

# Zimbabwe's Marange Diamonds: Post Election Analysis:

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## **Introduction**

This paper provides a situational analysis of diamond mining in Zimbabwe within the broad context of national and international political economy and the possible role of the sector in the country's economic recovery post July 31. The July 31 election won overwhelmingly by ZANU-PF marked the end of a 2009 inclusive government made up of ZANU-PF and two MDC formations. The inclusive government was an attempt at resolving a political and economic crisis, characterized by disputed elections, political violence, international isolation and an acute economic decline inter alia. Though the MDC formations and some observers (both local and international) have questioned the credibility of the 2013 election, there has been widespread acceptance of the outcome as representing an end of a road and a more preferable way forward.

One of the prominent issues in Zimbabwe's crisis and indeed over the course of the inclusive government has been the state's handling of Marange diamonds and mineral resource governance in general. Since 2006, Zimbabwe's military has been accused of committing human rights abuses in the name of driving away panners and instilling order. Though concerned primarily with curbing trade in conflict diamonds (those in the hands of rebels bent on overthrowing legitimate governments), the outcry over abuses in Marange forced the Kimberley Process to raise these concerns with the Zimbabwean authorities. However, the handling of Marange diamonds was divisive for the KP, especially on whether the body should broaden its definition of conflict diamonds to include violations by state parties. After Zimbabwe had tightened internal controls and "addressed initial concerns" the KP lifted its partial ban on Marange. This notwithstanding, allegations of abuses continued, the US and EU retained sanctions on Marange diamonds as part of their broad political and economic sanctions on the Zimbabwe government.

The end of the inclusive government presents an opportunity to recast questions around mineral resource governance in Zimbabwe and in particular diamonds. It also coincides with the lifting of E.U sanctions on Marange diamonds in October 2013. What does this all mean for resource governance in Zimbabwe? Are we going to see increased transparency in the management of diamonds? Those accused of lacking transparency have hitherto argued that opaqueness was

necessary to evade sanctions. It has also been argued that due to market restrictions Zimbabwe diamonds were selling below market value, thus earnings have been below what should.

Addressing a Parliamentary committee Monday, company chairman Robert Mhlanga said the government could have realised much more if the company's operations were not being undermined by Western sanctions... In total we have paid a total of US\$293.5 million to Government and this constitute nearly 50 percent of the gross we generate with 26 percent going to working capital while 24 percent went to the other shareholder (Reclamation)... We have challenges because you would appreciate that all buyers from the US and Europe were coming in and we were selling transparently we would have a bigger number of people coming in and higher competition and push the price up.<sup>1</sup>

Are we then with the lifting of sanctions likely to see increased revenue flowing from Marange to treasury? While ZANU-PF has won the political battle, many are unconvinced about the party's resolve and pedigree to win the economic battle? Will the need for economic recovery and the financial bankruptcy of the treasury compel the new government to increase transparency and ensure diamond revenue flow to the treasury? This of course assumes that there indeed existed barriers to Zimbabwe optimizing revenue from diamonds and that these can be removed. Are there any observable indicators so far as far as these questions are concerned?

## **Diamonds and Zimbabwe's Political economy**

Since dollarization and the formation of a coalition government in early 2009, Zimbabwe's economy has grown by 5.4% in 2009, 9.6% in 2010, 10, 6% in 2011 and estimated 4, 4% in 2012<sup>2</sup>. Recovery of the mining sector was the most impressive, growing by 47% in 2010<sup>3</sup>. From contributing 3.2% to GDP in 2008 the sector's contribution grew to 8.1% in 2009 and 9.5% in 2010. In fact, by the end of June 2012 mining was forecast to grow by 16.7%. Minerals account for 13% of national GDP and for 73% of total exports<sup>4</sup>. In 2011, 43% of total mining exports came from platinum, 28% from gold and 20% from diamonds. According to the ZCM in 2011 the sector's GDP contribution was 18, 5% if one takes into account the multiplier effect. Thus in the short to medium term, prospects for Zimbabwe's economic recovery hinged largely on the country's ability to optimise on its mineral wealth.

