

Research Paper

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The Domestic and External Implications of Zimbabwe's Economic Reform and Re-engagement Agenda



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Contents

Summary and Recommendations	2
Introduction	3
Economic Competitiveness and Accelerated Decline	6
ZANU-PF's Reform Agenda: Ideological Repositioning and Policy Pragmatism	14
Political Threats	26
Southern African Interdependency and International Support for Reform	37
Conclusion	44
Acronyms	46
About the Authors	47
Acknowledgments	48

Summary and Recommendations

- Zimbabwe is at a watershed, faced with its most serious economic crisis since 2008. A 'triple whammy' of deflation, stagnation and low productivity is exacerbated by low commodity prices, weak regional currencies and drought, in the context of a legacy of poor policy and a political succession battle over who will eventually succeed 92-year-old President Robert Mugabe.
- The gravity of the economic situation has forced the Zimbabwean government into a process of re-engagement with the West. Re-engagement is primarily aimed at attracting new revenue to ease the crisis of liquidity and fiscal deficit. The focus is on improving business confidence and an intensified re-engagement of the international financial institutions (IFIs). However, while there has been some progress in economic reform, there has been little governance and human rights reform.
- Government reforms have taken advantage of 'low-hanging fruit', and some limited progress has been made in critical areas such public finance management. The government must now commit to a long-term strategy that includes political reform to buttress economic advances. Confidence will be built on delivery, not on rhetoric.
- The domestic context is one of increasingly vocal popular discontent, ruling party factionalism and succession disputes spurred by concerns over Mugabe's age and state of health, and the prospect of national elections due in 2018. There is a heightened threat of intra- and inter-party violence in the run-up to the polls, with the emergence of new parties and protest groups adding to the uncertainty. Time is of the essence, and ZANU-PF needs to demonstrate that it can embrace both reform and compromise, and deliver economic growth and development for all Zimbabweans.
- Successful reform requires unified and sustained commitment on the part of the government. The severity of this crisis means that 'muddling through' is not a long-term option, particularly as international partners could walk away if they sense that ZANU-PF is just seeking short-term financial relief.
- International partners must also show commitment by bringing fresh thinking to Zimbabwe's current crisis and evolving transition to a post-Mugabe era. Beyond the potential of a major humanitarian and economic emergency within Zimbabwe, the wider region is less resilient than was the case in 2008, and an unstable Zimbabwe will have significant regional impact.
- Although the EU and Australia have reviewed their Zimbabwe strategies, including responding to Harare's re-engagement strategy by revising and in some cases easing their sanctions, the United States and Canada have lagged behind with outdated sanctions lists. At a time when the US administration is reviewing its strategy towards Sudan and its head of state, Omar al-Bashir, US policymakers should do so too with regard to Zimbabwe.
- International and regional governmental engagement does not guarantee the success of long-term reform, but continued isolation will almost certainly lead to the failure of reforms to take hold. A nuanced process of exerting political pressure balanced with the offer of support will reinforce the technocratic assistance provided by the IFIs, and will be fundamental to ensuring the effective use of any prospective concessional financing.

Introduction

The government of Zimbabwe has adopted a programme of economic reforms in an attempt to curtail accelerating economic deterioration and a humanitarian crisis. The pressure on citizens struggling to survive is increasing, and the government is faced with a race against time to bring about meaningful change to livelihoods. What is clearly required is the assistance of the international community and investors, but their support will depend on the government enacting a far-reaching economic and political reform programme. For the beleaguered ZANU-PF government, the reform agenda is a critical component for its own survival. And Zimbabwe as a whole – not just the ruling party – has reached a watershed, as it moves towards a post-Mugabe era.

A state of increasing political uncertainty for Zimbabwe comes at a time when Southern Africa is enduring its most severe drought for 35 years. Rains have failed, the region is suffering major water stress, and agricultural production is well below average. Some 4.07 million people in Zimbabwe are food-insecure,¹ and nearly 33,000 children are in urgent need of treatment for severe acute malnutrition.² With more than 80 per cent of Zimbabweans in the informal economy,³ and with social and economic resilience undermined by previous crises and decades of poor governance, the stakes are very high.

Zimbabwe's economic output halved between 1997 and 2008.⁴ The adoption of a multi-currency system in 2009 quelled the country's infamous hyperinflation and brought relative economic stability and a period of strong growth in real gross domestic product (GDP). None the less, structural deficiencies and a long history of political mismanagement had deindustrialized the economy, and the new growth rate was unsustainable. Zimbabwe is now under a triple threat of deflation, economic stagnation and low productivity, exacerbated by a context of low international prices for its export commodities, weak regional currencies and drought, as well as a political succession battle.⁵

Zimbabweans are living in a situation of extreme poverty. Half of the country's rural population will need food assistance by 2017.⁶ In urban areas people are relying on 'tsaona' – small packets typically of sugar, mealie meal or rice, costing around 5 rand (\$0.35) – to get through the day. The country has been in economic crisis before, but this time the situation is worse. In the hyperinflation crisis of 2008, 'there was a fallback position', according to former finance minister Tendai Biti, but now, without such contingency, 'the crisis is hitting deep the ordinary average person'.⁷ In 2008 many citizens were able to survive by using the US dollar as a parallel currency, but dollarization has removed that

¹ FAO (2016), 'GIEWS Country Brief: Zimbabwe', 18 July 2016, <http://www.fao.org/giews/countrybrief/country.jsp?code=ZWE> (accessed 15 Aug. 2016).

² UNICEF (2016), 'Malnutrition on the rise in Zimbabwe as El Nino takes its toll', Press Release, 15 March 2016, <http://www.unicef.org/uk/Media-centre/Press-releases/malnutrition-on-the-rise-in-Zimbabwe-as-El-Nino-takes-its-toll/> (accessed 18 Aug. 2016).

³ FinScope (2012), 'Finscope MSME survey 2012', Johannesburg: Finscope, <http://www.finmark.org.za/finscope-zimbabwe-small-business-survey-2013/> (accessed 14 Jun. 2016).

⁴ Biti, T. (2015), *Rebuilding Zimbabwe: Lessons Learned from a Coalition Government*, Washington: Centre for Global Development, <http://www.cgdev.org/sites/default/files/Tendai-Biti-Zimbabwe-Sept-2015.pdf> (accessed 14 Jun. 2016).

⁵ For a deeper analysis of the long term crisis and its origins see: Chitiyo, K. and Kibble, S. (2014), *Zimbabwe's international Re-engagement: The Long Haul to Recovery*, Chatham House Report, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/publications/papers/view/198715> (accessed 14 Jul. 2016).

⁶ Mutasa, H. (2015) 'Zimbabwe drought: five million face food shortage', Al Jazeera, 17 May 2016, <http://www.aljazeera.com/news/2016/05/zimbabwe-drought-million-face-food-shortage-160516142445157.html> (accessed 15 Aug. 2016).

⁷ Biti, T. (2016) 'The Role and Effectiveness of Opposition and Civil Society Groups in Zimbabwe' Speech delivered at Chatham House, 6 July 2016, <https://www.chathamhouse.org/event/role-and-effectiveness-opposition-and-civil-society-groups-zimbabwe> (accessed 11 Jul. 2016).

safety net, especially as a strong US dollar has also reduced the value of diaspora remittances. Import restrictions have further undermined mitigation mechanisms, as Zimbabweans are unable to bring basic goods into the country to trade with their neighbours.

The ZANU-PF government is pursuing a reform agenda that it hopes will address domestic impediments to growth in order to build business confidence and attract increased foreign investment. In a speech at Chatham House in July 2016, Zimbabwe's Minister of Finance and Economic Development, Patrick Chinamasa, emphasized:

We are doing everything in our power to improve the operating environment in Zimbabwe to attract foreign direct investment. What the country needs right now is capital – new money. The debts and liabilities are there, and we need a strategy that can make the economy grow. And for the economy to grow we need foreign direct investments, which is why we are involved in a strategy to change the operating environment and we've moved mountains in this regard.⁸

This 'strategy to change the operating environment' has been supported by the intensified re-engagement of the international financial institutions (IFIs) and technical assistance. A plan whereby Zimbabwe would clear its outstanding arrears with the IFIs was agreed on the sidelines of the IMF–World Bank Group annual meetings in Lima in October 2015, with the intention of paving the way for Zimbabwean eligibility for budget support and development finance as part of a process of normalizing relations with the international financial community.⁹

Financial support from the IFIs would help the government in Harare to manage the immediate economic crisis. Such assistance may already be too late to provide the country with a soft landing in its current economic deterioration, but it can ease the pain of collapse and act as a safety net for ordinary Zimbabweans as the country's elites negotiate the eventual political succession. It may also help to incentivize some efforts towards lasting fiscal management reform, and facilitate an increase in the availability of desperately needed capital investment at lower borrowing costs. However, reform and re-engagement are taking place in a low-trust environment. International and domestic confidence in the government is fraying, and planned reforms need to be turned from rhetoric into action to rebuild this confidence.

Messaging on re-engagement needs to be carefully managed. A loan from the IMF would not in itself be the panacea some in the country expect. Building confidence with investors and creditors will require continued political and economic reform and depoliticization of the economy. In the long term, it is not financial assistance from the IFIs that will transform the economy, but rather the deepening of reform. Concessional funding from the IMF would provide a soft landing in the short term and would signal confidence in the government's economic plan, but in order to unlock private sector potential and rebuild the economy the country critically needs private sector investment. Commitment to long-term reform and political stability are essential for this.

Successful reform will require an effective and unified government committed to political and economic reform objectives. The ongoing struggle within ZANU-PF over the presidential succession – spurred by the incumbent's age and speculation concerning his state of health – will only intensify ahead of the ruling party's congress in 2017. There is also a severe threat of intra- as well as inter-party violence in the run-up to the presidential and legislative elections due in 2018, exacerbated by the emergence

⁸ Chinamasa, P. (2016), 'Zimbabwe's Economic Reform and Re-engagement with the IFIs and Paris Club', Speech delivered at Chatham House, 4 July 2016, [5.40], <https://www.chathamhouse.org/event/zimbabwes-economic-reform-and-re-engagement-ifis-and-paris-club> (accessed 13 Jul. 2016).

⁹ Chinamasa, P. (2015), 'Zimbabwe: Strategies for clearing external debt arrears and the supportive economic reform agenda', Harare: Ministry of Finance and Economic Development, <http://www.rbz.co.zw/assets/clearing-zimbabwe-external-debt-arrears-february2016.pdf> (accessed 14 Jun. 2016).

of new parties and protest groups. Political factionalism represents a real risk to shaping an effective response to the economic crisis.

Political and reputational risks have deterred investors for some time, but rapprochement with the IFIs, supported by the broader international community, may avert a short-term collapse and foster new opportunities for private-sector investment over the longer term, as well as intergovernmental engagement.

Re-engagement is undoubtedly a fragile and risky process, with no guarantee of a good outcome. The IFIs have come in for criticism for effectively offering ZANU-PF a means of survival through the economic re-engagement process, and reformers within the party have themselves encountered opposition from hardliners who reflexively distrust any form of collaboration with the West, and who fear that the political reform that such engagement is likely to require in turn threatens the party's survival. But to disengage completely would inevitably mean deeper economic decline that could lead to chaos and violence for Zimbabwe – and an increased burden on an already fragile Southern Africa.

The challenge for the government will be to manage this tension between longer-term incremental change and popular demands for immediate economic relief, at a time when protest activism in Harare and other cities has tested state resilience in a new way.

Reform and re-engagement are thus critical if Zimbabwe is to obtain short-term assistance. But the true impacts will really only be seen and felt in the medium to long term as private sector investment returns. Meanwhile Zimbabweans, pressed into economic short-termism by nearly two decades of economic crisis, want to see rapid economic results and delivery before they can fully commit to, and trust in, this process. The challenge for the government will be to manage this tension between longer-term incremental change and popular demands for immediate economic relief, at a time when protest activism in Harare and other cities has tested state resilience in a new way.

None of Zimbabwe's political, economic or other stakeholders can resolve the country's economic and political crises on their own. Zimbabwe's international re-engagement needs to complement a national re-engagement between its people.

Zimbabwe's economic reform and re-engagement agenda also has a wider regional and global significance. A stabilized economy could once again allow Zimbabwe to be an anchor state in a region where resilience is weakening. Its trajectory is intrinsically linked with those of its neighbours, whose own economies are strained as a result of the international commodity slowdown, and by domestic structural issues, rising inequality and the impact of climate change. Any increase in the outward flow of Zimbabwean migrants as a result of economic crisis would place other countries of the region under further stress. Stability in Southern Africa is of strategic interest for the wider international community, and contagion of collapse would impact South African, UK, Chinese and US interests in particular.

Zimbabwe's economic reforms have been internationally supported. But the government's medium-term strategy, if it is serious about achieving full re-engagement, must be to deepen ongoing initiatives as well extending to encompass political reform. A successful transition from hard-line 'patriotic liberationism' to a more pragmatic economic liberalism will have considerable human development impacts, and could lay the economic foundations for a resurgent 21st-century Zimbabwe.

Economic Competitiveness and Accelerated Decline

A deepening economic crisis – characterized by deflation, stagnation and low productivity – has been compounded by the region-wide impact of falling commodity prices, drought and a sharply contracting South African economy on the verge of recession. These external factors threaten to accelerate Zimbabwe's own economic deterioration, and could lead to a humanitarian catastrophe.

Weakened by decades of poor governance and economic mismanagement, Zimbabwe has little residual resilience. The story of its decline has been widely told. Poorly implemented, populist and politically motivated land reform and indigenization programmes hollowed out the rural economy and pushed Zimbabwe into a decade of implosion.¹⁰ In 2008 the economy shrank by nearly 18 per cent, and inflation became effectively immeasurable – reportedly in the millions of per cent per month,¹¹ wiping out domestic savings and halting investment.

In the budget for 2009, the then acting finance minister, Patrick Chinamasa, announced the formal legalization of the already widespread use of multiple foreign currencies for business transactions. The stability and renewed confidence that this brought were underpinned by the subsequent formation of a coalition government of national unity (GNU)¹², and the maintenance of the multi-currency arrangement during Tendai Biti's tenure as finance minister in 2009–13 (and thereafter – the Zimbabwe dollar was itself eventually demonetized in 2015). Under the GNU, Zimbabwe experienced a period of double-digit growth in real GDP from 2009 to 2012 (see Figure 1).

A combination of high overall growth, rising property prices and a booming stock market fuelled optimism. Mortgage lending increased as confidence returned to the property market, and companies borrowed heavily to finance growth projects. In 2010 the mean debt-to-equity ratio for companies listed on the Zimbabwe Stock Exchange (ZSE) increased from 18 to 52 per cent.¹³ Credit continued to grow, underpinned by an assumption that growth was sustainable and incomes would continue to rise.

But this confidence did not last long. A combination of weak corporate governance, unsound lending practices and poor risk management meant that the economy was highly exposed. International investors, who accounted for more than 50 per cent of the capitalization of the ZSE, grew nervous and started to pull capital out of the system. Stock and property markets fell, and banks increased interest rates, making it more difficult for companies to refinance. Firms and households began to default on repayments, and by 2014 the level of non-performing loans (NPLs) was over 20 per cent.¹⁴ As firms liquidated, formal employment shrank dramatically, demand dropped, and an economy once notorious for inflation descended into a persistent deflationary cycle.

¹⁰ Biti, T. (2015), *Rebuilding Zimbabwe: Lessons Learned from a Coalition Government*.

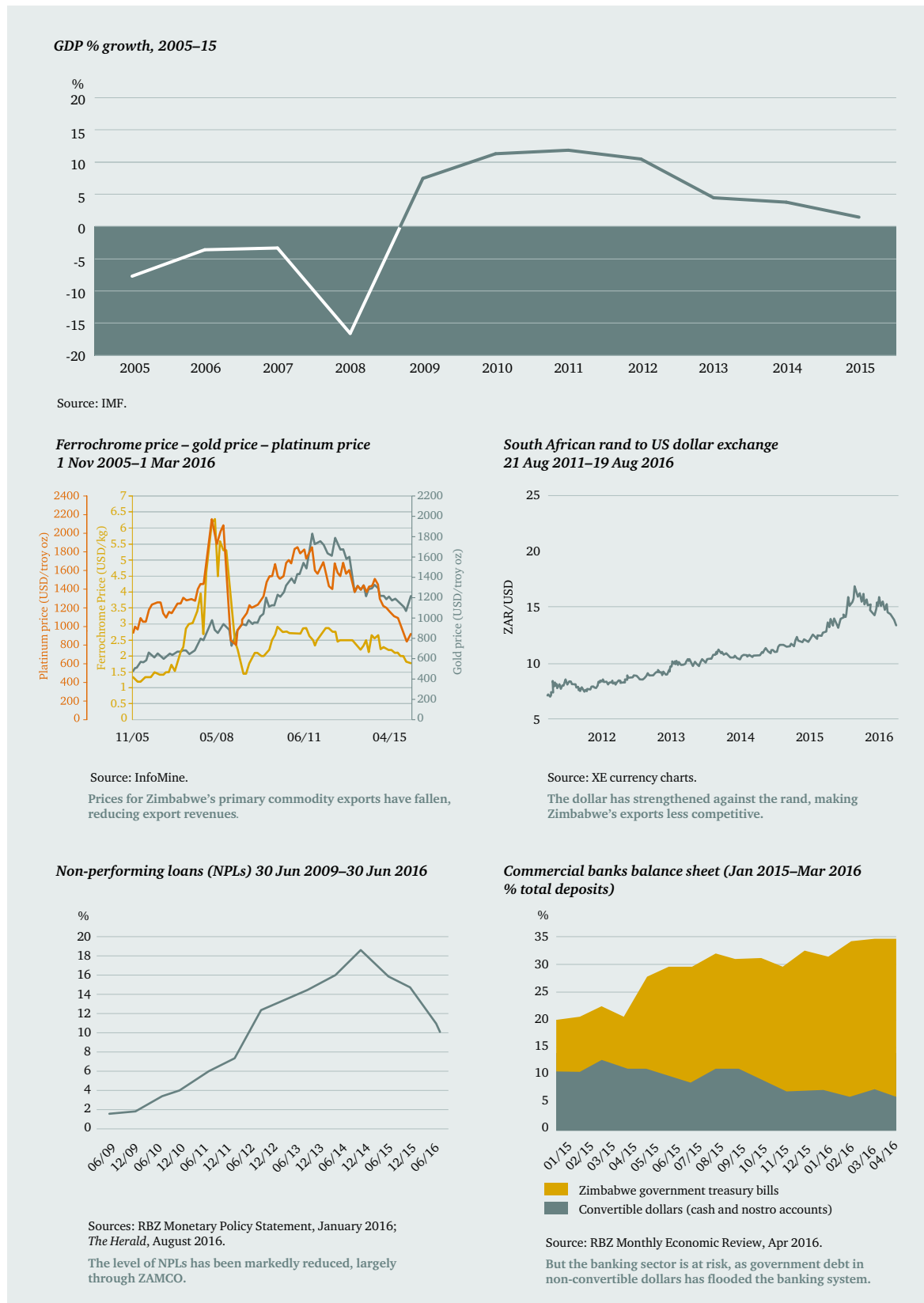
¹¹ World Bank (2016), World Development Indicators: Zimbabwe, <http://data.worldbank.org/country/zimbabwe> (accessed 14 Jun. 2016).

