

Briefing Note:

Mining and Crisis in Zimbabwe



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Netherlands institute for Southern Africa

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Background: Shifting terrains of growth and decline

The deepening crisis in Zimbabwe's mining sector has been brewing for several years. Initially based in declining production efficiencies and investor wariness due to the country's rapidly worsening economic climate, the sector's continuing deterioration has since been punctuated by political faction-fights over divested public and private assets, murky deals involving the takeover of mineral producers by quasi-state organisations and more recently, mounting allegations of corruption and smuggling in the diamond and gold sectors. The key factors in mining's decline lie outside the sector, and have their origins in the security-driven restructuring of Zimbabwean politics and business in the late 1990s and early 2000s. The ensuing economic instability and growing political unpredictability deprived the potentially high-growth sector of the kind of investment needed to sustain and expand existing operations. In this dynamic, working people, rural communities and the poor – including many destitute communities dependent on mining operations – have been among the most profoundly and negatively affected.

In the 1990s Zimbabwe was poised to become a significant force in African mining. With competitive mineral resources, a well-maintained infrastructure, skilled workforce, professionally-managed state regulatory institutions and liberalised, relatively stable fiscal and monetary regime, the country held key ingredients for a resurgence in mining growth. Mining houses responded favourably. Investments in the gold sector saw production rise and lift the country into third place among African gold producers, and into the world top ten. New interest in ferrochrome, and a large green-field investment in platinum – the second largest foreign direct investment since independence – helped boost capital inflows into mining exploration, mine commissioning and production expansion. Reflecting the new optimism, plans for other major investments in coal and thermal power generation were also developed, including a US\$1.6 billion Sengwa Coal Field project led by mining major Rio Tinto. With further international financial support for larger projects, Zimbabwe appeared to be on the verge of a new breakthrough as an international mining investment destination.

This promise was shattered by the economic and political crisis that emerged in the late 1990s and exploded into a direct challenge to ZANU-PF by a resurgent opposition in the 2000 parliamentary elections. In 1997, besieged both by growing revelations of elite corruption and deepening economic decline under structural adjustment policies, the ZANU-PF leadership embarked on a path of internal political realignment. This included the rapid militarization of the ruling party, State and broader terrain of national politics, a trend reflected in the rising prominence of so-called “war veterans”, state security personnel and later, party-affiliated militias, in the senior ranks of ZANU-PF and black business. The immediate and longer term consequences for political and economic stability were soon evident. Within government, a rapid erosion of bureaucratic professionalism compounded emerging “rule of law” problems as the

ruling party subordinated state institutions to the priority of its political survival and the consolidation of its leadership elite. In civil society, government was increasingly hostile to demands for participation and dialogue from a range of labour, business and other community interests with whom government previously had engaged in Zimbabwe's homegrown version of social democracy. Along the way, renewed nationalist posturing by ZANU-PF, which became especially prominent during the 2000 and 2002 parliamentary and presidential elections, asserted the need for government to reassume sovereign rights over strategic natural and economic resources. The combined impact of these dynamics was sharply negative for not only political participation and governance, but also for the wider economy.

ZIMBABWE: NEW MINING INVESTMENT 1990-2001				
Investment	Source Company	Source Country	US \$m	Year
Hartley Platinum Mines	BHP	Australia	500	1998
Selous Platinum Mine	Zimplats	Australia, SA	80	2001
Mimosa Platinum Mine	Implats, Aquarius	SA, Australia	30	2001
Turk Mine	Casmyn Corporation	Canada	30	1995
Eureka Gold Mine	Delta Gold	Australia	24	1998
Indarama Gold Mine	Trillion Resources	Canada	15	1998
Jena Gold Mine	Trillion Resources	Canada	12	1991
Rio Tinto Zinc Corporation	Rio Tinto	UK	5	1994
Chaka Processing Plant	Delta Gold	Australia	3	1998
Bubi Gold Mine	Anglo American	SA	2	1997
<i>Source: BusinessMap SADC FDI Database (Johannesburg) Figures do not include follow-on investments.</i>				

An economic downturn was immediate and pronounced, and worsened in subsequent years. Production and foreign earnings in most industrial and commercial agricultural sectors plummeted after the 2000-2001 farm invasions, which undermined investor confidence, destabilised the supply of agricultural inputs into an array of local processing industries, and were followed by intermittent threats against, and attacks on, urban commerce and industry. Inconsistent fiscal and monetary policy amid declining macroeconomic indicators played havoc with cost management, and increasingly unstable power supply, rising fuel costs and skills flight made production planning precarious. As foreign currency reserves dwindled amid continuing draw-downs for fuel, electricity, plant and spares, production went into a deep slide. A 7% decline in

GDP in 2000 was compounded by drops in following years and by 2005, Zimbabwe's economy was ranked the world's fastest-shrinking.

In the early 2000s, government's fiscal and monetary policy became increasingly *ad hoc* and unpredictable, designed to suppress exploding inflation, domestic interest rates and exchange rate collapse. While a parallel market in foreign exchange blossomed, private sector exporters and others within the regulatory reach of government were forced to trade mostly at impossibly low official exchange rates, while local inputs costs inflated rapidly. For exporters, the rising shortage of foreign exchange therefore spelt disaster, not opportunity.

