GREENGOV ZW
Green Governance Zimbabwe Trust

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NEWSLETTER

In policy or practice: Zimbabwe's pursuit of the 12 billion mining sector vision

Putting a pulse on the vision to achieve a US$12 Billion Mining Sector by 2030 as set by the government of Zimbabwe should be a key priority in promoting transparency and accountability within local resource mobilization. Outside its ambitious target to turn mineral production fourfold, the vision underpins the economic development aspirations of the country.

Already, the extractive sector is a mine field, a lucrative but murky sector with ravines sucking revenue at every turn. Setting such a plan in motion without a periodic or process evaluation mechanism in place is not only imprudent but has long term impact on the future of the sector and the country's revenue mobilization strategies in general.

Sustainable mining models are always anchored on principles of good governance, transparency and accountability. Instead, the government overly pronounces lofty targets while smuggling, corruption, Illicit Financial Flows (IFFs) and opaque taxation regimes continue to ebb away mineral revenue unabated.

Furthermore, in 2018, just after government had announced the launch of the US$12 Billion mining vision, industry statistics showed that the sector was only operating at a tenth of its capacity. Inefficiency, power outages, access to foreign currency among other things were key militating challenges against the stability and performance of the sector.

This is illustrated by the fact that Zimbabwe's 800 mines have capacity to earn US$18 billion per annum but on average they have only been churning out a paltry US$2 billion annually since 2009.

This period also stretches to 2017 when for the first time production quantums from the Artisanal and Small Scale Miners (ASM) produced more gold that the formal Large Scale Miners (LSM). These totals are significant on two levels. Firstly, it confirms the proliferation of mining activities outside the ambit of formal mining. On the other hand, it shows that the artisanal mining sector is more flexible to the prevailing macro and micro economic situation in the country.

It therefore becomes incumbent on the mining authorities to develop a barometer that interrogates the policies and practices in place which enable the attainment of a $12 Billion dollar mining sector. It also calls for strengthening of safeguarding mechanism to curb the siphoning of natural resource and revenue through Illicit Financial Flows.

Government shpould promote the formalization of the artisanal mining to accelerate the growth of the mining sector and incentivize producers prioritizing the formal gold market against the currently lucrative black market.
Currently, the Reserve Bank of Zimbabwe's gold buyer, Fidelity Printers and Refineries (FPR) is once again leading in overtures to formalize the sector, after superintending over policies to siphon gold without fully empowering the miners.

In mind comes the "No Questions Asked" policy, used to harvest bullion from artisanal miners at a time when, government's legal system criminalizes possession of gold without a valid license- revealing the state's duplicitous rent seeking behavior.

With this in mind, Green Governance Zimbabwe Trust's (GGZT) innovative programming seeks to assist small-scale and artisanal miners from the quagmire state which they find themselves in. We are bridging the barriers that exists, to empower Artisanal and Small-scale Miners, and advancing a push towards formalization. Our vision is to step up and provide a social service with sustainable utility at macro level and allows for the broad based participation and inclusion of citizens in natural resource governance.

As already evident, artisanal mining activities are no longer livelihood options but processes which can be sustainable and viable with structural and legal support. Its critical to have a platform which delivers assistance to artisanal miners and their service provider through an accessible, affordable and user-friendly service, for redress and recourse.

We seek to in this way, foster sustainable and inclusive development of the sector with growth potential and has already shown its flexibility to macro economic challenges by outproducing the large scale miners.

Our outlook is advancing this model and taking the next step in digitising the service, by establishing a Chat box so as to expand its reach to artisanal miners and improve effectiveness.

US$12BILLION MINING VISION

Peformance Review 2018-2020

Zimbabwe produced at 3,513,344.000 ton in Dec 2019, a (-7,9%) decrease from of 3,813,814.000 ton produced in Dec 2018.

On average from 2009-2019 the sector has produced 3,513,344.000 tons annually.

In 2020 production income decreased by -4.7% following a strong last quarter performance to close the year.

DATA
Ministry of Mines and Minerals Development

CEIC Data

World Bank Country data

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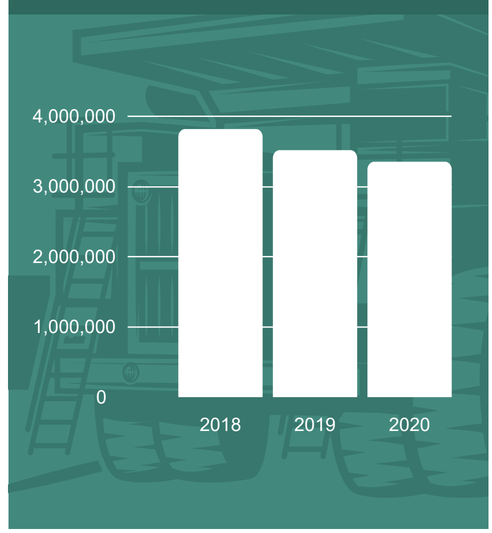


