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Zimbabwe Summary 23 January 2018

President Emmerson Mnangagwa (2017-present) appoints retired army commander General Constantino Chiwenga and veteran politician Kembo Mohadi as vice-presidents of both the ruling Zimbabwe African National Union-Patriotic Front (Zanu-PF) and the government. Concerns grow over increasing military involvement in Mnangagwa's government ahead of the 2018 general elections. The government announces an invitation for bids to buy stakes in state-owned enterprises (SOEs) that are currently facing insolvency as well as plans to phase out bond notes.

Vice-presidential appointments cast doubt on possibility of free and fair elections ...

President **Emmerson Mnangagwa** (2017-present) appointed two vice presidents, retired army commander General **Constantino Chiwenga** and former minister for state security, **Kembo Mohadi**, on 28 December.¹ The appointments represent consolidation of power by Mnangagwa and the military. Chiwenga's appointment soon after retiring from the army is seen as his reward for leading the coup that ended former President **Robert Mugabe's** (1980-2017) 37-year rule and brought Mnangagwa to power.² Mnangagwa also appointed Chiwenga as minister of defence and war veterans affairs, and Mohadi as national peace and reconciliation minister.³ Mnangagwa assigned the two vice-presidents the joint responsibility of overseeing the performance of other ministers in cabinet.⁴

Mnangagwa's appointment of former high-ranking army officials to the government and the ruling **Zimbabwe African National Union-Patriotic Front (Zanu-PF)** is raising concern both in Zimbabwe and abroad.⁵ It also raises doubts about the new government's commitment to a free election later this year. The military played a central role in Mugabe's re-election throughout his presidency, particularly from 2000 when the opposition **Movement for Democratic Change (MDC)** provided Mugabe with the most formidable challenge to his rule since independence.⁶ The military's response included acts of violence and intimidation against opposition members and their supporters.⁷ Having played a critical role in Mnangagwa's rise to power by assisting in Mugabe's removal, the military is expected to seek to protect Mnangagwa's presidency:⁸

"Mnangagwa's rise to power was backed by the military, and it goes without saying that the army would not let Mnangagwa lose the 2018 election to the opposition. Most importantly, Mugabe's removal had little to do with democracy, but the preservation of

¹ The Herald, 30 Dec 2017.

² The Source, 3 Jan 2018.

³ The Herald, 30 Dec 2017.

⁴ The Herald, 30 Dec 2017.

⁵ Daily News, 3 Jan 2018.

⁶ Source, analyst, London

⁷ Source, analyst, London

⁸ Source, analyst, London

*political power and economic interests by Mnangagwa and his allies in the military, especially Chiwenga and **Sibusiso Moyo**, who have a well- documented history of shady business dealings in Zimbabwe and beyond.”⁹*

Mnangagwa has promised “*credible, free and fair elections*” in either May or June 2018.¹⁰ However, he has not backed this promise with any significant commitment to institute electoral reforms, which the opposition and civil society organisations have demanded.¹¹ In a letter to Mnangagwa and newly appointed justice minister **Ziyambi Ziyambi**, the **Zimbabwe Election Resource Centre (ERC)** and other opposition parties have requested electoral reforms to ensure free and fair general elections in 2018.¹² The ERC has requested that Zimbabwe citizens in the diaspora be permitted to vote, and has asked for assurances that the **Zimbabwe Electoral Commission (ZEC)** will be protected against political influence.¹³ However, Ziyambi has rejected these calls, arguing that the constitution and other laws already guarantee free and fair polls.¹⁴

Fears that the military may block the transfer of power should Mnangagwa lose elections to the opposition appear founded, given its history of violently campaigning for Zanu-PF’s candidates.¹⁵

“The tactics that the army and Zanu-PF will use to win the election this time remain unclear, and may not necessarily entail overt acts of violence, but it is almost certain that the opposition will lose the election, and the army will play a central role in delivering that result.”¹⁶

A free and fair election could provide Mnangagwa with an opportunity to assert his legitimacy as Zimbabwe’s president. His critics, including former higher education minister **Jonathan Moyo**, have challenged the legality of his administration, alleging that Mnangagwa seized power unconstitutionally and is leading an “*illegal regime*”.¹⁷ During his inaugural address on 24 November, Mnangagwa described the November coup as “*an act of defending the national interest*” by the **Zimbabwe Defence Forces (ZDF)**.¹⁸ He also claimed that the defence forces’ actions were consistent with their mandate of defending and protecting Zimbabwe as well as upholding the constitution.¹⁹ The **High Court of Zimbabwe** issued a judgement on 25 November that ruled that the military intervention was constitutional and lawful.²⁰

“Mnangagwa knows that the next election will determine the full legitimacy of his government. He cannot afford to have a contested victory knowing full well that Mugabe’s past contested victories did not work. He will have to win the election in a free and fair manner that includes allowing all political parties to campaign freely, have equal access to the state media, and allow international observers, including from the

⁹ Source, analyst, London

¹⁰ News24, 22 Jan 2018.

