

## AFRICA RISK CONSULTING

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#### Zimbabwe Summary 20 October 2016

*Grace Mugabe pledges support for vice president Emerson Mnangagwa and the current presidium of the ruling Zimbabwe Africa National Union-Patriotic Front (Zanu-PF). The first lady and her supporters in Zanu-PF reportedly retreat from their previous offensive, when they accused Mnangagwa of planning to unseat president Robert Mugabe (1980-present). The government has granted a licence for new electricity generation projects, in partnership with foreign investors. The government is seeking funds for the comprehensive exploration of coal bed methane gas in Lupane. Small denomination United States (US) dollar notes are disappearing from circulation amid suspicion that authorities are withholding them to make way for the bond notes that the Reserve Bank of Zimbabwe (RBZ) plans to issue in November.*

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#### Grace Mugabe warms to Mnangagwa, pledges support for current presidium

First lady **Grace Mugabe** has made a surprise about-turn by pledging her support for the current **Zimbabwe African National Union-Patriotic Front (Zanu-PF)** presidium, which includes her political rival, vice president **Emmerson Mnangagwa**.<sup>1</sup> Grace Mugabe has led a campaign against Mnangagwa during her “meet-the-people” rallies since the ouster of former vice president **Joice Mujuru** from Zanu-PF in 2014. During the rallies, Grace Mugabe has accused Mnangagwa of plotting to remove president **Robert Mugabe** (1980-present) in the same way as Mujuru allegedly tried.<sup>2</sup> Zanu-PF is reportedly divided into two camps, one led by the “**Young Turks**”, generally referred to as the **Generation 40 (G40)** and loyal to the first lady, and another which is sympathetic to Mnangagwa and backing him to succeed 92-year-old Mugabe.<sup>3</sup>

Grace Mugabe’s change of tack became evident during an address to the **Zanu-PF Women’s League** on 30 September, when she said the league fully supports the current presidium to finish its terms of office and would not push for an early Zanu-PF congress.<sup>4</sup> The announcement dispelled earlier suspicions that the G40 faction intended to force an early congress to reinstate the party’s quota of women, which would have resulted in Grace Mugabe ascending to the presidium as one of the two vice presidents according to the party constitution.

*“Grace [Mugabe]’s explanation is an unexpected climb-down from her robust offensive against Mnangagwa in 2015 and early 2016 which saw many of the vice president’s allies being purged from the ruling party. She may have realised that she had created a lot more enemies than she needed after Joice Mujuru had been expelled from the party. Her utterances and those of her loyalists in the Women’s League and the party were*

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<sup>1</sup> News Day Zimbabwe, 1 Oct 2016.

<sup>2</sup> News Day Zimbabwe, 1 Oct 2016.

<sup>3</sup> News Day Zimbabwe, 1 Oct 2016.

<sup>4</sup> News Day Zimbabwe, 1 Oct 2016.

*starting to provoke some senior elements in the army and security services, constituencies where Mnangagwa has strong support. It also seems that the tables are turning after her key allies in [local government minister **Saviour**] **Kasukuwere** and [G40 architect **Jonathan**] **Moyo** have been entangled in alleged separate corruption scandals (see below)."<sup>5</sup>*

Although Zanu-PF has acknowledged that women are under-represented in government, the push for a female vice president became stronger when Grace Mugabe promoted it in the context of Zanu-PF's factional politics. However, as part of her changed stance she argued that the Zanu-PF Women's League had made a resolution during the 2015 annual conference in **Victoria Falls** that one of the two vice-presidents should be female, but had not given a time frame for its implementation.<sup>6</sup> She further explained that removing either of the current two vice presidents before the end of their terms will only work to divide the party further.<sup>7</sup>

Grace Mugabe's recent pronouncements have increased speculation that there was truth in the reports of a plot to have Mnangagwa removed.<sup>8</sup> Party officials connected to the G40 faction have attacked Mnangagwa at various occasions since his appointment as vice president. This includes **Hurungwe East** member of parliament **Sarah Mahoka** in February, and **Manicaland** provincial affairs minister **Mandi Chimene** in July this year. Addressing a rally at the Zanu-PF headquarters in **Harare** on 27 July, Chimene asked president Mugabe to expel Mnangagwa at an extraordinary congress which, she claimed at the time, was backed by the women's and the youth leagues.<sup>9</sup> Some of Mnangagwa's adversaries and reported G40 loyalists have also started to follow Grace Mugabe's announcement with retractions of their previous statements about the vice president. Chimene has suggested that her previous statement regarding Mnangagwa intended to deal with the rumours circulating at the time regarding the succession issue and the vice president's ambition to take over from Mugabe.<sup>10</sup>

Nevertheless, the **Zimbabwe National Liberation War Veterans' Association (ZNLWVA)** has warned that Mnangagwa should remain alert and avoid false assurances from the president and first lady.<sup>11</sup> They suspect that the current pronouncement is meant to give Mnangagwa a false sense of security before his eventual expulsion from office.<sup>12</sup> Mnangagwa reportedly draws his support from the war veterans who have a fractious relationship with president Mugabe after recently describing him as a "*dictator*".<sup>13</sup>

The G40 faction is currently under scrutiny in a corruption scandal involving the alleged embezzlement from the **Zimbabwe Manpower Development Fund (ZIMDEF)** of approximately \$500,000 to fund party and personal programmes.<sup>14</sup> The **Zimbabwe Anti-Corruption Commission (ZACC)** has implicated Jonathan Moyo, one of the G40 architects, in the use of ZIMDEF funds for non-intended purposes.<sup>15</sup> However, reported G40 supporters, including second vice president **Phelekezela Mphoko** and Saviour Kasukuwere, have come

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

<sup>6</sup> News Day Zimbabwe, 1 Oct 2016.

