

## AFRICA RISK CONSULTING

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#### Zimbabwe Summary 26 June 2016

*The Zimbabwe National Liberation War Veterans Association (ZNLWVA) declares support for vice president Emmerson Mnangagwa to succeed President Robert Mugabe (1980-present). Mugabe threatens to act against the war veterans amidst ongoing internal rebellion in the ruling Zimbabwe African National Union-Patriotic Front (Zanu-PF). Russian investors grant \$53m to fund the Great Dyke Investments (Pvt) Ltd, a joint venture between Zimbabwe and a Russian consortium to mine platinum. Expansions at Kariba South Power Station will ease power supply challenges. Zimbabwe reduces the number of days for company registration as part of reforms to improve the ease of doing business in the country and attract foreign investment.*

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#### Mugabe threatens war veterans amidst internal rebellion

President **Robert Mugabe** (1980-present) has threatened to “*crush*” the national war veterans lobby group, **Zimbabwe National Liberation War Veterans Association (ZNLWVA)**, if its members continue to meddle in the issue of presidential succession.<sup>1</sup> In a strongly worded statement on 9 June, Mugabe labelled war veterans as “*dissidents*” and accused them of using their organisation to attack his leadership and direct processes within the ruling **Zimbabwe African National Union-Patriotic Front (Zanu-PF)**.<sup>2</sup>

*“It is not proper for anyone to use this welfare body as a platform that is used to attack the top leadership or seeking to direct party processes in a certain direction preferred by some individuals within that body; to do so will once again amount to going the way of the dissidents.”<sup>3</sup>*

**Piers Pigou**, senior consultant for the **International Crisis Group**, argues that although war veterans have played a critical role in preserving Mugabe’s rule and Zanu-PF’s control over government, recent tensions show a deeply strained relationship.<sup>4</sup>

*“The war veterans association consists of former guerrilla fighters in the war for Zimbabwe’s independence from settler colonial rule. The war peaked in the mid-1970s and ended with a peace settlement at **Lancaster House (United Kingdom)** in 1979. Since independence in 1980, war veterans have been an influential group in Zimbabwe’s politics, especially from 1997, when Mugabe and Zanu-PF faced the toughest opposition to his rule. They also championed farm invasions in 2000, and since then, they have always threatened to use violence should Mugabe lose any election. Nevertheless, the ongoing tensions reflect irreparable damage to Mugabe’s relationship with the war veterans, given his expressed readiness to use violence against them.”<sup>5</sup>*

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<sup>1</sup> NewsDay Zimbabwe, 13 Jun 2016.

<sup>2</sup> NewsDay Zimbabwe, 22 Jun 2016.

<sup>3</sup> NewsDay Zimbabwe, 22 Jun 2016.

<sup>4</sup> Daily Maverick, 15 Jun 2016.

<sup>5</sup> Source, analyst, Zimbabwe

Mugabe's statement follows the war veterans' alleged support for current vice president **Emmerson Mnangagwa** as the only person they see fit to succeed Mugabe based on his seniority and experience in Zanu-PF.<sup>6</sup> The war veterans met with Mugabe in April to diffuse tension between the ZNLWVA and the president, after which they embarked on a series of feedback meetings in the provinces. Following these meetings, they endorsed Mnangagwa as their preferred candidate to succeed Mugabe.<sup>7</sup> ZNLWVA spokesman **Douglas Mahiya** described the endorsement as "a matter of principle":

*"All fighters, all those who went to the struggle are in a queue to rule and the norm is, seniority tells who is next in line. So next in line from those who took part in the struggle, is Mnangagwa. There is nothing sinister about that, it is just a matter of principle."*<sup>8</sup>

Mugabe said the war veterans had no mandate to decide who should succeed him:

*"It is not your function to talk of who should succeed the president or, worse still, threaten that unless what you want is fulfilled, there shall be bloodshed...That will not be allowed and steps will be taken against them. Dissidents tried it and you know what happened."*<sup>9</sup>

