

AFRICA RISK CONSULTING**Country briefing – Zimbabwe****28 July 2014**

Summary

Zimbabwe's cash-strapped government launches an unprecedented tax blitz on large corporations and the informal sector in an attempt to raise funding to finance its operations. The ruling Zimbabwe African National Union Patriotic Front (Zanu-PF) prepares for elective congresses for its youth and women's leagues in August ahead of the main congress in December. The August congresses will see the two main party factions fighting for influence as they jostle for advantage in the battle to eventually succeed the 90-year-old Mugabe. The youth and women's wings are split into the same two main factions that divide the party, supporting deputy president Joice Mujuru and legal secretary Emmerson Mnangagwa respectively. The Mujuru faction appears to have pushed through rule changes that give its youth league candidates an advantage over those of the Mnangagwa faction. In the women's league, a senator close to Mugabe and the Mnangagwa faction has nominated Mugabe's wife Grace to head the league, outflanking the Mujuru faction and increasing the chances that the December congress will leave the crucial succession issue unresolved and the two factions still at loggerheads.

1.1 Government launches tax blitz

The **Zimbabwe Revenue Authority (ZIMRA)** has launched a tax blitz on large corporations and the informal sector in a desperate bid to raise money to fund government operations. With virtually no external budgetary aid, the Zimbabwe government relies entirely on personal and company taxes for revenue. However, worsening company closures and job losses mean the government is now taking even less from an already weak tax base.

ZIMRA aims to raise \$4.1 billion in taxes this year. However, revenues remain well below forecasts. In the first half of 2014, ZIMRA raised \$1.72 billion against a target of \$1.74 billion.¹ The assault on the informal sector is the most intriguing. The government believes that up to \$7 billion may be circulating outside the formal economy.² The informal sector is the largest employer in Zimbabwe,

¹ ZIMRA Half Year Report 2014

² SMEs Minister Sthembiso Nyoni

employing up to 84% of the working population.³ A survey showed that at least \$5m circulates monthly at **Mbare Musika**, the country's biggest produce market.⁴ ZIMRA has begun what it calls an "education campaign" targeted at informal traders, many of whom technically operate illegally, on their legal obligations to pay taxes.

*"The overall strategy of ZIMRA in bringing the informal sector into the tax net is education of some of the taxpayers who may not be fully appreciating their legal obligations."*⁵

The informal sector has developed innovative ways of avoiding the government during Zimbabwe's decade-long economic crisis; indeed many members of the ruling **Zimbabwe African National Union Patriotic Front (Zanu-PF)** are believed to operate in the sector.

In the formal sector ZIMRA has issued at least ten garnishee orders to companies since June. Among the companies whose accounts have been garnished are **Barclays Bank, Standard Chartered Bank** and **Zimplats**. Businesses say that the campaign will only worsen the country's economic crisis. The orders have attracted criticism from the main business bodies. The **Confederation of Zimbabwe Industries (CZI)** said ZIMRA's increasingly tough methods of tax collection were pushing already-struggling companies closer to collapse.

*"This is an exceptionally difficult environment, and we would prefer a different approach to tax collection. While companies must meet their tax obligations, ZIMRA can assist by allowing a different approach by getting companies to agree realistic payment terms."*⁶

ZIMRA insists that its campaign is legal and part of its duty.

*"Those companies claiming to have been closed down because of ZIMRA should also be open enough to say what wrong they have done and should now say that to the public so that at least the public can judge who is wrong... It would be foolhardy for ZIMRA to want to close companies because we depend on companies not today, not tomorrow, but forever as long as there is a country, there needs to be revenue."*⁷

ZIMRA commissioner general **Gershem Pasi** has also told a parliamentary portfolio committee that the police were not remitting enough money raised from fines to the treasury. This prompted a strong reaction from the police, whose spokesperson was quoted as saying that Pasi was "ignorant", and that

³ ZIMSTAT Survey, 2012

⁴ eMkambo Brief, January 2014

⁵ ZIMRA press statement, 20 Jun 2014.

⁶ CZI President Charles Msipa, Jul 2014.

⁷ ZIMRA CEO Gershem Pasi, Herald, 27 Jul 2014.



his “utterance is a big falsehood which is intended to whip public emotions against police in pursuance of an obvious agenda”.⁸

Overall, though, the government is increasingly unable to fund its operations and has missed several monthly pay dates for civil servants.⁹ With little prospect of foreign aid, this means pressure will continue to mount on tax authorities to squeeze more money from both large corporations and the informal sector. This will worsen the position of companies already struggling to survive and further slow down economic growth. A fiscal crisis is therefore looming on top of an already- entrenched economic depression.

1.2 Zanu-PF youth, women’s congresses a test of power

Zanu-PF will hold elective congresses for its youth and women’s leagues in August, where the two main party factions will battle for influence ahead of the main party congress in December. The party’s youth and women’s wings are split along the same fault lines that divide the party more broadly, into factions loyal to deputy president **Joice Mujuru** and legal secretary **Emmerson Mnangagwa**.

The two preparatory congresses have taken on new significance following reports in late July that a senior senator, **Edna Madzongwe**, has nominated **Grace Mugabe**, the wife of President **Robert Mugabe** (1980- present) as next leader of Zanu-PF’s **Women’s League** at the main December congress. Madzongwe is close to both Mugabe and the Mnangagwa faction. Her nomination of Grace is seen as an attempt to prevent the Mujuru faction capturing both leagues in advance of the December congress.

