

AFRICA RISK CONSULTING

Zimbabwe Monthly Briefing February 2017

Zimbabwe Summary 16 February 2017

Former vice president Joice Mujuru's Zimbabwe People First (ZimPF) party splits following leadership disputes after its poor performance in the Bikita West by-election. Heavy rains, pests and fertiliser shortages threaten to undermine Zimbabwe's "Targeted Command Agriculture" programme that targets increased agricultural output in 2017. The government suspends the introduction of a 15% value added tax (VAT) on basic commodities to allow for further consultations with relevant stakeholders and parliament.

Mujuru's ZimPF splits under leadership wrangles

The opposition **Zimbabwe People First (ZimPF)** party led by former vice president **Joice Mujuru** has split, following leadership disputes between Mujuru and other senior party members. Mujuru announced on 8 February that she had expelled a number of the party's top officials over their alleged links to the ruling **Zimbabwe National African Union-Patriotic Front (Zanu-PF)**.¹ The ousted party members are senior ZimPF leaders **Rugare Gumbo**, **Didymus Mutasa**, **Margaret Dongo**, **Kudakwashe Bhaiskiti**, **Luckson Kandemiri**, **Munacho Mutezo** and **Claudius Makova**.² Mutasa and Gumbo were also members of the **Elders' Advisory Council** that appointed Mujuru to the position of interim president when they formed ZimPF in early 2015, following their expulsion from Zanu-PF. In her announcement, Mujuru accused her colleagues of working as agents of Zanu-PF to stifle the growth of the party ahead of the 2018 elections.³

The expelled members have said that Mujuru had no authority to fire them from the party as she was only an interim leader.⁴ The faction that Mutasa and Gumbo led has since asked Mujuru's faction to stop using the party name and its logo, since she had effectively expelled herself from the party.⁵ Gumbo described Mujuru's move as "*irrational and emotional*", rejecting allegations that they were plotting against her.⁶

The senior leaders also accused Mujuru of routinely violating the party constitution and having an authoritarian leadership style.⁷ Analysts suggest that senior leaders were on the brink of expelling Mujuru after ZimPF's dismal performance in the **Bikita West** by-elections on 21 January:

"Mujuru's move could have been a pre-emptive strike as ZimPF leaders, having been worried about her inept leadership and dictatorial tendencies, were holding meetings in her absence, and had decided to remove her from the leadership of the party. Since the same leaders had appointed her on an interim basis, she was aware that they could also dismiss

¹ New Zimbabwe, 8 Feb 2017.

² New Zimbabwe, 8 Feb 2017.

³ New Zimbabwe, 8 Feb 2017.

⁴ New Zimbabwe, 8 Feb 2017.

⁵ New Zimbabwe, 15 Feb 2017.

⁶ New Zimbabwe, 8 Feb 2017.

⁷ New Zimbabwe, 8 Feb 2017.

*her. She then roped in provincial executives as a show of force against the other senior leaders.*⁸

The party was already experiencing internal tensions, amid disagreements over participation in the Bikita West by-election. Proponents within the party had viewed the by-election as a way to test the waters in the hope that victory would help fundraising ahead of the 2018 election.⁹ The ZimPF leaders also reportedly differed on issues of strategy, ideology and leadership style.¹⁰ Analysts argue the party lacked cohesion from the onset, with its leaders united only by their opposition towards Zanu-PF following their expulsion from the party.

*"ZimPF leaders had very little in common except for their common Zanu-PF background. Arising from Mujuru's ineffectual leadership, the early enthusiasm evaporated among some quarters of the party leadership, raising speculation that some of them were retracing their footsteps back to President **Robert Mugabe** (1980-present). Hence, the split represented ZimPF's failed ideological and strategic base which had not unified all the leaders expelled from Zanu-PF."*¹¹

Some analysts have argued that ZimPF's implosion is good for **Morgan Tsvangirai's Movement for Democratic Change (MDC-T)** and the opposition in general. **Alex Magaisa**, political analyst and former adviser to Tsvangirai, said that Tsvangirai stands to gain from ZimPF's fracture because it has weakened Mujuru's bid to lead the opposition coalition.¹² The presence of ZimPF among opposition parties in the coalition talks reportedly made the negotiations more complicated as Mujuru was also angling to lead the grand coalition, before gaining trust and legitimacy in opposition politics.¹³ The ongoing dispute within ZimPF has tainted Mujuru's credibility, and her prospects for leading an opposition coalition in 2018 elections are now slim.¹⁴

Factionalism is a prominent feature of Zimbabwe's opposition politics, and this limits the parties' ability to dislodge Zanu-PF from power. Nevertheless, an opposition coalition without ZimPF still stands a chance of defeating Zanu-PF in 2018.