¹² Following a contested election result in 2008, SADC-sponsored negotiations between Robert Mugabe, Morgan Tsvangirai and Arthur Mutambara resulted a power-sharing agreement – the Global Political Agreement (GPA) – signed on 25 September 2008. This paved the way for the formation of a coalition government of national unity in 18 February 2009.

¹³ Chipendo, R. (2015), 'Explaining Zimbabwe's credit crunch', *Financial Gazette*, 24 September 2015, <http://www.financialgazette.co.zw/explaining-zimbabwes-credit-crunch/> (accessed 14 Jun. 2016).

¹⁴ Reserve Bank of Zimbabwe (2014), '2014 Annual Report', Harare: Reserve Bank of Zimbabwe, p. 5, <http://www.rbz.co.zw/assets/2014-annual-report.pdf> (accessed 14 Jun. 2016).

Figure 1: Zimbabwe – key economic indicators



In 2013 the Minister of Industry and Commerce, Mike Bimha, estimated that the country required some \$10 billion to update machinery – much of which dates from the 1980s and 1990s – and improve industrial capacity.¹⁵ In June 2016 electricity generation was at 60 per cent of installed capacity, and did not cover the country's needs, despite a fall in demand of some 37 per cent from the level in 1999 as a result of deindustrialization.¹⁶

Some manufacturers have remained in business by making products accessible for domestic consumers with limited means by reducing their range of products, and making a higher number of smaller sales units. But most are struggling or have already failed. In 2015 industrial utilization stood at just 34.3 per cent of installed capacity, down from 57 per cent in 2012,¹⁷ and it was estimated that only 5 per cent of the country's businesses were viable.¹⁸ Businesses are hampered by a lack of competitiveness and weak corporate governance. Production costs often include payments to local officials and bureaucrats, as well as fuel for generators to compensate for inconsistent electricity supplies. Governance and management capacity has been adversely affected by migration out of the country. These challenges have, furthermore, been compounded by the high value of the US dollar.

The government is committed to the multi-currency system until at least 2018, but, of the basket of permitted currencies,¹⁹ use of the US dollar rose from 49 per cent in 2009 to 95 per cent in 2015.²⁰ The relative strength of the US dollar within Southern Africa has made Zimbabwean goods even less competitive – not least as the South African rand has tumbled in value over the past five years. The country was expected to post a current account deficit of \$2.8 billion on its balance of payments in 2015, equivalent to 20 per cent of GDP – and substantially higher than the Southern African Development Community (SADC) threshold of 9 per cent of GDP.²¹

The shrinking tax base, and the fall in government revenues from exports, exerted pressure on the government's finances. As a result, the government has been issuing treasury bills (T-bills) in order to support the fiscal position and widening trade deficit. The government has directed the sale of T-bills into the domestic banks. As a result, the banking system has become flooded with government debt, denominated in non-transferable dollars. 'Hard cash' US dollar deposits in the banking system fell from 49 per cent (US \$582 million) in 2009 to 6 per cent (US\$269 million) in 2016.²² Meanwhile, the total value of government securities held by the banking system rose from zero in 2009 to US \$1,198 million in April 2016, accounting for 28 per cent of deposits in the banking system (see Figure 1).

Without a domestic currency, the Reserve Bank of Zimbabwe (RBZ) is restricted in its ability to influence the amount of 'hard cash' in the system, and has thus for a long time suffered an acute liquidity crisis. For example, the restrictions arising from the 2001 US Zimbabwe Democracy and Economic

¹⁵ Chirara, R. (2013), 'Zim Industry in Freefall', *Daily News*, 11 October 2013, www.dailynews.co.zw/articles/2013/10/11/zim-industry-in-freefall (accessed 14 Jun. 2016).

¹⁶ Zimbabwe Power Company Generation Statistics, <http://www.zpc.co.zw/#> (accessed 14 Jun. 2016); Financial Gazette (2016), 'Zimbabwe's power demand falls 40 percent as industries fall silent', 23 May 2016, <http://www.financialgazette.co.zw/zimbabwes-power-demand-falls-40-percent-as-industries-fall-silent/> (accessed 14 Jun. 2016).

¹⁷ Confederation of Zimbabwe Industries (2015), 'Manufacturing Sector Survey 2015', Harare: Confederation of Zimbabwe Industries.

¹⁸ Bhebhe, N. (2015), 'Zimbabwe's Manufacturing Sector in Decline' *The Africa Report*, 3 November 2015, <http://www.theafricareport.com/Southern-Africa/zimbabwes-manufacturing-sector-in-decline.html> (accessed 14 Jun. 2016).

¹⁹ The multi-currency basket includes the US dollar, the South African rand, the Botswana pula, the British pound, the euro, the Indian rupee, the Australian dollar, the Japanese yen and the Chinese renminbi/yuan.

²⁰ The Standard (2016), 'RBZ boss speaks on bond notes, Zimdollar return', 8 May 2016, <http://www.thestandard.co.zw/2016/05/08/rbz-boss-speaks-bond-notes-zimdollar-return/> (accessed 14 Jul. 2016).

²¹ Reserve Bank of Zimbabwe (2016), 'January 2016 Monetary Policy Statement', <http://www.rbz.co.zw/assets/monetary-policy-statement-january-2016.pdf> (accessed 14 Jul. 2016).

²² Exotix (2016), 'Zimbabwean Banks', Exotix Partners, 20 July 2016.

Recovery Act (ZDERA) and sanctions, discussed later in this paper, means that the RBZ is unable to work with the US Federal Reserve to access dollars. Zimbabwe is dependent on exports, remittances, foreign investment and credit lines to inject hard currency into the economy. The country has effectively become a 'bureau de change for Southern Africa', as the country pays dollars for its imports from its neighbours.²³ Ordinary Zimbabweans rely critically on diaspora remittances: these amounted to nearly US \$1 billion in 2015, accounting for almost half of foreign financial inflows into the country.²⁴

Confidence in the banking system evaporated after 2008, when hyperinflation wiped out savings, meaning that many people bypass formal financial institutions. Government efforts to extract revenue from the informal economy are a further disincentive for depositors, and for many Zimbabweans the reality is, as popularly put, 'Mari yangu, rinorara neni' [I keep my money with me]. The cash in the country is therefore not making its way into the banking system, and without a cash base credit has been further squeezed. Cash is also being directly taken out of the system through what the government refers to as 'leakages' – people taking suitcases of money out of the country. There is a shortage of notes to dispense from ATMs, despite repeated lowering of the daily withdrawal limit.

To abate the liquidity and cash crises, the RBZ has been implementing innovative quasi-monetary measures, as well as attempting to plug the leakages of cash externalization. One of the measures undertaken by the RBZ was the introduction, in 2014, of 'bond coins' – cent coins pegged to the US dollar – backed by a US \$50 million bond issued by the central bank.²⁵

But there are alternative ways of holding dollars. Since 2009 the country has used a real-time gross settlement (RTGS) system as an e-dollar payment system.²⁶ Depositors are able to hold US dollars in cash, in external dollar-denominated accounts – nostro accounts – or as a balance in RTGS dollars. Cash dollars and dollar-denominated dollar accounts have parity with the US dollar, and for a long time this parity was also assumed for RTGS dollars; however this assumption is now fading.

A black market is emerging for converting cash dollars into RTGS, at a rate of 1:1.10. The decoupling of the RTGS dollar from the cash dollar indicates that the e-payment system has come to represent a local currency controlled by the government. The principal and interest on the government T-bills that have flooded the banking system are settled in RTGS dollars, and civil servants' wages have also been settled in RTGS dollars.

The 2016 confidence crash

In May 2016 the government announced an initiative to provide an export incentive to restore and promote the use of the multi-currency system. Of all new US dollar foreign exchange receipts from export of goods and services, 40 per cent would be converted by the RBZ at the official exchange rate to rand, and 10 per cent to euros. The intention was to promote the diversity of currencies used in the country. However, in the same press release the bank stated that as an incentive, on top of the rand and euros, it would pay an additional 5 per cent in 'bond notes'.²⁷

²³ Confidential telephone interview, London, June 2016.

²⁴ Mataranyika, M. (2016), 'Nearly half of foreign inflows into Zimbabwe are remittances' *Business Day*, 4 February 2016, <http://www.bdlive.co.za/africa/africanbusiness/2016/02/04/nearly-half-of-foreign-inflows-into-zimbabwe-are-remittances> (accessed 14 Jun. 2016).

²⁵ Reserve Bank of Zimbabwe (2014), 'Press Statement on the Unveiling of Bond Coins Issued by Dr J P Mangudya, Governor, Reserve Bank of Zimbabwe' press release, <http://www.rbz.co.zw/assets/bond-coins-unveiling-statement-4-december-2014-1-.pdf> (accessed 14 Jun. 2016).

²⁶ RTGS systems are used worldwide as interbank settlement systems. In Zimbabwe the term is used to describe e-dollar bank balances.

²⁷ Reserve Bank of Zimbabwe (2016), 'Press Statement: Measures to deal with cash shortages whilst simultaneously stabilising and stimulating the economy', press release, 4 May 2016, <http://www.rbz.co.zw/assets/press-statement-on-cash-shortages-challenge--04-may-2016.pdf> (accessed 18 Aug. 2016).

The announcement that bond notes were to be introduced to the economy prompted a run on the banks, as depositors were worried that the new notes represented a return to the Zimbabwe dollar by the back door. Moreover, the announcement brought a significant change in the mood in Zimbabwe, and domestic and international confidence in the government crashed. While international investors understood the critical need for cash liquidity, the lack of consultation tested relationships with debt advisers and creditors. The RBZ also critically overestimated the level of domestic confidence, which remains tainted by memories of hyperinflation. At the time of writing, the introduction of the bond notes had been postponed until October 2016, and it may be deferred indefinitely.²⁸

The announcement [of bond notes] brought a significant change in the mood in Zimbabwe, and domestic and international confidence in the government crashed. While international investors understood the critical need for cash liquidity, the lack of consultation tested relationships with debt advisers and creditors.

The protests may have led to the postponement of the introduction of bond notes, but the export incentive has remained. However, rather than the RBZ crediting the exporters rand and euros, and the incentive in bond notes, they will now be credited directly into their RTGS accounts, including the 5 per cent incentive. This indicates that the government values hard dollars at 1:1.05 to the RTGS. Given that RTGS dollars hold no value outside Zimbabwe, their increased use by the government will undermine their role as a payment system and they may increasingly be seen as a proxy Zimbabwe dollar.

To further ease the pressures on the cash-based economy, policymakers are promoting the use of the other currencies in the multi-currency basket, and use of the South African rand as a secondary currency is increasing. The use of cards for point-of-sale transactions is also being encouraged, and take-up of card payment systems is on the increase. NGOs and donors are notably looking into ways of using electronic payment systems to carry out their operations in rural areas. In June 2016 the president of the Bankers Association of Zimbabwe, Charity Jinya, apparently confirmed that banks were no longer issuing 50- and 100-dollar bills in order to curb the physical removal of cash from the country; restrictions on international transfers have also been imposed.²⁹ However, while such measures may help to mitigate the symptoms of the crisis, they do not address the underlying problem – i.e. low confidence in the banking sector and the measures undertaken by the RBZ.

Confidence in the government further decreased following the introduction of an import ban. In an effort to promote domestic industry and overcome the difficulties for producers faced with cheap imports, in June 2016 the government introduced Statutory Instrument 64, banning imports of certain goods including building materials, fertilizers and consumables.³⁰ Following demonstrations, the

²⁸ Confidential interview, London, July 2016.

²⁹ Zwinoira, T. (2016), '\$50 \$100 notes vanish from banks', 12 June 2016, *The Standard*, <https://www.thestandard.co.zw/2016/06/12/100-50-notes-vanish-banks/> (accessed 14 Jul. 2016).

³⁰ Zimbabwe Revenue Authority (2016), 'Control of Goods (Open General Import Licence) (No. 2) (Amendment) Notice, 2016 (No.8)', Statutory Instrument 64 of 2016, 17 June 2016, http://www.zimra.co.zw/index.php?option=com_phocadownload&view=category&id=25:statutory-instruments& (accessed 19 Aug. 2016).

government clarified that the restrictions did not apply to individuals crossing the border to visit families and subsequently bringing goods back into the country.³¹ With very little manufacturing base remaining, the popular view is that there are too few local companies able to produce the goods to which the new restrictions apply. This is a further example of the government addressing the symptoms of the current crisis rather than the underlying problems.

The impact of El Niño

Zimbabwe is not only faced with an economic crisis. Southern Africa is suffering its worst drought for 35 years as a result of the 2015–16 El Niño weather phenomenon. Rains have come either late or not at all, and as a result the region is under major water stress and agricultural production is well below average. In March 2016 SADC established an El Niño response team, and in July a regional disaster was declared.³² By June 2016 an estimated 41 million people – 23 per cent of the rural population of SADC – were food-insecure.

Some 4.07 million people in Zimbabwe are food-insecure (see Figure 2). El Niño conditions have compounded other issues of long-term climate change and domestic economic and financial challenges, and the country is expected to remain a net importer of grain until at least 2020.³³

The drought is also resulting in a lack of water for domestic use and for power generation. There are concerns that importing mealie-meal (ground maize), rather than course grain maize, will put domestic millers out of business, and that distribution of imported maize will itself become politicized in the run-up to the elections due in 2018.³⁴

Beyond the current drought, there is the longer-term threat to Zimbabwe's resilience arising from the impact of climate change and increased water stress. Over the next 35 years it is anticipated that there will be a significant reduction in rainfall, river flows and groundwater recharge, and per capita water availability is forecast to fall by as much as 38 per cent.³⁵ Water and food stress will be most acute in urban and peri-urban areas. The country urgently needs to progress beyond a reliance on rain-fed agriculture, which currently accounts for 80 per cent of production, if it is to improve food security in the long term.

³¹ Kazunga, O., and Muleya, T. (2016), 'Imports Ban Clarified ... Reprieve as Government reviews restrictions', *The Chronicle*, 8 July 2016, <http://www.chronicle.co.zw/imports-ban-clarified-reprieve-as-government-reviews-restrictions/> (accessed 19 Aug. 2016).

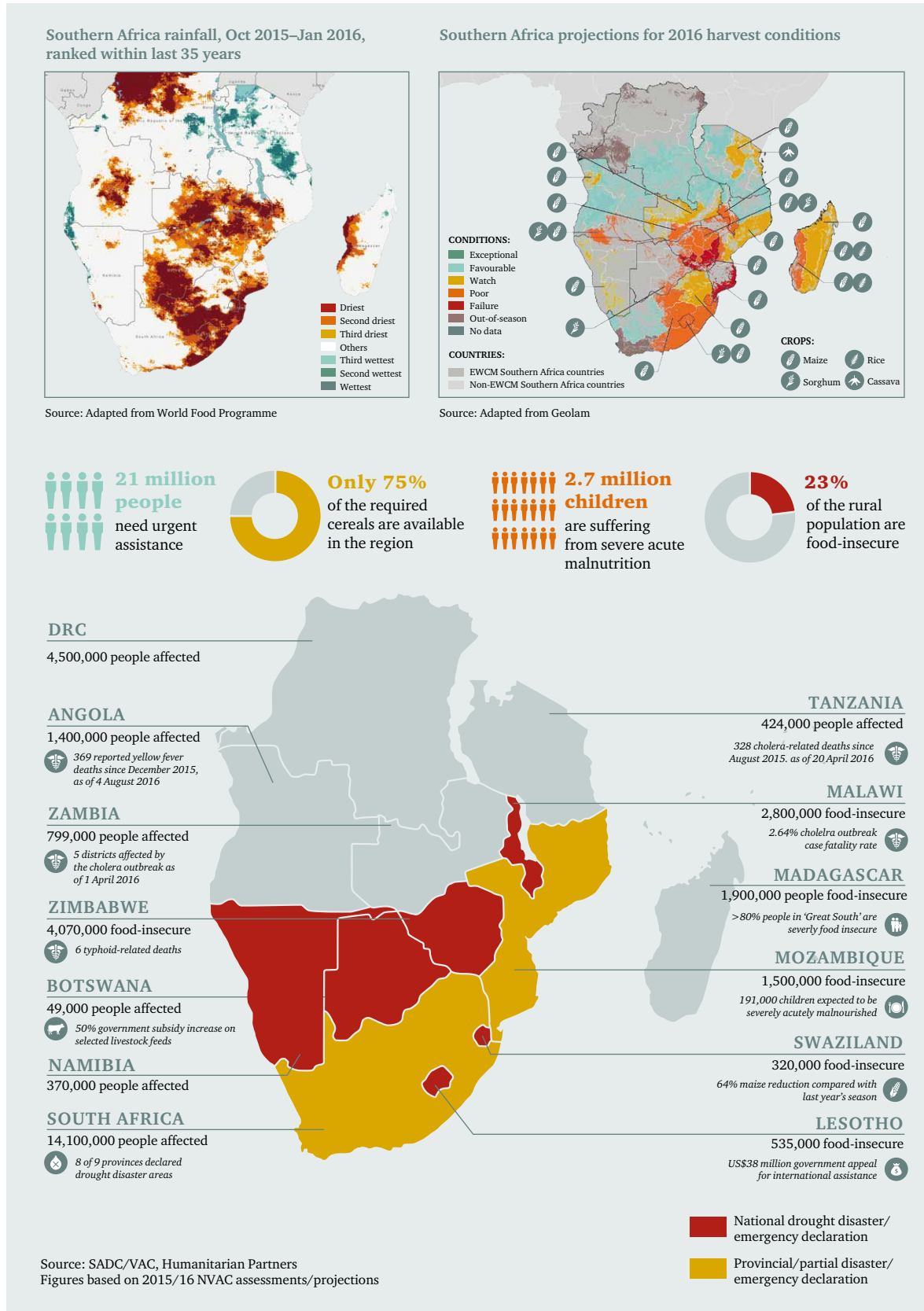
³² Bacchi, U. (2016), 'SADC declares drought a regional disaster', *Business Day*, 27 July 2016.

³³ Zenda, C. (2016) 'Zimbabwe to Import Maize Till 2020', *Financial Gazette*, 21 January 2016, <http://www.financialgazette.co.zw/zimbabwe-to-import-maize-till-2020/> (accessed 14 Jul. 2016).

³⁴ Confidential interview, Harare, March 2016.

³⁵ Davis, R. and Hirji, R. (2014), 'Climate change and water resources planning, development and management in Zimbabwe' World Bank Working Paper 93731, October 2014, http://www-wds.worldbank.org/external/default/WDSContentServer/WDS/IB/2015/01/20/000470435_20150120133440/Rendered/PDF/937310WP0Box380abaw000Issues0Paper.pdf (accessed 22 Jun. 2016).

Figure 2: Food security in Southern Africa



Box 1: Food security in Zimbabwe

Southern Arica has experienced severe drought, which has led to poor harvests. As result the region is in the grip of a crisis.

