

AFRICA RISK CONSULTING**Country briefing – Zimbabwe****22 August 2014**

1 Summary

The government revises its self-imposed GDP growth target of 6.1% in 2014 downwards to 3.1% citing a serious liquidity crisis and reduced output in key sectors. President Robert Mugabe (1980-present) is seeking \$4 billion in loan support from China. Mugabe's wife Grace enters full-time politics following her appointment as head of the ruling Zimbabwe African National Union Patriotic Front (Zanu-PF), a post that will allow her to sit in Zanu-PF's Politburo. At the annual Southern African Development Community (SADC) summit Mugabe assumes the chair of the regional economic bloc. Namibia and South Africa refuse to sign SADC protocols on services and service suppliers.

1.1 Government revises 2014 GDP growth target downwards

Zimbabwe has admitted to the **International Monetary Fund (IMF)** that it will miss its self-imposed gross domestic product (GDP) growth target of 6.1% for 2014, slashing the forecast by half to just 3.1%. Finance minister **Patrick Chinamasa** and central bank governor **John Mangudya** painted a bleak picture of the country's economic performance, blaming it on continuing low business and investment confidence, tight liquidity and subdued international prices for the country's major exports, particularly minerals.¹

*"Given the downward revision to the economic outlook for 2014, there are significant risks to the revenue side of the (state's fiscal 2014) budget."*²

The revision comes on the back of a worsening economic climate that has forced the government to borrow money using bonds to pay its 320,000-strong civil service. The economic crisis has spiralled into the private sector forcing companies to retrench or close. As a result of the worsening liquidity crunch, companies are struggling to raise funding from local banks to refurbish, re-tool and expand output. Rampant retrenchment across many industries and rising prices of basic goods have also

¹ Zimbabwe Independent, 1 Aug 2014.

² Zimbabwe Independent, 1 Aug 2014.

affected consumer spending. **Gift Maoneka**, a paralegal officer with the **Federation of Food and Allied Workers Union of Zimbabwe (FFWUZ)** says most industries are retrenching at least 450 workers a week.³ The FFWUZ represents more than 50,000 members in the food processing industry.

Dilapidated infrastructure is also affecting industrial output. Ageing power generation equipment and under-investment in expanding electricity generation result in persistent power blackouts. Rundown road and rail infrastructure limit the transportation of raw materials and manufactured goods.

Chinamasa and Mangudya's admission that all was not well was hardly surprising given the performance of the economy, which business leaders say has worsened since the end of the **Government of National Unity** a year ago.

"The IMF is aware of our challenges. The recent IMF Article IV Consultation Mission report confirms that IMF is aware of our challenges and actually proffers its suggestions on the way forward. As for Zimbabwe getting IMF aid, in my opinion we are still way off resolving our external arrears and as such IMF aid is unlikely to resume soon." ⁴

Chinamasa and Mangudya claim that Zimbabwe can achieve economic growth of 6% in the medium-term if the country implements its **Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset)** programme.⁵ Analysts say the programme needs significant capital injection for it to succeed. President **Robert Mugabe** (1980-present) was scheduled to travel to **China** in the last week of August to seek loan support estimated at \$4 billion.⁶ Mugabe's visit follows a similar visit to China by Chinamasa in January where he discussed possible areas of co-operation between **Harare** and **Beijing**. Privately run **News Day** reported on 25 August that Mugabe plans to allow Chinese companies to bypass state tenders for big projects in return for funding from the Chinese government. It said Zimbabwe plans to sideline the **State Procurement Board** and award government infrastructure projects to Chinese state companies without going to tender.⁷

³ Inter Press Service, 12 Aug 2014.

⁴ Source, equities analyst, Harare

⁵ Zimbabwe Independent, 1 Aug 2014.

⁶ The Source, 22 Aug 2014.

⁷ News Day, 25 Aug 2014.

1.2 Grace Mugabe enters politics

Grace Mugabe's appointment as head of the **Zimbabwe African National Union Patriotic Front (Zanu-PF) Women's League** represents a short-term consolidation of power by her husband, president Robert Mugabe. The Women's League endorsement on 15 August of Grace Mugabe as Secretary for Women's Affairs will allow her to sit in the **Politburo**, the top council of Zanu-PF. Accepting her nomination, Grace Mugabe told members of the Women's League that she hoped that her elevation to the new post would "*bring an end to this animal called succession*".⁸ With his wife now heading one of the most influential wings of Zanu-PF, Mugabe has consolidated his grip on the party and outflanked rivals who were becoming bolder in their bid to position themselves ahead of the national party congress in December. Political analyst **Takundwa Mugwagwa** said Grace Mugabe's appointment allows Mugabe to delay the progress of rival factions in his party.