ANNUAL GOLD PRODUCTION

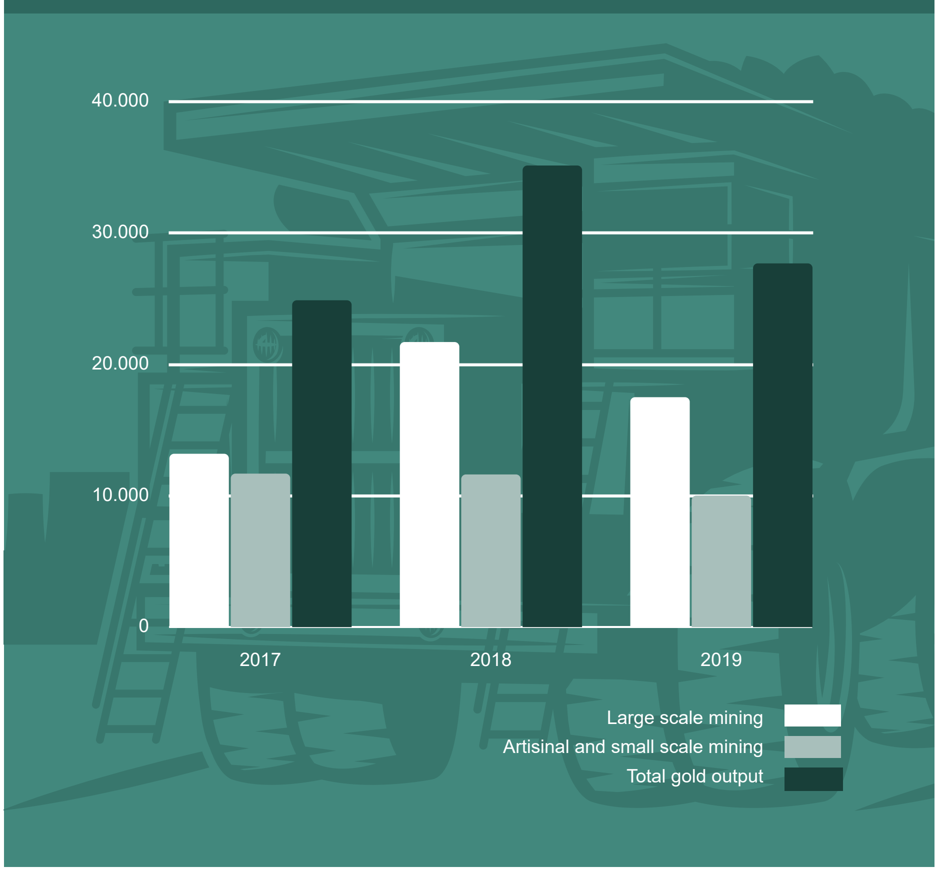
Zimbabwe Gold sector's largest annual volume in production was reported at 33,288.51 in Dec 2018. It was an increase from the previous number of 24,843.870 kg for Dec 2017. In that year Artisanal and Small Scale Miners (ASM) produced compared to Large Scale Miners (LSM)

Zimbabwe Gold Production data is updated yearly, averaging 18,050.000 kg from Dec 1990 to 2019.
TOTAL 11,667.50 13,176.37

DATA
Ministry of Mines and Minerals development

Reserve Bank of Zimbabwe Monetary Policy Statements (2016-19)

Green Governance Zimbabwe Trust



Contract transparency aversion jeopardize Zimbabwe's extractive investment potential

Zimbabwe is pursuing and implementing, after years of operating as a pariah state, investor friendly policies focused on reassuring and restoring confidence to boost Foreign Direct Investment (FDI).

Far from the madding crowds which chanted the chorus of Indigenization and Economic Empowerment, in a bid to limit foreign control of business and investment in Zimbabwe by preserving a mandatory qouta for locals. The ownership thresholds in the diamonds and platinum sectors, were set at 51% reserved for locals while the other 49% could be foreign owned.

The government has formed a more powerful, but not yet fully functional streamlined entity (a "one-stop shop") – the Zimbabwe Investment Development Authority (ZIDA). The authority was designed to deal with policy inconsistency, administrative delays and costs, and corruption hindering the ease of doing business.

Zimbabwe's historic peek of investment

was in 1998 where FDI reached over $444 million and by 2001, FDI inflow fell heavily to $5.4 million before it rebounded and by 2018 the total stock represented 20.8% of the Gross Domestic Product (GDP).

The investment increased significantly to USD 745 million in 2018, compared to pre-crisis period and 2017 (USD 349 million), according to the UNCTAD's 2019 World Investment Report.

While FDI flows recovered since 2008 due to economic normalization and the enhancement of the country's business climate, Zimbabwe has attracted less than USD 600 million a year on average over the past decade.

Although a number of mega deals have been signed their benefits are yet to materialize. For instance, 6 Memoranda of Understanding (MOU) signed in 2019/2020 involve the mutual Protection of classified Information, cooperation in the field of geological exploration and mineral resource management between Zimbabwe and partners including Belarus, China and Russia.

