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HOW CAN ZIMBABWE LEVERAGE ITS MINERAL RESOURCES FOR ECONOMIC RECOVERY AND SUSTAINABLE GROWTH.

by

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MASTER OF COMMERCE IN DEVELOPMENT THEORY AND POLICY

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DECLARATION

I, **BEAUTY ZIKITI,** hereby declare that this thesis is my own, unaided work. It is submitted in fulfilment of the requirements of the degree of Master of Commerce (Mcom) in the School of Economics and Business Sciences, Faculty of Commerce, Law and Management, University of Witwatersrand, Johannesburg. It has not been submitted before for any other degree or to any other university for degree purposes.

SIGNATURE **……**

day of 31 March, 2015

ABSTRACT

Zimbabwe's mineral sector has been the major contributor of the national economy's Gross Domestic Product (GDP) since the economic meltdown post land reform programme. The scale of the crisis resulted in the adoption of the multicurrency system in 2009. In an attempt to save the economy from total collapse the government has turned to the mining sector to establish linkages through mineral beneficiation. This study has analysed whether the creation of linkages in the mineral sector, through beneficiation and value addition, could resuscitate the economy. Literature on natural resources shows that countries that are resource-rich experience slow growth rates than resource-poor countries. The study found that mineral resource dependency could be a platform or foundation for economic growth and developmental opportunities through linkages creation in the mineral sector. However, resource-based development strategy is a challenging development path that needs a strong state with vested capacity to actively direct and co-ordinate economic transformation through deepening of the resource sector. Political tensions in Zimbabwe are the overriding obstacles to economic linkages creation in the mining sector and across other sectors. It is therefore, imperative to understand the socio-economic and political dynamics and interactions that influence and shape policy decisions, implementation and their outcomes in order for Zimbabwe to optimise economic linkages and revive its economy.

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ABBREVIATIONS AND ACRONYMS

AMV	African Mining Vision
ANC	African National Congress (SA)
COMZ	Chamber of Mines of Zimbabwe
CSOTs	Community Share Ownership Trusts
CSR	Corporate Social Responsibility
ESOTs	Employee Share Ownership Trusts
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IEEP	Indigenisation and Economic Empowerment Policy
IMF	International Monetary Fund
IMR	Institute of Mining Research
KPCS	Kimberly Process Certificate Schemes
MDC	Movement for Democratic Change
MMCZ	Minerals Marketing Corporation of Zimbabwe
NMWUZ	National Mines Workers Union of Zimbabwe
OECD	Organisation for Economic Cooperation and Development
PACK	Protect All Children Today
PGMs	Platinum Group Metals
R&D	Research and Development
ROI	Returns on Investment
RRT	Resource Rents Tax
SWF	Sovereign Wealth Fund
US	United States
WB	World Bank
ZANU-PF	Zimbabwe African National Union- Patriotic Front
ZimAsset	Zimbabwe's Agenda for Sustainable Socio-Economic Transformation
ZIMASCO	Zimbabwe Mining and Smelting Company
ZIMRA	Zimbabwe Revenue Authority
ZISCO	Zimbabwe Iron and Steel Company
ZMDC	Zimbabwe Mining Development Corporation
ZELA	Zimbabwe Environmental Law Association

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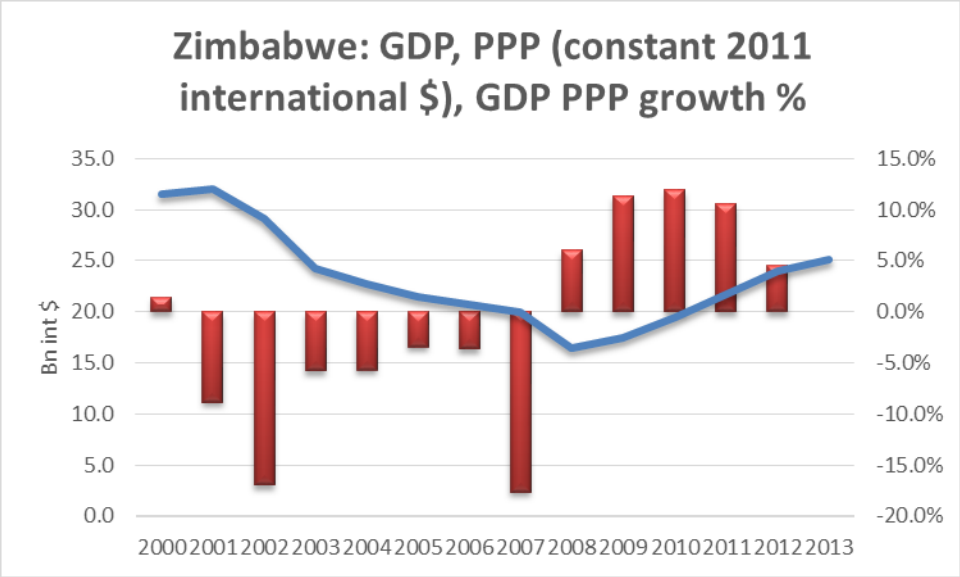
Chapter 1. Introduction