### **Figure 1: Pie Chart Showing Zimbabwe Export Distribution by Sector January-June 2012**

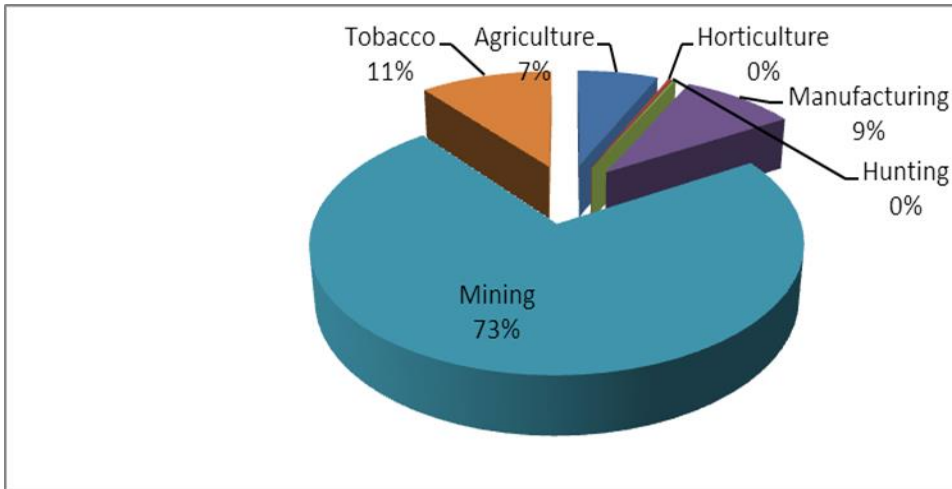
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<sup>1</sup> NewZimbabwe, 21 May 2012

<sup>2</sup> Zimbabwe Ministry of Finance, 2012

<sup>3</sup> Africa Development Bank, Zimbabwe Report, 2012, p3

<sup>4</sup> Ministry of Finance, 2012



Source: Ministry of Finance (Zimbabwe), 2012

Up until 2006, diamond production from Zimbabwe was of very little significance. Zimbabwe is now among top five global producers of rough diamond by volume, contributing 7% and 10% in 2011 and 2012 respectively. However when one looks at production by value Zimbabwe does not fit in the top five, moving to seventh in 2012. Part of this has to do with our low average selling price per carat, US\$53, 40 in 2012 compared to say Angola US\$133 or Namibia US\$553. This can be explained by a number of factors from the quality of diamonds, sanctions, market access and conditions at the time of selling and lack of beneficiation.

#### Zimbabwe Diamonds Volume and Value since 2004

Year	Volume, cts	Value, US\$
2004	4 454	7 984 189
2005	248 264	3 5018 236
2006	1 046 025	3 3853 838
2007	695 016	31 400 904
2008	797 198	43 825 426
2009	963 501	20 426 782
2010	8 435 224	339 751 797
2011	8 502 648	476 218 678
2012	12 060 163	644 033 522

But how does the diamond sector compare to other minerals in Zimbabwe?

### Distribution of Mining Output in Zimbabwe by Mineral for 2011

Mining	Contribution to Total Mining (%)	Contribution to Total Mining Output in 2010 (US\$ Millions)
Gold (kgs)	26.9	260.6
Asbestos (tons)	0.2	1.9
Coal (tons)	7.7	74.6
Nickel (tons)	9.5	92.0
Platinum (kgs)	35.6	344.9
Chrome ore (tons)	4.3	41.7
Black Granite (tons)	1.4	13.6
Palladium (kgs)	7.3	70.7
Diamonds (carats)	7.2	69.8
<b>Total</b>	<b>100</b>	<b>968.8</b>

The alleged militarization of Marange diamonds may be linked to the increased role of the country's coercive apparatus in the country's political and economic affairs from 2000 onwards. As the economy deteriorated (cumulatively by 54% from 1999 to 2008) allegation of corruption, rent seeking, elite accumulation and patronage became common. Whereas the market had been allowed to a considerable degree to determine prices, force was used to enforce prices and exchange controls to fight inflation and devaluation of the Zimbabwe currency. Mining companies were forced to surrender foreign currency earnings. Force and threat of force was used to get businesses to comply with populist redistributive policies. All this was done in the name of either empowerment or national interest for "extra-ordinary time required extra-ordinary measures". From this view, the elite and military's alleged involvement in Marange cannot be viewed in isolation – but rather a manifestation of Zimbabwe's crisis political economy. Viewed from ZANU-PF's political discourse since 2000, the management of Marange may have been guided by perceptions of national security, economic and political strategic reasons – a reason partly used to justify the opaqueness.