The mining sector, a key consumer and generator of foreign exchange and domestic employment, was a critical casualty in this emerging crisis. Currency fluctuations, policy vacillation and skyrocketing production costs were especially damaging. The pegging of the Zimbabwe dollar exchange rate to the US dollar in a period of high inflation, coupled within increasing restrictions on access to foreign exchange earnings, immediately put many mining houses' production costs under pressure. The gold sector was particularly hard hit, buffeted by complicated and unpredictable foreign exchange regimes managed unpredictably by the Reserve Bank.

Several gold producers were pushed to the brink of collapse in 1998-2000, prompting slowdowns and closure of a number of key operations. These included Delta Gold's new US\$24m Eureka gold mine, which was expected to become the country's second largest gold producer but was mothballed after only one year in production. In 2000-2001, 14 gold mines were closed or placed on care and maintenance. The result was a sharp drop in gold production. After rising steadily after 1990 and peaking in 1999 at 27 tonnes, gold production slumped to 18 tonnes in 2001, 12.5 tonnes in 2003 and to the equivalent of 8 tonnes per annum in early 2007. Short-lived state interventions – providing special subsidies to help rejuvenate production – worked briefly but the overall trend was downward.

The consequences for the broader economy would be critical: after the collapse of commercial agriculture, gold mining accounted for one-third of foreign currency earnings and more than 50% of mineral production. Production of several other key minerals also fell off, affected by the same combination of rising production costs, materials shortages, degraded infrastructure, skills flight and low realised returns due to distorted exchange rates. Copper production collapsed from about 15,000 tonnes in 1990 to barely 2,000 in 2001; and ferrochrome, which peaked in 1995 at nearly 300,000 tonnes, fell to 218,000 tonnes ten years later.

Exploration spending, a critical indicator of future investment intentions, peaked in 1996 and then declined sharply. Since 1999 there has been no new internationally

financed exploration even though there has been strong exploration growth in neighbouring mineral-bearing countries. Apart from the booming platinum sector, represented by the Ngezi Selous mine operated by Zimplats (an Australia-listed company with a majority shareholding held by South Africa's Implats) and the smaller Mimosa Mine (jointly owned by Implats and Australian mining house Aquarius), large new investors were warned off by the deteriorating investment climate. At a time of a strong international resurgence in metals prices, the well-placed Zimbabwe sector lost out almost entirely.

New investments in the 2000s primarily involved mergers and acquisitions, including Mwana Africa's acquisition of one nickel and two gold projects, and the transfer of the small Blanket gold mine from Kinross Gold to Caledonia Mining, both of Canada. Wholly new projects like Rio Tinto's US\$61million Murowa Diamond Mine, commissioned in 2004, and the Zimplats and Mimosa operations, have been the exception: overall, the Chamber of Mines and others point to the absence of new project implementation as the worrying dominant trend in a sector which under more stable conditions, would likely be booming.

While most mining houses' operations and investment slowed in the 2000s, many mining communities teetered on collapse under the double assault of economic downturn and politically-motivated violence. The targets of attack included not only mining companies but also mine workers, their union (the 10,000-strong Associated Mineworkers of Zimbabwe - AMZ), mining compounds and communities. Mine-workers who were already hard hit in the 1990s by mechanisation and restructuring – which saw mining employment drop from 83,000 in 1995 to less than 50,000 in 1999 – soon suffered more direct and unambiguous forms of injury.

In ZANU-PF's increasing militarization of politics in the 2000s, workers and workers' organisations were identified by government and the ruling party as potential "opponents". The Zimbabwe Congress of Trade Unions (ZCTU), the national labour centre to which AMZ is affiliated, officially endorsed the opposition Movement for Democratic Change (MDC) and indeed provided many of the new leaders of that party from amongst union ranks. The ruling party was determined to prevent its rural political base from being occupied and reorganized by its political critics, and soon violence and intimidation was unleashed to this end.

In 2001, workers on several mines were physically assaulted, harassed and otherwise strong-armed by members of the self-styled Zimbabwe Federation of Trade Unions (ZFTU), a ZANU-PF-inspired "trade union" led by war veteran Joseph Chinotimba, whose members seemed to consist mostly of "war vets", youth militias and unemployed party-linked youths. These attacks, unpunished by the State, led to the extortion of funds from workers and mine owners; displacement of the AMZ's organising capacity

and access to its dues-paying members; and the disabling of the MDC's political and organisational support in mining compounds. Reports of violence, destruction of property and theft were common during these incursions, which thoroughly destabilised industrial relations and community life in several different mining areas in 2001-02, and set the stage for the collapse of a number of small and medium-scale mining operations in subsequent years. Many mining communities were left to limp along without further investment in the context of slowed-down or closed operations, a rapidly declining social economy and under threat of further violence from government-aligned pseudo-unions.

Party time

Mining houses also came under increasing pressure from the State, particularly as wider state-enabled invasions of the productive sector led to the political pressing of claims for empowerment or "indigenisation" in the strategic minerals sector. The need for empowerment had been recognised since the 1990s by the Chamber of Mines, the main representative body for mine owners. A few examples of empowerment were in place by 2000. Mutumwa Mawere, a "self-made" indigenous mining magnate whose key business strengths included his links to the ZANU-PF leadership, used creative financial restructuring and government facilitation to become the controlling shareholder in Shabanie Mashaba asbestos mines in 1998. His deal was celebrated by government which called on other aspiring black entrepreneurs to take control in the commanding heights of the mining sector.

