

AFRICA RISK CONSULTING

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Zimbabwe's first lady Grace Mugabe is gaining ground in Zimbabwe African National Union-Patriotic Front (Zanu-PF) factional infighting, threatening vice president Emmerson Mnangagwa's presidential ambitions. Her continued political activities amidst increased internecine struggles in Zanu-PF further signify President Robert Mugabe (1980-present)'s weakening grip on the party. Tobacco production in the 2015/16 season will decline as some farmers reduce acreage while others shift to alternative crops citing lower prices and unpredictable rainfall patterns. This will further depress the country's ailing economy. Zimbabwe Revenue Authority (ZIMRA) blames corporate tax evasion for missing its revenue collection target. ZIMRA moves to access corporate account holders' details at local banks. Banks are likely to thwart this move citing confidentiality regulations. The country's dwindling tax base is a reflection of national economic decline, rather than tax evasion.

Zanu-PF succession race intensifies as First Lady Grace Mugabe gains ground

The race to succeed President **Robert Mugabe** (1980-present) continues in the ruling **Zimbabwe African National Union-Patriotic Front (Zanu-PF)** party as simmering tensions increase between factions reportedly loyal to First Lady **Grace Mugabe** and vice president **Emmerson Mnangagwa**. After Zanu-PF's removal of **Joice Mujuru** in December 2014 from both party and government, Mnangagwa appeared to be assured of succeeding Mugabe. However, Grace Mugabe's rallies around the country are threatening Mnangagwa's chances of taking over from Mugabe and further highlight factional politics in Zanu-PF. Grace Mugabe reportedly fronts for the **Generation 40 (G40)** or '**Young Turks**' faction, composed of younger politicians such as higher and tertiary education minister **Jonathan Moyo** and national commissar **Saviour Kasukuwere**.¹ The Young Turks allegedly plan to push Zanu-PF to revert to its old constitution, according to which **Article 7 (31)** provided that four members of the party's central committee should be a president and first secretary, two vice presidents and second secretaries – "*one of whom shall be a woman*" – and a national chairperson.² The clause facilitated Joice Mujuru's appointment to the Zanu-PF vice-presidency in 2004. The plan also aligns with the objective of the **Zanu-PF Women's League** which is also pushing for a female candidate to be nominated for one of the two vice presidency positions.³ The **Mashonaland West** branch of the Women's League has reportedly openly demanded the return of the women's quota system in the Zanu-PF constitution.⁴

¹ Financial Gazette, 22 Oct 2015

² NewsdzeZimbabwe, 12 Nov 2015.

³ NewsdzeZimbabwe, 12 Nov 2015.

⁴ Daily News Live, 15 Nov 2015.

“Mnangagwa has always held ambitions for the presidency and has been positioning himself over the years for the opportune time. He has, however, been careful not to carry his ambitions too far out of line. During this pre-congress period, he is being cautious to avoid the fate of his predecessor, former vice president Joice Mujuru, who, together with a number of ministerial allies, was purged after showing her ambitions to take over from Mugabe. Nevertheless, the alleged plan to elevate Grace Mugabe to the presidium in December may scuttle Mnangagwa’s ambitions. Should it succeed, Mugabe will remain unchallenged at the congress; co-vice president [Phelekezela] Mphoko keeps his position by virtue of being a [Zimbabwe African People’s Union] ZAPU representative, while Mnangagwa would be deployed elsewhere, possibly as the party chairperson. This may be a clear indication that the First lady is poised for a push to take over from Mnangagwa as the party’s second vice president.”⁵

Some of Mnangagwa’s allies have since been victimised as part of the continuing factional wars. **Constitutional Court** judges sentenced Mnangagwa’s confidant and the country’s prosecutor-general, **Johannes Tomana**, to a 30-day imprisonment for defying court orders which required him to issue private prosecution certificates for complainants that the **National Prosecuting Authority** had turned away.⁶ This issue had far-reaching political collateral damage for Mnangagwa who had earlier pushed for the adoption of a clause in the **Criminal Procedure and Evidence Act Amendment Bill** providing that the prosecutor-general “cannot be compelled to issue a certificate of private prosecution should he or she decline to charge an accused person, but still retains the power to issue one.”⁷ Mnangagwa steered the bill in the **National Assembly** amid resistance from opposition members of parliament.

Grace Mugabe denies harbouring presidential ambitions. Speaking at a political rally in **Mberengwa (Masvingo Province)** on 20 November, she indicated that Mnangagwa is constitutionally mandated to succeed Robert Mugabe.⁸ Mnangagwa and his wife also attended the rally, held in Mnangagwa’s provincial stronghold, but he did not make a speech.

President Mugabe is reportedly no longer involved in the goings-on in the party, due to advanced age, while his travel schedule as the **African Union** chairperson constantly takes him out the country.

