

AFRICA RISK CONSULTING

Country briefing – Zimbabwe

April 2013

1 Summary

Zimbabwe withdraws request for election funding from the United Nations Development Programme over conditions which include loosening state control over the media. Finance minister Tendai Biti claims that South Africa has agreed to a \$100m loan, but South Africa insists talks are on-going. Reports claim that President Robert Mugabe would consider asking parliament to extend Global Political Agreement by another year. Divisions grow between Reserve Bank governor Gideon Gono and National Indigenisation Economic Empowerment Board over indigenisation, but Standard Chartered Bank is likely to agree to some form of settlement. Tendai Biti draws up banking reforms, limiting number of directorships that individuals are able to hold. European Union lifts majority of restrictive measures against Zimbabwe.

1.1 Zanu-PF rejects United Nations election funding

Zimbabwe withdrew a request for funding from the **United Nations Development Programme** for elections still expected later this year. The point of contention was apparently the conditions attached to the grant including liberalisation of Zimbabwe's media¹. The elections have an initial budget of \$100m (scaled down in April from \$132m), but a senior INGO official places the expense of both March's constitutional referendum and the elections at closer to \$250m. The **Zimbabwe Electoral Commission** is alleged to have debts of close to \$1m². Finance minister **Tendai Biti** has claimed that **South Africa** has approved a \$100m loan for budgetary support; the South African government has only said that talks are on-going. Within this framework of financial troubles, it has been suggested that Zanu-PF might get parliament to extend the **Global Political Agreement (GPA)** by another year.

*"[If elections go ahead] Mugabe would have to undertake a 90 day election campaign and be able to prove that he was able to govern. Therefore according to this thinking he might be persuaded to think about his legacy by agreeing to a reform process. The process, although reversed in some aspects, would be similar to the **Transitional Executive Authority in South Africa**"³.*

¹ AP, 17 April 2013

² Source, senior INGO official, London

³ Source, internal INGO report

Elections will probably occur at some stage this year, even if delayed from the expected date of June or July until September. **Morgan Tsvangirai** has already dismissed the possibility of another coalition government should his **Movement for Democratic Change (MDC)** win the election and would be loath to agree to an extension of the GPA. The state security apparatus would also be unwilling to allow a political pact to be drawn up without their participation, as opposed to an election in which they can more easily intervene.

1.2 Indigenisation in banking sector causes divisions in government, but Movement for Democratic Change unable to take advantage

Divisions appear to be emerging in Zanu-PF over the pace and direction of its policy of indigenisation. In April, pro- Zanu-PF **Reserve Bank** governor **Gideon Gono** insisted that there were no plans to withdraw the operating licence of **Standard Chartered Bank (Stanchart)** immediately unless it agreed to compliance with empowerment regulations⁴. The statement contradicted threats made a few days earlier by Zanu-PF empowerment minister **Saviour Kasukuwere** to remove Stanchart's licence, which Gono claimed had caused "*instability and anxiety among shareholders*"⁵. The central bank, of which Gono is governor, is the sole authority responsible for issuing banking licences. It had not indicated that it was preparing to follow the intimations of the **National Indigenisation Economic Empowerment Board (NIEEB)** which Gono described as being of no "*legal or practical effect*". Any sudden move towards indigenisation would violate the **Reserve Bank of Zimbabwe Act** which codifies the responsibility of banks to foster liquidity and stability in Zimbabwe's financial system. The dispute may already have broken with the principles of the Act. According to commentator **Father Brian MacGarry**, "*plunges on the stock market [follow] every time the proponents of indigenisation get noisy*"⁶. According to analysts, the government is still pressuring Stanchart to comply. Following the recent submission of a "workable" compliance plan by **Barclays Zimbabwe**, a deal is expected to be struck soon and certainly before the June deadline⁷. A deal with Stanchart would improve Kasukuwere's political fortunes. In March **President Robert Mugabe** was forced to admit that his minister had not understood the details of the **Implats** indigenization deal struck in January.

⁴ SW Radio, 10 April 2013

⁵ NewsDay, 10 April 2013

⁶ Zimbabwe Review of the British Zimbabwe Society, December 2012

⁷ Source, Zimbabwe analyst, UK

Despite Zanu-PF divisions over indigenisation and **Zimbabwe Anticorruption Commission** probes into the NIEEB, the MDC does not seem to have the political acumen to take advantage of any divisions over indigenisation. Since Zanu-PF introduced the policy in 2007, the MDC has struggled to formulate a coherent response. Prior to joining the **Government of National Unity**, the MDC was vehemently opposed to the policy, but its leadership now appears divided over an electoral strategy to win over the business community.