At the time, Mawere spoke of expanding his interests via financing facilities designed to act as an indigenisation trust for privatised state assets and other targets. However the murky politics of competing ruling party players and financing issues soon intervened, and the mining magnate's acquisitions soon fell into financial problems, its collapse ensured by the withdrawal of political support from the State. The one-time indigenisation hero, recast by government as a suspect businessmen, later chose self-imposed exile in South Africa under threat of arrest in Zimbabwe, where government seized his Shabanie assets.

Meanwhile, other smaller-scale efforts at indigenisation were more successful, and involved extensive artisanal works in different locations. However, none of these grew into large operations and occasionally their operators too were harassed by government officials, who accused miners of violating exchange control regulations by smuggling gold and other minerals; of operating illegally without permits; and other offences. "Bottom-up" empowerment by the small-scale sector therefore met with continuous challenges and its public profile was typically tarnished, rather than celebrated and encouraged, by government.

In the 2000s, government's approach to empowerment took a new direction in response to the changing political and economic environment. The commercial farm invasions and subsequent breakdown of government authority in enforcing the rule of law – particularly around property rights – opened up new opportunities for asset acquisition by aspiring, politically-connected entrepreneurs. At the same time, competition over these assets was fuelled and mediated by conflict among factions within the ruling party leadership which emerged to vie for the right to succeed President Mugabe in the medium term. After 2000, black business groups' empowerment deals were increasingly tied in with, and dependent upon, powerful political factions in the party – especially those with military and security connections who were in the ascendant in this period. Since the securing of new economic assets was perceived as having direct bearing on these factional struggles, empowerment initiatives became increasingly hotly contested, *ad hoc* and unstable.

The mining sector became a critical battleground for the hearts, minds and pocketbooks of key business and political constituencies related to ZANU-PF's internal struggle for power. The early 2000s have been an unsettled period, punctuated by increasingly public factional disputes sometimes mediated in contradictory ways by different institutions of the State and ruling party. Where politically-affiliated businesspeople have fallen foul of the dominant party faction around President Mugabe – including Mawere – they have often been harshly treated, their assets expropriated and their legal, financial and personal security called into question. In other instances, including prominent businessman and former Army Commander Solomon Mujuru (and husband of Vice-President Joyce Mujuru), Mugabe has struggled to contain his colleagues' business and political aspirations, and has used divide-and-rule tactics among aspirant political businesspeople to keep rivals in check. The resulting empowerment stalemate within political and business circles has been reflected in the overall failure of most recent efforts at indigenisation in the mining sector.

While the 2000s have seen a government-supported push by party-linked indigenisation activists to claim local stakes in the Zimbabwean operations of larger foreign mining houses, this has mostly proved a frustrating and unproductive process for all parties. Targets of indigenisation have included gold, nickel and platinum projects of Anglo American, Zimplats' platinum operations and Metallon Gold's stable of five gold mines. Each faced demands that they take on local partners whose key assets appeared to include local political connections and influence.

Anglo American, having signalled its intention of divesting from most of its Zimbabwean assets to concentrate on larger projects, was an early target for local investors – yet most of its more expensive nickel and gold assets on sale ended up going to non-Zimbabwean companies. An exception was its Zimbabwe Alloys group of chrome mines, where production had levelled off and was downward by the early

2000s, which was sold in 2005 to a “broad-based indigenous consortium” of Zimbabweans. In the case of Anglo’s Unki platinum project the company sought to hold on to its undeveloped assets. However, wrangling with government over the reported imposition of unnamed local partners to take up a 15% to 20% stake in the project, contributed to lengthy delays in the US\$90m project. Despite record high platinum prices and continuing interest by Anglo American Platinum, the project is moving ahead on a go-slow basis.

At Zimplats, 87% owned by South Africa’s Implats with a minority Australia-based stake, engagement with three successive sets of local partners nominated by government all collapsed as the company required bankable financial commitments from future partners which were not forthcoming. In lieu of suitable local project partners Zimplats proposed domestic participation by means of a listing on the Zimbabwe Stock Exchange, however this was rejected by government. Finally the company chose to negotiate terms for the recognition of “empowerment credits”. This deal saw Zimplats gaining credits for the partial ceding of its land claim, and for current and future social improvements associated with its mine and surrounding infrastructure developments. A deal was struck with government in 2006, but rumblings of renewed politically-driven indigenisation claims on large operations like Zimplats, which last year announced plans for a \$2.5 billion expansion over ten years, linger.

In a third case, South African-based empowerment gold producer Metallon bought a controlling stake in Zimbabwe’s Independence Gold mines from South Africa-focused Lonmin in 2002 and immediately ran into empowerment problems of its own. At the time of the acquisition, Metallon negotiated with a local consortium of three prominent business figures for a 30% local stake in Metallon’s local operations. But the agreement soon collapsed and resulted in a flurry of law suits from each side. Metallon’s plans for expansion of its Zimbabwe activities, projected to triple its gold output over five years through an investment of up to US\$100m, are now on hold.