Total cereal production in 2016 was estimated at 512,000 metric tonnes: 27 per cent lower than in 2015, and about 50 per cent lower than the 2011–2015 average.³⁶

In March 2016 the estimated number of people in need of food assistance increased from 1.5 million to 2.8 million.³⁷ By July 2016 this had increased further, to an estimated 4.07 people in need of assistance, 44 per cent of the rural population.³⁸

In January 2016 Zimbabwe secured a US \$200 million loan from the African Export-Import Bank (Afreximbank) to finance maize imports. The government has made a commitment to import up to 700,000 tonnes of maize over the period October 2015 to December 2016 from South Africa and Zambia, as well as Ukraine and Mexico.³⁹ China is donating 20,000 tonnes of rice. However, imports are likely to be subject to bottlenecks, as increased regional demand for imported grain is constrained by port capacity and distribution is limited by existing infrastructure networks.

The deepening financial crisis and the collapse of commercial agriculture and manufacturing has pushed many workers out of formal employment. Around 80 per cent of Zimbabweans are engaged in informal economic activities, and 40 per cent of informal workers earn less than US \$200 per month.⁴⁰ The situation is thus one of high-risk food-insecure people, and the ongoing effects of drought could have disastrous humanitarian consequences, both in Zimbabwe and across the region more widely.

³⁶ FAO (2016), 'GIEWS Country Brief: Zimbabwe' 18 July 2016, <http://www.fao.org/giews/countrybrief/country.jsp?code=ZWE> (accessed 15 Aug. 2016).

³⁷ UNOCHA (2016), '2016 Humanitarian Needs Overview: Zimbabwe', New York: UNOCHA, https://www.humanitarianresponse.info/en/system/files/documents/files/zimbabwe-humanitarian-needs-overview-2016_0.pdf (accessed 14 Jun. 2016).

³⁸ FAO (2016), 'GIEWS Country Brief: Zimbabwe'.

³⁹ Marawanyika, G. (2016) 'Zimbabwe to Meet Half of Corn Needs from Zambia, Ukraine Imports' Bloomberg, 17 February 2016, <http://www.bloomberg.com/news/articles/2016-02-17/zimbabwe-buys-650-000-tons-of-corn-from-zambia-ukraine> (accessed 14 Jun. 2016); Reuters (2016), 'Zimbabwe to import 469,000 tonnes of white maize as drought bites', 23 March 2016, <http://af.reuters.com/article/investingNews/idAFKCNOWP152> (accessed 14 Jun. 2016).

⁴⁰ FinScope (2012), 'Finscope MSME survey 2012', Johannesburg: Finscope, <http://www.finmark.org.za/finscope-zimbabwe-small-business-survey-2013/> (accessed 14 Jun. 2016).

ZANU-PF's Reform Agenda: Ideological Repositioning and Policy Pragmatism

The ZANU-PF government is politically motivated to implement economic reform. If the state runs out of money, the governing party will be faced with an existential threat.⁴¹ The country is already deep in crisis, but the prospect of accelerated decline has prompted the fast-tracking of economic reforms. There is no other contingency.

A legacy of inconsistent implementation of legislation and policy means that the government needs to deliver on its promises of reform.

The government has announced grand plans for economic regeneration before, but has hitherto failed to deliver as it has been unable to overcome deep-seated corruption and the temptation to resort to politically expedient profligate spending. The current crisis has compelled the authorities in Harare to reach to the IFIs once again for a lifeline, and this time they have shown willing to implement the technocratic reform measures required for rapprochement. However, the process will need the support of international governments that will continue to press for political reform in return. In this context, there is an opportunity to set Zimbabwe on a long-term positive trajectory, but if international assistance is to materialize the government will need to show tangible commitment to both economic and political reform.

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A consultative process to identify the main economic fault lines, and how they may be addressed, was undertaken by the government following the 2013 elections. This resulted in the ambitious Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim Asset).⁴² This blueprint for economic recovery identified four strategic clusters: value addition and beneficiation; infrastructure and utilities; food security and nutrition; and social services and poverty reduction. Zim Asset was intended to run from 2013–18, but the 7 per cent annual growth rate needed to generate the government revenue to fund the programme failed to be achieved, and it is unlikely that its objectives will be realized in this time frame. Transformative change must therefore be delivered by means other than via Zim Asset, and use few resources.

The government has been swift to take advantage of 'low-hanging fruit' – i.e. through the implementation of reforms mostly within politically acceptable parameters – but there have been indications that other likely reforms will challenge vested interests.

⁴¹ Games, D. (2016), 'Zimbabwe reform a smokescreen to save ruling party', *Business Day*, 14 March 2016, <http://www.bdlive.co.za/opinion/columnists/2016/03/14/zimbabwean-reform-a-smokescreen-to-save-the-ruling-party> (accessed 14 Jun. 2016).

⁴² Government of Zimbabwe (2013), 'Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim Asset)', Harare: Government of Zimbabwe, available from <http://www.herald.co.zw/wp-content/uploads/2014/01/Zim-Asset.pdf> (accessed Jun. 2016).

With limited means, the authorities have implemented measures to improve the business environment in order to make the country more attractive to foreign investors. These include an initiative to reform Zimbabwe's 78 state-owned enterprises (SOEs), a clean-up of the banking sector, and a series of 100-day Rapid Results Action Plans (RRAPs) aimed at improving business confidence.

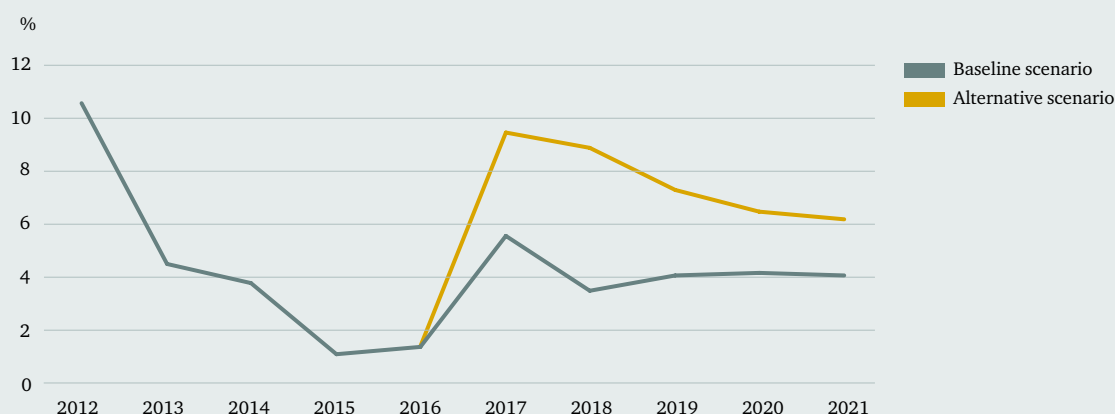
The current programme of reforms is being overseen by Vice-President Emmerson Mnangagwa, and is under the management of Minister of Finance Patrick Chinamasa and RBZ Governor John Mangudya.⁴³ The focus is on revenue management and budget rationalization, building confidence in the financial sector, undertaking structural reforms to improve the business environment, and addressing national debt obligations. The IMF has since 2013 monitored the authorities' progress through successive Staff Monitored Programmes (SMP)⁴⁴ – the second of which concluded at the end of 2015 – as well as providing technical assistance in achieving these objectives. The SMP review in 2016 highlighted the impact economic reform would have on the economy (see Box 2).

Box 2: Zimbabwe's economic scenarios – the need for reform⁴⁵

Alternative scenario assumptions:

- Accelerated medium-term reform programme, and ...
- Clearance of arrears with IFIs, leading to ...
- Higher growth, combined with ...
- Wage bill restraint, enabling ...
- Greater fiscal space and capital spending, leveraged by ...
- Lower costs of government borrowing, resulting in ...
- Sustained economic growth.

Figure 3: Real GDP growth (annual % change, 2012–21)



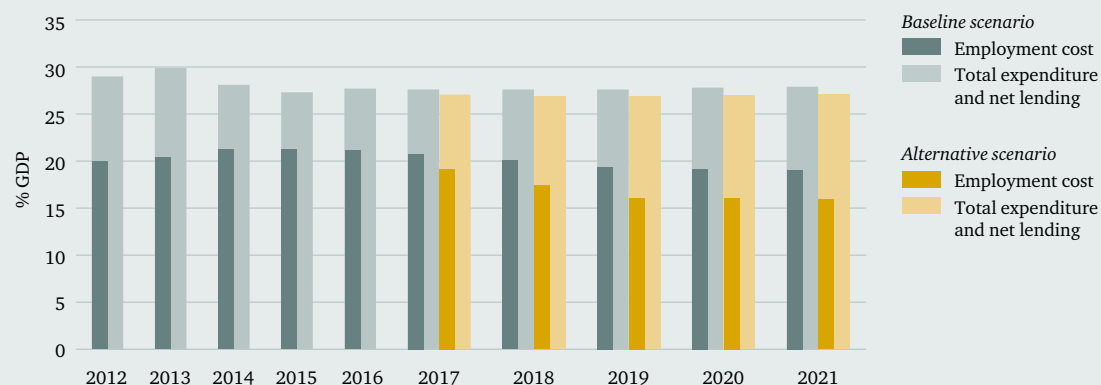
Adherence to the reform agenda, including improved fiscal management and improved ease of doing business, will result in higher growth.

⁴³ Chatham House researchers met with the finance minister and RBZ governor, along with their teams, in Harare in March 2016. There was a clear sense of 'mission focus' from a pragmatic management, supported by a high degree of technocratic expertise.

⁴⁴ The SMP is an informal agreement between state authorities and IMF staff to monitor and provide technical assistance for the implementation of an economic agenda set by the Zimbabwean authorities. It does not constitute financial assistance or endorsement by the IMF executive board.

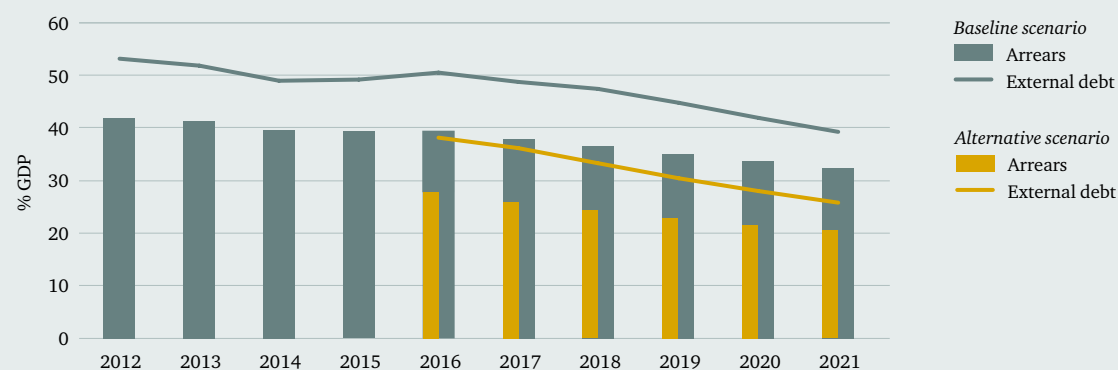
⁴⁵ Based on economic scenarios outlined in: IMF (2016), 'Staff report for the 2016 Article IV Consultation and the Third Review of the Staff-Monitored Programme – Press release; staff report; and statement by the executive director for Zimbabwe', IMF Country Report No 16/109, March 2016 Washington: International Monetary Fund. Data are current as at March 2016; however, changes in the economic climate since then may have resulted in revisions to these forecasts.

Figure 4: Government expenditure and employment cost, % GDP, 2012–21



The combination of higher growth and a restrained wage bill will increase the level of non-wage government expenditure available for social grants, infrastructure and healthcare.

Figure 5: Public external debt and arrears, % GDP, 2012–21



Arrears clearance will help bring public and publicly guaranteed external debt down to a manageable level at an accelerated pace.

The primary commitment is to balance the budget by improving revenue collection and reducing the public wage bill.⁴⁶ The impact of declining exports of mining and agricultural products has exacerbated revenue shortfalls resulting from job losses caused by manufacturing collapse.⁴⁷ The country has become increasingly dependent on revenues from its primary cash crop, tobacco.⁴⁸

The selling of T-bills has helped the government get by, and, while the banking system has been undermined by government securities, the market is not yet saturated. The proceeds

⁴⁶ International Monetary Fund (2014), 'Zimbabwe: Staff Monitored Program: Letter of Intent and Technical Memorandum of Understanding' Washington: International Monetary Fund, <https://www.imf.org/external/np/loi/2014/zwe/070114.pdf> (accessed 14 Jun. 2016).

⁴⁷ African Development Bank (2016), 'Zimbabwe Country Profile', Harare: African Development Bank, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Zimbabwe_Country_Profile-06_2016.pdf (accessed 14 Jun. 2016).

⁴⁸ Despite the drought, from March to July 2016 the tobacco sector generated just under US \$497 million, from 160 million kg of exports, up from \$474m for the same weight over the same period in 2015. Reuters (2016), 'Tobacco sales up despite drought', 11 July 2016, Reuters, <http://af.reuters.com/article/zimbabweNews/idAFL8N19X3N4> (accessed 12 Jul. 2016).

from exchanging exporters' hard currency into RTGS dollars could buy the government 'a lot more time'.⁴⁹ But the move would be deeply unpopular and would spur further public protest.

Reduction of the government wage bill is critical to future manoeuvrability on expenditure: freeing up funding for social grants, infrastructure and desperately needed healthcare is in turn critical to efforts to improve economic and social rights. Employment costs accounted for some 80 per cent of spending during the period January to September 2015,⁵⁰ and although employment costs in the 2016 budget framework were expected to be a lower percentage of spending, at around 71 per cent, this is based on expectations of increased revenue rather than reduced expenditure.⁵¹ The public sector is notorious for overstaffing and duplicated positions, and an independent audit conducted in 2015 estimated that an annual saving of some \$388 million could be made through rationalization.⁵² However, the fragility of the Zimbabwean economy means that reform cannot be fast-tracked, as the public wage bill accounts for over 20 per cent of GDP and is an essential driver of demand.⁵³ But government funds are low, and in July 2016 public sector workers, including doctors, nurses and teachers, began strike action in protest at delayed wage payments.

Zimbabwe's SOEs have long been considered agencies of political and economic patronage.⁵⁴ As part of the reform process, audits and restructuring have already begun on a priority list of 10 SOEs.⁵⁵ Restructuring initiatives for the targeted enterprises include separating commercial and regulatory entities, and seeking strategic and technical partners.⁵⁶ Such initiatives need to be extended to other parastatals and deepened to include the establishment of independent regulators and central administration for SOEs, as well as greater commercialization of state enterprises.

The RBZ has overseen attempts to clean up the banking sector. In August 2014 it created the Zimbabwe Asset Management Corporation (ZAMCO) to buy bad loans from the banks and provide them with much-needed liquidity. Eight distressed banks have been liquidated since 2012, and another has been recapitalized.⁵⁷ This has been a painful but necessary process. Banks that were household names in Zimbabwe – such as Royal Bank, Genesis and Trust Bank – have lost their licences because of undercapitalization, risk-management failure, and in some cases, abuse of depositors' funds.⁵⁸ Reform of the banking sector signalled that there was some political will to tackle patronage networks. ZANU-PF officials had sat on boards and held shares in the now-liquidated banks, and their closure indicates that there is sufficient support from the government and President Mugabe to be able to challenge

⁴⁹ Exotix (2016), 'Zimbabwean Banks', Exotix Partners, 20 July 2016.

⁵⁰ Chinamasa, P. (2015) 'The 2016 National Budget Statement: Building a conducive environment that attracts Foreign Direct Investment', p. 221, Para 1028.

⁵¹ Chinamasa, P. (2015) 'The 2016 National Budget Statement: Building a conducive environment that attracts Foreign Direct Investment', Annexure 1: Budget Framework, p. 293.

⁵² Kuwaza, K. (2015) 'Job Cuts Loom in Civil Service', *Zimbabwe Independent*, 13 November 2015, <http://www.theindependent.co.zw/2015/11/13/job-cuts-loom-in-civil-service/> (accessed 14 Jun. 2016).

⁵³ Chinamasa, P. (2015) 'The 2016 National Budget Statement: Building a conducive environment that attracts Foreign Direct Investment' p. 34.

⁵⁴ For a full analysis and policy recommendations see, Transparency International (2015), *Annual State of Corruption Report: Focus on State Owned Enterprises*, Harare: Transparency International.

⁵⁵ Industrial Development Corporation of Zimbabwe (IDCZ), Zimbabwe National Water Authority (ZINWA), Civil Aviation Authority of Zimbabwe (CAAZ), Agricultural and Rural Development Authority (ARDA), Air Zimbabwe, Cold Storage Company (CSC), Grain Marketing Board (GMB), National Railways of Zimbabwe (NRZ), TelOne, Zimbabwe Iron and Steel Company, and Zimbabwe Power Corporation (ZPC). See World Bank (2016), 'Reforming Zimbabwe's Parastatals One Enterprise at a Time', 22 March 2016, <http://www.worldbank.org/en/news/feature/2016/03/22/reforming-zimbabwes-parastatals-one-enterprise-at-a-time> (accessed 14 Jun. 2016).

⁵⁶ World Bank (2016), 'Reforming Zimbabwe's Parastatals One Enterprise at a Time', World Bank, <http://www.worldbank.org/en/news/feature/2016/03/22/reforming-zimbabwes-parastatals-one-enterprise-at-a-time> (accessed 14 Jul. 2016).

⁵⁷ Deposit Protection Corporation (2016), 'Update on Closed Banks', <http://www.dpcorp.co.zw/update-on-closed-banks.html> (accessed 14 Jun. 2016).

⁵⁸ Mhlanga, P. (2015), 'Close troubled banks earlier', *Financial Gazette*, 7 May 2015, <http://www.financialgazette.co.zw/close-troubled-banks-earlier/> (accessed 14 Jun. 2016).

vested interests. But despite weeding out underperforming banks, the financial sector is still at risk due to the high proportion of government T-bill deposits.⁵⁹

In March 2016, furthermore, finance minister Chinamasa launched the National Financial Inclusion Strategy, intended to broaden financial access and expand financial consumer education.⁶⁰ Increased knowledge of the financial system among Zimbabwe's citizens is essential to efforts to boost confidence in the sector. None the less, access to financial services remains a barrier to growth, and although the proportion of the population with access to formal financial services rose from 38 per cent in 2011 to 69 per cent in 2014, this remains much lower than that of Zimbabwe's neighbours.⁶¹

As part of its efforts to rehabilitate the business environment and improve the ease of doing business – and thus attract FDI – the government is implementing a series of 100-day RRAPs. The first plan, implemented in September–December 2015, was hailed as a success by the Chief Secretary to the President and Cabinet, Dr Misheck Sibanda, who reported that the number of days required to register a property was reduced from 36 days to 14 under the plan, while the time taken to pay taxes had fallen from 242 hours to 160.⁶² A National Competitiveness Commission is being set up to work with the Zimbabwe Investment Authority and the private sector.⁶³ Cooperation between the government and the Confederation of Zimbabwe Industries could also have a positive impact on business environment reform.

