

AFRICA RISK CONSULTING

Zimbabwe Monthly Briefing February 2015

Zimbabwe Summary 27 February 2015

The European Union (EU) resumes a symbolic level of bilateral aid to Zimbabwe focused on social programmes, but resumes sanctions on President Robert Mugabe (1980-present) for another year at the same time. Whether this leads to a wider opening in Zimbabwe's relations with the west depends on Harare's reaction in terms of initiating change and reform. Initial prospects do not look promising. Another Zimbabwean financial institution - AfrAsia Bank - collapses, raising the risk of a full-scale financial meltdown in the country. GDP growth for 2015 already looks set to undershoot official forecasts of 3.1%: analysts suggest 1.2% may be more accurate. Grace Mugabe makes waves in the ruling Zimbabwe African National Union-Patriotic Front (Zanu-PF) as new party factions start to coalesce after the purge of Joice Mujuru in December. Internal tensions in the party look set to continue in the absence of a clear post-Mugabe succession plan.

EU resumes aid to Zimbabwe after 13 years

The end of Zimbabwe's isolation from the west came a small step closer on 16 February as the **European Union (EU)** approved the resumption of development aid, worth \$270m spread over six years. The funding, which the EU has called the **National Indicative Programme** under the 11th **European Development Fund** (2014-2020), is ring-fenced for projects in the health, governance and agriculture sectors, according to the EU's ambassador to Harare, **Phillippe Van Damme**.

The EU withdrew bilateral aid in 2002 over alleged electoral fraud and human rights abuses, but has maintained humanitarian assistance to the health and other social sectors through non-governmental organisations (NGOs). It has frequently dispensed humanitarian food aid during Zimbabwe's repeated shortages of the past decade. This new development aid package also seems unlikely to go directly to government ministries until governance improves. The EU has said it will not provide direct budgetary aid to the Zimbabwe government "until the country puts in place measures to ensure good governance".¹

However, even as the EU pledged further co-operation in order to "normalise" relations, **Brussels** said it would renew, for another year, the travel sanctions and asset freeze on Zimbabwean president **Robert Mugabe** (1980-present) and his wife **Grace Mugabe**. The EU says it is not yet satisfied that Mugabe has done enough in the governance sphere, notably to curb continuing human rights and electoral abuses, to justify a lifting of the sanctions against him and his wife (now a senior figure in the ruling **Zimbabwe African National Union-Patriotic Front (Zanu-PF)**). The personal sanctions will be reviewed every three months, and may be amended or extended further if the EU considers its objectives have not been met.

"The EU announcement is mostly symbolic: \$45m a year over six years is a very small sum and well below what Zimbabwe needs to fix its dire economic performance. In political terms, it represents a carrot to see if Zanu-PF is serious about real reform and eliminating deterrence to private sector investment in the country, such as its punitive indigenisation laws. The announcement also looks beyond a Mugabe presidency, with the expectation that he will no

¹ The Independent, 13 Feb 2015.

longer be around in 2020, and seeks to put in place the basis for a new relationship, if Zimbabwe decides it wants one.

Put in context, \$270m is less than the EU gives to some countries in a single year; and the retention of sanctions against Mugabe and Grace shows scepticism about Zanu-PF's willingness under Mugabe to move beyond its disastrous policies of the past decade. The risk for Zanu-PF is to see the announcement as a major EU policy shift and to continue on with its disastrous economic policies."²

Even as the EU announced the resumption of aid, there were reports of intimidation in Zimbabwe against the very few remaining white commercial farmers, with the **Commercial Farmers Union** claiming that members of the ruling Zanu-PF party were giving some farmers arbitrary notices to leave their farms. Predictably, the official government spokesman, while welcoming the new aid, criticised the EU for maintaining sanctions against the 91-year-old leader.