1.1. Background Context

Zimbabwe is endowed with abundant mineral resources (African Development Bank Group, 2013), and like most Sub-Saharan African countries, it is dependent on primary production for exports and economic growth (Chamber of Mines, 2009). Throughout the country's history, mining activities have been practiced including artisanal mining in gold. However, some of the vast minerals are not fully exploited due to lack of infrastructure and capital (Chamber of mines, 2013). The economic deterioration of Zimbabwe started in the early 2000 with the land redistribution process. The Land reform program presented enormous challenges as well as opportunities to the country's leadership. One of the challenges was dealing with the rapid economic decline, which manifested in skyrocketing inflation rate.

The country also started to lose comparative advantage in the agricultural sector due to chaotic land grabs and invasions mostly by war veterans that affected the country's commercial farming sector. The land reform programme also resulted in unintended economic and political consequences (the rapid raise of the opposition party, Movement for Democratic Change (MDC) that attempted to muscle the ruling party, the Zimbabwe National African Union-Patriotic Front (ZANU-PF) out of power, ultimately leading to the formation of an inclusive government in 2008 (Kisiangani, 2009). The disruptions in industries and agricultural production resulted in significantly lower receipts from exports, the shutting down of industries and unemployment. The spiral of economic contraction resulted in decreased revenues and a lack of real money circulating in the economy and overall macroeconomic instability, ultimately forcing the economy to adopt a multicurrency system (Chamber of Mines, 2013). This policy response as well as loans and mineral revenues from China managed to turn the economy around as shown in figure 1 below.

Figure 1. Zimbabwe GDP Growth



Source: WB data online 2015.

However, despite the "look East' policy, the mounting economic problems and political tensions that followed the land redistribution programmme proved difficult for the Zimbabwean government to completely revive its agriculture although some pockets of success start to emerge (Hanlon, Manjengwa & Smart, 2013). Against this background, this study analyses how the mineral sector can become the cornerstone for an economic turnaround in Zimbabwe.

Literature on mineral resource abundance and economic development points to the resource 'curse' associated with mineral dependency that causes negative correlation between mineral dependency and economic GDP growth rates in commodity-dependent countries. (Sachs & Warmer, 1995), However, other studies have challenged this conclusion by Sachs and Warmer contending that natural resource can be a 'blessing' as the development experience of other countries (United State, Sweden and Finland) show. Commodity dependency was an anchor to industrial development in these economies. (Campbell, 2010) (Collier & Goderis, 2007), (Rosser, 2006). While this study focuses on mineral resource it excludes oil and gas, which are beyond the limited scope of the study. Growing research on mineral resources and economic growth across mineral-rich countries has led to new ideas and perspectives for harnessing mineral the resources towards sustainable growth.

(Campbell, 2010), (Commission of Africa, 2003). The thesis statement for this study is that the beneficiation of mineral resources in Zimbabwe can resuscitate the economy because mineral resources play a transformational role of creating linkages and diversification. Properly and sustainably extracted, resources can be the backbone of economic growth and development.

1.2. Brief Introduction of Zimbabwe's Mineral Sector.

Zimbabwe has a diverse mining sector with more than forty different minerals (Mhembere, 2009), and with the increasing demand for primary mineral commodities in the open-integrated world economy, mineral export revenues have remained a larger share of GDP. The mining sector contributes a significant share of (GDP) to the economy although the agriculture sector remains the major contributor since independence in 1980 up until the early 2000s (Hawkins, 2009). Given the decline in the agriculture production and the on-going fiscal problems, the government now seeks to optimise the minerals sector in order to revive the economy. This policy shift has coincided with, and is spurred by the discovery of diamond deposits in Marange in 2006 and in other parts of the country (Sibanda & Makore, 2013) and the development of the Platinum Group Metals (PGMs) resources (from 2002). In 2011, Zimbabwe's mineral output amounted to about 7% of the world's diamond production (by volume), 5% of the world's platinum production, and about 4% of the world's palladium output (Chamber of Mines of Zimbabwe).

Recently, a plethora of policy instruments have been developed to regulate the mining industry in a bid to stimulate economic growth and recovery as well as redress historical injustices of the colonial era that excluded blacks from mainstream economy (Chamber of Mines: 2009). These include the Minerals Development Policy developed in 2013, the Diamond Policy Act adopted in 2012, the Mines and Minerals Amendment Bill of 2010, the Indigenisation and Economic Empowerment Act adopted in 2008 and the Sovereign Wealth Act, that provides for the establishment of a Sovereign Wealth Fund (SWF) among others. Theoretically, the Draft Minerals Development Policy addresses the major issues to be tackled by various government ministries. These include sound structures of rents capture or taxation system, redeployment of these rents, the creation of a sovereign wealth fund, a community

fund, and the creation of government institutions that are responsible for investment in the mining sector.

