base.<sup>14</sup>

The IMF said Zimbabwe should urgently finalise setting up the **Zimbabwe Asset Management Company (ZAMCO)**, a new unit recently announced by the **Reserve Bank of Zimbabwe (RBZ)**, to take over the non-performing loans of mostly struggling small black-owned banks estimated at more than \$700m. The unit would be funded by non-funded credit lines, bonds and treasury bills. The IMF wants the setting up of the unit finalised by setting up the draft operational framework by December. The RBZ did not immediately respond to the suggestion but RBZ deputy governor **Kupikile Mlambo** said the unit was already operating, and only the appointment of a board and a CEO remained to be finalised. “*It’s already operating. We want to remove the NPLs from the books of the banks.*”<sup>15</sup>

The IMF says Zimbabwe should take tough decisions to stabilise and restore economic growth. Zimbabwe has already slashed by half its GDP growth estimate for 2014 to 3.1% from 6.1%. There are doubts that even this lower target will be achieved, particularly after the IMF revised downwards its growth projections for **southern Africa** as whole in October.<sup>16</sup>

The IMF also wants the government to gazette laws on its ‘indigenisation’, or empowerment policy, to reassure foreign investors worried about the possibility of compulsory acquisition of their assets. Youth and indigenisation minister **Francis Nhema** has said there will not be a blanket empowerment policy, but instead it will be implemented on a sector by sector basis. In banking, for example, Nhema says all foreign-owned banks except one (which he did not name) had now agreed to having majority stakes owned by black Zimbabwean groups.<sup>17</sup>

The Zimbabwe government had not responded to the IMF proposals at the time of going to press. An analyst who declined to be identified says while the IMF proposals make economic sense, they could be “*problematic*” politically as Zanu-PF may not want to be seen to be abandoning a policy (indigenisation) which Mugabe himself has driven, at the behest of the IMF.

<sup>14</sup> Confederation of Zimbabwe Industries CZI’s Manufacturing Sector Survey 2014, 10 Oct 2014, IMF press conference, Harare, 23 Oct 2014.

<sup>15</sup> Bloomberg, 15 Oct 2014.

<sup>16</sup> World Economic Outlook, 2 Oct 2014.

<sup>17</sup> Business Report, South Africa, 19 Oct 2014.

*“Right now, there is uncertainty creeping in on the future of Zimbabwe because of the power battles in (the ruling party) Zanu-PF.”<sup>18</sup>*

## 2 Implications

Zimbabwe’s power generation crisis is one of the major obstacles to economic revival and will continue to hobble output in the key manufacturing and mining sectors until the country manages to expand capacity and get close to meeting demand. Persistent power cuts, some lasting as long as 16 hours a day, have become the norm in the past decade, mainly due to ageing equipment which has neither been upgraded nor properly maintained. However, efforts by the government to seek funders from China and cut supply deals with neighbouring power utilities have raised hope that over time, the situation may stabilise, but not before 2018, or even 2020.

The entry of President Mugabe’s wife into Zanu-PF leadership politics has become the most talked-about political issue in Zimbabwe. Grace herself is politically immature and too inexperienced for the role of president. The consensus is that her decision to take Mujuru head-on is to either smooth the way for Mnangagwa to be her husband’s eventual successor or to deter Mujuru from making a move at December’s party congress.

The IMF’s proposals to rescue the ailing economy face an uncertain future. With rampant unemployment, estimated at 80%-90%, a crippling liquidity crisis and rising poverty, Zimbabwe may appear to have no choice but to embrace reform. But it has been in this situation many times before and its leaders have preferred politically-driven indigenisation policies over economic orthodoxy (still convinced, despite the evidence, that the former will deliver the latter, perhaps). Any major economic or other policy shift seems unlikely for now with the battle for Zanu-PF’s succession still pre-occupying decision-makers. The ruling party’s congress in December may give an indication of who may succeed President Mugabe, but the smart money is still on continued factional stalemate until Mugabe himself indicates that he is ready to stand down.

---

<sup>18</sup> Source, political analyst, Harare