Such developments do not translate directly into investment, but they demonstrate government understanding of the significance of comparative indices of doing business and competitiveness, and a commitment to improving Zimbabwe's ranking. (For 2016 Zimbabwe was ranked 155 out of 189 in the World Bank's Ease of Doing Business Index, down from 153 in 2015.⁶⁴) However, these efforts will be undermined if they do not deliver on the headline issues of policy consistency and governance.

Vice-President Mnangagwa announced in June 2016 that supervision of the underperforming Anti-Corruption Commission would be moved from the Ministry of Home Affairs to the Office of the President and Cabinet.⁶⁵ Notably, it was reported that government ministers had tended to avoid prosecutions against their counterparts. He warned that 'You should understand what that means'. But this warning needs to be more than rhetoric and translate into prosecutions if it is to signal that the government is taking reform seriously.⁶⁶

Legislative amendments have meanwhile been introduced to support reforms aimed at promoting an improved business environment. A new 'world-class' corporate governance code was launched in 2015, the aim of which is to eliminate corruption and build trust and confidence in the public and

⁵⁹ The Chronicle (2016), 'Stanbic post 15pc profit surge', 5 April 2015, <http://www.chronicle.co.zw/stanbic-post-15pc-profit-surge/> (accessed 14 Jun. 2016).

⁶⁰ Chinamasa, P. (2016), 'Minister of Finance & Economic Development Honourable P. Chinamasa (MP) on the Official Launch of the National Financial Inclusion Strategy in Zimbabwe' 11 March 2016, Harare: Reserve Bank of Zimbabwe, <http://rbz.co.zw/assets/keynote-speech-by-minister-of-finance-at-the-official-launch-of-the-nfis-08-march-2016.pdf> (accessed 14 Jun. 2016).

⁶¹ Chinamasa, P. (2015) 'The 2016 National Budget Statement: Building a conducive environment that attracts Foreign Direct Investment', Speech presented to the Parliament of Zimbabwe on 26 November 2015, Harare: Ministry of Finance and Economic Development.

⁶² The Herald (2015), 'Govt working on new 100 day Action Plan', 29 December 2015, <http://www.herald.co.zw/govt-working-on-new-100-day-action-plan/> (accessed 14 Jun. 2016).

⁶³ ZBC (2016), 'Cabinet approves national competitiveness commission', Zimbabwe Broadcasting Corporation, 12 May 2016, <http://www.zbc.co.zw/index.php/news-categories/business/68407-cabinet-approves-national-competitiveness-commission> (accessed 21 Aug. 2016).

⁶⁴ World Bank (2016), 'Ease of Doing Business in Zimbabwe', <http://www.doingbusiness.org/data/exploreeconomies/zimbabwe> (accessed 16 Aug. 2016).

⁶⁵ The Herald (2016), 'Walk the Talk On Corruption', 17 June 2016, <http://www.herald.co.zw/walk-the-talk-on-corruption-ed/> (accessed 20 Jun. 2016).

⁶⁶ Senior-level corruption has gone unpunished in Zimbabwe. Annual reports from the auditor-general expose instances of corrupt practices but beyond ministerial portfolio shifts and a few sacrificial lambs, little has been done.

private sectors, although this is yet to be fully implemented.⁶⁷ Other measures include changes to legislation governing investments in infrastructure and transport operation and maintenance,⁶⁸ as well as proposed revisions to the Mines and Minerals Development Act to improve regulation in the sector. However, a past record of inconsistent implementation of legislation has prompted widespread doubts that these latest initiatives will themselves be pursued in full.

Box 3: Diamonds – from patronage to stalled reform

The diamond fields at Marange, in eastern Zimbabwe, have been a source of patronage and rent-seeking by the government, ZANU-PF and the military. There have, furthermore, been allegations of human rights violations at Marange on the part of the armed forces, which seized control of the fields in 2008.⁶⁹

Marange's more easily accessible alluvial diamonds are exhausted, and despite claims that Zimbabwe could fulfil 25 per cent of global diamond demand,⁷⁰ the country currently lacks the domestic capacity to undertake the capital-intensive extraction of kimberlite deposits.

In 2015 the Ministry of Mines and Mining Development announced that diamond mining operations would be brought under the control of a single enterprise, the Zimbabwe Consolidated Diamond Company (ZCDC), with the new organization to be 50 per cent owned by the state. The move was supposedly an attempt to boost production, profitability and sustainability.⁷¹ The president has claimed that some US \$15 billion has been taken out of the country from the diamond fields, although the accuracy of this figure is widely disputed.⁷² The government's action was rumoured to be politically motivated, as part of factional in-fighting.⁷³ Subsequently, the multinational Rio Tinto announced that it had completed the sale of its 78 per cent stake in Murowa Diamonds, although it did not formally confirm that the enforced merger was a motivation for this.⁷⁴

In February 2016 the government ordered the expulsion of eight private mining companies that had opted not to subsume their operations into the newly established ZCDC, under the pretext that their licences had expired.⁷⁵ One of the operators forced to cease operations, the Chinese-owned Anjin Investments, took legal action against the Zimbabwean authorities, on the grounds that the forced eviction was in violation of its shareholders' rights, but in March 2016 the High Court reserved ruling on the case.⁷⁶

In June 2016 ZCDC CEO Mark Mabhudu and finance director Stewart Musekiwa were dismissed for allegedly misrepresenting production forecasts.⁷⁷ There were also allegations of corruption and nepotism within the company. Hopes of the diamond sector becoming a driver of growth through ZCDC are rapidly fading.

⁶⁷ Confidential telephone interview, London, April 2016.

⁶⁸ Bwanya, S. and Mawere, T. (2016), *Zimbabwe: Finally Paving the Way for Foreign Investment in Transport Infrastructure*, African Law Business, 5 January 2016, www.africanlawbusiness.com/news/6050-zimbabwe-finally-paving-the-way-for-foreign-investment-in-transport-infrastructure (accessed 14 Jun. 2016).

⁶⁹ Human Rights Watch (2009), *Diamonds in the Rough: Human Rights Abuses in the Marange Diamond Fields of Zimbabwe*, New York: Human Rights Watch, <https://www.hrw.org/report/2009/06/26/diamonds-rough/human-rights-abuses-marange-diamond-fields-zimbabwe> (accessed 14 Jun. 2016).

⁷⁰ The Zimbabwean (2010), 'Zim can supply 25% of world diamonds', *The Zimbabwean*, 25 Jun. 2010, <http://www.thezimbabwean.co/2010/06/zim-can-supply-25-of-world-diamonds/> (accessed 16 Aug. 2016).

⁷¹ African Mining Brief (2015), 'New Kid on the Block – Zimbabwe Consolidated Diamond Company (ZCDC)', *African Mining Brief Online*, 11 Nov. 2015, <http://ambriefonline.com/new-kid-on-the-block-zimbabwe-consolidated-diamond-company-zcdc/> (accessed 16 Aug. 2016).

⁷² Manayiti, O. (2016), 'ZCDC bosses fired over diamond revenue forecast', *The Standard*, 5 Jun. 2016, <http://www.thestandard.co.zw/2016/06/05/zcdc-bosses-fired-diamond-revenue-forecasts/> (accessed 16 Aug. 2016).

⁷³ Confidential interview, Harare, March 2016.

⁷⁴ Jamasmie, C. (2015), 'Rio Tinto Sells Murowa diamond mine and leaves Zimbabwe', *Mining.com*, 26 June 2015, <http://www.mining.com/rio-tinto-sells-murowa-diamond-mine-and-leaves-zimbabwe/> (accessed 14 Jun. 2016).

⁷⁵ MacDonald, D. (2016), 'Zimbabwe orders diamond mines shut, says not nationalising', *Reuters*, 22 February 2016, <http://af.reuters.com/article/investingNews/idAFKCN0VV126?pageNumber=1&virtualBrandChannel=0> (accessed 16 Aug. 2016).

⁷⁶ NewsdzeZimbabwe (2016), 'Anjin Eviction: Court Reserves Ruling', 7 March 2016, <http://www.newsdzezimbabwe.co.uk/2016/03/anjin-eviction-court-reserves-ruling.html> (accessed 16 Aug. 2016).

⁷⁷ Manayiti, O. (2016), 'ZCDC bosses fired over diamond revenue forecast'.

Reform efforts must critically go beyond economics, and civil society groups have voiced concerns that in other areas parliament has been slow to bring legislation into line with the constitution as adopted in 2013.⁷⁸ There have been calls for the reform of contentious laws on socioeconomic, civil and political issues, as well as full adherence to SADC electoral norms.⁷⁹ The General Laws Amendments (GLA) Bill came into law in July 2016, and aligns 126 statutes with the new constitution.⁸⁰ However, there are concerns the electoral reforms within the act do not go far enough.⁸¹ Opposition parties are pressing the Zimbabwe Electoral Commission (ZEC) on this last issue, but, beyond some technical changes, ZANU-PF is unlikely to endorse a major electoral reform agenda ahead of the polls due in 2018.

The authorities are undertaking a number of measures to finalize the land reform programme, and the presidency seems to have accepted that there needs to be a 'cooling off [of] the continuing disruptions and threats to farmers'.⁸² In March 2016 the government presented a memorandum on land compensation to parliament.⁸³ The Land Compensation Fund provides for payments to Zimbabwean farmers of all races who lost their farms under the land reform programme, in line with Article 295 of the constitution.⁸⁴ The memorandum also provides for compensation to foreign former landowners who lost property under the programme. In theory, the scheme will be financed by rent and leases paid by the new occupants of the farms, as well as donors and development partners.

Reform efforts must critically go beyond economics, and civil society groups have voiced concerns that in other areas parliament has been slow to bring legislation into line with the constitution as adopted in 2013.

GPS mapping of farm units is under way to define farm boundaries for security of land tenure, and in June 2016 the finance minister stated that that 1,400 of the 6,000 farms seized since 2000 had been valued.⁸⁵ Beneficiaries of the compensation programme have received 99-year leases, although financial institutions are still wary of accepting them as collateral. Despite protracted negotiations between the government and the banks, a deal has yet to be reached whereby these leases would become 'bankable' and thus give farmers access to credit. The government has also announced that it will conduct a land audit.⁸⁶ But questions remain as to how committed the government is to this new, apparently pragmatic land reform agenda, and whether adequate funding will be available to enable the process.

⁷⁸ Confidential interview, Harare, March 2016.

⁷⁹ ICG (2016), *Zimbabwe: Stranded in Stasis*, Crisis Group Africa Briefing No 118, Johannesburg/Brussels: International Crisis Group, p. 14, [http://www.crisisgroup.org/~media/Files/africa/southern-africa/zimbabwe/b118-zimbabwe-stranded-in-stasis.pdf](http://www.crisisgroup.org/~/media/Files/africa/southern-africa/zimbabwe/b118-zimbabwe-stranded-in-stasis.pdf) (accessed 14 Jun. 2016).

⁸⁰ Government of Zimbabwe (2016) 'General Laws Amendment Act, 2016' http://www.veritaszim.net/sites/veritas_d/files/General%20Laws%20Amendment%20Act%2C%202016.pdf (accessed 16 Aug. 2016).

⁸¹ The Zimbabwean (2016). 'ZESN unimpressed by the general laws amendment act', 15 August 2016, <http://www.thezimbabwean.co/2016/08/zesn-unimpressed-by-the-general-laws-amendment-act/> (accessed 16 Aug. 2016).

⁸² Reserve Bank of Zimbabwe (2016) 'January 2016 Monetary Policy Statement'.

⁸³ Mtomba, V. (2016), 'Govt to dole out \$10bn to white farmers', *The Standard*, 6 March 2016, <http://www.thestandard.co.zw/2016/03/06/govt-to-dole-out-10bn-to-white-farmers/> (accessed 16 Aug. 2016).

⁸⁴ 'Any indigenous Zimbabwean whose agricultural land was acquired by the state, is entitled to compensation from the state.' Constitution of the Republic of Zimbabwe 2013, 295: 1.

⁸⁵ Marufu, M. (2016), 'White ex-farmers on cusp of compensation', *The Sunday Mail*, 12 June 2016, <http://www.sundaymail.co.zw/white-ex-farmers-on-cusp-of-compensation/> (accessed 16 Aug. 2016).

⁸⁶ Mpofu, B. (2016), 'Authorities Promise Land Audit', *Zimbabwean Independent*, 13 May 2016, <http://www.theindependent.co.zw/2016/05/13/authorities-promise-land-audit/> (accessed 17 Aug. 2016).

Box 4: Land reform – agriculture is vital for recovery

Zimbabwe defines itself as an agro-economy, and unlocking agricultural potential is critical to achieving sustained growth. Commercial agriculture contributes approximately 12 per cent of the country's GDP, and more than 60 per cent of inputs into the manufacturing sector⁸⁷ – both for food processing and the processing of cash crops such as tobacco and cotton. Some 30–40 per cent of Zimbabwe's rural population are mid-sized farmers; and they are linked into supply chains from above and below, investing, selling and accumulating assets and producing cash crops.⁸⁸ These farmers are thus well placed to drive agricultural growth and generate jobs throughout the supply chain.

The government aims to make Zimbabwe self-sufficient through increased production, reduce dependency on a limited number of crops, and create opportunities for establishing agro-processing and agro-based industries.⁸⁹

As part of efforts to mitigate the impact of climate change, the government has announced a Climate Resilient National Water Resources and Irrigation Master Plan, the aim of which is to revive and expand irrigation infrastructure across the country, and thus reduce reliance on rain-fed agriculture, in order to increase yields and strengthen food security.⁹⁰

Indigenization has been inconsistently implemented hitherto; requirements have been unclear; and investors lack the necessary trust in the government that would persuade them to commit to serious investment.⁹¹ In January 2016 the Minister of Youth, Indigenisation and Economic Empowerment, Patrick Zhuwao, announced a new set of proposed frameworks, procedures and guidelines for implementation of the 2008 Indigenisation and Economic Empowerment Act, in response to demands for clarity, coherence and consistency on the policy.⁹² The new framework was intended to clarify the policy relating to ownership, as well as introduce an empowerment 'points' system that allows for reduced indigenous ownership requirements subject to the social value generated by the investment.⁹³ But despite these measures, much remained unclear. Requirements for the points system were not quantified, so there was no transparent benchmark against which businesses could measure themselves, and it was not made clear what the penalty for non-compliance would be. The government has subsequently committed to amend the act. Financial shortfalls in the country have, moreover, made it difficult for domestic stakeholders to match incoming funds. External funders have also been wary of government's rhetorical suggestions of flexibility.

Legal requirements on domestic ownership are not unique to Zimbabwe. Other countries in the region also have legislated ownership restriction – among them 'investor-friendly' Botswana, which has a citizen economic empowerment policy enforced through various pieces of trade legislation.⁹⁴

⁸⁷ Reserve Bank of Zimbabwe (2016) 'January 2016 Monetary Policy Statement', Harare: Reserve Bank of Zimbabwe, <http://www.rbz.co.zw/assets/monetary-policy-statement-january-2016.pdf> (accessed 14 Jun. 2016), p. 62.

⁸⁸ Scoones, I. (2015), 'Zimbabwe's land reform: new political dynamics in the countryside', *Review of African Political Economy*, Vol. 42(144), p. 8. For a fuller analysis of the current state of Zimbabwe's rural economy see: Sukume, C. et al. (2015) 'Space, Markets and Employment in Agricultural Development: Zimbabwe Country Report' *Research Report 46*, Cape Town: Institute for Poverty, Land and Agrarian Studies, University of the Western Cape.

⁸⁹ Reserve Bank of Zimbabwe (2016) 'January 2016 Monetary Policy Statement', p. 62.

⁹⁰ Marufu, L. (2016), 'Government Launches Irrigation Master Plan', *The Sunday Mail*, 24 April 2016, <http://www.sundaymail.co.zw/government-launches-irrigation-master-plan/> (accessed 16 Aug. 2016).

⁹¹ The Indigenisation and Economic Empowerment Act requires 51 per cent local ownership.

⁹² Zhuwao, P. (2016), 'Frameworks, Procedures and Guidelines for Implementing the Indigenisation and Economic Empowerment Act [Chapter 14: 33]'.

⁹³ Ibid.

⁹⁴ Government of Botswana (2016), 'Citizen Empowerment', <http://www.gov.bw/en/Business/Topics/Citizen-Empowerment/> (accessed 14 Jun. 2016).

The Broad-Based Black Economic Empowerment certification scheme in South Africa is a points-based system that requires skills transfers, employment and indirect empowerment through supporting socio-economic development.⁹⁵ In all three countries companies are able to be compliant while maintaining management control by ceding the 51 per cent ownership to a diversified group of local entities.

It is imperative that the Zimbabwean government 'walk the talk' towards a more inclusive, transparent and accountable process, in order to avoid worsening crises. It needs to demonstrate delivery and 'move beyond the theatre of reform'.⁹⁶

The role of the IFIs in the reform process

The process of re-engagement between Zimbabwe and the IFIs has been building slowly since the formation of the GNU in 2009, and has been pursued more rapidly with the onset of the current crisis (see Box 5).

In August 1999 the IMF Executive Board approved a 14 month stand-by arrangement for Zimbabwe equivalent to SDR 141 million (40 per cent of the country's quota at that time).⁹⁷ SDR 24.74 million was drawn under the agreement, but 'significant deviations' emerged soon after the programme's inception and the arrangement expired on 1 October 2000. A Monetary and Exchange Affairs (MAE)-sponsored long-term adviser assisted on banking supervision from 1996 to October 1999. Another MAE expert on monetary operations was in place from October 1998 to October 2000; and a third MAE expert advised the RBZ on financial sector liquidity from October 1998 to October 1999.⁹⁸

Zimbabwe's voting rights at the IMF were suspended in 2003 due to non-payment of debt. A partial repayment in 2006 allowed for the removal of a complaint from the Managing Director of the Fund, thereby cancelling the process of compulsory withdrawal. An IMF team visited Zimbabwe in March 2009 to conduct Article IV consultations (the first such visit since 2005); the Fund agreed to resume targeted technical assistance in May of that year;⁹⁹ and in February 2010 the IMF Executive Board restored Zimbabwe's voting rights.¹⁰⁰ In March 2012 the Zimbabwean authorities adopted a Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS), with the aim of normalizing relations with the IFIs, agreeing an SMP with the IMF, and making progress in clearing arrears on its debt repayments.¹⁰¹

⁹⁵ Department of Trade and Industry (2016), 'Economic Empowerment', Department of Trade and Industry, Republic of South Africa, https://www.thedti.gov.za/economic_empowerment/bee.jsp (accessed 14 Jun. 2016).

⁹⁶ Pigou, P. (2016), 'ICG: Zimbabwe's threadbare theatre of reform', *Daily Maverick*, 31 July 2016, <http://www.dailymaverick.co.za/article/2016-07-31-icg-zimbabwes-threadbare-theatre-of-reform/#.V7oV85MrJSw> (accessed 21 Aug. 2016).