This policy will replace the old colonial mineral policy framed in the Mines and Mineral Act that was enacted in 1961 (Dhliwayo, 2014). The Mines and Minerals Act is now out-dated and disempowering as it was biased towards a small privileged settler population ("claims" system). The draft policy is an acknowledgement that the colonial policy had outlived its purposes and now is time to put more emphasis on reinvestment or deployment of the resource rents into the economy. The draft also aims to promote the expansion and integration of large and small sectors through linkages to sustain domestic production. The Indigenisation and Economic Empowerment Act [Chapter 14:33] deals mainly with the issue of mining rights while enabling increased local participation as all foreign companies should cede 51% of equity to indigenous Zimbabweans (Chamber of Mines, 2009). Locally, the policy framework is regarded as a progressive economic development instrument, but internationally it has been received with mixed reactions. Capital interests look at it as expropriation and in violation of international investment protection regimes. In principle, the policy aims to redress historical injustices and empower historically disadvantaged local investors to participate in the mainstream economy. The problem with this policy lies in its implementation as elaborated in Chapter 5.

The new thinking in transforming the mining industry is also reflected in the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset) (2013-2018). This crucial policy blueprint was developed in 2013 by government and it emphasises beneficiation and value addition not only for higher returns but also as a strategy to promote industrialisation and economic growth. ZimAsset is paramount to the mining industry as it highlights that the debate in the resource extraction sector is moving beyond export revenues to beneficiation and value addition (Chamber of Mines, 2013). These policy instruments are a step further towards economic recovery, but what is uncertain is whether there are sufficient policy strategies and capital to promote effective implementation. Thus, the policy reforms have not yet stimulated significant mining-led development. Implementation is key to reviving investment and growth in the minerals sector, especially in the current political milieu in the country.

Persisting political unpredictability and policy uncertainty in Zimbabwe are likely to hinder the successful establishment of the aforementioned economic linkages. Relative political instability and economic decline that started with the land reform program in the early 2000 have resulted in policy inconsistencies and weak legal and institutional frameworks that have reduced investor confidence in the mining sector (Hawkins, 2009), (Sibanda & Makore, 2013). The so-called "smart sanctions" or trade sanctions imposed by the West, in particular, the United States (US) and the European Union (EU) on Zimbabwe have fuelled the political and economic problems as the country cannot borrow from, or trade with the West.

This study unpacks the potential for Zimbabwe's mineral endowment to catalyse sustainable economic recovery and growth by creating economic linkages (upstream, downstream, spatial, fiscal and knowledge) in the mineral resource sector. The study looks at some key mineral resources, which include platinum group metals (PGMs), iron ore, coal, chromium, nickel, steel, copper, gold, and diamonds. Diversification in minerals makes economic sense rather than relying solely on a single commodity. Wright and Czelusta (2003) note that "excessive reliance on a single commodity for export earnings is unwise, especially if the market in question is volatile and if it provides the major source of government revenues..." Hence this study focuses on different mineral resources.

1.3 Research Problem / Problem Statement

This study critically analyses whether the establishment of mineral-based linkages in mining sector can contribute to economic recovery in Zimbabwe. Following the steady decline in agriculture production, partly due to the land reform program of 2000 to 2010, mineral extraction has become a focus for economic growth. Currently mining has replaced agriculture as the major contributor to the country's GDP through export revenues and taxes such as royalties and corporate tax. In order for Zimbabwe to successfully revive its economy, once the breadbasket of Southern Africa, the government must leverage its mineral extraction sector so that it becomes a platform for broader economic growth.

The current political climate, energy constraints and fiscal problems in Zimbabwe pose a major threat to the optimisation of the mineral sector to achieve economic recovery. Failure to transform and create economic linkages with the mining sector will imply that economic recovery will not be met. Studies have shown that resource rich countries, particularly in Africa, have been associated with low economic growth levels and development due to the resource curse thesis, corruption, and rent-seeking behaviour. (Collier & Goderis, 2007) (Rosser, 2006). Although the resource curse thesis associated with mineral rich countries has been widely documented, there is limited research on how to optimise the mineral sector in order to address or minimise the resource curse problem and achieve economic development. Recent literature (such as (Smillie, 2009), (Hawkins, 2009) and other Non-Governmental Organisations (NGO)) has focused on the issue of government transparency and accountability on rents capture without necessarily nailing or providing possible solutions for the country to benefit from mining extraction and use the sector as a base load growth tool for economic recovery.

1.3. Research Question

The key question in this research is: how can Zimbabwe leverage its mineral resources for sustainable economic recovery and growth?