Although Mugabe has previously used war veterans for political support, he threatened to attack them in the way the **Fifth Brigade** attacked the **Zimbabwe People's Revolutionary Army (ZIPRA)** armed insurgency between 1982 and 1987.<sup>10</sup> Mugabe evoked memories of the killings in **Matabeleland** and parts of the **Midlands** provinces in the early 1980s.<sup>11</sup> The Fifth Brigade killed approximately 20,000 ethnic **Ndebele** people in what is generally known as the '**Gukurahundi**' massacres.<sup>12</sup>

Relations between Mugabe and the war veterans have been strained in recent months. Mugabe dismissed **Christopher Mutsvangwa** as war veterans minister in February, although he remains chairman of the ZNWVLA.<sup>13</sup> Analysts view Mugabe's rhetoric as inflammatory and indicating his readiness to use violence in dealing with war veterans or other opponents.

*"Having worked with Mugabe for such a long time since the liberation struggle, the war veterans should have known better that Mugabe does not take kindly to being put under pressure over his rule. The war veterans' statement has only served to harden his grip on power while keeping the succession as an 'unknown issue'. Mugabe does not tolerate any challengers to his position. War veterans are at risk of a violent response from Mugabe if they continue issuing bombastic statements against this rule."*<sup>14</sup>

### **Russian investors grant \$53m for platinum mining project**

A **Russian** consortium of investors has granted \$53m to fund **Great Dyke Investments (Pvt) Ltd**, a joint venture between Zimbabwe and Russia that owns the **Darwendale** platinum mining project.<sup>15</sup> The project, valued at \$3 billion, is the largest joint venture the government has entered into with a foreign investor in the history of independent Zimbabwe. The joint

<sup>6</sup> NewsDay, 22 Jun 2016.

<sup>7</sup> NewsDay, 22 Jun 2016.

<sup>8</sup> War veterans' statement, quoted in NewsDay Zimbabwe, 1 Jun 2016.

<sup>9</sup> NewsDay, 22 Jun 2016.

<sup>10</sup> ENCA News 10 Jun 2016.

<sup>11</sup> ENCA News 10 Jun 2016.

<sup>12</sup> NewsDay, 22 Jun 2016.

<sup>13</sup> NewZimbabwe, 12 Feb 2016.

<sup>14</sup> Source, analyst, Zimbabwe

<sup>15</sup> The Herald, 16 Jun 2016.

venture is between the **Zimbabwe Mining Development Corporation (ZMDC)** and a consortium of three companies: **Vi Holding**; technology company **Rostec**; and Russian national bank **Vnesheconombank**, the financier.<sup>16</sup> The project will produce nearly a million ounces of platinum annually.<sup>17</sup> The project will reportedly receive investment of up to \$4.2 billion over the next 10 years, with plans already underway to set up a refinery to promote value addition.<sup>18</sup> Zimbabwe holds the second largest known reserves of platinum after **South Africa** and is expected to double its annual platinum production in the next decade.<sup>19</sup>

The investment takes place against a backdrop of documented risks in the Zimbabwean mining sector, particularly the indigenisation law, which has forced many diamond mines to close this year. Zimbabwe has a high sovereign risk, which levies an additional premium on the cost of funds and makes the country a more expensive investment destination.<sup>20</sup> However, the Russian investors may be seeking a long-term presence in the country, and have eased their way into the difficult investment terrain in Zimbabwe through getting into partnership with the government. Other foreign companies such as **Canada**-based junior gold miner **Caledonia Mining**, whose operations are based in **Gwanda**, have said that the country risk for foreign investors in Zimbabwe is exaggerated.<sup>21</sup> Caledonia has operated in Zimbabwe since 2006 and became the first mining house to comply with the indigenisation law after selling off 51% of its interest in **Blanket Mine** to locals in 2012.<sup>22</sup> Despite this, Caledonia has been able to pay dividends to foreign investors since the start of the business.<sup>23</sup> Since 2006, the mine has operated without stoppages, except in 2008 when hyperinflation brought the country to a halt.

