



Zim: Those were the days*

By Peter Leger, Head of Global Frontiers

This week we learnt that there are indeed limits to the abuse of power in Zimbabwe. And if ever there was cause to demonstrate how absolute power corrupts absolutely, 37 years of dictatorial rule by Robert Mugabe provides for the perfect case study. The final overreach of placing his extravagant wife in direct succession while millions of desperate Zimbabweans face starvation unraveled nearly four decades of rule. The Gucci bag that broke the camel's back.

The question of 'What now?' is on everyone's lips. Our postulations will prove stale virtually immediately. Bizarrely, the rapid unwind of elevated prices on the Zimbabwean equities market is displaying high confidence of some level of currency normalisation. Those who had been using equities as safe havens appear to be building up cash again in the hope of a return to currency liquidity. A number of stocks have been 'limit down' for consecutive days since the military first made its move.

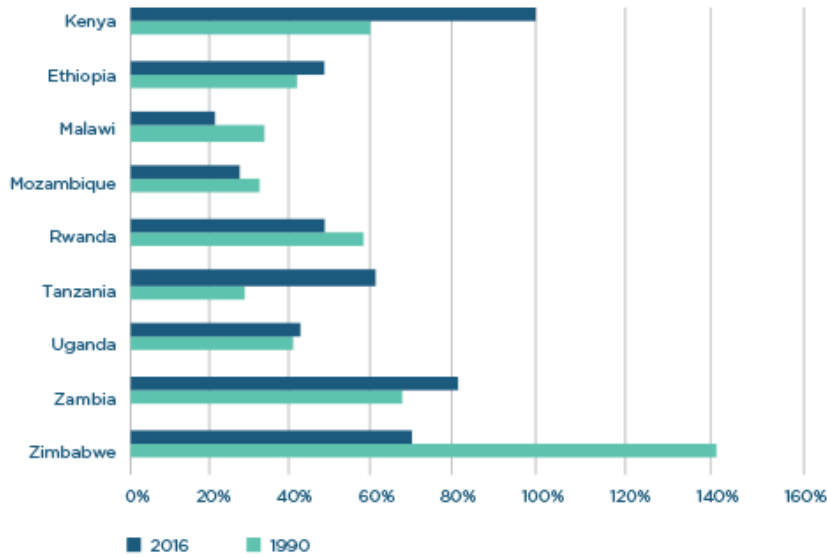
Emmerson Mnangagwa, Mugabe's replacement at a 'youthful' 75, is as complicit as they come. His nickname, The Crocodile, has been well earned, having acted as Mugabe's butcher in the past. His defence would be that he was but a loyal soldier obeying his military commander. But there is cause for optimism.

Firstly, there is very little left to steal. The model of cronyism is broken given the depleted state of the economy. There is also the opportunity of a fresh start. The likes of the World Bank, the International Monetary Fund and world governments have all been willing to engage with Zimbabwe subject to a regime change. The country has many of the institutions and institutional memory that don't require much of a kickstart to get going in the right direction. We witnessed this in 2009 when a coalition government was formed with the MDC and a few correct moves made a massive difference to growth and employment levels. Furthermore, Mugabe's revolutionary credentials literally allowed him to get away with murder. SADC got involved when the military initiated its 'coup lite' and demanded that a constitutional process be followed. We expect the same will be demanded of a transitional government.

The total abuse of Zimbabwe's economy is clear from its collapse. In 1990, Zimbabwe was showing much of Africa how to get things done. Self-serving policies and an abuse of the means of production undid all of this. The following graph shows just how significant the damage has been.



GDP PER CAPITA AS % OF SUB-SAHARA AVERAGE



Source: World Development Indicators

It is not irreversible. Zimbabwe is a deeply blessed country with unrivaled mineral and human resources. Allowing its people to get on with life unfettered and providing capital a degree of security will be transformational.

The winds of change have been blowing more broadly than just Zimbabwe. Angola has also lost a long serving dictator and with it nepotism and cronyism is being weeded out. Isabel dos Santos, the president's daughter and Africa's richest woman, has been fired as head of the state oil company together with its entire board. The police chief and head of intelligence followed shortly thereafter.

Yes - forecasting the outcome and intention of the new role players is tricky. We do know, however, that those vacating the throne had long outlived their usefulness. Being a long-serving dictator is increasingly a lonely and endangered pastime. This is a good thing for citizens and investors alike.

At Coronation, we have been patient investors in what we believe are very high-quality companies in Zimbabwe. A little over a year ago, our funds were heavily invested in three markets with delinquent currency exchanges. Egypt, Nigeria and Zimbabwe. The first two have since normalised and proved very profitable for our clients. For the patient investor, we believe that Zimbabwe will ultimately prove so too.

*With credit to the Nando's Last Dictator Standing ad.