1.3.1 Sub-Questions

a) What is the relationship between mineral resources and economic growth?
b) How does the minerals sector offer opportunities for upstream, downstream and side-stream industrialisation (economic linkages including beneficiation)?
c) How does the problem of political economy affect the growth of the mining sector in Zimbabwe?

1.4. Rationale or Significance of the study

There has been limited research in Zimbabwe on how the minerals sector can be leveraged as a launchpad for sustainable economic growth and broader development so that these extractive resources can be converted into other forms of capital that move the country into other development activities. The revived intellectual interest in

mining activities, around beneficiation in Africa, juxtaposed with a persistent economic decline in Zimbabwe underscores the significance of this study. The study contributes to the existing literature on minerals extraction and economic development.

1.6. Research Aims and Objectives

The purpose of this study is to explain and understand how mineral resource extraction can be optimised for the recovery and growth of the Zimbabwean economy. The main objective is to critically analyse the challenges and opportunities of resource extraction, and suggest alternative pathways to incentivise economic linkages. The study contributes to the knowledge gap in the literature on mineral resources (debate on resource curse and economic growth) and more importantly, to the national debate on the alternative paths available for Zimbabwe's economic recovery. The target audience of this research are academics, government policy makers, students and other mining stakeholders.

1.7 Research Methodology

This research employed a qualitative-analytical approach of semi- structured interviews to address the research question. Qualitative research methodology refers to research that relies on descriptive data. This approach is mostly interpretive rather than scientific. According to Schwandt (2001), qualitative researchers seek meaning of human action. The qualitative methodology approach was preferred because it allows one to investigate the 'how and why' questions in decision-making which allows for in-depth analysis. Although this approach is limited by subjectivity, it is also theoretically generalizable.

1.8. Data collection instruments

The data collection methods used to carry out the study are semi-structured interviews for gathering primary data and desktop data analysis. The in-depth semi-structured interviews were conducted with government officials, government policy makers, and academic experts in the mining and mineral resources field. The research used semi-structured interviews, which are significant tools for getting factual data and valuable information from the context of participants' experiences, and to allow respondents to

express their knowledge and insights in their own frameworks. Structured interviews and observations for instance were not chosen as they are limited in terms of getting more information. Observations only provide the meaning but do not explain why the situation or the economic status is like that for example. Thus, observations often paint a picture that is based on subjectivity. While quantitative methodology is seen as objective, is does not adequately address the why question. In addition, the use of mathematics and statistical numbers in quantitative methodology can be bias if the figures are not carefully disaggregated.

Government ministries and civil society organisations that were contacted for interviews (data collection) are as follows: the Chamber of Mines of Zimbabwe (COMZ), the Ministry of Mines and Mining Development, the Zimbabwe Mining Development Corporation (ZMDC), Zimbabwe Revenue Authority (ZIMRA), the Economic Policy Analysis and Research Unit (ZEPARU), the Institute of Mining Research (IMR), Protect All Children Today (PACT), Zimbabwe Environmental Law Association (ZELA), the National Mines Workers Union of Zimbabwe (NMWUZ).

The research also used other primary data that has been already collected. This primary data was accessed from government policy and statistical documents and other relevant institutions. The study also made use of secondary data such as books, scholarly journals, articles, and online sources to interpret, critic and supplement primary data. Secondary data is necessary for this study as it help to provide analytical views, explanation and understanding of the debate around resource led economic development and resource curse thesis particularly in Africa. Secondary data analysis also helps remedy bias from interview participants.

This study employed a qualitative analysis approach in order to gain insights of how to leverage the mineral sector for economic recovery and to acquire a critical understanding of the political economy of resource based economic growth and development. A number of official government documents including budget statements will be analysed to establish the production and revenues changes in the mining sector. The UN country development reports, World Bank reports and the statements from the treasury were also analysed to produce a research report that addressed also the political dimensions of establishing mineral – based linkages rather

than showing the economic technical aspects only. The research outline is discussed below.

1.9. Outline of the study

Chapter 2 of this study analyses the literature on mineral resource dependence and slow economic growth (resource curse thesis). The chapter start by discussing the neo-classical perspective of resource curse in mineral rich countries. It will then proceeds to question the neo-classical analysis of natural resource dependence and slow growth In this regard, it identifies the gaps in the literature. Chapter 3 discusses the linkages theory from a political economy perspective. It analyses the rational for beneficiating the mineral resources and the role of the state in promoting beneficiation and diversification. In chapter 4 the study looks at policy space for beneficiation of mineral resources in Zimbabwe by analysing some of the policy initiatives adopted by the government. The chapter the goes on to analyse the political economy dynamics surrounding the linkages creation in mining industry and its effect on policy outcomes. Chapter 5 starts by providing an overview of Zimbabwe's mining sector. This follows an analysis and discussion of upstream, downstream, side-stream linkages. It provides a conclusion from the insights gathered from the semi-interviews. Chapter 6 summarises the findings of the study by tying together the theoretical and empirical strands of the study and provides a conclusion.