### **Zimbabwe on course to ease power deficit**

Zimbabwe plans to bridge part of its power deficit by December 2017 by adding 300MW of power to the national grid.<sup>24</sup> This will come from capacity extensions currently underway at the **Kariba South Power Station** that the state-owned **Zimbabwe Power Company (ZPC)** owns.<sup>25</sup> Construction for the hydro power plant's \$533m capacity extensions are reportedly 50% complete, with some key aspects of the project nearing completion.<sup>26</sup> The **Chinese**-funded expansion project began in 2014 and is scheduled for completion by the end of March 2018, although ZPC expects the first unit to come online on 24 December 2017.<sup>27</sup> China-based **Sino Hydro** won the contract to construct the power station at engineering, procurement and construction cost of \$354m, but additional expenses such as consultants, equity contribution, interest and statutory costs will see the total cost rise to \$533m.<sup>28</sup>

Approximately 37% of Zimbabweans have access to electricity.<sup>29</sup> Although this is higher than the **African** average of 31%, there is still a significant gap between installed capacity and

<sup>16</sup> The Herald, 16 Jun 2016

<sup>17</sup> The Herald, 16 Jun 2016

<sup>18</sup> The Herald, 16 Jun 2016.

<sup>19</sup> Mining Zimbabwe, 21 May 2016.

<sup>20</sup> NKC Independent Economists, March Quarterly Report 2016

<sup>21</sup> The Source, 03 Jun 2016.

<sup>22</sup> The Source, 03 Jun 2016.

<sup>23</sup> The Source, 03 Jun 2016.

<sup>24</sup> The Herald, 16 Jun 2016

<sup>25</sup> The Herald, 16 Jun 2016.

<sup>26</sup> The Herald, 16 Jun 2016.

<sup>27</sup> The Herald, 16 Jun 2016.

<sup>28</sup> The Herald, 16 Jun 2016.

<sup>29</sup> Inside Africa, 17 Aug 2015.

peak demand in the country – estimated at 1,200MW in August last year.<sup>30</sup> Zimbabwe has sought to cover part of this gap by using the **Southern Africa Power Pool** through which it is importing about 40% of its power requirements from South Africa’s state-owned power utility **Eskom**, **Mozambique’s Cahora-Bassa** and the **Democratic Republic of the Congo (DRC)**’s government-owned **Société Nationale d’Électricité (SNEL)**.<sup>31</sup> However, import supplies have not been able to bridge the demand gap and Zimbabwe has been experiencing extensive load shedding, particularly during peak periods. The Kariba South expansion is part of the ZPC’s generation expansion programme launched to alleviate power shortages in the country.

*“The Kariba South expansion project will go a long way in the dealing with the electricity supply shortages currently faced in Zimbabwe. However, this may work if the water levels in **Kariba Dam** remain constant at a higher level. The recent experiences with the continual gradual decrease of water levels in the dam may reduce this development to another white elephant. While the power generating expansion is commendable, authorities should also start thinking of initiatives which will increase the water levels in the dam.”<sup>32</sup>*

The energy and power development ministry said that demand for power in the country has reduced from an average of 2,200MW in the last few years to around 1,000MW-1,600MW.<sup>33</sup> Deteriorating economic conditions have led to the closure of many industries, forcing some to cut on capacity utilisation, hence less demand for power.

The government has earmarked power supply as a key area in reviving Zimbabwe’s economy. In addition to the Kariba South project, the government is working on a number of other public and private drive initiatives to increase power supply. These include the 600MW extension of **Hwange Thermal Power Station**, **Batoka Gorge**, a joint project with **Zambia** expected to generate 2,400MW; **Sengwa**, which **Rio Zimbabwe** is developing; and the **China Africa Sunlight Energy’s** power generation project in **Gwayi**, in partnership with the **Zimbabwe Electricity Transmission and Distribution Company (ZETDC)**.<sup>34</sup> The government has also issued a number of licences for independent power producers, with many of the projects expected to starting operating in the next two years.