⁹⁷ IMF (2001), 'Zimbabwe: 2000 Article IV Consultation – Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; Statement by the Executive Director for Zimbabwe and Statement by the Authorities of Zimbabwe', International Monetary Fund Country Report No. 01/05, January 2001, <https://www.imf.org/external/pubs/ft/scr/2001/cr0105.pdf> (accessed 22 Aug. 2016).

⁹⁸ Ibid.

⁹⁹ IMF (2009), 'Press Release: IMF Executive Board Approves Targeted Technical Assistance to Zimbabwe', IMF Press Release No. 09/152, 6 May 2009, <http://www.imf.org/en/news/articles/2015/09/14/01/49/pr09152> (accessed 17 Aug. 2016).

¹⁰⁰ IMF (2010), 'Press Release: IMF Executive Board Restores Zimbabwe's Voting Rights and Takes Steps Towards Unfreezing Access to the General Resource Account', IMF Press Release No. 10/53, 19 Feb. 2010, <http://www.imf.org/en/news/articles/2015/09/14/01/49/pr1053> (accessed 17 Aug. 2016).

¹⁰¹ NewsDay (2016), 'ZAADDS: unity of purpose a must', 26 March 2016, <https://www.newsday.co.zw/2012/03/26/2012-03-26-zaadds-unity-of-purpose-a-must/> (accessed 17 Aug. 2016).

The IMF approved the first SMP for Zimbabwe, covering the period April–December 2013, in June of that year, in support of the government's comprehensive economic adjustment and reform programme;¹⁰² this was subsequently extended for a further six-month period. A second SMP was subsequently approved in October 2014, covering the 15-month period to the end of 2015, with the principal objective of strengthening the country's external position – a prerequisite for arrears clearance, resumption of debt service and restored access to external financing.¹⁰³ The review of the SMP in March 2016 concluded that targets had been met. This was a necessary but not sufficient requirement to obtain new finance from the IFIs.¹⁰⁴

In order to access budget support from the IMF and development and infrastructure project financing from the World Bank and the African Development Bank (AfDB), the government must finalize the arrears clearance process and restructure debts with Paris Club creditors. It must also demonstrate that there is a feasible long term plan for economic reform. This will allow it to apply for concessional financing from the IMF, and funding for infrastructure and development projects to begin. The government initially hoped to be in a position to receive finance by May 2016; however, this target was subsequently revised to the fourth quarter of 2016.

Such financing would provide for the budget support essential to keeping the government afloat, and would allow it borrow at lower rates. But beyond this it would also have a potentially transformative impact on the business environment and on private-sector growth. Re-engagement would pave the way for private-sector investment from international institutions such as the International Finance Corporation (IFC) within the World Bank Group, or the European Investment Bank (EIB). Furthermore, it would improve the country's credit risk rating, and thus allow for borrowing at lower interest rates, and companies accessing financing would get longer maturities that would allow for much-needed capital investment. A further likely outcome would be that the World Bank would itself step up engagement in development programmes, and the AfDB would invest in vital infrastructure.

None the less, past failures mean that there is mistrust of the IFIs among many Zimbabweans. The technicalities of engagement need to be clearly communicated to the Zimbabwean public by the IFIs as well as by the government if the process is to be viewed as credible and confidence is to be rebuilt. The IFIs share responsibility with the government to be very clear in informing the people of Zimbabwe of any measures they undertake, and must persuade them of the positive aspects of engagement. The IFIs will also need to demonstrate that any concessional financing does not free up funds to finance electoral campaigning – whether directly or indirectly by creating 'fiscal space'.

¹⁰² IMF (2013), 'Press Release: IMF Managing Director Approves a Staff-Monitored Program for Zimbabwe', IMF Press Release 13/174, 12 Jun. 2013, <http://www.imf.org/en/news/articles/2015/09/14/01/49/pr13174> (accessed 17 Aug. 2016).

¹⁰³ IMF (2014), 'Zimbabwe: Third Review Under the Staff-monitored Program and Successor Staff-monitored Program – Staff Report; and Press Release', IMF Country Report No. 14/322, Nov. 2014, <http://www.imf.org/external/pubs/ft/scr/2014/cr14322.pdf> (accessed 17 Aug. 2016).

¹⁰⁴ International Monetary Fund (2016), 'IMF Staff Completes 2016 Article IV Consultation Mission to Zimbabwe and the Third and Final Review of the Staff-Monitored Program', Press Release No. 16/96, 9 March 2016, Washington: International Monetary Fund, <https://www.imf.org/external/np/sec/pr/2016/pr1696.htm> (accessed 14 Jun. 2016).

Box 5: Zimbabwe and the IFIs

The government of Zimbabwe and the IFIs have been navigating a course for re-engagement particularly since 2009.

IMF mission in 2016

In March 2016 the IMF concluded its second SMP review and Article IV consultation.

SMP

In 2013 the Zimbabwean authorities and the IMF agreed on an SMP. The SMP was renewed in 2014 to cover the period up to December 2015. The final review of the second SMP took place in March 2016.

Article IV consultations

Article IV of the IMF articles of agreement provides for country observation missions. These missions are referred to as 'Article IV consultations'. IMF teams visit Zimbabwe hold discussions with government officials, opposition, economists, businesses leaders and civil society. These have taken place in Zimbabwe in 1999, 2000, 2001, 2005, 2007, 2009, 2011, 2012 and 2014, and by the SMP review team in March 2016.

The IMF has been criticized for not anticipating the cash crisis that hit the country shortly after this last visit. It also lost credibility when the government unilaterally announced the issuance of bond notes without their consultation.

'Lima process' and arrears clearance

The Zimbabwean government agreed an arrears clearance programme with the IFIs on the sidelines of the IMF–World Bank Group annual meetings held in Peru in October 2015.¹⁰⁵ A tacit agreement was made between the government and the IFIs that arrears clearance would happen simultaneously across the three IFI. The payments are thought to include the following:

AfDB

US \$585 million and US \$16.6 million to be repaid to the AfDB and African Development Fund (AfDF) respectively, funded by a bridge loan from the government's debt advisers, Afreximbank. The bridge loan would be repaid using the inflows the government will receive from the AfDB. The inflows will come from the Pillar II¹⁰⁶ facility of the bank, however this will require a board decision at the bank.

World Bank Group

The bridge loan from Afreximbank would cover the US \$218 million repayment to the International Development Association (IDA). US \$896 will be repaid to the International Bank for Reconstruction and Development (IBRD) using a syndicated loan from Afreximbank. The details of the loan are unclear, but its backers are thought to include Lazard Bank and Standard Chartered Bank.

IMF

Zimbabwe can use its SDR¹⁰⁷ holdings with the IMF to clear US \$110 million in arrears.

Early optimism from the IFIs with regard to the Zimbabwean authorities' commitment to cooperation on reform has tapered considerably through 2016, as the government's unilateral decision-making on economic policy – bypassing technical assistance teams – continues to shake confidence, and the economy continues to stall. None the less, progress was apparently made at a side meeting of the AfDB annual meetings in Lusaka in May 2016, when the government

¹⁰⁵ Mangudya, J. (2015), 'Zimbabwe: Strategies for clearing external debt arrears and supportive economic reform measures', 8 Oct. 2016, Harare: Reserve Bank of Zimbabwe, <http://www.rbz.co.zw/assets/strategies-for-clearing-external-debt-arrears-and-supportive-economic-reform-measures.pdf> (accessed 21 Aug. 2016).

¹⁰⁶ Pillar II, or the Arrears Clearance Window, of the AfDB is a balance on the Fragile States Facility available for debt clearance for Zimbabwe, Somalia and Sudan.

¹⁰⁷ SDRs (Special Drawing Rights) are foreign exchange drawing rights that are defined and held by the IMF.

of Zimbabwe, the IFIs, debt advisers and potential new lenders met. The identification of the main players – the IMF, the World Bank, the AfDB and Afreximbank – provided a clearer sense of direction, but there are still a number of risks to the process.¹⁰⁸

The sentiment of international governments, including members of the Paris Club, is mixed. Zimbabwe's reform efforts hitherto are recognized, but many want the reforms to go wider and deeper. A deep wage cut across the board, clarity and consistency on indigenization, and the finalization of 99-year leases will all be required to significantly move the process forward. International governments will also want to see progress on political reform, including constitutional alignment and electoral reform, and no worsening of human rights abuses.

Private investment will take longer to materialize, but there is certainly interest among potential investors, many of whom see it as being worth the time and the airfare to position themselves for a possible future stake. However, the long-standing external – particularly Western – perception of ZANU-PF as intransigent and dysfunctional endures. Reform has also been hampered by the conflation of ZANU-PF as a party, and President Mugabe in particular, with the Zimbabwean government. Many see them as indistinguishable one from the other, and suspect that reform may ultimately remain hostage to party dynamics.

Full international re-engagement will take time, and the IFIs have an important role in ensuring that reform takes hold, and a regional crisis is averted. The government and the IFIs have been careful not to oversell the process, and for Zimbabweans the test will be whether it leads to jobs, food on the table, and cash in pockets. If the process stalls or goes into reverse, then the IFIs may be locked out of Zimbabwe for another decade.

¹⁰⁸ Confidential interview, London, June 2016.

Political Threats

Zimbabwe's political landscape has become more fractious and factionalized since ZANU-PF's victory in the contentious 2013 presidential and legislative elections. The defeated opposition has subsequently splintered, and as a result many in ZANU-PF feel that the party no longer faces the existential threat that once united it. The party – and the government – can no longer blame the domestic opposition or the West for the state of Zimbabwe's economy. Additionally, although the powerful legacy of 'Chimurenga [Struggle] solidarity' continues to serve as a unifying factor, the weakening of the opposition and the heightened internal succession issue, along with intergenerational cleavages, has made party unity ever more fragile – and its internal politics more volatile. ZANU-PF as both a political party and a government has begun a transition to the anticipated post-Mugabe era, but the form this will take is yet to be seen.

The politicization of the state apparatus has not as yet had a catastrophic impact on its effectiveness. But there are concerns that as cracks in the party widen, the state will become dysfunctional and fracture along the lines of civil servants' and security officials' factional loyalties. Meanwhile, however, even in a context of severe economic constraints – and despite some overlaps between party and government issues – the government continues to function, and is supported by a professional, albeit eroded, civil service. There is still an operational distinction between party and government, and the divisions in the party have not fully replicated themselves across the state.

Zimbabwe's institutional capacity is fairly robust. Parliament remains an important nexus for bipartisan debate and scrutiny of elected officials. Despite its reputation as a rubber-stamp body, parliament has since 2009 – and particularly since 2014 – shown itself to be an institution where there is serious scrutiny of government policy by both opposition and ZANU-PF legislators. Cross-party portfolio committees, such as the finance and economic development committee, play an important role in holding the government to account. In June 2016, notably, RBZ Governor John Mangudya was robustly cross-examined by the committee regarding central bank policy, especially the planned introduction of the new bond notes.¹⁰⁹

ZANU-PF

At 92, Robert Mugabe remains the dominant force within ZANU-PF, and while he has tacitly endorsed the reform agenda, and has supported those leading it, investors often see his rhetoric as ambiguous. As uncertainty increases concerning the ageing president's state of health, the lack of a designated successor means that a political crisis may be on the horizon. Succession is off-limits in official ZANU-PF discourse, and few within the party's ranks have dared to raise the issue openly. The result has been a descent into factionalism, as different groups vie for post-Mugabe control. A notable outcome of the rivalry hitherto has been the purging from the party of the former vice-

¹⁰⁹ Langa, V. and Mandizha, T. (2016), 'Mangudya grilled over bond notes, SA Rands', *NewsDay*, 14 June 2016, <https://www.newsday.co.zw/2016/06/14/mangudya-grilled-bond-notes-sa-rands/> (accessed 14 Jun. 2016).

president Joice Mujuru and her followers.¹¹⁰ Attempts to attract investors are hampered by the lack of apparent planning for Zimbabwe's post-Mugabe political leadership, and a prolonged succession battle could be extremely risky, not just for the party, but also for the country.

Intra-party factionalism threatens the country's economic reform process, and has opened deep ideological schisms within ZANU-PF. Vice-President Emmerson Mnangagwa is seen by many as a likely successor to Mugabe; he is working with finance minister Chinamasa and RBZ Governor Mangudya on IFI re-engagement, so the expectation is that he would continue on this pathway. He is seen as possibly offering the best prospects for a stable transition out of the economic crisis, provided he works with others in opposition and civil society. However, he is not widely popular, and has a difficult legacy associated with Gukurahundi.¹¹¹ Mnangagwa has strong liberation war credentials, and has forged close links with the military and the War Veterans. He could be pivotal in trying to heal the emerging divide between the War Veterans and their patron Mugabe. But there are no guarantees that Mnangagwa will succeed; and if he were to come to power his economic policy choices would likely be constrained by continued ideological and political power struggles within ZANU-PF. The political fate of Mnangagwa's predecessor, Joice Mujuru, within the party's intricate internal politics serves as a salutary reminder that no one in ZANU-PF is assured the party leadership after Mugabe.

Reform and re-engagement are seen as being irrelevant to millions of Zimbabweans who, struggling for daily subsistence, have been forced into classic short-termism.

There are practical incentives for many party members to support reform. ZANU-PF officials have a strong presence in the business sector, and have a vested interest in promoting reforms likely to produce an improved commercial environment. Those driving the reform agenda also have developed business interests. But the reform process has many critics within the party. Some within the 'G40' group see the reform agenda as a Western-inspired process that undermines Zimbabwe's sovereignty.¹¹² Not all members of the G40 are opposed to reform and re-engagement, but there are concerns from significant constituencies within ZANU-PF about where economic reform ends and where political reform begins. Some fear that economic reform could ultimately trigger a political power shift. The narrative of a 'Western agenda' resonates strongly within the party, and especially among grassroots supporters. Outside the party, many Zimbabweans perceive the reform process as an elite transaction between Zimbabwe (i.e. the government) and its global creditors. Reform and re-engagement are, furthermore, also seen as being irrelevant to millions of Zimbabweans who, struggling for daily subsistence, have been forced into classic short-termism. Other hardliners within the party are sceptical of economic liberalization and re-engagement, particularly with the Bretton Woods institutions, as they fear this will mean the end of ZANU-PF's historical ideological objective to create a de facto one-party socialist state with a 'captive' or 'token' opposition.¹¹³

¹¹⁰ For a fuller analysis on the fracturing of the party and its impact on reform see: ICG (2016), *Zimbabwe: Stranded in Stasis*.

¹¹¹ The term Gukurahundi is used in Zimbabwe to refer to a period of state-sponsored violence against civilians in the Matabeleland region between 1983 and 1987.

¹¹² The ZANU PF Generation 40 (G40) is a group of predominantly younger members of the party, working against Emmerson Mnangagwa's succession of the party. G40 is thought to include ministers Saviour Kasukuwere, Jonathan Moyo and Patrick Zhuwao, although none of these has publicly confirmed their affiliation to the group.

¹¹³ The imposition of structural adjustment programmes in the early 1990s had detrimental effects on Zimbabwe's economy owing to the order in which they were carried out, and there remains deep scepticism of these institutions within the ruling party.

Attempts to contain and manage factionalism, including tacit endorsement for the ending of factional purges,¹¹⁴ have not been successful. Although his power and prestige have seen some attrition in recent years, the president remains the dominant controlling force of both party and government, and will have a role to play in efforts to unify the party and win back disaffected constituents ahead of the elections due in 2018. The so-called 'Million Man March' in support of Mugabe in Harare in May 2016,¹¹⁵ and assertions of loyalty to him by the ZANU-PF Youth League, Women's League, some War Veterans organizations, the military and other key stakeholders, have all served to reinforce Mugabe's status as an icon within the party. This makes it harder for any internal challengers to gain traction, particularly with national elections on the horizon. Zanu-PF is faced with a dilemma. On the one hand, Mugabe's age and state of health makes the succession question increasingly unavoidable. For instance, in 2015 the Women's League pushed for the re-establishment of a woman in the party presidium prior to the annual ZANU-PF conference, as part of the succession matrix, and for the conference to be elective. This was, and remains, contentious; but these and other succession-related issues may be raised again at the December 2016 conference.¹¹⁶ On the other hand, Mugabe, despite increased such challenges, remains the most authoritative figure within the party and government, and is the 'glue' holding together an increasingly fractious ZANU-PF. It is not clear whether, and to what extent, any successor to Mugabe could rebuild party unity.

Mugabe has a symbolic and executive role in unifying and managing often competing interest groups within and between the party, the security sector and the War Veterans. But the formalization and deepening of alliances between these three institutions over the past decade has been weakened by internal disputes. Reports that the Zimbabwe National Liberation War Veterans Association (ZNLWVA) had been advocating for a Mnangagwa succession brought a fierce response from Mugabe, who warned that the War Veterans should not to behave like 'dissidents'.¹¹⁷ The subsequent rupture between the President and the ZNLWVA became public in July 2016, when the ZNLWVA executive issued a press statement – termed the Raylton Declaration, after the sports club in Harare at which the meeting took place – announcing that the War Veterans would no longer support Mugabe.¹¹⁸ Although other ex-combatants' organizations¹¹⁹ have maintained their support for Mugabe, the ZNLWVA is probably the largest and best known. While there are clearly divisions within this community, the possibility that a significant proportion of War Veterans may not vote for Mugabe or for ZANU-PF in 2018, and could instead become part of a broader opposition alliance, is one of the most significant challenges to both president and party in recent years. There is likely to be an extraordinary congress of the ZNLWVA before the end of 2016, and whether the association will re-elect its current leadership or bring in fresh, pro-Mugabe leaders remains to be seen. What does seem clear, however, is that the War Veterans' support for ZANU-PF is no longer guaranteed.

¹¹⁴ Chidza, R. (2016), 'Zanu PF Cleans up its mess', *The Standard*, 17 April 2016, <http://www.thestandard.co.zw/2016/04/17/zanu-pf-cleans-up-its-mess/> (accessed 14 Jun. 2016).

¹¹⁵ Dzirutwe, M. (2016), 'Thousands march for Mugabe as he raps 'treasonous' groups fighting to succeed him', *Reuters*, 25 May 2016, <http://uk.reuters.com/article/uk-zimbabwe-mugabe-idUKKCN0YG1WB> (accessed 17 Aug. 2016).

¹¹⁶ For more on the contestations between the Women's League and Mnangagwa see *Financial Gazette* (2016), 'Emmerson Mnangagwa caught between a rock and a hard place', 18 August 2016, <http://www.financialgazette.co.zw/emmerson-mnangagwa-caught-between-a-rock-a-hard-place/> (accessed 22 Aug. 2016).

¹¹⁷ *Zimbabwe Newsday* (2016) 'It's Game On: War Veterans', 13 June 2016, <https://www.newsday.co.zw/2016/06/13/game-war-veterans/> (accessed 21 Aug. 2016).

¹¹⁸ *New Zimbabwe* (2016), 'Full Statement: War vets savage Mugabe, withdraw support', 21 July 2016, <http://www.newzimbabwe.com/news-30319-Full+Statement+War+vets+savage+Mugabe/news.aspx> (accessed 29 Aug. 2016).