"Zimbabwe has a chief executive and as long as the chief executive remains under sanctions our relations remain poisoned and unproductive."³

The EU aid follows recent visits to Zimbabwe by business delegations from the **United Kingdom (UK)** and the **Netherlands**, the two biggest European critics of Zimbabwe's governance since 2002. A trade delegation from **France** plans to visit Harare in April, according to **Nigel Chanakira**, chairman of the state-run **Zimbabwe Investment Centre (ZIC)** and former owner of **Kingdom Bank**.

The Zimbabwe government has estimated that it needs \$27 billion, twice the size of its economy, to fund a five-year plan dubbed **ZimAsset** to improve basic services and food security, and rebuild infrastructure. Central to the plan is the resumption of multilateral credit from institutions such as the **International Monetary Fund (IMF)** and the **African Development Bank (AfDB)**, both of which have repeatedly held off funding due to outstanding debts and the lack of reform. Finance minister **Patrick Chinamasa** continues to state the official government line that the country is unable to repay outstanding debts owed to the two institutions and that it should be written off.

Harare says its own audit reveals that Zimbabwe owes \$6.1 billion to various multilateral institutions and not the \$11 billion that the institutions claim. According to the audit, \$4.4 billion of the country's total debt to bilateral and multilateral creditors is in arrears and most of it is to top-five **Paris Club** members **Germany**, **France**, **Japan**, the **UK** and the **United States (US)**. The Paris Club alone is owed \$3 billion, non-Paris Club creditors \$572 million, AfDB \$636 million, the **World Bank** \$1.35 billion, the IMF \$125 million, **European Investment Bank** \$302 million and others \$75 million.⁴

Collapse of a seventh Zimbabwean bank brings full-blown financial crisis closer

Zimbabwe's struggling banking sector has been thrown into further turmoil after small lender **AfrAsia Bank** surrendered its licence on 24 February, admitting it had failed to meet capital requirements and depositor demands. It becomes the seventh domestic bank to collapse since Zimbabwe introduced a multi-currency system in 2009 in response to runaway hyper-inflation and the collapse of the Zimbabwe dollar. Before AfrAsia's collapse, Zimbabwe had 14 commercial banks. Analysts say consolidation is needed in the banking sector through mergers of weaker banks.

"I really do not see any reason why we should have so many banks in such a tiny economy as ours. Consolidation is needed, if not (outright closure of) some of these banks."⁵

AfrAsia began in 1997 as **Kingdom Bank Zimbabwe Limited**, and was set up by Nigel Chanakira (see above). In January 2012, **Mauritius-based AfrAsia Bank Limited** invested \$9.5m in the bank's holding company, for a 35% stake. Until September 2013, the bank was a subsidiary of **Kingdom**

² Source, former western diplomat on Zimbabwe

³ news24, 18 Feb 2015.

⁴ Source, senior official Zimbabwe Finance Ministry

⁵ Source, bank executive, Harare

Financial Holdings Limited (KFHL), a publicly traded company on the **Zimbabwe Stock Exchange (ZSE)**. In 2013, due to further changes in ownership, KFHL rebranded to **AfrAsia Zimbabwe Holdings Limited (AZHL)**, and the bank took its latest name.

Zimbabwean banks, particularly the smaller lenders which are locally owned, face a crunching liquidity crisis which has seen some failing to pay depositors. In AfrAsia's case, customers were being limited to daily withdrawals of just \$20-\$40, forcing some customers to sleep at its branches in order to be the first to be served. The bank's collapse further dents confidence in the banking sector, which has attracted few foreign investors since the multi-currency system was introduced. In 2012, AfrAsia was the first foreign bank to invest in Zimbabwe in more than six years.

The only other recent example is **Atlas Mara**, the Africa-focused investment vehicle jointly owned by former **Barclays Bank** CEO **Bob Diamond**, which in March 2014 took a 47% stake in **BancABC**, a listed Zimbabwean bank with regional operations. The difference with BancABC, though, is that it began life in **Botswana**, where it remains highly profitable, and is able to offset some of its operational risks in Zimbabwe through its regional banking network.