<sup>7</sup> News Day Zimbabwe, 1 Oct 2016.

<sup>8</sup> News Day Zimbabwe, 1 Oct 2016.

<sup>9</sup> The Herald, 5 Oct 2016.

<sup>10</sup> The Herald, 5 Oct 2016.

<sup>11</sup> News Day Zimbabwe, 4 Oct 2016.

<sup>12</sup> News Day Zimbabwe, 4 Oct 2016.

<sup>13</sup> News Day Zimbabwe, 4 Oct 2016.

<sup>14</sup> The Herald, 17 Oct 2016.

<sup>15</sup> The Financial Gazette, 10 Oct 2016

to Moyo's defence, saying that the allegations are unfounded and damaging to the ruling party.<sup>16</sup> Mnangagwa, who is the justice, legal and parliamentary affairs minister, is reportedly leading an anti-corruption campaign in the government and has oversight of the ZACC.<sup>17</sup>

*"The current developments indicate that the tables have spectacularly turned against the G40 faction which has had an upper hand since the 2014 party congress which sacked Joice Mujuru and her allies from Zanu-PF. The faction is now under pressure as its key members are now targets of a spirited anti-corruption campaign by Mnangagwa and his allies. However, they still enjoy the support of the first family despite their current vulnerability, and this might be enough to save them from the current corruption charges that they face."<sup>18</sup>*

Local government minister Saviour Kasukuwere has also been the focus of corruption allegations. President Mugabe publicly censured him in September over alleged corruption in allocating residential land meant for the youth to allies within Zanu-PF.<sup>19</sup> Kasukuwere has denied any wrongdoing, and accused his political rivals of being behind the accusations.<sup>20</sup> He has since begun conducting an anti-corruption crusade against local councils countrywide, most of which are occupied by councilors from the opposition **Movement for Democratic Change (MDC-T)**.<sup>21</sup>

### **Government is seeking investment for methane gas exploration**

The government is seeking investment to embark on an extensive methane gas exploration exercise. The mines and mining development ministry estimates that Zimbabwe has the largest coal bed methane reserves in **sub-Saharan Africa**, estimated at 44 trillion cubic metres.<sup>22</sup> However, the deposits, located in **Lupane District (Matabeleland North Province)** are unexploited: the government is looking for investment to commence exploration before awarding licences for extraction. The ministry estimates that approximately \$12m is needed for a comprehensive exploration of the gas reserves.<sup>23</sup> The exploitation of the coal bed methane gas will also facilitate the establishment of a number of downstream industries.<sup>24</sup> Methane gas is used in the manufacture of plastics and fertiliser, as well as in diesel, petrol and A1 jet fuel.<sup>25</sup>

**Discovery Investments**, a Zimbabwe-based company with a 100,000-hectare concession in the area, has indicated that it has secured an investment partner to start extracting the methane gas.<sup>26</sup> However, the financier is reportedly delaying the deal after the government indicated that it requires a stake in all renewable energy exploited in the country.<sup>27</sup> **Russia-**

<sup>16</sup> The Herald, 17 Oct 2016.

<sup>17</sup> Daily News, 8 Sept 2016

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

<sup>19</sup> Daily News, 8 Sep 2016

<sup>20</sup> Daily News, 8 Oct 2016.

<sup>21</sup> News Day, 21 Oct 2016.

<sup>22</sup> Sunday News, 16 Oct 2016.

<sup>23</sup> Sunday News, 16 Oct 2016.

<sup>24</sup> Sunday News, 16 Oct 2016.

<sup>25</sup> Sunday News, 16 Oct 2016.

<sup>26</sup> Sunday News, 16 Oct 2016.

<sup>27</sup> Sunday News, 16 Oct 2016.

based energy group **Gazprom** expressed interest in the extraction of the methane gas in Lupane in late 2015.<sup>28</sup>

*“Zimbabwe remains a complex landscape for potential investors. The environment is highly regulated, with a policy regime that provides little incentives for investors. The current fiscal struggles have driven the government to a level where they would like to be involved in every promising business transaction. The gas sector promises to be a sustainable lucrative business and the government does not want to be left out.”<sup>29</sup>*

### Government grants licences for new power generation projects

The **Zimbabwe Energy Regulatory Authority (ZERA)** has granted a licence to a consortium of companies for the development of two 330-megawatt coal-fired power stations in the **Hwange District**.<sup>30</sup> Hwange is located in the **Matabeleland North** province in western Zimbabwe, about 100km from the border with **Zambia**. The sponsor group includes Zimbabwe’s largest privately owned coal mining company, **Makomo Resources (Pty) Ltd**, **Southern Energy Holdings Ltd**, a **Mauritius**-based power developer and **China**-based **SinoHydro Corp**, a member of **Shanghai**-listed **Power China Ltd**. Southern Energy will implement the project, which will require approximately \$3 billion in investment for completion.<sup>31</sup> The expected timeframe for completion is three years. The two power stations will produce 660 megawatts of electricity that will feed into the national grid.