¹¹⁹ Such as the War Detainees and War Collaborators organizations.

Box 6: 'Liberationalism to liberalism' – The management of political party change in Southern Africa

Southern Africa is becoming more politically uncertain, and historical assumptions of stability may no longer be valid. A resurgent RENAMO is threatening the security of central Mozambique, and potentially this development could spread to the Beira corridor which gives port access to Zimbabwe.¹²⁰ There has been a rise in public protest in South Africa, and an increased tendency for protests there to turn violent. In Angola the impact of low world oil prices has put the government under pressure for reform. Moreover, four of Southern Africa's dominant 'liberationist' parties of government are approaching crucial end-of-decade elections: Angola in 2017; Zimbabwe in 2018; and South Africa and Mozambique in 2019.¹²¹

The region's dominant former liberation movements turned political parties face common challenges:¹²²

Successionism

Questions of succession are not limited to Zimbabwe. In Angola the announcement by President José Eduardo dos Santos that he will step down in 2018 will increase competition within the MPLA ahead of the national elections due in 2017. In South Africa an elective conference of the ANC in 2017 will decide who will lead the party into the 2019 elections. There, President Jacob Zuma is mired in scandal, and may even be replaced before the conference. These parties, born out of liberation struggle, are characterized by a tendency to tight discipline and secrecy. Overt leadership challenges go against their ethos, and leadership challenges manifest in other ways.

Ideological shift

FRELIMO, the MPLA and the ANC have all had to manage an ideological shift. Socialist ideology has given way to pragmatic economic liberalism and the reality of integration into world markets. Structural constraints have, however, prohibited market liberalism from benefiting some of the poorest in the Southern-Africa, and many governments continue to be faced with the challenge of reconciling pro-poor policies with economic restructuring and the need to attract international capital. Many countries have empowerment legislation in place, and in May 2016 the South African parliament approved a land expropriation bill that would allow the compulsory purchase of land by the state for redistribution 'in the public interest'. Southern Africa's increasingly post-nationalist electorates are, none the less, bringing ever greater scrutiny to the liberationist ethos at a time when forecasted growth trajectories are weaker.

The military

Zimbabwe's security forces could be an anchor for, rather than a spoiler of, economic reform. Their natural instinct is for economic stability and financial success, and their presence, although always felt, is relatively discreet. However, if economic decline accelerates and the government runs out of money, and security sector wages are thus not paid, then there would be a high risk of violence.¹²³

A failed transition would result in the further splintering of ZANU-PF and a possible intervention by the military as custodians of the process, and as managers and drivers of party politics. If the president were to become incapacitated, or leave office, the military would be likely to have the casting vote for a successor within the party, and would be critical to maintaining stability through the succession period: a chaotic or violent political succession would be a national security issue. The military could have a role in managing the process, and may act as 'kingmaker'.

¹²⁰ It appears that currently RENAMO is avoiding attacks along the corridor in order to avoid a direct Zimbabwean military intervention into Mozambique.

¹²¹ For an analysis of Mozambique see: Vines, A. et al (2015): *Mozambique to 2018: Managers, Mediators, and Magnates*, Chatham House Report, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/publication/mozambique-2018> (accessed 14 Jul. 2016).

¹²² For a discussion of the crisis of ruling liberation movements in southern Africa, see, Vines, A., Review of 'Liberation movements in power: Power and state in Southern Africa, By Roger Southall', *African Affairs*, 114 (456), pp. 481–483.

¹²³ For deeper analysis on security sector reform and the political role of the military see: Chitiyo, K. and Kibble, S. (2014), *Zimbabwe's International Re-engagement: The long haul to recovery*, pp. 22.

The military, as an established part of Zimbabwe's business community, has an incentive to support measures to improve the business environment – not least as revenues from the Marange diamond fields and other patronage networks are in significant decline, meaning an increased dependence on wider commercial interests. The military has tacitly approved the economic reform process hitherto; and provided it does not feel its position is threatened by the engagement with the IFIs, or by ZANU-PF's own technocrats, it will likely continue to endorse this path. Alongside this, the military is also invested in a restabilized ZANU-PF. But the military itself has not been left untouched by the economic reform process: in an effort to bring down the wage bill, the Ministry of Defence and the Defence Forces Service Commission have recommended amending the existing Defence Act to lower the age of retirement for members of the armed forces to 50, from 60 currently, although no timeline for this has been set. The military has also been affected by government's financial crisis, although it is health and education professionals and other civil servants who have borne the brunt of government's actions to stagger and delay salary payments.¹²⁴ Furthermore, the dispute between the ZNLWVA and the president has implications for the security sector, not least as many of Zimbabwe's serving military are also veterans. The security sector has reaffirmed its support for Mugabe and ZANU-PF since the Raylton Declaration,¹²⁵ but the evident fault lines within ZANU-PF, between the party and the War Veterans, and among the veterans themselves, will certainly test loyalties.¹²⁶

For the wider Zimbabwe public, there are a number of concerns regarding the security sector. Corruption, particularly among traffic police, is now endemic, a fact admitted to by the government itself.¹²⁷ This is in part driven by the pressure exerted on the police to raise revenue for the government. The wave of popular protest in July 2016 has raised the spectre of an increase in repression by the government and the military in the face of opposition activism. Collective memory of the political violence of 2008 is still strong, and there are mounting concerns about whether, and to what extent, the military could be deployed around the time of the 2018 elections. For the government and the security sector, the economic crisis and popular discontent are existential challenges, and any tactical or strategic response carries great risk. Accommodation, negotiation and coercion have all been used before, and all of these may be used again. These methods can only partially contain Zimbabweans' desire for transformative change; they cannot close it off definitively. But what is also true is that throughout Zimbabwe's history, from pre-colonial and colonial times to the present, the military has always had a say in who leads the country, and this is unlikely to change.

The opposition

The opposition in Zimbabwe is rebuilding after near-catastrophic defeats in the 2013 elections. Although diminished after its defeat that year, Morgan Tsvangirai's Movement for Democratic Change (MDC-T) is still the largest opposition party and remains an influential factor in national politics. Tsvangirai is an established figure and a trenchant critic of ZANU-PF. Recent MDC-T rallies in Harare, Bulawayo and elsewhere have been well attended, and the party has a countrywide infrastructure. But the splintering of the party and questions about Tsvangirai's leadership and health have challenged prior assumptions

¹²⁴ The Standard (2016), 'Mangudya rolls back Gono years', 19 June 2016, <http://www.thestandard.co.zw/2016/06/19/mangudya-rolls-back-gono-years/> (accessed 21 Aug. 2016).

¹²⁵ Zimbabwe Defence Forces Commander Gen. Chiwenga reaffirmed the military's loyalty to Robert Mugabe as Head of State and Commander in Chief during the Heroes and Defence Forces Day commemorations in August 2016, as did many veterans.

¹²⁶ The Standard (2016), 'Chimene responds to Chiwenga attack', 14 August 2016; and The Standard (2016), 'Why Chiwenga threatened Chimene', *The Standard*, 14 August 2016.

¹²⁷ Gumbo, L. (2016), 'Spot fines to end... They drive corruption, Minister Chombo says', *Chronicle*, 20 May 2016, <http://www.chronicle.co.zw/spot-fines-to-end-they-drive-corruption-minister-chombo-says/> (accessed 17 Aug. 2016).

of their constituting a government- and a president-in-waiting. In addition, Tsvangirai's appointment of Nelson Chamisa and Elias Mudzuri as co-vice-presidents alongside Thokozani Khupe has proved highly contentious, and the MDC-T may now be facing its own succession crisis.¹²⁸

Joice Mujuru's Zimbabwe People First (ZimPF) party was formally established in February 2016. This is a significant development in Zimbabwean politics. Former vice-president Mujuru – a political grandee in her own right – had been seen as a moderate within ZANU-PF, and is now widely regarded as occupying the middle ground between ZANU-PF and the MDC-T. Although ZimPF does not have seats in parliament it is already campaigning hard; and in July 2016 the party lodged a case in the constitutional court arguing that the government's plan to introduce bond notes was illegal. ZimPF has itself stated that it intends to meet the terms set by international financial creditors, campaign for debt relief and seek new international financial loans.¹²⁹

But questions remain as to what extent Mujuru can manage the tensions between former ZANU-PF members and former civil society/MDC members in her new party. There are also leadership disputes within ZimPF. Nevertheless, Mujuru, like Tsvangirai, is a big name in Zimbabwean politics, and she will be a major player in the country's future.

Former coalition ministers including Welshman Ncube, Tendai Biti and Elton Mangoma, along with such figures as Simba Makoni, continue to be important political voices in Zimbabwe. There is some pressure on the opposition to form a coalition to contest the 2018 polls. In May 2016 five smaller opposition parties formalized an alliance including many prominent political figures. But the absence from this alliance of the MDC-T, of Mujuru's ZimPF and of the Zimbabwe African People's Union (ZAPU) at the time raised questions about the extent of the wider commitment to presenting a cohesive challenge to ZANU-PF. The National Election Reform Agenda (NERA) coalition, made up of 12 political and civil society groups, is another significant alliance; its key aim is to secure electoral reforms, in line with the 2013 constitution, in advance of the 2018 polls. There is an ongoing realignment of Zimbabwe's large and smaller opposition parties towards a 'grand coalition'. A joint rally by Tsvangirai and Mujuru in August 2016 fuelled speculation that a wide-ranging electoral pact is on the cards. There has also been recent talk of some of the War Veterans potentially becoming part of the opposition alliance, although it is as yet too early to know whether, and to what extent, this may turn out to be the case.¹³⁰

The response of opposition parties and civil society to the economic reform and re-engagement agenda has been mixed. Some have taken a 'wait and see' approach, while others have criticized the international community for giving a 'free pass' to ZANU-PF. Most are, however, wary of any reform process that does not have human rights at the top of the agenda (see Box 7).¹³¹ Within ZANU-PF, as among the opposition and civil society, some feel that economic collapse could offer an opportunity for regime change – albeit in very different directions. For hardliners in the ruling party, a failed economic reform process could be a catalyst for a return to an ideologically based, liberationist command economy. For the opposition, reform failure and a collapsed economy could unlock an electoral groundswell against a party that had presided over economic ruin. None the less, some civil society and human rights activists see the opposition as being too fractured to stand as a viable alternative to ZANU-PF.¹³²

¹²⁸ For more on this see Financial Gazette (2016), 'Bid to oust Tsvangirai', 12 August 2016, <http://www.financialgazette.co.zw/bid-to-oust-morgan-tsvangirai/> (accessed 21 Aug. 2016).

¹²⁹ As set out in a summarized policy position paper submitted by the party to the Chatham House Africa Programme in August 2016.







¹³⁰ Newsday Zimbabwe (2016), '12 parties gang up on Mugabe', 14 August 2016, <https://www.newsday.co.zw/2016/08/16/12-parties-gang-mugabe/> (accessed 21 Aug. 2016).

¹³¹ Confidential interview, Harare, March 2016.


¹³² Confidential interview, Harare, March 2016.

The Domestic and External Implications of Zimbabwe's Economic Reform and Re-engagement Agenda

Figure 6: Human development in Southern Africa

	Angola	Botswana	Lesotho	Malawi	Mozambique	Source
						
GROWTH						
 Average GDP growth 2000–14 (%)	9.26	4.50	4.14	4.51	7.54	IMF, World Economic Outlook
INCOME						
 GNI per capita 2014 (2011 PPP \$)	6,822	16,646	3,306	747	1,123	
HUMAN DEVELOPMENT						
 HDI 2014	0.532	0.698	0.497	0.445	0.416	
HDI % increase 2000–14	36.41	24.42	12.19	30.88	38.67	UNDP, Human Development Report 2015
Life expectancy, years at birth 2014	52.3	64.5	49.8	62.8	55.1	
Expected years of schooling 2014	11.4	12.5	11.1	10.8	9.3	
Mean years of schooling 2014	4.7	8.9	5.9	4.3	3.2	
GOVERNANCE						
 Mo Ibrahim Index 2014 (score)	40.8	74.2	61.1	56.7	52.3	
Mo Ibrahim Index 2014 (rank/53 African states)	43	3	10	17	21	MI Foundation
Mo Ibrahim Index change 2011–14	0.2	-1.8	2.2	0.2	-2.2	

The Domestic and External Implications of Zimbabwe's Economic Reform and Re-engagement Agenda

		Namibia	South Africa	Swaziland	Zambia	Zimbabwe	Source
							
 GROWTH	Average GDP growth 2000–14 (%)	4.41	3.21	3.15	6.79	-1.14	IMF, World Economic Outlook
 INCOME	GNI per capita 2014 (2011 PPP \$)	9,478	12,122	5,542	3,734	1,615	
 HUMAN DEVELOPMENT	HDI 2014	0.628	0.666	0.531	0.586	0.509	UNDP, Human Development Report 2015
	HDI % increase 2000–14	12.95	5.38	7.06	35.33	18.93	
	Life expectancy, years at birth 2014	64.8	57.4	49.0	60.1	57.5	
	Expected years of schooling 2014	11.3	13.6	11.3	13.5	10.9	
	Mean years of schooling 2014	6.2	9.9	7.1	6.6	7.3	
 GOVERNANCE	Mo Ibrahim Index 2014 (score)	70.4	73	49.6	59.5	40.4	MI Foundation
	Mo Ibrahim Index 2014 (rank/53 African states)	5	4	28	12	44	
	Mo Ibrahim Index change 2011–14	2	0.9	0.7	0.5	4.6	

The question of electoral reform – an opposition priority – remains a major sticking point. The opposition is pressing the ZEC and parliament on this. But, as already noted, ZANU-PF, while pushing the economic reform agenda, is unlikely to endorse a major electoral reform agenda beyond some technicalities before the elections due in 2018. This suggests that both the process and the outcome of these polls may be highly divisive.

Should this turn out to be the case, with high levels of intra- and inter-party violence, there is a major risk to ZANU-PF as well as to the opposition. By-elections, contests for the selection of party candidates, and the national polls themselves, have all in the past given rise to clashes within and between the parties. Although party leaders maintain that they are committed to non-violence, there is still a high risk of conflict linked to the next set of elections. A national transitional authority (NTA) has been mooted, whereby an administration of technocrats would be charged with revitalizing the economy and ensuring that electoral reforms are in place before polling takes place. The idea of an NTA has attracted some support within, and interest beyond, civil society.¹³³ But it remains unclear whether Zimbabwe's political parties would voluntarily cede their own political ambitions to an NTA. It is likely that multi-stakeholder dialogue and negotiation – in the form of a national dialogue – will be needed to address the national crisis.

It is unclear whether there could be an 'Arab Spring'-style mass protest movement leading to sudden political change in Zimbabwe, but such a development is no longer unthinkable.

There have been an increasing number of relatively well-attended civil society and party political demonstrations in urban areas. Riots broke out at the beginning of July 2016 in Beitbridge, on the border with South Africa, where the offices of the Zimbabwe Revenue Authority (ZIMRA) were burnt down as cross-border traders reacted to the import ban under Statutory Instrument 64. Social media is a potent forum for communication, analysis and protest. For example, Pastor Evans Mawarire's innovative #ThisFlag campaign has emerged as a hugely popular digital rallying point for Zimbabweans to comment on and critique the government. #ThisFlag and other social media activist movements such as Tajamuka/Sesjikisile ['we have had enough'] played a leading role in coordinating a national 'shutdown' on 6 July.¹³⁴ Such movements are not aligned to a party or trade union, and their operation via social media makes it more difficult for government agents to penetrate their activities.¹³⁵

None the less, while public anger is increasingly evident, many anti-government protests still take place under tight police supervision. It is unclear whether there could be an 'Arab Spring'-style mass protest movement leading to sudden political change in Zimbabwe, but such a development is no longer unthinkable.

¹³³ Telegraph (2016), 'Prominent Zimbabweans eye National Transitional Authority to run country until 'fair' elections', 24 July 2016, <http://www.telegraph.co.uk/news/2016/07/24/prominent-zimbabweans-eye-national-transitional-authority-to-run/> (accessed 21 Aug. 2016).

¹³⁴ Mwakideu, C. (2016), '#ThisFlag shuts down Zimbabwe', Deutsche Welle, 6 July 2016, <http://www.dw.com/en/thisflag-shuts-down-zimbabwe/a-19379425> (accessed 17 Aug. 2016).

¹³⁵ Pastor Mawarire's self-exile to South Africa and latterly to the US has brought mixed responses from Zimbabweans. Some have defended his right to protect himself in the light of real threats to his life and liberty, and also insist that the message is more important than the messenger. Others, however, have said that Mawarire has abandoned the cause he led. See *Newsday Zimbabwe* (2016), 'The Movement must live outside Mawarire', 17 August 2016, <https://www.newsday.co.zw/2016/08/17/opinion-movement-must-live-outside-mawarire/> (accessed 21 Aug. 2016).

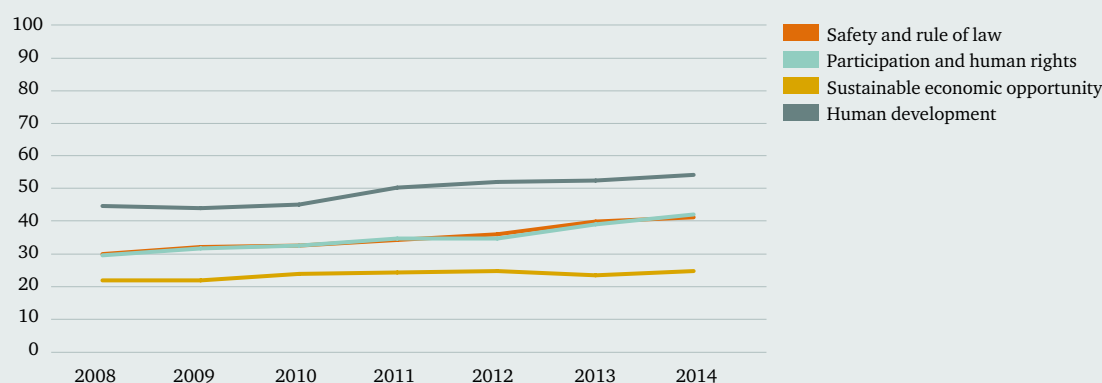
Box 7: Zimbabwe's human development, governance and human rights in a regional context

Southern Africa has enjoyed a period of largely high growth over the period 2000–14, with seven countries averaging GDP growth of over 4 per cent annually. For the countries with the highest growth rates, this was accompanied in rapid increases in human development, with Angola and Zambia rising out of the category of 'low development' (Figure 6).

Rapid economic growth in Angola and Mozambique has not been complemented by improvements in governance indicators. By contrast, while Zimbabwe remains the lowest-ranked country on governance in Southern Africa, it has made the most progress in the past five years.

For Zimbabwe to continue make progress in improving governance indicators, it must create the economic opportunities to facilitate this.

Figure 7: Mo Ibrahim Index: Zimbabwe component change 2008–2014



Source: Mo Ibrahim Foundation.

By these criteria, the lack of sustainable economic opportunity is the biggest governance failure in Zimbabwe, even more so than participation and human rights.

