

## AFRICA RISK CONSULTING

### Country briefing – Zimbabwe

18 September 2013

## Summary

*President Robert Mugabe (1980 - ) has appointed an all Zimbabwe African National Union Patriotic Front (Zanu PF) cabinet with loyalists in key positions. Francis Nhema replaces Indigenisation minister Saviour Kasukuwere, now demoted to the environment portfolio. The indigenisation policy will not change but the tone will be less strident as Nhema tries to court investors. The opposition Movement for Democratic Change, led by Morgan Tsvangirai is undergoing a process of internal assessment after its poor performance in the election. The European Union will lift sanctions on the Zimbabwe Mining Development Corporation, allowing Zimbabwe to trade diamonds in the Belgian market. EU sanctions on Mugabe and other individuals remain. Reserve Bank governor Gideon Gono affirms keeping the US dollar as Zimbabwe's currency.*

### 1.1 New cabinet announced

President **Robert Gabriel Mugabe** (1980 - present) has appointed a cabinet of old-guard **Zimbabwe African National Union Patriotic Front (Zanu PF)** loyalists. Zanu PF won 61% of the votes in the controversial 31 July election. Mugabe has appointed former justice minister **Patrick Chinamasa** as the finance minister. **Jonathan Moyo** returns as information minister and **Emmerson Manangagwa**, a lawyer and possible presidential candidate, will serve as justice minister. Presidential Affairs minister **Didymus Mutasa** and Mugabe will share responsibilities for state security.<sup>1</sup> **Walter Chidakwa**, former general manager of the **Zimbabwe Export Processing Zones Authority**, is the new mines minister.

Controversial indigenisation minister **Saviour Kasukuwere** swaps portfolios with environment minister **Francis Nhema**. Kasukuwere's demotion comes as a surprise as Mugabe had made indigenisation a cornerstone of his campaign and appeared to have promoted the former minister. The indigenisation programme intends to transfer 51% of foreign owned companies to black

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<sup>1</sup> 'Mugabe's agony at selecting ministers', Zimbabwe Independent, 13 Sept 2013

Zimbabweans. Nhema's appointment suggests Mugabe will pursue a softer approach to indigenisation.<sup>2</sup> However, a political economy expert does not share this optimism:

*"Nothing will change. The policy stays the same, only the personalities have changed. Saviour was used as a populist figure. He had no understanding of economics and messed up the **Zimplats** deal. So his role was over. Now, Zanu has to work out how to push the plan and encourage investment. That's Nhema's job."*

Mugabe used the opening of parliament to call for a 'step up' of indigenisation saying:

*"The implementation of the indigenisation and economic empowerment programme is to be pursued with renewed vigour, and our people must become stakeholders and not bystanders. The National Indigenisation and Economic Empowerment Fund will be capitalised by the establishment of a sovereign wealth fund. The indigenisation programme will be reviewed and strengthened, and community ownership trusts will be monitored."*<sup>3</sup>

Zanu PF made promises during the campaign that may be hard to keep and will struggle to deliver tangible results to an expectant population.

*"The thing that nobody explains to regular Zimbabweans is that the companies targeted for indigenisation don't deal in cash. The equity is transferred, paid for in debt that must be serviced by dividends. It's a long time before anyone sees actual money. So Mugabe's plans for a sovereign wealth fund or empowerment fund are far fetched."*<sup>4</sup>

Mugabe did not include any opposition party members in the cabinet. The main opposition **Movement for Democratic Change (MDC-T)** boycotted the opening of parliament on 17 September.<sup>5</sup>

## 1.2 The MDC begins to regroup

After suffering an overwhelming electoral defeat, albeit in a contest not entirely free or fair, the Movement for Democratic Change (MDC-T) is in crisis. Zanu PF had skillfully used the **Government of**

<sup>2</sup> Zimbabwean based economist

<sup>3</sup> 'Mugabe vows to pursue indigenization plan with 'renewed vigour', Business Day, 18 Sept 2013

<sup>4</sup> Source, Zimbabwean economist

<sup>5</sup> 'Zimbabwe's MDC boycotts Mugabe's parliamentary speech', BBC, 17 Sept 2013