¹¹ Newsday, 20 Dec 2017.

¹² Voice of America, 3 Jan 2018.

¹³ Voice of America, 3 Jan 2018.

¹⁴ Voice of America, 3 Jan 2018.

¹⁵ Source, analyst, London

¹⁶ Source, analyst, London

¹⁷ Daily News 3 Jan 2018.

¹⁸ Newsday, 20 Dec 2017.

¹⁹ Newsday, 20 Dec 2017.

²⁰ Newsday, 20 Dec 2017.

Western world, into the country. Given his past human rights record, it is unclear if this move will gain support from his allies in government as electoral observers might gather information that casts his rule in a bad light.”²¹

The army’s increased influence in Zanu-PF’s party politics and government presents an even greater challenge to the opposition, which has become weaker over the years due to divisions in the party. Some opposition politicians are likely to cross the floor to join a re-aligned Zanu-PF after the election.²² Despite Mnangagwa’s apparent disinclination to introduce political reforms, his promises of economic reform are likely to appeal to a number of voters.²³ Mnangagwa could be tempted to believe that Zimbabwe can achieve sustainable economic development without political reforms and respect for human rights. However, to support an appearance of legitimacy, he is expected to demonstrate that the rule of law still works in Zimbabwe.²⁴

Government invites bids for investment into parastatals

Finance minister Patrick Chinamasa invited bids for investors to buy stakes in state-owned enterprises (SOEs) that are currently facing insolvency, on 3 January.²⁵ The move to privatise the parastatals is part of the Mnangagwa government’s plans to reduce government spending, and revive the economy.²⁶ The government is reportedly assessing 24 of its 92 state-owned enterprises, with the aim of either diluting its shareholding or divesting entirely.²⁷ The government has published a priority list of companies which includes:

- **Air Zimbabwe;**
- **National Railways of Zimbabwe (NRZ);**
- **Cold Storage Company (CSC);**
- **Zimbabwe Electricity Supply Authority (ZESA);**
- **Posts and Telecommunication Corporation (Netone, Telone and Zimpost and POSB Bank);**
- **Finhold (ZB Holdings);**
- **Industrial Development Corporation of Zimbabwe (IDCZ);**
- **Olivine Holdings; and**
- **Agribank.**²⁸

The **Confederation of Zimbabwe Industries (CZI)** has reported that the country’s power utility, **Zimbabwe Electricity Supply Authority (ZESA) Holdings**, has been struggling to generate sufficient electricity to meet domestic demand.²⁹ This deficiency resulted in a \$224m loss in 2016.³⁰ Air Zimbabwe is also reportedly carrying debt of \$300m.³¹ The SOEs’ losses emanate mainly from corruption, poor management, and high operational costs.³² The office of the president and cabinet reported a loss of \$270m from 38 of the 92 parastatals in

²¹ Source, analyst, London

²² Source, analyst, London

²³ Source, analyst, London

²⁴ Source, analyst, London

²⁵ The Source, 3 Jan 2018.

²⁶ Source, analyst, London

²⁷ The Source, 3 Jan 2018.

²⁸ The Source, 3 Jan 2018.

²⁹ The Source, 3 Jan 2018.

³⁰ The Source, 3 Jan 2018.

³¹ The Source, 3 Jan 2018.

³² Source, analyst, London

October 2017.³³ The government has not made much progress in stabilising budget deficits due to high spending on public sector salaries.³⁴ The budget deficit rose to \$1.82 billion or 11.2% of GDP in 2017, from an initial target of \$400m, owing to the weak economic performance.³⁵

“Privatisation is one of the most effective remedies to address the situation with loss-making parastatals in Zimbabwe. However Mnangagwa’s government faces major challenges in redressing the years of economic turmoil that unfolded under his predecessor. Although the new government is convinced that privatisation will aid the country’s recovery, progress is expected to be slow as some of the economic fundamentals are still lacking.”³⁶

The list of companies to be privatised displays the severity of the crisis in the country’s SOE sector, and the government’s desperation to address the resultant economic crisis. The privatisation drive is also a signal that Mnangagwa is breaking away from the failed economic policies and bloated public spending that occurred during Mugabe’s rule. Mnangagwa’s economic policies – albeit still nascent – are likely to be friendlier to private investment and business.³⁷

Government to phase out bond notes...