Human rights

Although the human rights situation in Zimbabwe has improved since 2008, there are still high risks surrounding electoral violence. The disappearance, in 2015, of anti-government protester Itai Dzamara has been a point of focus for human rights campaigns, while continuing forced farm evictions have captured international press attention – albeit the number of evictions has greatly reduced and the programme is ending. Beyond the headlines, it is suggested that there has been as many as 5,500 abductions over the past 15 years, the majority of which targeting individuals aligned with the MDC-T during the 2008 election campaign.¹³⁶ Although there has since been a gradual decline in the rate of abductions, there remain cases of arbitrary arrest and detention. In 2015, for example, at least 10 journalists were arrested for writing articles deemed critical of government officials. Their work included reporting on protests or opposition marches, and, in the case of two journalists from the *Sunday Mail*, implicating police officers in elephant poaching.¹³⁷ Opposition groups are still subject to harassment;¹³⁸ a planned MDC-T rally in Harare in April 2016 was, for instance, initially banned by

¹³⁶ Confidential interview, Johannesburg, March 2016. For an overview of the abductions see: Cross, Eddie (2016), *Political Abductions in Zimbabwe 2000–2016*, <http://www.thezimbabwean.co/wp-content/uploads/2016/03/Abductions-in-Zimbabwe-2000-2016.pdf> (accessed 14 Jul. 2016).

¹³⁷ Amnesty International (2016), *Amnesty International Report 2015/16: The state of the world's human rights*, London: Amnesty International, p. 405.

¹³⁸ While conducting field work in March 2016, Chatham House researchers had to reschedule a meeting with officials of the MDC-T following the ransacking of the latter's offices.

the police, although a court ruling subsequently overturned the interdiction. The slow pace of aligning existing legislation with the 2013 constitution means that many of its provisions governing human rights are not being implemented. The authorities' reaction to public protests in July and August 2016 has raised concerns among international observers that improvements in human rights may be seen to reverse.

Concerns regarding the human rights situation in Southern Africa are not restricted to Zimbabwe. Across the region there are issues relating to press freedoms and freedom of expression, restrictions on freedom of assembly, judicial politicization and excessive use of force by the state. International engagement on human rights in Southern Africa, including in Zimbabwe, is central to strengthening democracy in the region.

Re-engaging the diaspora

There have long been calls for Zimbabwe to structure and formalize diaspora participation in the economy. In response to this, the government launched a new National Diaspora Policy document in late 2015, and this received cabinet approval in June 2016.¹³⁹ The aim is to increase diaspora engagement, representation and participation through remittances, increased direct investment, philanthropy and skills transfer. As part of this, the government aims to hold consultative meetings with the diaspora in South Africa, the United Kingdom, Europe and Australia in due course. There has been acknowledgement within the diaspora that the National Diaspora Policy is an important step forward, as is the government's willingness to engage the diaspora and to establish diaspora policy at ministerial level.¹⁴⁰ But establishing a true diaspora–government partnership will be a tough sell. There is little trust or confidence between the government and the diaspora, and many see little reason to formalize their stake in Zimbabwe through the state economy when there is a tried and trusted private economy already functioning. Issues with regard to economic management, state crackdowns on unarmed protesters,¹⁴¹ dual citizenship, the diaspora vote, and guarantees of free and fair elections are likely to make for a difficult dialogue. But diaspora engagement is an important process, and is an intrinsic part of the economic reform agenda.

¹³⁹ The Herald (2016), 'Cabinet approves National Diaspora Policy', 23 June 2016, <http://www.herald.co.zw/cabinet-approves-national-diaspora-policy/> (accessed 30 Aug. 2016).

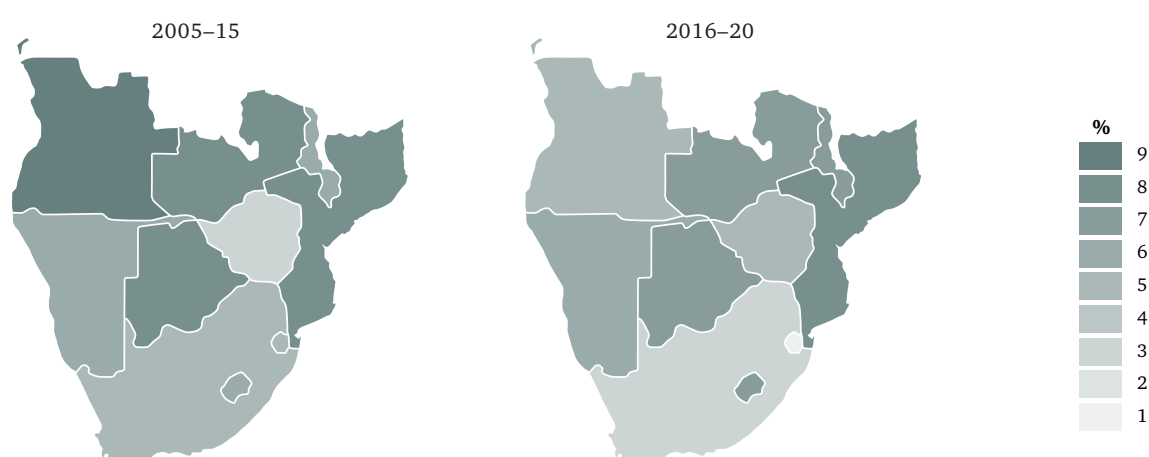
¹⁴⁰ The government's diaspora group is housed within the Ministry of Economic Planning.

¹⁴¹ Financial Gazette (2016), 'Police must act professionally', 18 August 2016, <http://www.financialgazette.co.zw/editorial-comment-police-must-act-professionally/> (accessed 21 Aug. 2016).

Southern African Interdependency and International Support for Reform

Zimbabwe does not sit in isolation. It is heavily interconnected with the region and beyond, and its economic restructuring – and avoiding economic collapse – is critical for the stability of Southern Africa. Not only is its economy dependent on foreign capital and diaspora remittances, but Zimbabwe is also an important trading partner for its neighbours, as well as being a critical hub for regional trade routes. Southern Africa is likely to achieve slower growth over the next five years than it has experienced in the past decade (see Figure 8). Key regional players, most notably South Africa, as well as Zimbabwe's major international partners – China, the United States and the United Kingdom – will all have important roles to play in avoiding a widening crisis.

Figure 8: Southern African GDP growth, 2005–15 and 2016–20 (projections)



Source: IMF, World Economic Outlook.

South Africa is Zimbabwe's most important regional economic partner, and is a critical player in shaping international responses to reform efforts. It is the destination for some 40 per cent of Zimbabwe's annual exports, and supplies 44 per cent of imports.¹⁴² Between 2003 and 2015 South African companies invested US \$1.29 billion into Zimbabwe, principally in banking, agriculture, mining and retail. There are estimated to be more than 300 South African companies operating in Zimbabwe, in extractives and in the wider economy.¹⁴³ There is also considerable informal cross-border trade between the two countries, including maize and electronic goods for consumption or sale in Zimbabwe.

Addressing what is perceived to be a domestic security threat from Zimbabwean migrants is a priority for the South African government. The number of Zimbabweans entering South Africa legally rose

¹⁴² Department for Trade and industry (2016), Trade Statistics, http://tradestats.thedti.gov.za/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.

¹⁴³ Zwinoira T. (2016), 'SA delegation in Zim to seek investment', *NewsDay*, 15 March 2016, <https://www.newsday.co.zw/2016/03/15/sa-delegation-zim-see-investment/> (accessed 17 Aug. 2016).

from 255,988 in 1990 to 477,380 in 2000, and to 1,847,973 in 2012.¹⁴⁴ The total number of asylum applications into South Africa peaked at 220,00 in 2009, primarily driven by the situation in Zimbabwe.

In 2011 South Africa received 51,031 applications for refugee status from Zimbabweans, constituting 48 per cent of the total refugee applications. Countless more cross the border without permits. Unofficial estimates suggest that there are as many as 3 million Zimbabweans in South Africa.¹⁴⁵

South Africa has no doubt benefited from the presence of skilled Zimbabwean labour, but is now facing its own economic struggle. Unemployment is stubbornly high, fluctuating around 25–26 per cent, and there is a risk of recession. The economy does not have the capacity to absorb a new influx of migrants from Zimbabwe¹⁴⁶ – a point that has been reiterated by President Zuma.

There are increasing levels of public protest in the poorest areas of South Africa, and there are frequent waves of xenophobic violence. In his Freedom Day speech in April 2015, after a spate of attacks directed at foreign nationals, Zuma acknowledged the work that needed to be done in South Africa to prevent such violence, but also pointed to political and economic mismanagement north of its border as a cause.¹⁴⁷ Migration could also become a divisive and dangerous political issue in the run-up to South Africa's national elections in 2019.

Efforts have latterly been made to improve bilateral relations, and in 2015 President Mugabe was welcomed on his first state visit to Pretoria since 1994. He and his South African counterpart signed a Bi-National Commission (BNC) Agreement, establishing a forum, to be co-chaired by the two heads of state, for regular high-level contact, and a memorandum of understanding on diplomatic consultations, as well as agreements on joint water management, customs administration and trade cooperation.¹⁴⁸ The relationship has continued to soften in 2016. In May Mugabe delivered a keynote address at celebrations marking the centenary of the University of Fort Hare, and President Zuma was expected to make a reciprocal visit to Harare in 2016, in fulfilment of the requirement under the BNC Agreement for the presidents of the two countries to meet annually.¹⁴⁹ However, this progress towards improved relations has been negatively affected by Zimbabwe's imposition of import restrictions under Statutory Instrument 64.¹⁵⁰ South Africa is challenging what is regarded as an effective ban on its trade into Zimbabwe bilaterally as well as through SADC.¹⁵¹

South Africa's strong historical commercial relationship with Zimbabwe is central to the latter's efforts to diversify its trading partners and improve regional relationships. Zimbabwe is, furthermore, a key element in South Africa's ambitions for a North–South trade corridor with its ports as entry points to the region, and, as already indicated, is also an important investment destination for South

¹⁴⁴ Crush, J. et al. (2015), *Informal Migrant Entrepreneurship and Inclusive Growth in South Africa, Zimbabwe, and Mozambique*, Migration Policy Series No 68, Cape Town: Southern African Migration Programme.

¹⁴⁵ Guardian (2015), 'Xenophobic violence in South Africa leaves at least five dead', 14 April 2015, <https://www.theguardian.com/world/2015/apr/14/south-africa-xenophobic-violence-outbreak> (accessed 14 Jun. 2016).

¹⁴⁶ Crush, J. et al. (2015), *Informal Migrant Entrepreneurship and Inclusive Growth in South Africa, Zimbabwe, and Mozambique*.

¹⁴⁷ Zuma, J. (2015), 'Address by President Jacob Zuma during the Freedom Day Celebrations at the Union Buildings, Pretoria', 27 April 2015, Pretoria: Government of the Republic of South Africa, <http://www.gov.za/speeches/president-jacob-zuma-freedom-day-celebrations-27-apr-2015-0000> (accessed 14 Jun. 2016).

¹⁴⁸ SA News (2015), 'SA, Zimbabwe sign five bilateral agreements', 8 April 2016, <http://www.sanews.gov.za/africa/sa-zimbabwe-sign-five-bilateral-agreements> (accessed 17 Aug. 2016).

¹⁴⁹ Zwinoira, T. (2016), 'SA Delegation in Zim to seek investment' *News Day*, 15 March 2016, <https://www.newsday.co.zw/2016/03/15/sa-delegation-zim-look-for-investment/> (accessed 20 Jun. 2016).

¹⁵⁰ Pretoria's position on the import ban does not appear to be united. In July 2016 it was reported that South Africa's Minister of Small Business Development, Lindiwe Zulu, had stated that the import ban was 'necessary': *NewsdzeZimbabwe* (2016), 'SA Backs Import Ban', 31 July 2016, <http://www.newsdzezimbabwe.co.uk/2016/07/sa-backs-zim-import-ban.html> (accessed 21 Aug. 2016).

¹⁵¹ Quintal, G. (2016), 'Pretoria challenges Zimbabwe import ban', *Business Day*, 11 Jul. 2016, <http://www.bdlive.co.za/business/trade/2016/07/11/pretoria-challenges-zimbabwe-import-ban>.

African companies. South Africa intends that increased investment will foster a more prosperous trading partner – and that an averted economic crisis on its border would also help avert an increase in the number of refugees into its own strained economy.

South Africa's regional relationships are, however, complex, and the different partners in the governing tripartite alliance – i.e. the ANC, the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) – can take opposing positions on foreign policy issues including Zimbabwe. During the national 'shutdown' and anti-government protests in Zimbabwe in July 2016, ANC Secretary-General Gwede Mantashe accused those involved of being 'sponsored elements' seeking to affect regime change, while COSATU expressed support for the demonstrators.¹⁵²

South Africa's domestic political and commercial interests mean that it will remain a key interlocutor on Zimbabwe. None the less, it will require support from other international partners such as the United Kingdom, the United States and China, all of which have a critical interest in the stability of the Southern African region.

China is Zimbabwe's fourth largest trading partner, and has been its largest source of investment, including direct funding for ZANU-PF activities. Both countries have described the relationship as being one of 'all weather friends'.

But Chinese strategy is changing. Zimbabwe has been unable to service its bilateral debt, and in 2014 the interest alone owed to China exceeded US \$60 million.¹⁵³ The China Export & Credit Insurance Corporation (Sinasure) stopped guaranteeing loans from Chinese businesses to Zimbabwe.¹⁵⁴ President Mugabe was unable to secure financial support for Zim Asset from China, and while President Xi Jinping's visit to Zimbabwe at the end of 2015 brought further rhetoric of 'rain or shine' friendship, the reality is that this is no longer backed by the same levels of FDI that once flowed from China to Zimbabwe.¹⁵⁵ Many of China's concerns are aligned to those of the IFIs, in that it too wants to see an improved business environment and SOE reform in Zimbabwe. The relationship has been further tested by the expulsion of Chinese diamond mining companies.

Western policy

A decade ago, Mugabe told a packed rally at the Chinese-built national sports stadium in Harare: 'We have turned east, where the sun rises, and given our back to the west, where the sun sets.'¹⁵⁶ By contrast, in his 'state of the nation' address in 2015, Mugabe openly called for Western re-engagement. The door to re-engagement seems to have been unlocked, but donors have so far been slow to go in.

For the past decade, Western policy towards the Mugabe regime has been characterized by targeted sanctions and disengagement in response to Zimbabwe's poor governance, human rights and economic record. Following the decisive ZANU-PF victory in the 2013 elections, however, Western policymakers were forced to reassess their strategies: the sanctions they had imposed had not

¹⁵² du Plessis, C. (2016), 'COSATU breaks ranks with ANC over ZIM protests', *News 24*, 13 July 2016, <http://www.news24.com/SouthAfrica/News/cosatu-breaks-ranks-with-anc-over-zim-protests-20160713> (accessed 14 Jul. 2016).

¹⁵³ Moyo, H. (2016), 'Sinasure refuses to secure Zim Loans', *Zimbabwe Independent*, 15 Aug. 2016, <http://www.theindependent.co.zw/2014/08/15/sinasure-refuses-secure-zim-loans/> (accessed 21 Aug 2016).

¹⁵⁴ *Ibid.*

¹⁵⁵ In June 2016 a Chinese special envoy was dispatched to Zimbabwe to discuss deals agreed in 2014 and 2015, and to update the government on designs for a new parliament building.

¹⁵⁶ Thornycroft, P. (2005), 'Mugabe celebrates 25 years' independence by telling West to leave Africa to Africans', *Telegraph*, 19 April 2005, <http://www.telegraph.co.uk/news/worldnews/africaandindianocean/zimbabwe/1488197/Mugabe-celebrates-25-years-independence-by-telling-West-to-leave-Africa-to-Africans.html> (accessed 17 Aug. 2016).

brought about the intended democratic reform in Zimbabwe. But given the country's relatively low geo-strategic importance, little fresh thinking has been evident. Only in the United Kingdom does Zimbabwe attract sustained policy attention – and even in London there has been a significantly reduction in this focus since 2013.¹⁵⁷ The result has been only incremental change in policy positions.

The phased easing of European Union (EU) sanctions, first introduced in 2002, followed the establishment of the GNU in 2009 and the constitutional referendum in 2013. In 2011 the EU revoked restrictions on 51 individuals and 22 entities, and more names were removed from its sanctions list in 2013. However, Mugabe and his inner circle remained subject to sanctions, and in February 2016 the EU renewed its remaining sanctions against Zimbabwe for a further 12-month period.

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Zimbabwe was the only African country mentioned in the UK Conservative Party manifesto ahead of the elections in 2015. The commitment was to 'stand up for the rule of law and human rights'. The British government has supported the efforts of the government of Zimbabwe to re-engage with the international community through clearing its debt arrears and embarking on an IMF programme of economic reform, but has made clear that progress on human rights and rule of law will also be needed. The British ambassador to Harare, Catriona Laing, stated in June 2016 that 'These talks are sometimes difficult as we have frank and honest discussions based on mutual respect, but from our side what is of importance and we emphasise and appreciate are issues of rule of law and human rights'.¹⁵⁸ The UK has actively sought to facilitate trade between the two nations,¹⁵⁹ and there has been some positioning to benefit from the commercial opportunities that will arise in a more stable Zimbabwe. Controversially, the UK was reported to have 'blocked' the choice of Zimbabwean ambassador-designate to London in 2016.¹⁶⁰

Positions within the United States are more entrenched. Zimbabwe was invited to the EU-Africa Summit in Brussels in 2014, although ultimately did not attend,¹⁶¹ but was excluded from participation in the US-Africa Leaders Summit in Washington, DC in the same year.

US policy towards Zimbabwe is currently underpinned by ZDERA and the Zimbabwe targeted sanctions programme of 2003,¹⁶² implemented by the US Department of the Treasury's Office of Foreign Assets Control (OFAC). ZANU-PF claims international sanctions have cost the country some US \$42 billion in lost investment and aid.¹⁶³ International companies, worried of contravening

¹⁵⁷ Although there has been a general reduction in political attention on Zimbabwe in the United Kingdom, long-term critics remain vocal on Zimbabwean issues. For example, UK Labour MP Kate Hoey has called for the foreign secretary to provide an urgent response on the visit of Lord Mandelson to Zimbabwe in February 2016: see Hoey, K. (2016), 'Boris Must Put A Stop To Peter Mandelson's Meddling', Heat Street, 16 August 2016, <http://heatst.com/world/kate-hoey-boris-must-put-a-stop-to-peter-mandelsons-meddling/> (accessed 21 Aug. 2016).

¹⁵⁸ New Zimbabwe (2016), 'UK envoy to Zimbabwe calls for restoration of human rights, democracy', *New Zimbabwe*, 12 June 2016.

¹⁵⁹ For example see Foreign and Commonwealth Office (2015) 'Zimbabwe: Commercial Opportunities' https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/439449/Zimbabwe_Commercial_Opportunities_15_June_2015_Final.pdf.