One successfully engineered empowerment deal involved the Murowa Diamonds project, which is 78%-owned by Rio Tinto plc with junior partner RioZim, a Zimbabwe-listed company whose 56% majority shareholding held by Rio Tinto was ceded to local investors as part of the Murowa deal. However the market-leverage empowerment option pursued by Rio Tinto in 2004-2005 has not been favoured by government or empowerment activists – probably because it has tended to favour established business interests inside Zimbabwe and empowerment interests based outside Zimbabwe.

In reality, since Mawere’s asbestos deal in the 1990s, very few new significant empowerment deals have been concluded that involve contractually structured, transparently implemented partnership transactions involving local consortia. This

excludes, for example, mining projects acquired by legally disputed means – including forced occupation or seizure – although such cases are few and have not to date involved larger mines. Also excluded here are new stakes acquired through silent shareholdings that are not publicly acknowledged, or whose ownership is hidden from scrutiny by means of proxy shareholders, numbered companies, offshore holding vehicles, etc. These latter forms of empowerment include investment vehicles of the ruling party, of which many are documented, but in which individual or institutional control and benefit are difficult to detect.

In this context, the only extensive “empowerment” investor in Zimbabwe in recent years is the South African-based Mwana Africa, which has links to powerful business and political interests in the Democratic Republic of the Congo (DRC), South Africa and Zimbabwe. Mwana has acquired important assets from international players, including Freda Rebecca Gold Mine (AngloGold Ashanti), Bindura Nickel (AngloAmerican), Cluff Mining Zimbabwe (gold assets) and Gravity Diamonds (based in the DRC). But Mwana’s profile, with its heavyweight international financing and mining pedigree – its CEO Kaala Mpinga and some of his team were formerly at Anglo American in South Africa – is distinct from that of most aspiring empowerment dealmakers in Zimbabwe. The latter are strong on political connections but empty-handed when it comes to financing, and in the mining sector the capacity to raise funds for the medium to long term is seen as entry level criteria for investors.

The absence of hard currency financing in Zimbabwe represents a key obstacle in the path of local mining empowerment – as reflected in the string of collapsed indigenisation partnership deals in the 2000s – and increasingly this problem is motivating government’s changing approach to indigenisation in the mining sector. The shortage of funding is unlikely to be addressed soon, given the parlous state of the economy – the world’s fastest collapsing over the past five years, with annual inflation now above 4000% and chronic severe shortages of foreign exchange. At the same time, options for getting around local shortages of funding – such as offshore financing and lease-to-buy share shedding by foreign mining houses – have been severely constrained by international sanctions imposed by the EU, US and other western countries against the government and ruling party leadership. The kind of politically-acceptable businesspeople who would be allowed to take up a shareholding by ZANU-PF would also likely be blacklisted in the sanctions register – or risk such blacklisting in the future. On the other hand, foreign companies involved in share deals benefiting blacklisted Zimbabwean partners would be liable to penalties in home markets overseas. These barriers raised by international sanctions to larger-scale domestic investments *inside* the country have been a central motivation for government’s campaign against sanctions.

New indigenisation interventions

Mining's enormous potential for wealth and power creation is keenly understood by all in the political leadership and empowerment community. In response to continuing blockages to empowerment, a new front in factional turf battles for the economy opened last year. This involves the legal codification of elite access to divested public and private assets.

Following extended public discussions of a new mining indigenisation policy by ZANU-PF beginning in 2004, the industry was shocked by proposed amendments to the mining law announced without warning in March 2006 by Mines and Minerals Development Minister Amos Midzi. Seemingly contradicting earlier positions, government now said it planned to acquire a 51% stake in foreign-owned mining operations in the strategic platinum, diamonds, gold and emerald sectors, including an uncompensated expropriated stake of 25%. Twenty percent of the stakes in question would be acquired within two years, with the State's holding rising to 40% after five years and reaching 51% by the end of seven. Unnamed government-nominated Zimbabwean investors would benefit from access to government's newly acquired shareholdings, and future new investments would be required to include State or indigenous participation from the outset.

Local mining houses and the Chamber of Mines, both of which engaged government on indigenisation policy over an extended period, were not the only ones surprised by the proposals. South African empowerment figures and their home government were also caught unawares. Following growing moves in the early 2000s into Zimbabwe by South African businesspeople like Metallon's Mzi Khumalo, the ANC government initiated negotiations with Zimbabwe around financial and technical cooperation. The goal was to help formulate and implement a transparent, well-managed, gradual empowerment transformation of the local industry.

Reports in 2005 indicated that South Africa pledged to support its neighbour's small and medium-scale miners, with the long term objective of nurturing a basis for later expansion into larger mining operations requiring greater financial and managerial inputs. As part of the bilateral engagement, Zimbabwe and South Africa mooted an empowerment-related exchange programme in late 2005 in which South Africa offered to assist with policy making leading to the implementation of a mining indigenisation charter. But by early 2006 the main motivation behind current mining indigenisation in Zimbabwe – elite competition accumulation, not sustainable policy making – had reasserted its power in the form of the draft amendments.