Banking sources say at least three more smaller Zimbabwean banks are struggling and could collapse unless they secure additional capital. **Reserve Bank of Zimbabwe (RBZ)** governor **John Mangudya** has said that no bank will be bailed out, suggesting those failing to meet capital requirements will be allowed to fail. Analysts say the fragility of the local banks is a symptom of the wider economic crisis facing Zimbabwe. Growth in 2015 is estimated to be a flat 3.1%, but even that could be an over-estimate, as more company closures and widespread retrenchments are expected this year. Poverty is also worsening, amid reports that the average working Zimbabwean's monthly wage is now just \$100.

Mangudya has called for a social contract, where workers' wages are either cut, or salary and wage increases frozen, until the economy has completely recovered. He did not elaborate how this could be implemented with wages already at rock-bottom, nor did he suggest a realistic time-frame. Analysts say that economic recovery

*"will be hinged on the nature and form of the indigenisation law. We believe that [only] an absolute (rescinding) and not a subject-to-negotiation indigenisation law [can] have a... positive effect on capital flows and FDI."*⁶

Zanu-PF's old internal divisions morph into new ones...

Zimbabwe's first lady, Grace Mugabe, has begun to consolidate her influence in Zanu-PF. Her appointment to the head of the **Zanu-PF Women's League** in late 2014 was driven through by her husband to head off moves by a faction loyal to former vice-president **Joice Mujuru** to secure a position for Mujuru as Mugabe's designated successor. However, instead of ending internal party instability, Grace's appointment and her growing institutional-level influence are creating new tensions in the party.

In the first flexing of her new political muscle, she secured the sacking of **Didymus Mutasa**, one of Mugabe's oldest allies and the party's former secretary for administration, just days after returning from a trip abroad. Also fired was **Kudakwashe Bhasikiti**, the provincial governor of **Masvingo** in the south, a Zanu-PF stronghold and Zimbabwe's most populous province.

His successor was **Shuvai Mahofa**, a highly visible ally of Grace during her campaign rallies against Mujuru and Mujuru's allies. Grace's role in both events is not questioned: she was named as part of a committee appointed to oversee the fate of Mutasa and other pro-Mujuru cadres, and a decision on his post was only made three days after her return from overseas. Mutasa has publicly attributed his sacking to questioning the outcome of the December congress – which appointed Grace to the women's league – and has said it reveals that Grace was now a new power in Zanu-PF.

⁶ Zimbabwe economic report from Emergent Research, South Africa, February 2015

“There is no doubt that she [Grace Mugabe] is a centre of their power. She will soon be placed on the same level as the president.”⁷

Remarks by **Zanu-PF Youth League** leader **Pupurai Togarepi** on Grace’s return support Mutasa’s assessment. Togarepi indicated a new, highly formalised deference to Grace. He added that divisions remained in the party that members were looking to Grace to solve.

“Just as the biblical Mary and Martha believed that Lazarus could not have died if Jesus had been there, we also believe that if you had been here, some of the crazy things happening in the party would not have happened.”⁸

Government officials have denied reports that Grace had turned down the cabinet post of Women’s Affairs and that she had demanded the more powerful Defence Ministry.⁹ Mugabe himself has had to deny suggestions that he has handed over power to his wife. In an interview with state television to mark his 91st birthday in mid-February, Mugabe insisted he remained in charge.

“Why should they (media) think that because of what she has done she is now the power? She is not the power behind my throne; she has not come yet into the real part of things. But because of the dynamism with which she came out, it started giving people ideas with some saying she is now the power behind the party, she is now running what the president is doing.”¹⁰

Local analysts say while Mugabe remains in charge, Grace is also building her own circle of power within Zanu-PF. This may, in future, lead to conflict with senior members of the party. One well-placed political analyst said the ground is already being laid for possible internal conflict over Grace’s future role in the party.