Deputy finance and economic planning minister **Terence Mukupe** has indicated that the government is planning to phase out bond notes from the market, according to media reports on 14 January.³⁸ This forms part of economic reforms that the new government is instituting to revive Zimbabwe’s economy. Mukupe indicated that the continued use of the bond notes could undermine sustainable economic reform as envisaged by the Mnangagwa government.³⁹

The Reserve Bank of Zimbabwe (RBZ) introduced the bond notes in November 2016 as an incentive to boost foreign currency generation and ease cash shortages.⁴⁰ The bond notes are backed by a \$200m **Afreximbank** loan facility.⁴¹ As of June 2017, \$175m worth of bond notes were in circulation.⁴² The notes, which are officially pegged at par with the **United States (US)** dollar, have since lost almost half their value on the black market.⁴³ The government indicated that the bond notes will remain in use until several economic fundamentals have been put in place to sustain the country’s own monetary unit. These include addressing the budget deficit, increasing industrial production, and exports, and building foreign currency reserves of at least three months before re-introducing local currency.⁴⁴

Zimbabwe abandoned its Zimbabwe dollar currency in 2009 and adopted a basket of currencies to curb hyperinflation. The US dollar and the **South African** rand have since remained the dominant currencies in circulation. South Africa is Zimbabwe’s biggest trading

³³ The Source, 3 Jan 2018.

³⁴ The Source, 3 Jan 2018.

³⁵ The Source, 3 Jan 2018.

³⁶ Source, analyst, London

³⁷ Source, analyst, London

³⁸ Sunday Mail, 14 Jan 2018.

³⁹ Sunday Mail, 14 Jan 2018.

⁴⁰ Sunday Mail, 14 Jan 2018.

⁴¹ The Source, 17 Jan 2018.

⁴² The Source, 17 Jan 2018.

⁴³ Sunday Mail, 14 Jan 2018.

⁴⁴ The Source, 17 Jan 2018.

partner, and most products sold in both the formal and informal market are imported from South Africa.⁴⁵ However, the government appears reluctant to adopt the South African rand as an anchor currency.

Zimbabwe is currently experiencing an acute shortage of foreign exchange. The liquidity crisis has worsened as people lose confidence in the surrogate currency. The US dollars in circulation have become a target for cash hoarders and regional businesses that often mop up the greenback from the market. The central bank is reportedly allocating foreign currency to fuel, crude oil for cooking oil, and other basic commodities.⁴⁶

Several policy reforms may facilitate the return of a stronger Zimbabwe dollar, such as increased industrial production, higher export volumes, and reduced government budget deficit.⁴⁷ In the first post-Mugabe budget, delivered on 7 December 2017, finance minister Patrick Chinamasa projected 4.5% economic growth in 2018, driven by favourable policy interventions.⁴⁸

Planner

February 2018. **Harare (Zimbabwe)** United States-based fast food chain **Pizza Hut** to open first outlet in Zimbabwe;

May/June 2018. **Harare (Zimbabwe)** Zimbabwe general elections;

Chronology

23 January 2018 (**Zimbabwe**) Finance minister **Patrick Chinamasa** disputes former president **Robert Mugabe** (1980-2017)'s claim that \$15 billion of diamond revenue was stolen;

17 January 2018 (**Zimbabwe**) *The Source*. Deputy finance minister **Terence Mukupe** says the government will maintain the use of bond notes until the economy can sustain a new currency;

14 January 2018 (**Zimbabwe**) *Sunday Mail*. Government announces plans to phase out 'untenable' bond notes, but will first put economic fundamentals in place;

13 January 2018 (**Zimbabwe**) *Daily News*. Opposition and civil society members urge President Mnangagwa to implement reforms, instead of maintaining positive rhetoric alone;

3 January 2018 (**Zimbabwe**) *The Source*. Government announces decision to privatise or disinvest from loss making parastatals, to reduce public spending and revive the economy;

30 December 2017 (**Zimbabwe**), *The Herald*. President **Emmerson Mnangagwa** appoints former army commander **Constantino Chiwenga** and former state security minister **Kembo Mohadi** as vice-presidents, and assigns ministerial roles;

⁴⁵ Source, analyst, London

⁴⁶ The Source, 17 Jan 2018.

⁴⁷ Source, analyst, London

⁴⁸ Sunday Mail, 14 Jan 2018.

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.

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