Paradoxically, some large scale mining houses have taken the lead in advocating a more progressive and redistributive approach to indigenisation in mining. Submissions from

the Chamber of Mines include recommendations for the substitution of elite-focused equity deals targeting foreign mining houses, with performance criteria guarantees involving corporate social responsibility to local communities. Under these terms, at least part of the stake in foreign operators targeted for takeover would be waived in exchange for provision of social and public infrastructure by mining houses. These proposals have the support of leading mining industry players like Zimplats, whose 2006 bilateral empowerment agreement with government saw it cede an undeveloped piece of ground equalling 36% of its total land claim to the State in exchange for indigenisation “credits”. Also included in the deal were parts of Zimplats’ built-in infrastructure, including 80 km of road, electricity supply, housing and social amenities for the mining community on site, for which the company was given dollar-for-dollar credits. But Zimplats is one of the rare exceptions, and without firm guidelines and regulatory instruments the pursuit of alternatives to empowerment shareholding buy-ins by black entrepreneurs has been slow. The silence of existing mining legislation on such issues has left much up to bilateral negotiation, and in so doing the current regulatory regime has nurtured confusion and uncertainty – and created ample opportunities for corruption.

A contributing problem in the credit scheme issue is the unpredictable, case-by-case approach taken by different sections of government. This has posed challenges for mining houses and government bureaucrats alike. Feuds among the Ministry of Mines, Ministry of Empowerment and Indigenisation, and the Reserve Bank of Zimbabwe have complicated the terrain of “empowerment from above”. In reality government in its various incarnations exhibits several competing sets of expectations around indigenisation – from private accumulation for new businesspeople, to the development of local infrastructure, rebuilding of metals exports industries and provision of foreign exchange to the State. Mining houses and prospective community beneficiaries have struggled to understand and negotiate a way through this thorny complex of personalities and power interests – and to make deals stick, in an environment where some in government still see rights to productive property as fluid. The Minister of Mine’s March 2006 policy interventions therefore resuscitated debate on empowerment, but without effectively moving the process forward by the establishment of rules and procedures for indigenisation’s implementation.

Diamonds chaos

In the meantime, a dramatic diamond rush in 2006 diverted attention away from the legislative reform agenda and highlighted the reality of irregular state intervention, high-level corruption and growing international concern over Zimbabwe’s diamonds sector. The focus of activity and concern fell primarily on diamond field assets in the Marange district of eastern Zimbabwe, where diamonds were discovered in mid 2006; and the River Ranch mine near the southern border with South Africa. Soon there were

allegations of violations of legal land claims, government-inspired chaos in mining operations, and a rise in unregulated diamonds sales that possibly fed into an emerging “blood diamonds” trade. In the case of River Ranch mine, some privately speculated about the role of Zimbabwe’s political and military elite and its DRC counterpart in enabling a conduit for DRC diamonds through Zimbabwe to diamond factories and international traders in South Africa.

By December 2006 the World Diamond Council (WDC) called for an investigation of the Zimbabwean industry, citing allegations of smuggling and unclear certification procedures of exported diamonds. In response, in early 2007 the Kimberley Process (KP) announced some diamond exporters in Zimbabwe were under investigation and that government was prepared to cooperate with KP investigations into the situation. On its part, the Zimbabwe government adopted different and sometimes seemingly contradictory approaches, both alleging smuggling and corruption by Zimbabwean officials and foreign traders, and denying irregularities involving leading players and government members. More recently, familiar patterns of interlinked State and ruling party involvement and intrigue have emerged. Important questions have been raised around the controlling interests and main beneficiaries of Zimbabwe’s flourishing grey diamonds sector.

The diamond rush of 2006 was chaotic from the outset, beset by land invasions by informal miners, repeated legal challenges by claim title holders who had been pushed aside by the State, the effective crumbling of mandated state structures tasked with dealing with mining development and marketing, and the increasingly murky involvement of illegal traders, dealers and ruling party and state officials.

The centre of the diamond rush has been the Marange district, where Africa Consolidated Resources (ACR), a UK-based mining house with local shareholders, was the claim titleholder of the largely undeveloped diamond fields. But when new discoveries by local residents became known in mid 2006, ACR’s claim was quickly overrun by thousands of local and regional fortune hunters, with government encouragement. The State had immediately and publicly disputed ACR’s claim rights, and then refused to restore security and order through the removal of informal diggers – who grew to as many as 20,000 in a short period of time. Instead, government invited invaders to occupy the land on condition that uncovered diamonds would be sold to the Minerals Marketing Corporation of Zimbabwe (MMCZ), the state institution entrusted with overseeing most minerals sales. In September 2006 Deputy Minister of Mines Tinos Rusere personally visited the digging sites, urging on the informal miners.

In reality, government was laying the conditions for potential disaster. On the ground, the buying prices offered by MMCZ were very uncompetitive with those paid by foreign buyers who had descended on the area. MMCZ also appeared to be short on funds with which to purchase stones. As a result there was a flood of sales into the unregulated black market and its associated trading networks, with no benefit whatsoever accruing to the State, and a collapse of controls on the origin of stones circulating in the country. Government itself speculated that as much as US\$300 million in stones could not be accounted for through legal marketing channels; others put the sums much higher. The scale of the chaos was reflected in the fact that no-one knew the real extent of the loss.