### **Zimbabwe cuts down number of days for company registration**

The government has reportedly reduced the time it takes to register a business from 90 days to 13 days, as authorities seek to intensify efforts to improve the ease of doing business in Zimbabwe and attract foreign direct investment (FDI).<sup>35</sup> Deputy company registrar **Willie Mushaye** indicated that a review process is underway to further significantly reduce the company registration period.<sup>36</sup> The **World Bank** ranked Zimbabwe 155 out of 189 countries in its **2016 Ease of Doing Business Index**, largely due to its difficult investment climate, including the indigenisation law and other legislation.<sup>37</sup>

<sup>30</sup> Inside Africa, 17 Aug 2015.

<sup>31</sup> Inside Africa, 17 Aug 2015.

<sup>32</sup> Source, analyst, Zimbabwe

<sup>33</sup> The Herald, 16 Jun 2016.

<sup>34</sup> The Herald, 16 Jun 2016.

<sup>35</sup> The Source, 14 Jun 2016.

<sup>36</sup> The Source, 14 Jun 2016.

<sup>37</sup> The Source, 14 Jun 2016.

The government recently completed the **Rapid Results Approach (RRA)**, which is part of policy interventions that began in September 2015 to fast-track key reforms in the systems of doing business and attract investment.<sup>38</sup> The approach aims to bring together agencies involved in the registration of businesses, tax authorities and municipalities to remove bureaucratic hurdles, cut time and costs while simplifying business processes for investors. The government intends to reform several laws, including the **Companies Act** and a statute to set up a commercial court as part of the broader effort to improve the investment environment. The government identified nine technical areas for the reform:

- paying taxes
- starting a business
- trading across borders
- resolving insolvency
- getting credit
- enforcing contracts
- registering property
- construction permits
- protecting minority investors.<sup>39</sup>

Zimbabwe is following approaches that other **African** countries have implemented to unlock foreign direct investment inflows. The World Bank reports that countries such as **Côte d'Ivoire, Madagascar, Niger, Togo** and **Rwanda** have also implemented reforms.<sup>40</sup> However, at \$250 the cost of registering a company in Zimbabwe is still relatively high compared to other countries in the region. Rwanda charges the equivalent of \$20 to register a company for both foreign and local investors, while South Africa's charges are in the same range.<sup>41</sup> The government will need to do more to improve the ease of doing business:

*"A robust communication strategy is required. While the ongoing reforms are mainly targeted at the foreign direct investment, the government should also encourage and assist local enterprises development. Given that the Zimbabwean economy is now dominated by small and medium enterprises (SMEs) and the informal sector, it follows that the methodological approaches used to evaluate the cost of doing business in Zimbabwe is centred on the SMEs."*<sup>42</sup>

## Implications

Mugabe's public spat with the ZNWVLA reveals his readiness to use violence in response to political challenges from his opponents. His continued rejection of suggestions that Mnangagwa should succeed him also indicates the potential for his wife, **Grace Mugabe**, to take over once he leaves office. His statement shows the precarious position that other Zanu-PF leaders would put themselves in should they publicly state their ambitions to succeed Mugabe.

Recent investment in the mining and power generation sectors will rejuvenate the economy in the medium and long term. Improvements in power supply are expected to lower the cost of manufacturing and encourage industries to make capital investments going forward. As

<sup>38</sup> The Sunday Mail, 27 Dec 2015.

<sup>39</sup> The Herald, 17 Jun, 2016.

<sup>40</sup> Zimbabwe Independent, 16 June, 2016.

<sup>41</sup> The Source, 14 Jun 2016.

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

Zimbabwe moves to implement a number of reforms to improve the investment climate, it is important that these reforms are communicated to all stakeholders, including local SMEs and external players in order to attract FDI. At a local level, ease of doing business reforms will also need to focus on small to medium enterprises.

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