Heavy rains, fertiliser shortage and pests threaten agricultural output

Heavy rains, coming immediately after the worst drought to hit the country in two decades, threaten to derail Zimbabwe's agricultural sector.¹⁵ The 2015/16 drought affected agricultural output in the **Southern African** region, leaving approximately four million Zimbabweans in need of food aid.¹⁶ The agriculture ministry indicated that Zimbabwe produced 1.3 million tonnes of maize in 2016, short of the 2.2 million tonnes annual requirement.¹⁷

A fertiliser shortage and an outbreak of pests, particularly the armyworm, also threaten the agriculture sector. The **Commercial Farmers' Union (CFU)** said Zimbabwe is experiencing shortages of ammonium nitrate fertiliser, which, given the heavy rains, can result in poor yields.¹⁸ Farmers are reportedly queuing for days outside fertiliser companies waiting for meagre import deliveries. Foreign currency shortages have affected fertiliser manufacturers' production capacity

⁸ Source, analyst, Harare

⁹ Financial Gazette, 9 Feb 2017.

¹⁰ New Zimbabwe, 8 Feb 2017.

¹¹ Source, analyst, Harare

¹² Daily Maverick, 14 Feb 2017.

¹³ Daily Maverick, 14 Feb 2017.

¹⁴ Daily Maverick, 14 Feb 2017.

¹⁵ Bloomberg, 1 Feb 2017.

¹⁶ Bloomberg, 1 Feb 2017.

¹⁷ Bloomberg, 1 Feb 2017.

¹⁸ The Independent, 20 Jan 2017.

since they are unable to pay for imports.¹⁹ The CFU reported that early-planted maize crops have recovered from armyworm attacks after farmers applied pesticides.²⁰ Despite these challenges, the CFU expects the maize crop yields for 2017 to be higher than the yield of 511,000 tonnes in 2016.²¹

Heavy rains are also threatening tobacco output in the 2017 harvesting season. The **Tobacco Industry Marketing Board (TIMB)** indicated that the tobacco crop is experiencing damages across all growing areas due to the rains, causing problems such as false ripening on the crop which has put pressure on farmers to harvest quickly.²² Tobacco is the second largest export earner after gold, accounting for 21.1% of export revenue.²³ The TIMB indicated that by December 2016, tobacco had generated \$933.6m from 164.5 million kilogrammes of exports.²⁴

The government launched the **Targeted Command Agriculture** programme in August 2016 in a bid to boost 2017 food production. The programme assumed good rainfall in the 2016/17 agricultural season, and set a target of two million tonnes of maize on 400,000 hectares of land.²⁵ However, there are fears that the Command Agriculture scheme will not yield the expected results due to alleged corruption in the input allocations.²⁶ Zanu-PF-aligned individuals have reportedly received the bulk of the approximately \$500m the government has invested in the programme.²⁷ The corruption allegations are reminiscent of similar agricultural programmes such as the 2007 **Farm Mechanisation Programme** that aimed to return Zimbabwe to its breadbasket status and prove the success of the land redistribution exercise to the world.²⁸ Local media reports claim that Zanu-PF elites abused the programme by claiming free inputs at the expense of ordinary farmers.²⁹ There are concerns that the Command Agriculture initiative may suffer a similar fate due to the abuse of agricultural inputs by top officials from the ruling party.

“Zimbabwe has had state-funded programmes designed for the general public, most of which have failed to reach the intended beneficiaries as government officials divert state resources for personal use. Although the government specified that the scheme will not be funded by the treasury, the ruling party has been pushing parliament to approve laws that would make it possible to transfer the debt to the taxpayers.”³⁰

The opposition MDC-T has since alleged partisan-based distribution of inputs whereby those without Zanu-PF membership cards were excluded from benefiting from the scheme irrespective of their farming skills.³¹

Corruption and flawed policies will continue to undermine the agricultural sector, which has been the mainstay of Zimbabwe’s economy since independence. Abuse of agricultural programmes diverts funds intended for training and equipment for farmers to fight the challenges of weather, pests and fertiliser shortages. Zimbabwe is likely to see minimal improvement in the 2017 agricultural season and little recovery from the **El Nino**-induced drought.

¹⁹ The Independent, 20 Jan 2017.

²⁰ The Independent, 20 Jan 2017.

²¹ The Independent, 20 Jan 2017.

²² All Africa News, 20 Jan 2017.

²³ Bloomberg, 1 Feb 2017.

²⁴ Bloomberg, 1 Feb 2017.

²⁵ Ministry of Agriculture Mechanisation and Irrigation Development, 28 Sep 2016

²⁶ The Independent, 20 Jan 2017.

²⁷ The Independent, 20 Jan 2017.

²⁸ News Day, 3 January 2017.

²⁹ News Day, 3 January 2017.

³⁰ Source, analyst, Harare

³¹ News Day, 3 January 2017.