In a bid to stop further haemorrhaging, state security forces moved onto the fields in November 2006, brutally evicting the diggers and imposing a seal on the area. There were soon allegations that soldiers, too, were digging in the secured zone, and that senior government and military people were implicated. At the same time, ACR was formally deprived of its claim by MMCZ (which also seized diamonds held by ACR), prompting an ACR court challenge, demands for return or compensation of seized diamonds, and a complaint to the KP about the chaos that had ensued at Marange.

Government was undeterred. In January 2007 Minister of Mines Amos Midzi granted the state's Zimbabwe Mining Development Corporation (ZMDC) a license for the Marange fields, despite public objections from independent and senior government officials – including Reserve Bank Governor Gideon Gono – that the ZMDC lacked the capacity for the undertaking. Speculation was rife that the ZMDC's low capacity could be used by government as an excuse to permit politically-connected private firms, perhaps including Chinese investors, to take over the Marange mining operations in partnership with government. Government's decision to directly undertake diamond mining operations was especially troubling given the ZMDC's failed record in previous ventures including gold, copper and tin mines – several of which had closed under allegations of mismanagement.

Importantly, the authorisation of state-managed ZMDC's mining license came in the context of new high profile criminal cases of diamond smuggling involving senior government officials and politically-connected individuals. Those arrested and charged included a government department director (since deceased), and the son of the CEO of Zimbabwe Defence Industries, a security-dominated firm active in the DRC and allegedly involved in illegal resource exploitation there. Allegations of smuggling and corruption at Marange were compounded by separate questions over River Ranch mine, owned by former Zimbabwe National Army General Solomon Mujuru and other figures linked to senior ruling party circles. River Ranch, named by the WDC as potentially being in violation of KP certification rules, refuted the allegations and denied exporting diamonds.

But in a further twist which highlighted the ruling party factional disputes underlying mining sector empowerment, a competing set of empowerment interests alleged in May 2007 that the United Nations Development Program (UNDP) and World Bank were facilitating diamond smuggling at the mine. The two agencies had recently assisted River Ranch in a capitalisation exercise. The allegations were made by Buby Minerals, whose directors included senior ZANU-PF-linked rivals to the Mujuru group. Explicitly adding politics into the business mix, Buby disingenuously argued that the impact of international sanctions could be offset by legally-sanctioned diamond sales managed by Buby. On its part, the UNDP denied complicity in smuggling and launched its own investigations.

In January 2007 the Parliament of Zimbabwe's Committee on Mines, Energy and the Environment and the KP initiated separate investigations in the wake of the WDC's allegations. The parliamentary committee, under the chairmanship of an opposition party member, held *in camera* sessions in April. The activities of senior politicians and officials would be included in its work, the committee insisted, and not only small-scale miners whom government had chastised for flocking to the black market. By June its hearings were completed but its findings not yet published. A KP review team visited Zimbabwe in late May and reported good cooperation from government and industry stakeholders. The review team's report was not published at time of writing.

Regardless of the final findings of both investigations, some domestic observers argued that at least one critical lesson from the diamond rush fiasco was already clear. Wrote one commentator, "our government will console itself with the thought that diamonds extracted from Marange have not been used to finance conflict. That does not make them clean because the gems have become a means by which senior government officials and their cronies have continued to acquire illicit wealth". The origins of the diamond fields mess, the writer continued, was government itself, and even if the State had "mobilised to clean up the mess in an exercise meant to portray government as working for the betterment of the country", it was a mess of its own making, created in the tarnished name of indigenisation and empowerment.

Government's response to the unfolding investigations and reports has been contradictory. While acknowledging media reports of public and private diamonds corruption, President Mugabe has since insisted that the strategic value of the diamond sector for the foreign exchange-starved economy suggests that the State alone should mine and market diamonds. In April he called for tighter government control over both the diamond and gold sectors in order to rein in revenues to the State and combat corruption. But crucially, he did not specify the means by which profoundly weak and allegedly corrupt public institutions overseeing diamond and gold mining could be strengthened to enable the positive financial and procedural outcomes desired. Without

first addressing corruption in the state bureaucracy and party, some asked, how could government expect to clean up irregularities in the lucrative diamond sector – and did it want to?

In June 2007 government published its “Indigenisation and Economic Empowerment Bill”, legislation designed to establish indigenisation objectives, institutions and transactional procedures for public and private productive sectors. Government expects to move the Bill through Parliament by September. In their current forms the Bill’s measures are potentially far-reaching. Confirming the 51% quota for indigenous control of business announced in 2006, the Bill requires that all new investments immediately comply with this minimum condition, and outlines processes by which the shareholding structures of existing companies will be brought into compliance with new indigenisation standards. The Bill establishes a National Indigenisation and Economic Empowerment Board which, among other duties, will oversee an Indigenisation and Economic Empowerment Fund. The Fund, fuelled by government resources, levies imposed by the Minister and other instruments, represents a new attempt to raise significant volumes of capital for empowerment in the absence of healthy financial markets. But behind all of these principles, institutions and regulatory measures, the Bill places enormous and seemingly arbitrary power in ministerial hands. The Minister has the power to reject business transactions leading to divestment; to nominate specific indigenous partners; to unilaterally command the Empowerment Board to make specific decisions in “the national interest”; and to set the short term conditions and longer term scheduling for business’ compliance with indigenisation standards. In this context, the Bill makes it clear that the Minister of State for Indigenisation and Empowerment is the only institutional authority with significant administrative autonomy in the whole complex of new empowerment structures.