Ahead of the youth league conference, which will be held on 7 August, Zanu-PF had already adopted a rule change that candidates for senior positions in the youth league may only stand if they have held some leadership position in the party for the past five years.¹⁰ The Mujuru faction pushed the rule change aggressively, and commentators saw the outcome as largely benefiting its members and disqualifying several Mnangagwa faction candidates.¹¹

A number of other recent rule changes are being seen as benefiting Mujuru’s faction. For example, in the main wing of the party, no candidate can hold a position in the key decision-making **Central**

⁸ ZRP Press Statement, 26 Jun 2014.

⁹ Herald, 18 Jul 2014.

¹⁰ Zanu-PF press statement, 12 Jul 2014.

¹¹ NewsDay, 12 Jul 2014.



Committee unless they have been in a leadership position for more than 15 continuous years. The central committee is the party's principal organ outside the annual congress. Before the changes, central committee members were just chosen from party leaders sponsored by their respective provinces. Also, until recently, any candidate could stand for positions in the youth and women's leagues as long as their home province endorsed them.

An analyst said

*"The Mnangagwa camp has over the past few years managed to attract a number of younger, less experienced members into its ranks. Also among them is the likes of (Information Minister) **Jonathan Moyo**, who only rejoined the party last year after his 2005 expulsion. [The rule change] means he cannot take up a post in the Central Committee. He will be one of many in that position."*¹²

The candidate said to have the Mnangagwa faction's backing to stand as youth league president, **Justice Wadyajena**, only took up a leadership position in the party youth league in 2013.¹³ The rule change would therefore disqualify him and leave his rival, **Kudzai Chipanga**, a Mujuru loyalist, facing little competition.¹⁴

Zanu-PF spokesperson **Rugare Gumbo** insisted that the rule changes were not targeting any members or groups. He said that the new rules would ensure that only members with the "right orientation" in the party would qualify for positions in national structures.¹⁵ However, in effect, the new regulations on candidate qualification shut the door on senior positions to newer and younger members and those within the party pushing for reform. At the same time, the new rules protect the old guard.

Whoever emerges with the most loyalists in leadership from the youth and women's league conferences will have better leverage at the December congress where candidates will compete for the two key positions of party chairman and second vice president. These in turn will exert influence over who eventually succeeds Mugabe.

Another key issue for December is the appointment of a second vice president of the country, to sit alongside Mujuru (who was appointed in 2004). The previous second vice president, **John Nkomo**, died in January 2013 but has not yet been replaced. Again, factional in-fighting is the principal reason.

¹² Source, political analyst

¹³ Manica Post, 16 Jun 2014.

¹⁴ Manica Post, 16 Jun 2014.

¹⁵ Independent, 17 Jul 2014.

Current Zanu-PF party chairman, **Simon Khaya Moyo**, is leading the race to become the second vice president by virtue of being the most senior official up for the post. He is also a key member of the **Zimbabwe African People's Union (Zapu)** wing of the party that has traditionally occupied one of the two vice presidencies since it merged with Zanu-PF in 1987. However, Moyo is also a Mujuru loyalist and faces opposition from the Mnangagwa faction as well as some senior Mugabe advisers worried that his appointment could stack the succession deck in Mujuru's favour.¹⁶

2 Implications

The tax blitz will do nothing to help investor sentiment as the government seems intent on punishing business and individuals for its economic mismanagement and deepening an already dangerous economic and fiscal crisis. Access to international credit lines, as well as support from funding organisations such as the International Monetary Fund and the World Bank will be critical if Zimbabwe is to bridge its yawning fiscal gap. Clear economic policy reform, including ending fluid 'indigenisation' laws that expropriate foreign investors, will be crucial to rebuilding investor confidence. But any such changes are unlikely under Mugabe, who has championed indigenisation. Already the government has slashed its GDP forecast for 2014 from 6.1% to 3.1%, and there are no prospects of significant growth in 2015. The country seems to be sliding back to the conditions experienced in 2007, which led to the collapse and disappearance of the Zimbabwe dollar and the formation of the now-defunct government of national unity.

The outcome of the youth and women's congresses is seen as setting the leadership agenda and balance of power at the national congress, where a likely successor to President Mugabe could, in theory, emerge. Significantly, the national congress could reveal Mugabe's preference as a successor, though this is unlikely: he has on several occasions said he would not anoint anyone to take over from him. For western governments and investors, the battle for Zanu-PF leadership is significant as they prepare for the post-Mugabe era. The leadership battle is just as significant to Zimbabweans, keen to emerge from the economic paralysis which the Mugabe era now typifies.

The nomination of Grace Mugabe as head of Zanu-PF's women's league has stimulated a rush of media and analyst comment in recent days about its significance. Grace has no political constituency of her own, beyond her marriage to Mugabe, so it is inconceivable that she could emerge as a significant political figure in her own right. But, equally, neither faction is likely to challenge Grace's nomination because it would mean challenging Mugabe himself.

¹⁶ Herald, 22 Jul 2014.

The move appears principally to satisfy Mugabe's desire to avoid a factional fight during the December congress and send a signal to the two main party factions – mainly Mujuru's – that he can still outflank them. Secondly, promoting Grace to the Zanu-PF inner core will offer her and the Mugabe children a degree of protection should Mugabe himself become incapacitated or die in office. Grace has benefited personally from Zimbabwe's land seizures, which began a decade or so ago, and Mugabe will want to protect his family and its assets once he is gone. Similarly, the ongoing vacancy in the second vice-presidency (Moyo had lobbied for the post unsuccessfully at the December 2013 party congress) reflects Mugabe's unwillingness to appoint a Mujuru ally to a position that would strengthen her hand considerably in the succession battle.

Whoever eventually takes over will face a tricky balancing act of pacifying fractured internal party structures, restoring Zanu-PF's political legitimacy in the country, while also repairing the country's hugely-damaged international and investment reputation.