¹⁶⁰ Thornycroft, P. and Blair, D (2016), 'Britain 'rejects' Robert Mugabe's choice for new Zimbabwe ambassador in London', *Telegraph*, 6 April 2016, <http://www.telegraph.co.uk/news/2016/04/06/britain-rejects-robert-mugabes-choice-for-zimbabwes-new-ambassador/> (accessed 21 Aug. 2016).

¹⁶¹ In December 2013 an invitation was sent by the EU to the 'Government of Zimbabwe' but not addressed to the president in accordance with prevailing sanctions. However, after intense lobbying and a threat of boycott by other African states, the EU agreed to issue a waiver, and a second invitation was issued, addressed to him personally. He then insisted that the First Lady attend, but the EU refused to provide Grace Mugabe with a waiver and Zimbabwe boycotted the summit.

¹⁶² Executive Order 13288, <https://www.gpo.gov/fdsys/pkg/FR-2003-03-10/pdf/03-5848.pdf> (accessed 23 Jun. 2016).

¹⁶³ ZANU-PF (2013), 'Taking Back the Economy: Indigenise, Empower, Develop, and Create Employment', ZANU-PF Election Manifesto 2013, https://africacheck.org/wp-content/uploads/2013/07/zanupf_election_manifesto_130705.pdf (accessed 22 Aug. 2016).

sanctions, have been cautious.¹⁶⁴ Such caution has had an impact on citizens of Zimbabwe beyond those subject to targeted measures. Prior to 2013, for example, Zimbabweans were unable to use the online payments system PayPal, with would-be users explicitly informed that this was because of sanctions.¹⁶⁵

ZDERA, enacted by the US Congress in December 2001, restricts the United States from supporting IFI assistance to Zimbabwe, except for programmes that meet basic human needs or promote democracy.¹⁶⁶

A number of attempts have been made to update or replace ZDERA, including attempts by senators to introduce new legislation allowing US support to political and economic reform, pressure to follow the EU in relaxing sanctions, and the suggestion that Zimbabwe should be admitted to the African Growth and Opportunity Act (AGOA) programme.¹⁶⁷ None of these initiatives has hitherto come to fruition, and the US government remains committed to a hard line on Zimbabwe. In January 2016, in a letter to the Secretary of the Treasury, the chairman of the Senate Foreign Relations Committee urged the Obama administration to exert US influence to prevent new international lending to Zimbabwe in the absence of meaningful progress towards long-awaited reforms to restore the rule of law and improve human rights in Zimbabwe.¹⁶⁸

Box 8: International sanctions

In 2003 the US Department of the Treasury's OFAC listed 123 Zimbabwean nationals as Specially Designated Nationals (SDN), and their assets, and those of 33 entities, were frozen. In May 2013 the US removed nine members of ZANU-PF from the SDN list and authorized transactions with two banks (the Agricultural Bank and the Infrastructure Development Bank of Zimbabwe). As of March 2016, US targeted sanctions applied to 98 Zimbabwean individuals and 68 entities (mostly farms and legal entities owned by the listed individuals).¹⁶⁹

An EU-imposed asset freeze and travel ban continues to apply to President Robert Mugabe, First Lady Grace Mugabe and Zimbabwe Defence Industries, and an arms embargo remains in place. Sanctions against five members of Zimbabwe's security apparatus remain in place but are 'suspended'. The EU removed sanctions on the 78 people and eight entities that had previously been 'suspended'; they will now be delisted.¹⁷⁰ In October 2013 the EU delisted the Zimbabwe Mining Development Corporation (ZMDC).¹⁷¹

¹⁶⁴ In 2016, for example, Standard Chartered Bank ordered the Industrial Development Corporation (IDC) to close its accounts with the bank. In February 2016 Barclays paid a US \$2.5 million settlement to the US Treasury, having processed transactions worth \$3.4 million between 2008 and 2013, mostly for its client IDC and its subsidiaries. Examples of the impact of sanctions on international companies' interest in doing business with Zimbabwe can be found in: Zimbabwe Mail (2016), 'The sanctions debate: myths, exaggeration and denial', 25 July 2016, <http://thezimbabwemail.com/opinion-25939-the-sanctions-debate-myths-exaggeration-and-denial.html> (accessed 18 Aug. 2016).

¹⁶⁵ Attempts to access the system returned the message 'Error 3028: You have accessed your account from a sanctioned country. Per international sanctions regulations, you are not authorized to access the PayPal system.'

¹⁶⁶ On 8 March 2001, US Senators Bill Frist and Russ Feingold introduced the bill. Among the bill's supporters were Hilary Clinton and Joe Biden, senators at that time, underlining that this legislation was bipartisan.

¹⁶⁷ In 2010 Senators Russ Feingold, John Kerry and Johnny Isakson introduced a new bill to allow the US to push proactively for political reform and economic recovery in Zimbabwe; Representative Donald Payne introduced a bill with provisions for debt forgiveness; and Senator Jim Inhofe tabled a bill seeking to repeal ZDERA. None was passed. In 2007 Michelle Gavin argued that the USA should engage with international partners to map out a re-engagement plan for post-succession that would include incentives for reforms in the near term. More recently, Witney Schneidman has argued that the US should follow the EU in reducing sanctions and include Zimbabwe under AGOA. He argues that the former friends of Zimbabwe have a duty to help the fledgling reform process, and that supporting the private sector can significantly impact democratic progress.

¹⁶⁸ United States Senate Committee on Foreign Relations (2016), 'Press Release: Corker: No New Lending to Zimbabwe without Meaningful Reform', United States Senate Committee on Foreign Relations Press Release, 29 January 2016, <https://www.foreign.senate.gov/press/chair/release/corker-no-new-lending-to-zimbabwe-without-meaningful-reform> (accessed 18 Aug. 2016).

¹⁶⁹ The US SDN list includes President Mugabe's sister Sabina, who died in 2010. It also lists 'MUMBENGEWGI, Samuel Simbarashe Simbanenduku' which appears to be a confusion of Simbarashe Simbanenduku Mumbengegwi and his brother Samuel Creighton Mumbengegwi who died in 2016. OFAC (2016) Sanctions List Search, <https://sanctionssearch.ofac.treas.gov/> (accessed 11 Jul. 2016).

¹⁷⁰ The Council's decision follows the annual review of the EU's sanctions against Zimbabwe, and is enacted by Council Regulation (EU) 2016/214 amending Council Regulation (EC) 314/2004 and Council Decision (CFSP) 2016/220, amending Council Decision 2011/101/CFSP.

¹⁷¹ Rapaport (2016), 'AWDC Press Release: EU Lifts Sanctions on Zimbabwe Mining Development Corp.', 24 September 2013, <http://www.diamonds.net/News/NewsItem.aspx?ArticleID=44667&ArticleTitle=EU+Lifts+Sanctions+on+Zimbabwe+Mining+Development+Corp.> (accessed 17 Aug. 2016).

The Australian government imposed a sanctions regime against Zimbabwe in 2002, including an arms embargo and targeted financial sanctions linked to 'persons and entities who or which engage in, or have engaged in, activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe.'¹⁷² By early 2013 there were 98 individuals listed, subsequently reduced to 33 in May that year. The list was further reduced in 2014 to seven designated and declared individuals, including both President Mugabe and the First Lady. Like Brussels, Canberra has been signalling its support for reforms by reducing its designated and declared list.

In September 2008 Canada enacted the Special Economic Measures (Zimbabwe) Regulations. According to the Canadian authorities, since March of that year 'a marked escalation in human rights violations and violence directed at the political opposition, a stolen election, the denial of a peaceful democratic transition and a worsening humanitarian situation [had] taken the crisis to a new level'.¹⁷³ These measures include an arms embargo, a technical assistance prohibition and financial prohibition applying to a list of 181 designated Zimbabwean individuals.¹⁷⁴ Unlike the EU or Australia, there has been no move by Ottawa to reduce the list of designated Zimbabwean individuals. This stance puts Canada at odds with its Commonwealth partners.

The need for integrated regional policy

Regardless of these voices for change, and private sector opportunities, the US government is unhurried in reviewing ZDERA. Without any strategic interests in Zimbabwe, it is easier to take a position based on values.¹⁷⁵ However, Washington should not define its interests purely bilaterally. Zimbabwe is important for the US regional interest in Southern Africa's stability and prosperity – and especially its relationship with South Africa – and should thus be factored into regional policy calculations.

South Africa is the United States' primary export destination in the region, and the US provided \$273 million in assistance in 2015, mainly in healthcare.¹⁷⁶ Inclusion in AGOA means that some 90 per cent of South Africa's exports into the US are tariff-free, which has benefited South Africa's manufacturing and textile industries and aided economic diversification. But maintaining this trade relationship has at times been politically difficult. During renegotiation of AGOA in 2016, the US administration temporarily suspended South Africa from its provisions in a dispute over exports of US poultry meat to South Africa, and 'working for the Americans' is often used as a political insult in the country.

South Africa's international relationships have also been problematic for Washington. Its ambition as a BRICS¹⁷⁷ member and its championing of the 'global south' – as well as its forging of relations with non-aligned states – has often put it at odds with US policy. For example, South Africa continued to import oil from Iran after the United States imposed sanctions, and it also diverges on policy on Syria and Israel–Palestine.

¹⁷² Australian Government: Department for Foreign Affairs and Trade (2016), 'Zimbabwe: Sanctions Regimes', <http://dfat.gov.au/international-relations/security/sanctions/sanctions-regimes/pages/zimbabwe.aspx> (accessed 17 Aug. 2016).

¹⁷³ Government of Canada (2016) 'Canadian Sanctions Related to Zimbabwe', <http://www.international.gc.ca/sanctions/countries-pays/zimbabwe.aspx?lang=eng> (accessed 17 Aug. 2016).

¹⁷⁴ Canada's list of individuals has not been updated and includes a number of deceased people including: Edward Chindori-Chininga [d. 2013]; Victoria Chitepo [d. 2016]; Kumbirai Kangai [d. 2013]; Sharlotte Msipa [d. 2011]; Sabina Mugabe [d. 2010]; Solomon Mujuru [d. 2011]; Sikanyiso Duke Ndlovu [d. 2015]; Nathan Shamuyarira [d. 2014]; Solomon Tawengwa [d. 2005]; Joseph Msika [d. 2009]; Elliot Manyika [d. 2008]; Aguy Georgias [d. 2016]; Tenjiwe Lesabe [d. 2011]; Vitalis Zvinavashe [d. 2009]. Special Economic Measures (Zimbabwe) Regulations (SOR/2008-248), <http://laws-lois.justice.gc.ca/eng/regulations/SOR-2008-248/page-3.html#h-11> (accessed 11 Jul. 2016).

¹⁷⁵ Todd Moss was quoted as stating: 'At times, we compromise those values for other reasons, but we don't need to compromise those values all the time. Zimbabwe is a place where we don't need to compromise and can be on the right side of history.' See Murphy, T. (2016), 'Novel parallels reality of Zimbabwe's 2008 elections, with a twist', *Humanosphere*, 22 February 2016, <http://www.humanosphere.org/basics/2016/02/novel-parallels-reality-zimbabwes-2008-elections-twist/> (accessed 20 Jun. 2016).

¹⁷⁶ US Government (2016), 'Map of Foreign Assistance: South Africa' <http://beta.foreignassistance.gov/explore> (accessed 17 Aug. 2016).

¹⁷⁷ Brazil, Russia, China, India and South Africa.

South Africa's membership of the G20 and its regional influence make it an important strategic partner in US global and regional objectives. US priorities in Africa predominantly focus on counterterrorism, but South Africa has been suspicious of US military operations on the continent. Despite initial support for the UN Security Council resolution establishing a no-fly zone over Libya in 2011,¹⁷⁸ South Africa subsequently recoiled and expressed strong opposition to what it saw as a move for regime change. However, particularly as Chinese demand for South Africa's commodities has slowed, Pretoria will need to diversify its international relationships as it seeks investment and new export destinations.

This provides an opportunity for an improvement in relations between the United States and South Africa. But if the latter maintains a hard line on the Zimbabwe crisis looming on its border, Washington could draw back on its efforts to improve bilateral relations with South Africa and irritate its relationships with close allies.

Much of the media 'headline' coverage of sanctions against Zimbabwe relate to those affecting high-profile individuals and companies allegedly linked to human rights abuses. However, as already discussed in this paper, Zimbabwe has also had the penalty of restricted access to the IMF, the World Bank and other IFIs, largely owing to the non-servicing of debt, for over a decade. The clearance of arrears and resumed access to credit would have a significant positive impact on Zimbabwe's economic development.

Individual sanctions have not demonstrably changed behaviour on the part of those targeted; the need for access to credit seems to be more of a motivating factor, however. Helping Zimbabwe's reformers succeed in this slow and complex transition process is important. In the past, sanctions have given ZANU-PF a pretext for failure, and hardliners are now looking for spoilers against Zimbabwe's re-engagement efforts with the IFIs and the West.

A deepened crisis in Zimbabwe is a risk that Southern Africa cannot sustain, and regional interdependence makes contagion unavoidable. The West is well aware that further economic collapse in Zimbabwe is liable to put further stress on neighbours such as South Africa and Mozambique that are already overburdened with poor economic performance, unpredictable politics and drought. It is time for fresh thinking on 'least-worst' options, and on how to incentivize pro-poor change in Zimbabwe that is not predicated solely on economic collapse or narrowly focused on the ageing President Mugabe and his state of health. For its part, the government in Harare should recognize that it has an opportunity to normalize its international partnerships and rebuild its regional economic relevance for the long term, rather than viewing re-engagement with the West and the IFIs as principally a short-term fundraising project to save ZANU-PF.

¹⁷⁸ UNSC Resolution 1973 (2011) approved a no-fly zone over Libya and authorized 'all necessary measures' to protect civilians under threat of attack. South Africa was a non-permanent member of the Security Council at the time the resolution was adopted.

Conclusion

Economic reform and re-engagement could be transformative for Zimbabwe. If the government is seriously committed to lasting structural economic reforms, the country has a brighter future. However, if the current reform narrative is short-term window dressing to sustain ZANU-PF through the elections due in 2018, the current decay will continue. International assistance can ease the pain of the economic crisis, smooth longer-term economic restructuring, and help Zimbabwe attract increased investment, resulting in jobs and growth. But adhering to the reform agenda to cut the wage bill and improve fiscal discipline, as well as creating a better business environment to spur gains in productivity and competitiveness, are vital.

Technocratic reform will appeal to the IFIs, but to attract the broader international support that is needed, the process needs to be accompanied by measurable democratic reforms, including the alignment of legislation to the 2013 constitution, abidance to the rule of law and adherence to human rights norms.

ZANU-PF and its members have profited from control over the state, and many fear losing privileged power and patronage networks. But those driving the agenda must confront these vested interests and patronage networks if they are going to achieve the objectives of re-engagement.

The interests of the ruling party, of the citizens of Zimbabwe and of international stakeholders are not mutually exclusive. There is little doubt that one of the main incentives behind the current government's apparent commitment to the reform agenda is party survival. But if this means measures to achieve a stronger economy and better livelihoods, there should be tangible improvements in social and economic rights – and maybe, in time, more space for promoting civil and political liberties. Other options have not worked. The opposition, for its part, is in a fractured state, and it is not clear whether any strong alliance will be forged before the next elections.

The EU and Australia have moderated their Zimbabwe sanctions policy in recent years. There remain too many human rights and governance concerns to allow for an end to sanctions, but the United States and Canada could follow the EU and Australian examples of signalling further encouragement for reform by reviewing their lists of targeted individuals. US lawmakers should also thoroughly review ZDERA, particularly at a time when the (outgoing) Obama administration is also reviewing its measures against Sudan and its president.¹⁷⁹

IFI assistance is low risk and will have great humanitarian benefit. Arrears clearance carries little danger, and would be a progressive step towards a continued relationship. The government will need to deepen its reform efforts, but this will be more successful if done with the support of the international community. The gradual easing of diplomatic pressure could contribute to strong incentive mechanisms.

The context of the 2018 elections represents a big risk for investors, so there is unlikely to be a 'gold rush' in the short term. But the opportunities are there and interest is growing. IFI engagement will be a strong signal of confidence, and has the potential to unlock external flows in the long run.

¹⁷⁹ Sputnik News (2016), 'Sudan, US in Talks to Lift Sanctions for Anti-Terror, Migration Cooperation', 20 July 2016, <http://m.sputniknews.com/world/20160720/1043333170/sudan-us-cooperation.html> (accessed 29 Aug. 2016).

Avoiding renewed economic collapse in Zimbabwe is important for Southern Africa, especially at a time when economic resilience is weakening elsewhere in the region. Neighbours such as South Africa, Mozambique, Angola and Zambia are experiencing their own economic hardships and political uncertainties, and a stable Zimbabwe could play an important anchoring role in the region.

Progress depends on confidence. Monetary measures, legal reform, fiscal consolidation and initiatives to improve the business environment will only be successful if all stakeholders, both domestic and foreign, are committed to them, and that will come down to whether or not they trust the government in Harare. Government rhetoric needs to be followed up with measurable actions if it is to win the critical confidence of citizens, investors and international political actors.

In the absence of economic growth and external support, Zimbabwe will run out of money, its debt will continue at an unsustainable level, and the economy will be unable to withstand further external shocks.

Acronyms

AfDB	African Development Bank
Afreximbank	African Export-Import Bank
AGOA	African Growth and Opportunity Act
ANC	African National Congress
BNC	Bi-National Commission
COSATU	Congress of South African Trade Unions
EIB	European Development Bank
EU	European Union
EWCM	Early Warning Crop Monitor
FDI	foreign direct investment
FRELIMO	Mozambique Liberation Front
GDP	gross domestic product
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFIs	international financial institutions
IMF	International Monetary Fund
MDC-T	Movement for Democratic Change-Tsvangirai
NERA	National Election Reform Agenda
NPLs	non-performing loans
NVAC	National Vulnerability Assessment Committee
OFAC	Office of Foreign Assets Control
RBZ	Reserve Bank of Zimbabwe
RENAMO	Mozambican National Resistance
RRAP	Rapid Results Action Plan
RTGS	real-time gross settlement
SADC	Southern African Development Community
SDN	Specially Designated Nationals
SDR	Special Drawing Rights
SMP	Staff Monitored Programme
SOE	state-owned enterprise
UNDP	United Nations Development Programme
VAC	Vulnerability Assessment Committee
ZAADDS	Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy
ZAMCO	Zimbabwe Asset Management Corporation
ZANU-PF	Zimbabwe African National Union-Patriotic Front
ZAPU	Zimbabwe African People's Union
ZCDC	Zimbabwe Consolidated Diamond Company
ZDERA	Zimbabwe Democracy and Economic Recovery Act
ZEC	Zimbabwe Election Commission
Zim Asset	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMRA	Zimbabwe Revenue Authority
ZimPF	Zimbabwe People First
ZNLWVA	Zimbabwe National Liberation War Veterans Association
ZSE	Zimbabwe Stock Exchange

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Cover image: Residents walk through the busy Mbare flats, which comprise part of the oldest township in Zimbabwe, on the outskirts of the capital, Harare, on 9 October 2015.

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