Public statements on the Bill in early June by mining minister Midzi failed to reassure miners on the open-ended question of indigenisation in practice in the mining sector. Not all mineral producers and mining houses would be equally affected by government’s demand for a greater local stake, Midzi said, but some “strategic” sectors like uranium would likely fall entirely under State control. In the past, some in government had also referred to gold and diamonds as economically “strategic” operations. Coupled with President Mugabe’s earlier pronouncements on diamonds and State ownership, Midzi’s clarifications left many industry players and government policy people guessing at the scope, intent and practicalities of empowerment. In its current form, the Bill leaves much open to imagination – and political manipulation. The Act may well emerge with much the same intent and outcome.

Conclusions: Parallel slopes

In the midst of a resurgence in international minerals prices and rising interest in African mining, Zimbabwe stands as a rare case where proven resources of valuable commodities, capacity in infrastructure and comparatively good mining skills have not resulted in significant growth in production in recent years. Rather, the opposite has occurred: most key sectors, including gold, ferrochrome and copper, with the exception of platinum group metals, fell off in the early 2000s, and currently show little sign of recuperation. The diamond rush of 2006 only served to further undermine confidence in Zimbabwean mining: government's strategic nurturing of chaos in the diamond fields and its inability to provide predictable political and regulatory leadership raised new questions around the role of the State and ruling party in the exploitation of national resources for public benefit. Most observers and industry players agree that the reasons mining's unrealised potential lie outside the sector, in the domestic political and economic crisis presided over by an increasingly erratic government and conflict-ridden ruling group.

Mining's decline has been enabled by economic volatility, severely weakened state regulatory and production structures, and an unsettled policy environment. Structural adjustment in the 1990s and militarization in the 2000s have gutted much of the professional bureaucratic capacity of the state. With regard to the critical question of indigenisation and participation, for example, Zimbabwe has seen the emergence of elite-driven, opportunistic asset grabs, rather than the articulation of a policy seeking the sustainable transfer of strategic production into accountable hands. The stop-start development of mining indigenisation policy, apparently short-circuited in 2006 by the reality of significant new diamond assets ready for the taking, starkly reflects government's precarious capacity and equivocal will to pursue a transparent, widely-beneficial approach to indigenisation.

In many ways, the experience of the mining sector closely reflects the trajectory of the broader political and economic crisis in the past fifteen years: fuelled by questions of political conflict and factional competition, exploited by opportunistic foreign economic interests and impacting negatively on state institutions and the rule of law, both crises have resulted in the accelerated poverty and marginalisation of workers, poor Zimbabweans and ordinary communities. In the recent scramble for diamonds, it was informal miners and diggers who were most profoundly manipulated, used, brutalised and then summarily discarded – and accused of economic sabotage by public and private players alike. Since then there has been little public debate about the thoroughly disruptive role of the State, security agencies and foreign miners and traders, particularly in the Marange area. The potential beneficiaries of Zimbabwe's suddenly lucrative diamond wealth have become its main victims.

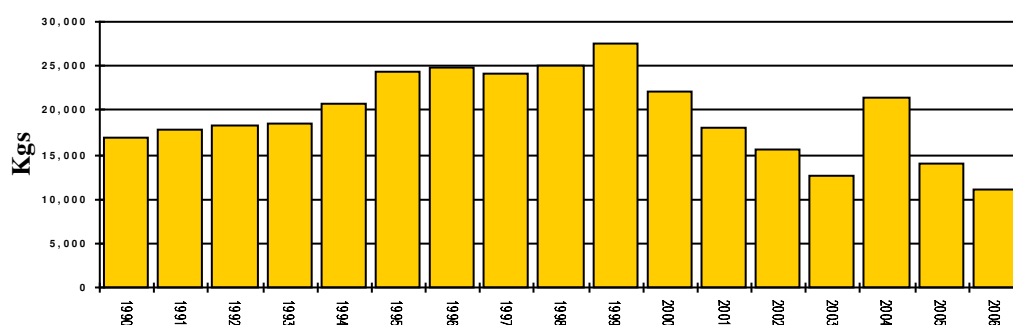
As with the broader problem of socio-economic decline, the stabilisation of the mining sector implies moves towards greater political and economic transparency by government and wider public participation in state decision making. Mining houses – domestic and international – also have a key role to play in seriously engaging issues of indigenisation and accountability. These combined imperatives face resistance from government, senior regime-based Zimbabwean elites, and certain mining investment partners from abroad. There is speculation that Zimbabwe's diamond fields in particular are ripe for the picking, as government seeks to reduce the glare of recent negative publicity by restructuring production through the entrenchment of mining ventures linked to leading political interests. Therefore, while the prospect of a "normalised", government-sanctioned diamond sector featuring partisan indigenous firms is looming, it is not clear how such reform will begin to address the key questions of transparency, accountability and community participation that are central to the continuing crisis.