It is fair to note that military's involvement in commerce is not a bad thing in itself. World over, it is not uncommon for the military to invest in the economy, especially defense related industry. The development of the US tech industry for example, is often linked to the military-industrial complex. When it comes to Marange, the concern has however been around allegations of Human rights abuses by the security forces on civilian panners. It is notable that concerns and debates about human rights violations in Marange have only been raised within the prisms of Zimbabwe's status within the KP. This narrowness overlooks the fact that such violations are common in the extractive sector generally, where communities are either forcefully removed to either pave way for mining operations or keep away panners/smugglers some of whom may have been original inhabitants of the very area where the mine is now operating. It strikes the independent observer that there has hardly been an attempt to draw parallels between Marange and forced relocations in Limpopo or the Marikana tragedy for example. This has made it difficult for HR proponents to absolve themselves off the regime change accusation.

While the reported smuggling of diamonds received much attention, smuggling of minerals has in fact been more pervasive and not limited to diamonds. To be fair, it has been part and parcel of the rapid informalisation of the economy and economic politicization attending the 2000s. Due to opacity, mineral smuggling is hard to reliably quantify, but the Reserve Bank of Zimbabwe (RBZ) estimates that over 15 000 kg of gold (worth over US\$400m), diamonds worth over US\$800 million and other minerals to the tune of about US\$200 million were smuggled out of the country annually between 2002 and 2007.”<sup>5</sup> While this has been pervasive and increasing informal cross border trade, especially between Zimbabwe and South Africa, studies have suggested strong elite involvement in the form of senior senior civil servants and politicians. When compared to this broader phenomenon, the Marange diamonds represents a complex intertwining of informality and formality – or a gradual shift of the former to the later.

The allegations of human rights abuses by the security forces and smuggling led Zimbabwe to (self) suspension from the KP after a review mission had raised concerns about controls and also the alleged violations. Though Zimbabwe was allowed to conduct monitored diamond auctions, the issue of the country’s readmission was hotly contested and deeply divided the organisation. In 2011 after Zimbabwe had strengthened its internal controls, KP lifted the total ban on the sale of Marange diamonds to the chagrin of Western countries, national and international civil society groups. By 2012, the fields were being operated by the Zimbabwe government in joint ventures with Chinese and Russian companies. However allegation of opaqueness continued and the finance minister during the inclusive government always complained that money from Marange diamonds is not flowing to the treasury.

It is worrying to observe that the controversy associated with Marange continues to spill over to the new finds. For example on March 11 2013 state owned Herald’s Online edition made a critical reports about diamond finds in Bikita near the border with Mozambique. In particular it observed that;

A consortium of Chinese and Zimbabwean firms registered as Nan Jiang Africa Resources Ltd has already applied to the Ministry of Mines and Mining Development for a licence to start exploiting the gems... Government has expressed concern after the company proceeded to set up structures, among them offices and a milling plant before submitting the application... Nan Jiang Africa Resources has since started building offices and houses for its employees together with a plant and over 100 workers from Bikita and Buhera have been recruited. When The Herald visited the heavily guarded site on Thursday, heavy mining equipment such as front end loaders and monster tippers were busy scooping the ground.

## **Diamond Governance going forward**

In discussion diamond governance going forward, one needs to first identify the key issues and how these are likely to be dealt with going forward. Issues that

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<sup>5</sup> Zimbabwe Reserve Bank Governor, Gideon Gono, 2007

have bogged Marange diamond hitherto include, human rights abuses, relocation of villagers, environmental concerns (contamination of odzi dam), status within the KP, government revenue, worker issues, developmental impact, state and military involvement and policy and legal reforms.