Government suspends imposition of 15% VAT on basic commodities

The government has suspended the implementation of 15% value added tax (VAT) on several basic commodities following criticism from consumers, livestock producers, unions and other stakeholders.³² Products such as offal and fish, rice, potatoes, margarine and cereals products were previously exempt from VAT in order to make them affordable for low income earners.³³ However, the government imposed 15% VAT on a variety of basic commodities through **Statutory Instrument 20 (SI20)** of 2017, which came into effect on 1 February.³⁴

Finance minister **Patrick Chinamasa** announced on 8 February that the government had suspended the implementation of the statutory instrument to allow for further consultations with relevant stakeholders and parliament.³⁵ Chinamasa said the 15% VAT tax on the products was in line with **Southern Africa Development Community (SADC)** protocols that Zimbabwe has ratified, and which require member states to harmonise their tax regimes.³⁶ Chinamasa also said that the SADC had created a list of zero-rated and exempt products, saying they must be streamlined to broaden the tax base, enhance revenue collection, minimise corruption, and ensure similarity, equitability and fairness in member states.³⁷

The extension of VAT to most basic foodstuffs triggered sharp price increases as retailers sought to pass on the cost to consumers. Economists warned that the VAT hike would accelerate inflation and worsen the living conditions of ordinary Zimbabweans who already face a tough economic environment.³⁸ The **Consumer Council of Zimbabwe (CCZ)** said that the food basket price rose 8.49% from \$133.06 at the end of December to \$144.36 at the end of January 2017.³⁹ The **Zimbabwe National Chamber of Commerce (ZNCC)** warned that consumers with low disposable incomes were likely to stop purchasing the products with increased prices.⁴⁰

The move triggered widespread criticism from consumers, workers' unions and other stakeholders. The **Zimbabwe Congress of Trade Unions (ZCTU)**, Zimbabwe's largest union movement, condemned the move to impose additional taxes on basic commodities as irrational, since salaries are stagnant with companies continuing to cut costs and downsizing their operations in order to remain in business.⁴¹

*“Slapping the VAT taxes on basic food products is the latest desperate measure by the Zimbabwean government to boost its dwindling revenue. The government has been employing both conventional and unconventional methods to raise funds for the struggling economy, and the latest is a desperate, unconventional strategy that reflects its insensitivity to the plight of Zimbabweans who are already under pressure from the negative effects of one of the world’s weakest and most abnormal economies. It also shows the government’s over-confidence in its security and ability to manage dissent, given the frequent protests that occurred in 2016 over deteriorating standards of living in the country.”*⁴²

³² News Day, 8 Feb 2017.

³³ News Day, 1 Feb 2017.

³⁴ News Day, 1 Feb 2017.

³⁵ News Day, 8 Feb 2017.

³⁶ News Day, 8 Feb 2017.

³⁷ News Day, 8 Feb 2017.

³⁸ News Day, 1 Feb 2017.

³⁹ Daily News, 5 Feb 2017.

⁴⁰ Daily News, 5 Feb 2017.

⁴¹ News Day, 1 Feb 2017.

⁴² Source, analyst, Harare

Although the tax base has broadened in other countries in the region, income levels remain low in Zimbabwe for the general population. Zimbabwe has one of the world's lowest per-capita incomes (\$924.10 as at 2015), far less than the **sub-Saharan Africa** average per-capita income (\$1,588.50 as at 2015).⁴³ The **International Monetary Fund (IMF)** has been a major proponent of VAT as a strategy of increased revenue generation by developing governments as they say it works for both developing and developed countries with more stable and stronger economies. However, this does not necessarily apply to Zimbabwe's economy:

“While the policy objective to increase the tax base and hence increase revenues to finance basic public services and infrastructure might be noble, it does not always follow that it will happen, especially in all developing countries. Unlike in developed countries where high revenue collection directly result in good expenditure on public services such as education and health, African countries, Zimbabwe included, have a reputation of poor revenue management coupled with weak accountability and transparency measures, where the revenue is often misused. Most importantly, an increased tax base directly correlates with economic growth and job creation, and in the absence of these crucial factors, it becomes impossible to regard VAT as a legitimate revenue generation mechanism.”⁴⁴

The levying of VAT on basic commodities is a poor strategy of revenue collection. It heightens the likelihood of political violence and instability due to increased pressure on rural and urban populations who lack income to afford basic foodstuffs. Sources of income have deteriorated rapidly, resulting in more than half the population engaging in informal economic activities to survive. Imposing VAT in this context exacerbates social inequality, since those who earn less use the greatest portion, if not all of their income, on basic commodities as opposed to those who earn more, while the price increases will minimally affect the few high income earners in the country.

⁴³ News Day, 8 Feb 2017.

⁴⁴ Source, analyst, Harare

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)

www.africariskconsulting.com