“A closer look at the current machinations in the Zanu-PF indicates that the centre of power is no longer President Mugabe but now with a secret group elsewhere. The jostling between Mnangagwa and Grace Mugabe might become irrelevant when the actual time of succession comes. History has shown us that factions have succeeded only in nullifying each other without necessarily achieving the all-important presidential throne. Mugabe has consistently indicated that he is not planning to anoint a successor but the party would vote for one. This has left the field open for factional contests which have been creating factional winners and losers at the party’s annual congress.”⁹

⁵ Source, analyst

⁶ Zimbabwe Independent, 30 Oct 2015.

⁷ Zimbabwe Independent, 30 Oct 2015.

⁸ New Zimbabwe, 20 Nov 2015

⁹ Source, analyst, Zimbabwe

Tobacco farming expected to decline in the coming season

Tobacco farming is set to decline by over 30% in the 2015/2016 agriculture season.¹⁰ It had recently become an attractive enterprise among Zimbabwe's newly resettled farmers as the crop, generally referred to as the country's "gold leaf" was fetching higher prices in both domestic and international markets. Tobacco is currently the largest foreign currency earner in the cash-strapped Zimbabwean economy, accounting for 23% of total exports in 2014.¹¹ Tobacco was also Zimbabwe's top export in 2013, earning \$614m ahead of gold at \$503m and nickel at \$412m.¹² Tobacco is also the most valuable agricultural commodity, accounting for about 26% of agricultural GDP and 61% of agricultural exports.¹³ Tobacco farming was mainly a preserve of the large-scale commercial farming sector prior to the land reform programme that Zanu-PF implemented in 2000.

A combination of the land reforms, capital and foreign exchange constraints, and pricing uncertainties led to a slump in tobacco production between 2002 and 2008, with improvements starting to be noticed in 2010.¹⁴ As newly resettled farmers joined the production of tobacco and the crop fetched high market prices, this led to an increase in the number of growers over the years. There were 65,000 tobacco farmers in 2012, increasing to about 91,000 in 2013 and 106,000 in 2014.¹⁵ The **African Economic Outlook** reported that tobacco production increased significantly in 2014 as the number of growers and acreage increased mainly due to the rise in producer prices.¹⁶

The Zanu-PF government has been using the surge in black tobacco farmers as justification of its land reform policy. However, the increase in the number of growers over the years has not translated to higher yields as productivity is much lower. The new farmers often lack the capacity and skills to produce at a higher level. Comparisons with peak production in 2000 indicate that nearly 4,500 white commercial farmers produced 237 million kilogrammes (kg) of tobacco while the 106,000 farmers in 2013/14 season produced only 190 million kilogrammes.¹⁷

Registered tobacco growers¹⁸			
Sector	2012/2013	2013/2014	% Change
A1	38,020	37,805	-1
A2	8,218	11,720	30
Communal area	36,494	48,292	24
Small Scale Commercial	8,546	8,639	1
Total	91,278	106,456	14

¹⁰ New Zimbabwe, 25 Oct 2015

¹¹ Trade Economics, Zimbabwe Exports, 2015 Data.

¹² The Observatory of Economic Complexity

¹³ The World Bank 2012

¹⁴ The World Bank 2012

¹⁵ Financial Mail, 12 Apr 2015.

¹⁶ African Economic Outlook, Zimbabwe Report, 2015

¹⁷ Financial Mail, 12 Apr 2015.

¹⁸ Source: Tobacco Industry marketing Board, 2014

Apart from declining yields, global tobacco prices have also dropped in the 2015 season. Tobacco sales in 2015 opened with an average price of \$2.80/kg compared to \$3.25/kg in 2014.¹⁹ Statistics from the **Tobacco Industry Marketing Board** revealed that tobacco hectareage has declined in the 2015/2016 season, as some farmers are abandoning tobacco due to depressed prices while those who are staying with the crop are opting to reduce the hectareage in order to grow an area which they can manage in terms of inputs and agronomic practices.²⁰

“Subsistence farmers who have been widely engaged in tobacco farming were left frustrated by the prices at the auction floors this season. They also realised that they can no longer continue to pursue the money from ‘golden leaf’ as this left them without food after they ditched food crops. Some of the new famers are practising what one can say ‘crop-hopping’ in pursuit of ones that may fetch the highest price at harvest time. There is speculation that tobacco prices may still remain the same in 2016. Hence, some farmers may switch to cotton or other cash crops.”²¹

Zimbabwe Revenue Authority misses revenue target

The **Zimbabwe Revenue Authority (ZIMRA)** has announced that third quarter revenue collections amounted to \$878.2m, approximately 9% short of the targeted \$964m.²² ZIMRA pointed out that key tax heads, especially mining royalties and corporate tax, had underperformed, resulting in quarterly collections less than the \$884m tax revenue obtained in the same period in 2014.²³ This reflects the continuing economic decline in the country, following the collapse of vital sectors such as agriculture, mining and manufacturing. The economy has suffered a cycle of low productivity, low capacity utilisation and lack of capital formation since 2000.²⁴ The economy has also been failing to attract much needed foreign investment. Political instability and policies such as the **Indigenisation Act** have created a generally hostile investment climate. The Indigenisation Act forced foreign-owned companies to cede 50% of their shares to local partners.²⁵ Zimbabwe’s access to international financial assistance and loans is still blocked by debt owed to multilateral lenders, such as the **International Monetary Fund**.²⁶