Chapter 2. Literature Review and Theoretical Context

2.1. Theoretical and analytical framework

The theoretical framework underpinning this study is that mineral resources can be a 'blessing' and can steer economic development and sustainable growth by creating linkages with other productive sectors, mainly the industrial and infrastructure sectors. The resource curse theory has an incredibly wide credence among neo-classical theorists, but the empirical evidence shown that there is no resource curse but rather, a capitalist crisis. Fine (2008) posits that capitalism is inherently unstable and therefore it needs constant monitoring. Modern industrial capitalism has produced exploitative structural economic relationships mainly between the resource-rich countries and the global mining companies that are driven by profit maximisation (Di John, 2011) (Barma, et al, 2010). Fine (1997) argues that the resource curse theory is "an ideological fix that seek to avert the crisis of legitimacy faced by capitalist development that is driven and pioneered by predatory MNCs and foreign investors". Multinational companies constrain the autonomy of the state to purse their desired development path.

The acknowledged importance of mineral extraction as a catalyst to economic development in Zimbabwe and the potential of the mining sector to foster development linkages, confirm the significance of this study. The research engages in both the neo-classical mainstream and political economy approaches to mineral-based development. The mainstream economic literature provides a theoretical analysis around the debate of the resource curse, the Dutch Disease, weak institutions, corruption, state capacity, and rent seeking behaviour. This literature review starts by analysing critically the debate on resource-dependency and economic stagnation from both neoclassical economic and political economy perspective. This is important in unpacking the resource curse thesis. This follows an evaluation of the contemporary literature on mineral led development through backward and forward linkages. Thus, the purpose of the literature review is to provide a comprehensive understanding and critique of the debates around mineral led development, in order to present more applicable solutions to escape the curse. This literature review contributes to building

an analytical policy capacity to challenge the conventional wisdom of the resource curse in resource-rich economies.

2.2. The neo-classical perspective: resource curse theory

The history of resource dependency and structural change is rooted in the discovery of gas and how this affected industrial structure of the Netherlands and later the north sea oil and the United Kingdom. It is argued that these countries experienced economic stagnation especially in manufacturing sectors due to the resource booms that strengthened their domestic currency. This came to be known as 'Dutch Disease' whereby an appreciation of local currency due to resource boom undermined the productivity performance of traded sector as labour and capital is shifted to the mineral sector (Arezki &Van der Ploeg, 2007), (Di John, 2011), (Jourdan, 2012).

The neo-classical theory assumes that resource-rich countries are unable to harness the wealth to boost economic growth since mining-led development is constrained by the Dutch disease, global price shocks in commodity markets, rent seeking behaviour, weak and corrupt government institutions, among other factors (Van der Ploeg, 2007). Mainstream theorists who viewed government intervention in the economy as bad for economic development also supported the resource curse theory. State interventions are seen as leading to price distortions, corruption and rent seeking behaviour (economic rents for the privileged few), which ultimately result in market disequilibrium (Smith, 2004).

According to the neoclassical theorists, a viable way to abolish corruption and rent seeking behaviour for achieving rapid economic development was to roll back the state (Rapley, 2002; Fine, 1997). The state was to be replaced by functioning institutions. The establishment of institutions (both political and economic institutions) is seen as purposive as these institutions are supposed to be efficient-maximising structures. The neoclassical theorists thus, overlook the problem of information asymmetries and inefficiencies inherent in some institutions. The idea that the state was distracting market operations were strengthened by the introduction of structural adjustment policies but the model however came with its own shortfalls (Rapley, 2002).

Literature on resource-based economic development dwells much on the idea that mineral activity or commodity production is an unsustainable short-term growth due to the inherently finite nature of the mineral activity (Di John, 2011) (Rosser, 2006). The main point on resource dependency literature is that natural resources are cursed hence governments especially in developing countries should exercise caution. Thus, since the mining industry is generally seen as an enclave sector that is capital intensive (of imported machinery and equipment) resulting in less division of labour, the creation of linkages with other sectors (such as manufacturing) becomes crucial. There is evidence to support that the manufacturing sector creates more backward and forward linkages than the primary sector. Sachs and Warner (1995) argue that more economic resources should be channelled towards the manufacturing sector since it is associated with learning-by-doing effects relative to primary sectors such as mining and agriculture

The neo-classical theorists further assert that resource dependency or resource abundant economies experience poor growth performance due to corruption and weak institutions mostly in developing countries such as Latin American and African countries (Lane & Tornell, (1996) as cited in Arezki & Van der Ploeg, 2007, Di John, 2011, Barma et al, 2012). They also argue that resource abundant economies are further susceptible to rent-seeking since the concentration of mineral wealth in either the private or public sector is in the hands of the few elites (small number of players). Therefore, it is argued that such high concentration of wealth or resource rents distract government attention away from long-term economic development goals towards rent seeking (Smith, 2004). However, Marxist theorist Paul Baran contributed to the debate by arguing that most poor countries with slow growth rates were dominated by local elites whose interests are not in line with national developmental goals but with those of the multinational companies (Di John, 2011). This can be seen in instances where the business elites and foreign multinationals favour certain policies, such as protectionist economic measures, capital flow deregulations or overvaluation of the local currency that function to maintain their dominant positions at the expense of society as a whole (Rosser, 2006).