“Zanu-PF has played a fantastic game, and once again has the MDC over a barrel. At first they claimed legitimacy from their supposed role in independence but that would only last so long, so then they turned to land reform, again that would only last so long, and now indigenisation. And the MDC are unable to offer a narrative to any of this without appearing to be against the Zimbabwean people themselves. As political strategy, it’s superb, as fiscal policy, less so”⁸.

The MDC remained silent over the Stanchart issue (*although see below*). A leaked MDC internal document in April claimed that this indecision was encouraging the international business community to turn away from them and instead court perceived Zanu-PF moderates for protection⁹. Even if the MDC wins the elections, it has only promised to review rather than repeal the policy, a process which would be contentious and a further blow to investor confidence.

1.3 Government introduces banking amendments

While the MDC may not have commented on Stanchart, Tendai Biti has continued to champion amendments to the Banking Act. Biti’s reforms would bar directors of banking institutions and holding companies from holding similar positions in more than two other companies. Directors would be equally disqualified if they or their relatives or partners held shareholdings amounting to a significant interest in their institutions or companies, or have been convicted of money laundering. According to local media, this would affect at least ten directors of both listed and unlisted firms relinquishing directorships:¹⁰

These include:

- **Canaan Dube** (Delta, Barclays, Edgars)
- **Ngoni Kudenga** (ABC, Bindura and Hippo)
- **Anthony Mandiwanza** (Barclays, Dairibord, TSL and Chemco)
- **John Mushayavanhu** (FBC, General Beltings and Turnall)
- **Bothwell Nyajeka** (ZB Financial Holdings, PG Industries and TA Holdings)
- **Chris Urombo Hokonya** (ZBFH, Afre and the National Social Security Authority (NSSA))

⁸ Source, Zimbabwean analyst, London

⁹ The Independent, 12 April 2013

¹⁰ The Standard, 7 April 2013

- **James Matiza (ZHL, Afre and NSSA)**
- **Joseph Kanyekanye (Capital Bank, Rainbow Tourism Group, NSSA)**
- **Farai Mutamangira (Hwange and Allied Bank, ZBC and NIEEB)**

The bill also strengthens the auditing committee of banking institutes, while extending the Reserve Bank's supervisory functions to include controlling companies as well as banking institutions. The reform follows the 2004 bank closures and will be introduced to parliament in the second half of 2013. The banking amendment will contribute to Biti's burgeoning reputation amongst the international community following his vocal criticisms of corruption in the diamond sector. A Zimbabwean analyst, however, warned of assumptions that he is Morgan Tsvangirai's natural successor in the MDC:

"[Biti] is a very smart man, a very crafty man. He may well see himself as Tsvangirai's successor, but the Zimbabwean people will never accept an intellectual like him. They want their politicians to be a common man, someone you can imagine sharing a beer with"¹¹.

1.4 European Union suspends majority of sanctions

The **European Union (EU)** suspended the majority of restrictive measures against Zimbabwe at the end of March following the constitutional referendum. Sanctions were immediately lifted against 81 individuals and eight entities. Ten people and two entities remain on the sanctions list, restricted by asset freezes and travel bans. Further lifting of sanctions will follow the holding of elections, but by the same measure can be re-imposed at any time. Sanctions remain against:

- President Robert Mugabe
- First lady **Grace Mugabe**
- **Didymus Mutasa**, presidential affairs minister
- **Jabulani Sibanda**, National War Veterans Association leader
- **Happyton Bonyongwe**, Director of the **Central Intelligence Organisation**
- Air Marshall **Perence Shiri**
- General **Augustine Chihuri**, Police Commissioner
- General **Constantine Chiwenga**, Commander of the **Zimbabwe Defence forces**
- Lt General **Phillip Valerio Sibanda**, Commander of the **Zimbabwean National Army (ZNA)**
- General **Douglas Nyikayaramba**, **ZNA** Brigadier

¹¹ Source, Zimbabwean analyst, London

The two entities are the state run **Zimbabwe Mining Development Corporation** and **Zimbabwe Defence Industries**.

2 Implications

The government and the Zimbabwe Electoral Commission face a number of challenges, most notably financial, to holding elections this year. Elections in 2013 are, however, the most likely outcome, with the military in particular unlikely to agree to any pact drawn up by political elites. Political intimidation and harassment are therefore likely to increase in the short term. Pressure for international firms to agree to indigenisation settlements will also increase as a populist vote winning measure and companies will need to have adequate policies in place. Investors are likely to remain cautious until after the next set of polls, although banking reform emphasises that there are elements within the government which appreciate the importance of investor confidence.