**National Unity (GNU, 2009 – 2013)** to recover its electoral strength and avoid conceding too much in the **Global Political Agreement (GPA)** negotiations. A former advisor to **Morgan Tsvangirai** says:

*“They (MDC T) were comprehensively trounced in the election and during the GPA negotiations. They were so busy trying to run government that they lost focus on the bigger picture. Now after the elections, the soul searching has begun. They have to relook at their structures, policies, regional and international diplomatic links. (During the campaign) they did not have a coherent message on indigenisation. What did they have to offer the electorate?”*

Tsvangirai founded the party in 1999 and was prime minister during the government of national unity but after the MDC-T’s poor performance in the polls, some are calling for new leadership. MDC-T treasurer general **Roy Bennett** has led the call for Tsvangirai to step down.<sup>6</sup> MDC-T may hold its congress early to decide on the issue.

*“The MDC was formed through labour union structures in the late 1990s. The past decade has seen the economy change dramatically. There are more peasants and small-scale miners now. The informal economy is larger than the formal economy. All of which means MDC T’s urban and labour constituency is smaller now.”*<sup>7</sup>

### 1.3 European Union lifts sanctions on state diamond company

The **European Union (EU)** will lift sanctions imposed on the state-owned enterprise **Zimbabwe Mining Development Corporation (ZMDC)**. This will allow the company to sell diamonds in Europe. The **Marange** diamond fields produced an estimated 8m carats worth \$685m in exports in 2012.<sup>8</sup> The EU says the lifting of sanctions on ZMDC would increase revenues by \$400m a year.<sup>9</sup> During the GNU little of the diamond revenue reached the MDC-T managed treasury.

The withdrawal of some of the sanctions is a victory for Zanu PF but Mugabe and nine other officials remain subject to EU sanctions. The **United States (US)** sanctions regime is unchanged after what it

<sup>6</sup> ‘Bennett wants Tsvangirai to quit as MDC-T leader’, Business Day, 13 Sept 2013

<sup>7</sup> Former MDC-T advisor

<sup>8</sup> ‘EU to lift sanctions on Zim diamond company’, Reuters, 18 Sept 2013

<sup>9</sup> ibid



called a 'flawed election'. US sanctions ban 250 Zimbabwean nationals and companies from doing business with the US.<sup>10</sup>

Mugabe bristled at the "West's illegal sanctions"<sup>11</sup> even though these were limited to curbing private interests and travel of senior Zanu-PF figures rather than forcing international companies to disinvest. Nonetheless, the sanctions don't apply to some jurisdictions, allowing Mugabe to travel to the **United Nations** general assembly in **New York** and to attend the Papal installation in the **Vatican City** in March.

## 1.4 The US dollar will remain, for now

The Reserve Bank governor, **Gideon Gono** will keep the US dollar as the currency. However, Gono's term ends in November and his successor's mandate may differ. He had been touted as a possible finance minister but now faces an uncertain future.<sup>12</sup> Gono presided over the hyperinflation era that ended with the adoption of the US dollar as Zimbabwe's currency.

*"It bugs Zanu PF to have to use the US dollar, but stability is more important right now. Plus, Zimbabwe has a massive debt to consider (\$10.7bn). Bringing back the Zim dollar won't help solve that."*<sup>13</sup>

## 2 Implications

The government of national unity had weakened Zanu PF but with the strong, albeit controversial, mandate from the elections it will reassert itself as the ruling party. Mugabe will continue to rule through a small clique of loyal Zanu PF cadres. However, they will struggle to deliver on campaign promises particularly as indigenisation will not deliver immediate benefits.

While the EU removes sanctions, the US sanctions remain. Being able to access the Belgian diamond trading market will give the ZMDC more sales options but it is unlikely that this will generate greater revenue for the national treasury.

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<sup>10</sup> 'US says Zimbabwe vote flawed, won't lift sanctions', The New Age, 19 Aug 2013

<sup>11</sup> <http://www.newzimbabwe.com/opinion-12026-Full+text+Mugabes+Heroes+Day+speech/opinion.aspx>

<sup>12</sup> 'Zim needs dynamic, pragmatic ministers', The Independent, 16 Aug 2013

<sup>13</sup> Zimbabwean economist



The Reserve Bank does not plan to reintroduce the Zimbabwean dollar. However, with Gono's term ending, the next governor's mandate may differ.