Thus, Vatansever and Gillies (2009,15) provide a nice quote:

> *"Despite the primacy of the state, all power does not rest with government officials and institutions. Rather, the ruling elite comprise individuals and groups both within and outside government who together assert a monopolistic control of wealth. In particular, a "class of rent-seeking pseudo-entrepreneurs" enjoys an umbilical relationship with the state. These business elites are intertwined in the state capture of resource rents and prove to be entrenched obstacles in the face of transformative measures. Together with this rent-seeking dynamic between political and economic elites, the intrusion of the state in the economy—as a result of its control over natural resource sector activities—blurs the distinction between public and private". (Vatansever & Gillies, 2009:15 as cited by Barma et al, 2012: 49).*

Vatansever & Gillies, 2009 shed light on the overall debate on mineral extraction and mining-led development. The issue of rents capture must be analysed in detail as studies on mining activities have merely focused on corruption and rent-seeking behaviour by states and government officials while turning a blind eye on the operations of private business elites and multinational corporations.

2.3. Questioning the resource curse model from a political economy perspective

Some neoclassical theorists argue that natural resource abundance in general and oil wealth in particular is positively associated with slow economic development cross-nationally. However, resource abundance may have both negative and positive effects in different environments, but this effect cannot be generalized across space and time (Smith and Kraus 2005; Dunning 2008). Dependency and structuralists theorists are well known opponents of natural resource export specialisation who argued that primary products were subject to declining terms of trade between the prices of commodities and those of manufactures (Prebisch & Singer, (1950) as cited in Kaplinsky, 2011:6). Dependency theorists also argued against commodities exports because of price volatility of raw materials (Di John, 2011:167). (Kaplinsky, 2011).

Dependency theorists further posit that the domination of foreign multinational in natural resources extraction (particularly in developing countries) undermine mineral led development and growth efforts due to profit expatriation. The argument is that multinational investors have no incentive to reinvest their profits in the extractive country or in promoting national development goals of these economies since they are

merely profit driven (Di John, 2011) (Barma, et al, 2010). It is argued further by dependency theorists that resource abundance has compelled developing countries into the global capitalist system as the developed countries and MNCs scramble for access to their resources for their own economic development and capital accumulation respectively (Rosser, 2006:19.) This view is also shared by Amin, (2014) who argues that the integration of the developing countries into the global capitalist system is merely to maintain their current economic position, (commodity export-oriented economies) as suppliers of raw materials to the developed countries. Amin's argument is that economic integration is important but the question that needs to be raised is not "to which degree the various regions are integrated, but in which way they are integrated" (Amin, 2014:29).

Thus, the debate on resource dependency and resource curse poses serious policy and intellectual challenge. Although there are acknowledgements that resource curse theory undermines the pace of economic growth and development, there are serious disagreements on how to remedy the problem. Indeed it is not strategic to say that the solution to the resource curse problem is simply to ignore these natural endowments when most of African economies have a comparative advantage in mineral resources (Deaton, 1999 as cited in Lorentzen, 2006). Various studies establish the relationship between mineral resource abundance and levels of economic development, and they show that resource endowment is not always a 'curse' but can be a 'blessing' (Arezki and Van der Ploeg, 2007), (Collier & Goderis, 2007). Although Campbell, (2010) asserts that the curse has been in the poor management of the exploitation of the resources, bad policies, corruption, lack of revenue transparency and leakages; Di John, (2011) and Gylfason, 2001 as cited in Lorentzen, (2006:3) put it another way. They suggest that poor growth performance is not explained by relative abundance of natural resources but by what a country does with it.

2.4.Gaps in the literature / theoretical gaps

First, the resource curse theory lacks a strong analysis of the underlying political and socio-economic factors that result in slow economic growth across countries due to historical consequences. Second, the theory does not stand the test of time, in which globalisation and economic integration have shaped the nature of international trade

and economic development, wrought by MNCs that are increasingly becoming powerful both economically and politically (Nkrumah, 1965), (Amin, 2014). Third, the resource curse theory emphasises that slow growth rates in mineral-rich countries are due to mineral price fluctuations (during boom and bust periods) while overlooking other important factors that causes fiscal instability such as high interests payments on foreign debts, trade sanctions and short-term capital flows. (Desker et al, 2008).