Government has also committed to cooperation in platinum group metals, in the field of diamond exploration and mining and in the field of energy. China emerges as Zimbabwe's biggest investor alongside Russia, Iran and India which are also important investors whose FDI in the mining sector is critical for carrying out mineral exploration, extraction, processing and marketing this is because Zimbabwe lacks enough capital and technological resources to finance such capital intensive large-scale projects.

Tax incentives granted to mining companies entail foregone government revenues thereby limiting the potential of tax revenue from the mining sector. The negative effect of revenue losses is enormous on socio-economic development as more often than not mining companies increase income during the tax-free period by speeding up the rate of production, and shifting the profits offshore.

While global trends show a general consensus on the importance of contract transparency, or open contracting entailing full disclosure of data on the tendering process, the contract agreement and its implementation and performance; Zimbabwe seems to be moving in the opposite direction.

Section 315(2)(c) of the Constitution provides that an Act of Parliament be formulated for negotiation and performance of concessions of mineral and other rights to ensure transparency, honesty, cost effectiveness and competitiveness.

Currently there is no legal and policy framework for contract transparency in Zimbabwe, although debatable, that open contracting is possible if the gap between the practice and the law is bridged.

Parliamentary oversight on mining contracts is also minimal. Instead of aligning the mining laws to the supreme law of the land, the Constitution of Zimbabwe Amendment (No 2) Bill, 2019 has the effect of taking away the oversight role of parliament in international treaties, conventions and agreements thus limiting transparency and accountability in the mining sector.

There is a common perception that transparency and publication of contracts would weaken companies' commercial advantages or the government's position in future negotiations. Confidentiality clauses are sometimes attached to such contracts, committing stakeholders to stringent provisions of confidentiality and non disclosure.

In most cases, concession allocation decisions and negotiations are made by members of the executive behind closed doors. Therefore, confidentiality leads to opacity and reduces opportunities for democratic controls through parliaments or civil society participation mechanisms.

The mineral resource curse haunts Marange's diamonds

To account for diamond produce which translate to tangible community benefits has remained the foremost challenge in the extraction of gems in Marange communal lands. Yet once again it proves to be an exursion in the extreme, similar to tracing the edges of shadows of a sprinting leopard.
Access to information on Zimbabwe Consolidated Diamond Company (ZCDC) production quantities is not guaranteed, even for the media which has a legal mandate to seek such access on behalf of citizens.

Despite of an upbeat reportage of an annual profit posting by the ZCDC, the firm still records leakages as well oiled parallel syndicates continue to operate. Auditor General Mrs Mildred Chiri in her 2019 report states that diamond totals were not accurately accounted for raising suspicion that connivance or actual pilferage could have occurred. Recently a case of four locals allegedly temporarily trapped in debris while mining illegally, was swept under the rug as they were quickly rescued before the matter got complicated.

This is in spite of the ZCDC commissioning a security optimization exercise aimed at enhancing product security across the entire value chain, as reported to Parliament.

The entity states that a surveillance point has been set up at the company's head office and the head office of the Ministry of Mines and Mining Development.
Reportedly efforts are underway to open another surveillance point at National Joint Operations Command and the Office of the President and Cabinet so more entities can check and monitor the entire chain.
Despite the company procuring long range drones to upgrade security around the mine, illegal operations have not stopped.

The Zimbabwe Consolidated Diamond Company posted a profit of US$26,35 million on production of 151,3kg of diamonds for the first half of this year, with profits being just over 40 percent of the diamonds sold.

According to a report to Parliament, the company made a profit of US$26 356 890 and states that it is on course to meet its year-end target of a profit of US$62 119 436.

This is ironical given that ZCDC failed to significantly meet its half-year production target, producing just 756 518 carats (151,3kg) against a target of 1 151 500 carats (230,3kg).

Infact this earning total is helped by better than expected prices, receiving an average of US$85,6 for each carat against an expected price of US$68, 3. In essence the company missed its half year target by over 35%, yet it is still insisting to still produce 3 044 050 carats (608,81kg) by year end, having produced less than half of that total. Sales of diamonds in the six months brought in US$64 770 207, against a target of US$78 650 000, so the expenses and costs totaled just over US$38,4 million, or just under 60 percent of the revenue.

The company also responded in its report to queries raised by Auditor General Mrs Mildred Chiri in her 2019 report on the company's inherited debts and its management of these debts. She said the company did not account for inter-related party debts and investments.

The diamond company replied: "Consolidation of mining concessions in Chiadzwa resulted in some financial obligations being transferred onto the ZCDC balance sheet from former mining companies in which Government had an interest through Zimbabwe Mining Development Corporation, eg DMC and Marange.

"ZCDC has created a provision for all the doubtful debts owed by related parties, while a comprehensive debt management framework is being worked on, through the Ministry of Mines and Mining Development," ZCDC said.

Mr. Winston Chitando
Minister of Mines and Minerals Development