*"This creates a new centre of power for Mugabe, outside the previous axis of (vice president) **Joice Mujuru** and defence minister **Emmerson Mnangagwa**. This means he can keep both factions at bay for now. The Mnangagwa faction would have decided to take this bitter pill if only to stall the progress of the Mujuru faction."*⁹

Although Grace Mugabe had previously stated she had no interest in politics,¹⁰ the need to protect her family's commercial interests and her husband's political legacy once Mugabe leaves office may have changed her mind.¹¹ The Mugabe family owns one of the country's largest dairy businesses and holds several farms. The Mugabes have recently taken over a citrus estate owned by **Interfresh**, a listed horticulture exporter. Interfresh lost 23% of its total land holdings in the deal, leaving the company close to collapse.¹² Grace Mugabe told supporters on her farm that she suspected Zanu-PF leaders were plotting to have her land takeovers reversed and had assisted evicted farmers with a legal suit against her.¹³

Grace Mugabe's ascendancy to the top post of the Women's League has widened divisions in Zanu-PF. The factional fights have now spilled into the open with party leaders trading insults through the media. Foreign affairs deputy minister **Chris Mutsvangwa** recently criticised Mujuru for her presidential ambitions while downplaying her role in the struggle for independence.¹⁴ While Mugabe may appear to have blocked the ambitions of the Mujuru faction especially to force progress on the

⁸ ZBC, 16 Aug 2014.

⁹ Takundwa Mugwagwa, 17 Aug 2014.

¹⁰ Sunday Mail, 3 Aug 2014.

¹¹ See ARC Zimbabwe July 2014 Briefing

¹² Interfresh financial report, March, 2014

¹³ ZBC news, 16 Aug 2014.

¹⁴ Herald, 16 Aug 2014.

succession question, the succession question itself has not gone away. Against the background of Zimbabwe's alarming economic data, Grace Mugabe's appointment looks like a desperate act and may indicate that Mugabe is slowly losing control of the party.

*"The future of Zimbabwe and Zanu-PF has long slipped off the hands of Mugabe. The president is not in a position to define the trajectory of Zanu-PF from now going forward; rather he is becoming a victim and a spectator of events."*¹⁵

1.3 Mugabe assumes chair of SADC

President Robert Mugabe's appointment as chairperson of the **Southern African Development Community (SADC)** is an opportunity for Zimbabwe to build closer ties with the 14 other members¹⁶ of the regional bloc. Mugabe himself has not had the best relations with many leaders in the SADC, particularly **Botswana's** president **Ian Khama** (2008-present) who takes over from Mugabe as deputy chair. Mugabe assumed the rotating chair from **Malawi** at the SADC's annual summit which took place in the resort town of **Victoria Falls** on 17-18 August.

Although Mugabe's elevation to SADC chair and his likely appointment as chair of the **African Union** in January 2015 show backing from African leaders, western governments have made only tentative moves to re-engage with Harare. However, Mugabe says he hopes to use his leadership of the two key regional blocs to drive an agenda of stronger ties between member countries, less reliance on donor aid, more open regional trade and greater focus on adding value to exports.¹⁷ Despite these objectives, **Namibia** and **South Africa** refused to sign a protocol at the summit aimed at promoting freer trade in services. The respective leaders of the two countries, presidents **Hifikepunye Pohamba** (2005-present) and **Jacob Zuma** (2009-present), pleaded for more time *"to consult"*. Mugabe suggested *"highly industrialised"* South Africa should lead the rest of the region to promote free trade rather than regarding the continent as an open market for products from South Africa.¹⁸

Opposition parties in Zimbabwe have criticised Mugabe's appointment, saying the region continues to ignore Mugabe's rights abuses. The **Movement for Democratic Change-Tsvangirai (MDC-T)**'s organising secretary, **Nelson Chamisa**, said the appointment was

¹⁵ Rashweat Mukundu, Zimbabwe Democracy Institute, 18 Aug 2014.

¹⁶ The other members are Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania and Zambia.

¹⁷ Mugabe speech, 18 Aug 2014.

¹⁸ Newsday, 19 Aug 2014.

*“... a mockery of the SADC’s own electoral systems and principles of good governance and democracy. We believe this will dent the image of the region.”*¹⁹

Critics claim that Mugabe’s new role will distract him further from Zimbabwe’s dire economic situation. Former SADC executive secretary, finance minister (2000-2002) and 2008 Zanu-PF presidential candidate **Simba Makoni** says Zimbabwe will not benefit directly from Mugabe’s leadership at the SADC and the AU.²⁰ Makoni criticised comments by Zimbabwe government officials that appeared to suggest Mugabe would “*foist his resource nationalism agenda*” on the rest of the region. Makoni argued that Mugabe would find it “*impossible*” to force his domestic policies on other SADC countries, saying the role of chair is largely ceremonial and other regional leaders were likely to resist any radical approaches to economic policies and engagement with external partners.

2 Implications

There is little sign that Zimbabwe’s economy will pick up in the rest of 2014. Economic output will remain constrained by capacity issues in the manufacturing sector, while banks continue to struggle to raise much-needed liquidity to pass on in loans to the private sector. The private sector has been forced to slash output, close factories and retrench staff in order to survive. Unemployment in the formal sector, already at an all-time high, is expected to worsen, putting political and economic pressure on the government to accelerate reforms aimed at attracting investment and capital from international donors and creditor nations.

Grace Mugabe’s arrival in the Zanu-PF hierarchy can be seen as her husband’s attempt to consolidate and protect his political legacy beyond the end of his presidency, whether that occurs as a result of his incapacity, death or retirement.

With his election as chairperson of the SADC and the chair of the AU within his grasp early next year, Mugabe has achieved endorsement from his African peers, his goal since winning the last election. It remains to be seen whether the status which the positions confer can provide concrete economic benefits to Zimbabwe.

¹⁹ Source, Nelson Chamisa, 17 Aug 2014.

²⁰ Daily News, 12 Aug 2014.