In addition, existing literature on mineral abundance and resource curse does not adequately address questions of how to manipulate state institutions towards resource-based development (Rosser, 2006), (Campbell, 2010). The creation of production linkages through coordination and collaboration of industrial policies cannot be overemphasised. In this context, this study fills the important gap in literature in how the state intervenes using industrial policy, state capacity and political incentives for actors to commit to national vision of aligning mineral policies with long-term economic development goals.

2.5. Conclusion

Be that as it may, it is clear that the process of achieving growth and economic development is dynamic and complex and it also involves prioritising which sectors to develop first that have higher linkages, with the strategic implementation of an industrial policy. The idea of resource-based strategy in Zimbabwe should be informed by the linkages theory. The mineral sector is important because it is a higher linkage sector that can be optimised to achieve economic recovery and sustainable growth. Unlike the neoclassical approach that focuses on fundamentals across the entire economy, the linkages theory acknowledges that growth is uneven or unbalanced and thus involves making priorities to meet specific developmental goals.

Chapter 3. The political economy perspective for leveraging the mineral sector

Introduction

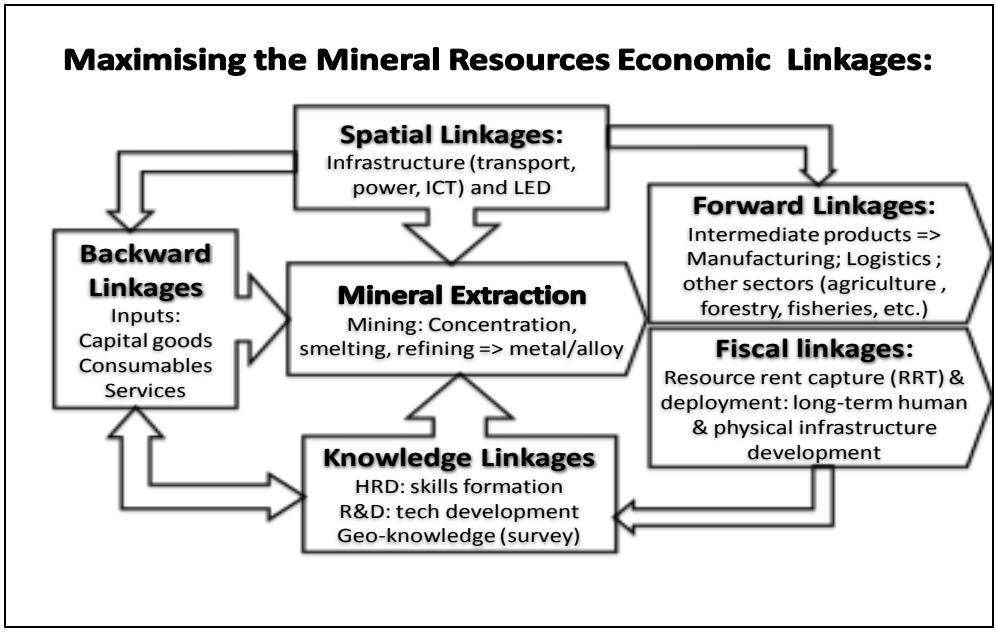
While the above accounts on resource abundance and the Dutch disease offer plausible explanations to slow economic development in resource-rich countries, neither alone provides a satisfactory account of the entrenchment of natural resource dependence in developing countries. The literature overlooks the importance of different political, economic, and institutional legacies in colonised developing countries in general and Africa in particular that explain their slow rate of economic development. This study moves beyond the resource curse literature that emphasise anti-corruption, abolishment of rent-seeking behaviour, good governance, and institutional reforms (Collier, (2008). Mineral resource abundance interacts with several salient structural and institutional factors in shaping actors' incentives, entailing different policy choices that ultimately produce different economic outcomes in Zimbabwe. The following sections of this chapter provide an analysis of linkages creation in the mineral sector from a political economy perspective.

3.1. The linkages theory

This literature review on linkages provides an analysis to debunk the resource curse theory by arguing that the establishment of economic linkages are key to long-term economic diversification and development. This linkages theory provides an understanding of the necessary conditions under which resource-based development (and resource-abundant countries) eludes the curse. The idea of linkages was first coined by Albert Hirschman who identified three different types of linkages, which are: fiscal, consumptive, and production linkages (Morris, Kaplinsky & Kaplan, 2012). According to Hirschman, fiscal linkages consist of resource rents from taxes and royalties, consumption linkages refer to the demand for the products from other sectors due to income rise in the commodities sector; and production linkages, which consist of forward and backward linkages (Jourdan, 2012), (Morris, Kaplinsky & Kaplan, 2012). The African Union in 2009 also adopted "The African Mining Vision" (AMV) that asserts the strategic mineral development and broad-based growth

facilitated by the creation of economic linkages. The AMV places mining in the context of broader development plans by emphasising the integration of mineral policy into development policy not only at local levels but also at national and regional levels (UNECA, 2011:113). The document also alludes to the importance of beneficiation and value addition of mineral resources to reach industrialisation stage that ultimately leads to sustainable growth. Figure. 2 below shows the economic linkages.