The projects will potentially ease the power shortages the country faces. National utility **Zimbabwe Electricity Supply Authority (ZESA)** is struggling to provide sufficient electricity amid fears of being cut off by regional suppliers from **South Africa** and **Mozambique** due to unsettled debts for power imports.<sup>32</sup> ZESA reportedly owes over \$12m to South African power utility **Eskom** and approximately \$10m to Mozambique’s **Hydro Cahora Bassa**.<sup>33</sup> ZESA is struggling to pay these arrears and has resorted to load shedding in order to avoid a major electricity crisis. The government came to ZESA’s rescue with a \$35m guarantee to Eskom to back up imports from South Africa.<sup>34</sup>

*“The struggles at ZESA are not new, especially in the aftermath of the 2013 electricity amnesty whereby the government promised to write off all domestic electricity debts ahead of the elections. Consumers – most of which are state-owned companies, farms and industries controlled by politicians or people connected to government – owe the utility about \$1.1 billion. Unfortunately, the debt remains with ZESA and the utility now has to come up with vigorous and the innovative ways to recoup this money.”<sup>35</sup>*

<sup>28</sup> Sunday News, 16 Oct 2016.

<sup>29</sup> Source, analyst, Harare

<sup>30</sup> Sunday News, 16 Oct 2016.

<sup>31</sup> Sunday News, 16 Oct 2016.

<sup>32</sup> Sunday News, 16 Oct 2016.

<sup>33</sup> The Herald, 17 Oct 2016.

<sup>34</sup> The Herald, 17 Oct 2016.

<sup>35</sup> The Herald, 17 Oct 2016.

## Lower denomination US dollar notes disappear from the market

The liquidity situation in Zimbabwe has become acute amid indications that the lower denominations of **United States (US)** dollars are disappearing from circulation, raising the possibility of a shortage of low denomination notes for change in daily transactions.<sup>36</sup> The shortage has led to speculation that the government is mopping up low denomination US dollar notes to pave the way for the introduction of bond notes of similar denominations by the **Reserve Bank of Zimbabwe (RBZ)** (central bank), now planned for November.<sup>37</sup> The bond notes will in effect be a surrogate for the US dollar in Zimbabwe's economy. The RBZ announced that the first batch of bond notes in \$2 and \$5 denominations would begin circulating by early November.<sup>38</sup>

There has been widespread resistance to the proposed bond notes. Zimbabweans fear that the bond notes will mark the inevitable return of the Zimbabwe dollar, which the country abandoned in 2009 after it slid into uncontrollable hyperinflation. One observer pointed out that:

*"The recent currency situation currently occurring in Zimbabwe is artificial. Having realised that the people are not yet ready to receive the bond notes, authorities could be withholding the US dollars to create a situation of dire cash shortages. People will eventually become so desperate and will have no other option but to accept the bond notes without faulting the government."*<sup>39</sup>

## Implications

The issue of succession in Zanu-PF is becoming more complex, given Grace Mugabe's recent and unexpected pledge of support for vice president Mnangagwa. This could signal that Mnangagwa has managed to consolidate his power base within the party and is poised to succeed president Mugabe. Unlike Joice Mujuru, Mnangagwa appears to have withstood the internal political pressure that arose almost immediately after his appointment to office. He also enjoys support from a much wider constituency within Zanu-PF, particularly the military, war veterans, the intelligence services, and the youth. In his role as justice, legal and parliamentary affairs minister, Mnangagwa could also control certain levers in the judiciary and use corruption charges to keep his political foes under pressure. Jonathan Moyo appears vulnerable to the ongoing corruption investigation, and vulnerable to prosecution, which would damage his political standing. His survival depends on President Mugabe's perception of his usefulness in the party.

Zimbabwe stands to benefit from government efforts to attract investors in the energy sector. However, the government needs to make a comprehensive policy change in order to guarantee sustainable and long term benefits from partnership with the private sector, both domestic and foreign. Since a change of government is unlikely, especially before the 2019 election, the government's negotiations with foreign investors are likely to stall and fail to produce the planned results.

<sup>36</sup> The Financial Gazette, 29 Sep 2016.

<sup>37</sup> The Financial Gazette, 29 Sep 2016.

<sup>38</sup> The Financial Gazette, 29 Sep 2016.

<sup>39</sup> Source, analyst, Harare

Consumers will be unable to offer much resistance to the RBZ's introduction of bond notes since the notes will soon be the only choice for daily transactions. However, the bond notes remain a stopgap measure in the context of Zimbabwe's unfavourable macro-economic climate.

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