Zimbabwe finances its entire budget from tax revenue.²⁷ ZIMRA noted that 22% of tax revenue is derived from individual taxes, 20% from excise duty and 16% from value added tax (VAT) on local sales.²⁸ The ZIMRA report indicated that mining royalties were 55% below target, while corporate tax missed the target by approximately 31%.²⁹ A “missed target” in the royalties tax is a clear sign of lower activity in the mining sector. Reduced profit margins in local companies and company closures have also reduced the amounts of corporate taxes accruing to the government. However, the government also blames the fall in corporate tax on tax evasion. **Reserve Bank of Zimbabwe (RBZ)** governor **John Mangudya** alleged at a

¹⁹ Financial Mail, 12 Apr 2015.

²⁰ The Herald, 3 Nov 2015.

²¹ Source, analyst, Zimbabwe

²² The Financial Gazette, 2 Nov 2015.

²³ The Financial Gazette, 2 Nov 2015.

²⁴ NewsdzeZimbabwe, 29 Oct 2015.

²⁵ New Zimbabwe, 12 Nov 2015

²⁶ VOA, 2 Nov 2015

²⁷ The Financial Gazette, 2 Nov 2015.

²⁸ The Financial Gazette, 2 Nov 2015.

²⁹ The Financial Gazette, 2 Nov 2015.

meeting with the **Confederation of Zimbabwe Industries** on 28 October that companies are depositing funds into individual accounts to avoid corporate tax.³⁰

“Companies evade tax wherever possible and this has been happening for some time now. For instance, when they import goods they falsify invoices to dodge the heavy custom and excise duty, they falsify product categories in a bid to qualify for a less or non-taxable category, and smuggle goods in order to lower the cost of importing. They also evade tax through under-declaration of profit.”³¹

Mangudya said that ZIMRA would be targeting corporate account holders at banking institutions.³² The revenue authority has requested some banks to provide details of all their corporate account holders, including addresses and bank balances.³³ The **Income Tax Act**, **Customs and Excise Act** and **Value Added Tax Act** require banks to provide ZIMRA with this information. However, banks have a legal obligation to ensure confidentiality of their customer information, which limits ZIMRA’s ease of access to this information.

The ZIMRA report also indicated that PAYE had declined by 13% from the \$226,23 collected in the same period in 2014.³⁴ Companies owe ZIMRA in excess of \$600m in PAYE.³⁵

“The situation is worse when it comes to pay-as-you-earn (PAYE). Many companies now have parallel payrolls, one for ZIMRA with false salary and benefits figures, and another for internal purposes with the actual figures. Some have two ways of paying the same employees, through the payroll for a certain amount and outside the payroll for another. This normally happens when it comes to managerial and senior staff.”³⁶

Implications

The continued factional fighting in Zanu-PF reflects the consequences of internal regime decay. Grace Mugabe’s recent political activities reveal the G40 faction’s dominance ahead of Zanu-PF’s annual congress in December. Despite her denials, Grace Mugabe is probably angling to succeed her husband, Robert Mugabe, whose deteriorating health will prevent him from serving any further terms as president of Zanu-PF and the country. Emmerson Mnangagwa’s faction, which also includes war veterans, is likely to mount counter-strategies in the wake of Grace Mugabe’s recent wave of nationwide rallies, which the G40 faction are using to drum up support for the annual conference.

There is likely to be a further decline in tobacco output in the 2015/16 season. The twin effects of poor agricultural productivity and declining prices threaten one of the country’s main sources of income. This will further weaken the economy, which continues to lose local productive sources in all economic sectors. Although agriculture has been Zimbabwe’s primary source of revenue since independence in 1980, it now relies on imports from **South Africa** and **Botswana** to sustain domestic consumption, primarily foodstuffs. The drop in tobacco production will result in international buyers shifting to alternative markets, further breaking the country’s few remaining channels of revenue both for the state and rural farmers.

³⁰ NewsdzeZimbabwe, 29 Oct 2015.

³¹ Source, analyst

³² The Herald 3 Nov 2015.

³³ The Herald 3 Nov 2015.

³⁴ The Herald 3 Nov 2015.

³⁵ The Herald 3 Nov 2015.

³⁶ Source, analyst, Harare

ZIMRA ascribes its dwindling tax revenue to both economic decline and tax evasion. The government's tax base has eroded considerably due to fewer employees and fewer companies operating profitably in the country. ZIMRA could also be losing revenue due to its own weak internal administrative mechanisms and revenue collection strategies. Overall, the loss of revenue is less a question of economics than politics.

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