“Grace is looking to build her own power base. It appears her hope is to step out of her husband’s shadow eventually and to lead the party in her own right. This will likely cause friction with those who may be her allies currently. They too are waiting for Mugabe to exit the scene.”¹¹

Implications

After decades of economic and political isolation, the EU has opened the door to Zimbabwe to re-enter the international fold. The easing of sanctions by the organisation, the first since 2002, can potentially ease the concerns of western investors who have been wary of engaging with Zimbabwe. There is also the belief that the west is already preparing for a post-Mugabe era, even though the ageing leader has hinted he wants to stand again for re-election as president in 2018, when he will be 94. The question now is whether Zanu-PF will walk through that door or misinterpret the EU overtures as a weakening in western resolve. For their part, potential investors seek policy clarity and consistency, something which Harare has yet to provide and prove, especially on the indigenisation law.

History suggests that Zanu-PF will not move fast enough or far enough to address investor concerns in the short to medium term. If Mugabe is planning to stay at the helm beyond 2018, there will be no meaningful change to the indigenisation law or meaningful reform. A full resumption of European government-to-government budgetary aid is therefore unlikely for now. The slight softening in EU policy could also be partly tactical: Mugabe is chair of the **African Union (AU)** for 2015, and allowing him to attend AU-related meetings in Europe, alongside announcing the new aid package, gives him less opportunity to use the AU as a platform to lambast Europe or block wider EU-Africa initiatives.

The initial signs also suggest that the Zimbabwe government has over-reacted to the resumption of aid, believing that it will lead to full restoration of EU-Zimbabwe relations.

⁷ NewsDay, 19 Feb 2015.

⁸ Pupurai Togarepi, Zanu PF youth leader, at a rally 16 February 2015

⁹ Newsday, 24 Feb 2015.

¹⁰ ZBC, 27 Feb 2015.

¹¹ Source, political analyst

"I expect things to get better (from next year) because of the change of position by European Union as far as sanctions are concerned. It would be easy for our companies to partner or do business with companies in Europe."¹²

Largely forgotten in all the commentary on the aid resumption is the position of the US government. The US – the world's biggest aid donor and creditor to the **Bretton Woods** institutions – also maintains an embargo on Zanu-PF leaders and some businesses linked to the party. There has been no corresponding softening in US policy, which does not mean divisions in US and EU policy, but more likely a coordinated approach to allow either's policy to be hardened or softened depending on how Zanu-PF reacts.

"The West has domestic audiences that will not support any re-engagement with Mugabe. They will want to keep channels of communication open, but still keep sanctions in place if Zanu-PF chooses what the West sees as an inadequate response [to the EU initiative]."¹³

Independent forecasts say economic growth in Zimbabwe may actually be closer to 1.2% for 2015 compared to the official 3.1% forecast,¹⁴ due to rising debt and falling commodity prices. GDP growth averaged 9% between 2009 and 2012, but will average 3% annually, "possibly even less" in the 2013-2016 period.¹⁵ The collapse of a seventh domestic bank since 2009 reveals the depth of a looming – and separate – financial crisis affecting Zimbabwe, at whose heart lies a crippling liquidity crisis that has made bank credit expensive and prevented companies from borrowing to fund expansion.

Any hopes that Mugabe may have had that the evisceration of the Mujuru faction in December would lead to greater stability inside Zanu-PF already seem dashed. Mujuru was clearly not 'the problem', but a symptom of the real problem afflicting Zanu-PF: the lack of clarity on Mugabe's successor. New tensions and factions are already beginning to coalesce after Grace Mugabe's moves to install her allies into senior party and administrative positions. A potential showdown with erstwhile allies like new vice-president **Emmerson Mnangagwa** cannot be ruled out, but is unlikely in the short term while Mugabe still has control of his faculties. Mujuru continues to lie low, but retains a significant support base at grassroots level in the party (something Mnangagwa lacks).

¹² NewZimbabwe, 12 Dec 2014.

¹³ Source, Zimbabwe economic analyst, Harare

¹⁴ Econometer Research, Zimbabwe think-tank, February 2015

¹⁵ Source, prominent economist, Harare