Will it be business as usual? Having overwhelmingly won an election there are real pressures for the new government to deliver on a few key areas and revenue options are really limited. The political economy of crisis and patronage discussed above has limitations. Already, signs are that the main pillars through which this has been sustained, accumulation and patronage by dispossession i.e land and indigenization have become exhausted. Going forward, unless there is a stable and growing economy, it will become extremely difficult for the new government to sustain its social base. A debt overhang of more than US\$10 billion, more than the country' official GDP estimate, 80% of which is in accumulated arrears shows the enormity of the economic challenge. Since dollarisation the country has faced serious liquidity challenges. This is linked to a couple of factors, lack of foreign reserves support and negative current account. Despite accounting for 73% of exports and 13% of GDP, mining was contributing a meagre 3% to national bank deposits<sup>6</sup>.

During the election, several promises were made among them to increase civil servants salaries. They are expectations and teachers are already threatening to strike. Government workers are earning below the poverty datum line yet currently, recurrent expenditure makes up to 80% of government expenditure, 70% of which is in salaries. For the third quarter of 2013, the Zimbabwe Revenue Authority (ZIMRA) tax and revenue receipts fell below target. There are other financial pressures such as the need to rehabilitate public infrastructure for which US\$45 billion is required according to AFDB. Generally the social and economic indicators remain dire.

It is not surprising that the new government appears to have taken a normalization approach to its engagement with both domestic constituencies and international actors. Though prospects for democratic reforms are very dim, there seems to be a willingness to embark on economic reforms. The controversial and radical indigenization program which requires foreign companies to sell 51% stake to locals has been placed under review. A new economic blue print Zim Asset emphasizes on growth and the creation of investor friendly policies – away from the emphasis on redistribution. Already a staff mentored program with IMF has been agreed to, which according to some is worse than ESAP liberal reforms. During his parliamentary address, President RGM promised to take a hardline stance on corruption in the diamond mining sector, uncharacteristically attacking ZMDC former Chair Goodwills Masimirembwa--as the most corrupt after he-allegedly - swindled Ghanain investor of 6 million US—and instructing the police to take action.

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<sup>6</sup> Ministry of Finance, July 2012 Statement, p99

The new cabinet, in particular the appointment of Chidakwa and Nhema both seen as moderates to head ministries of mines and indigenization and empowerment could perhaps be a signal. Without doubt, the new government is looking to the mining sector to spearhead economic recovery in the short to medium term<sup>7</sup>. The new minister of mines is a former head of the Zimbabwe investment center and has been quick to emphasise the need for attracting investment and ensuring that mining contributes to the fiscus and national development overall. The new government has been holding consultative meetings with business as a way to build confidence and allay fears of extreme populist policies that ZANU-PF had gotten to be associated with. Little progress is being made to reform the country's laws with the new constitution adopted through a May referendum seen widely to have made significant democratic gains.

Though coy at first, the international community appears to be warming up to the new government. Soon after the lifting of EU sanctions on Marange, a Belgian AWDC delegation was in Harare to negotiate diamond deals. The increased access to world markets promises to increase returns from diamond – potentially 50% of gross from Mbada where government has 50% for example. While it is difficult to say with certainty if we will see increased transparency, there is real pressure for government both to optimize and be seen to be optimizing on diamond revenue.

Zimbabwe presented probably the biggest test for the Kimberley Process. KP's limitations are well known and for those interested in HR and developmental issues KP is not the instrument to do this. That state interests are too varied and complex make it difficult for the initiative to adapt to anything beyond conflict diamonds as presently defined. Marange again is cited as the best manifestation of the intersection of several geo-political-economic interests. The primary focus of stopping diamonds controlled by rebel movements might have been appealing to governments since it was meant primarily to protect them. One observer correctly points, "The problem with the definition as it now stands is that it tends to reinforce the suspicion that governments are simply protecting themselves. That is already a deep concern about the approach of African governments to human rights issues ..." AU took a position that sitting presidents must be immune to ICC prosecution, which some argue negates the concerns of victims of violence. The KP however might be useful in ensuring that internal controls are working and provides for peer to peer learning and a possibility for the standardization of diamond policy and legislation in line with best practice. One has to acknowledge that the KP members though agreeing on peer to peer learning are less receptive to the idea of uniformity.

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<sup>7</sup> In both his inauguration and opening of parliament address president Mugabe underscored the centrality of the mining sector to the government short to medium term economic recovery strategy.