Annexure 1

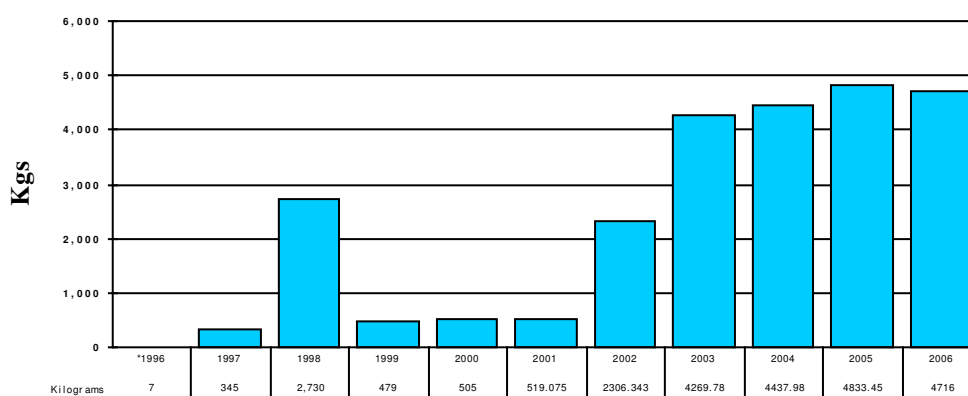
Zimbabwe Minerals Production *

*Source: Zimbabwe Chamber of Mines, May 2007

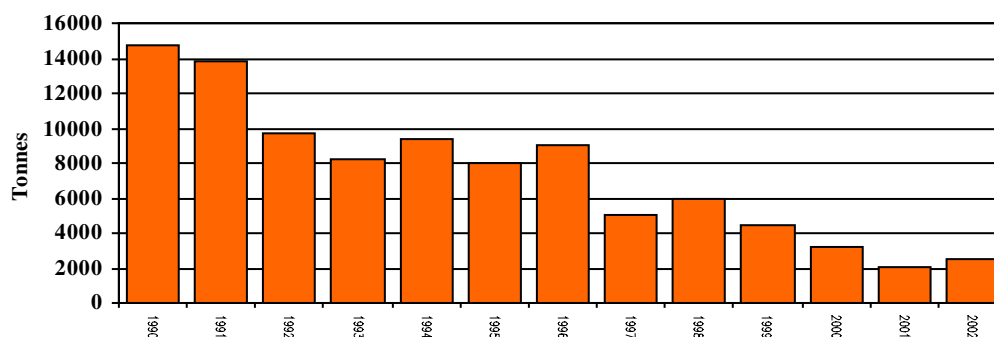
Zimbabwe Gold 1990-2006



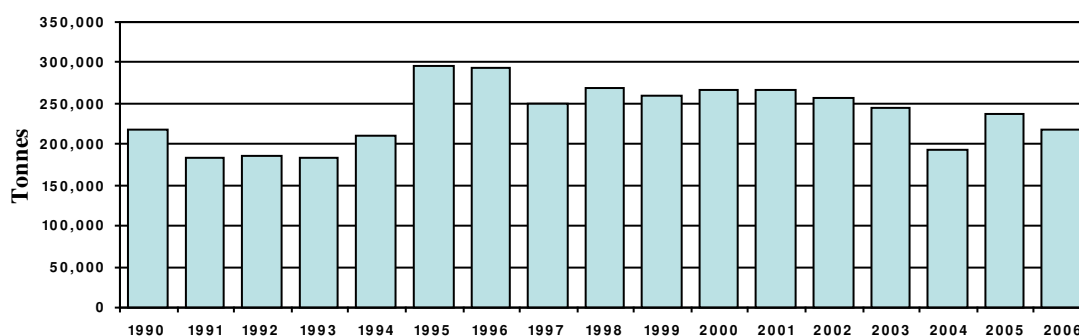
Zimbabwe Platinum 1996-2006



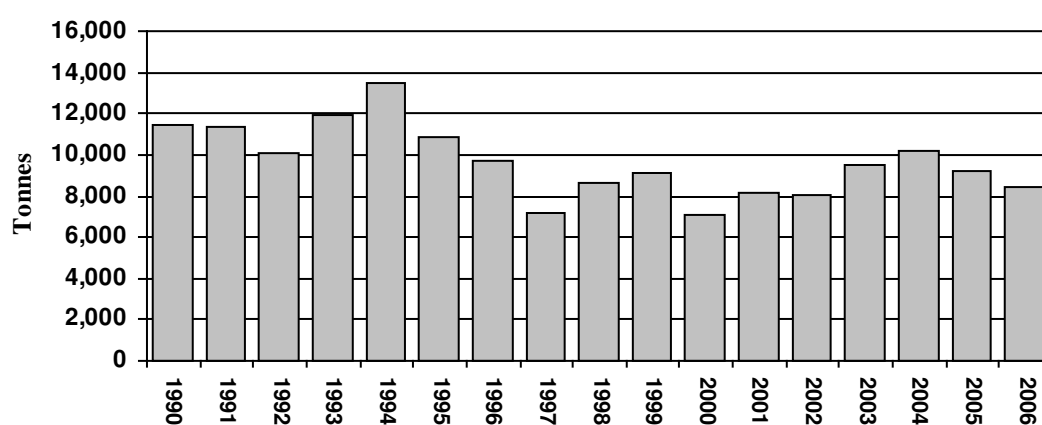
Zimbabwe Copper 1990-2002



Zimbabwe Ferrochrome 1990-2006



Zimbabwe Nickel 1990-2006



Zimbabwe Asbestos 1990-2006