Figure 2. Establishing the resource linkages.



Source: Jourdan, 2012.

The figure above shows the five types of linkages that can be created in the mineral sector. Jourdan (2012), extending on the work of Hirschman (1981) observed that horizontal or side-stream linkages namely, knowledge and spatial are critical for insuring the development of other sectors and establishing cross-sector linkages that support economic diversification. Thus, side-stream linkages can be understood as support structures and industries that lay the foundation for the effectiveness and competitiveness of the mining industry. The following section looks at the composition of the aforementioned types of linkages.

I. Fiscal linkages – includes rents capture through Resource Rents Tax (RRT). These rents could be either direct (RRT, corporate tax) or indirect tax (royalties, export tax, etc) (UNECA & AU, 2011). The resource rents can be used to promote industrial development in other sectors, that is reinvestment in domestic production and physical infrastructure development but can also be invested in funds such as Sovereign Wealth Fund (SWF).

II. Backward/Upstream linkages – include the supply sector or inputs sector that feed into the mineral sector such as mining capital goods, consumables and service industries. (UNECA & AU, 2011), (Jourdan, 2012).

III. Forward/Downstream linkages – includes mineral value addition in industries (beneficiation) through processing and refining, and even using minerals as inputs for local industries.

IV. Knowledge linkages – consists of the development of human capital (for example, engineers, geologists) and technology development through Research & Development (R&D), universities and technical institutions. (Jourdan, 2012).

V. Spatial linkages – include transport (roads, rail), water and energy infrastructure. It is argued that the mining sector depends and facilitates massive infrastructural systems that are significant for the development of other sectors such as agriculture and forestry (Jourdan, 2012), (UNECA & AU, 2011).

The interplay and the articulation of these various linkages will promote and support productive capacities that are significant for long-term economic growth and recovery.

3.2. Building Linkages and promoting diversification

According to Humphreys, Sachs and Stiglitz, (2007), natural resource wealth is 'enclaved' wealth because firstly, "the generation of natural resource wealth can occur

quite independently of other economic processes that take place in a country; … [Secondly], … natural resources … are non-renewable. …they are thus less like a source of income and more like an asset". (Humphreys, Sachs, and Stiglitz, (2007:4).

The fact that natural resources are extracted, which is not a result of 'production process' *per se* means that there are less economic linkages with other productive sectors. Because of this unique nature of natural resources this study finds it necessary to analyse the idea of linkages creation to ensure that the economy continues to function when the resources are exhausted.

3.2.1. Beneficiation and value addition of the mineral resources

Despite the diversity of the mineral resource base in Zimbabwe, the contribution of the sector to broad-based economic development is limited by lack of downstream linkages and the value addition of mineral resources. Beneficiation is a downstream process of transforming raw minerals to a higher value semi-finished or finished product which can be exported or consumed locally (SIMS report, 2012). Value addition involves the process of enhancing the quality of the product. In general, beneficiation and value addition not only increase and stabilize the export value of mineral commodities, but also have a positive multiplier effect on the macro-economy.

This happens through employment creation, knowledge and capacity building in both upstream and downstream industries, industrialization and diversification of the economy (UNECA, 2011), (Jourdan, 2012). Beneficiation is also critical in developing downwards linkages promoted by comparative advantage. The articulation of mining licence to include different beneficiation and value addition targets is evidence that countries are serious about creating linkages in the extractive industries as well as ensuring that the operations of private mining companies are aligned to national development interests. (UNECA, 2011). Horizontal linkages transform the process of production by linking up the mineral sector in facilitating the build-up of sound infrastructure and energy supply which are the pillars to long term economic development (Toledano et al, 2014), (UNECA, 2011). Zimbabwe must create effective linkages so that the minerals extracted become feedstocks to the production

sectors like agriculture and the manufacturing. These linkages can be created through an industrial policy for the mining industry that is designed to suit the context, expectations, and capabilities of the country (UNECA, 2011).

Beneficiation and value addition of minerals can also be analysed from the Global Value Chains (GVC) framework. The concept of GVC is tied to the World Bank discourse of export-led growth literature on the East Asian Miracle. The concept is premised on upgrading of the product by firms to improve technological efficiency and the quality of the final product. Thus, the GVC framework aims to upgrade product development throughout inter-sectoral upgrading and to improve access to global markets through design, marketing and branding of the product (Kaplinsky, (2010). The insertion of GVC into product development allows for the process of beneficiation and value addition to take place in mining industry and in other sectors. However, global value chains do not always result in upgrading. Multinational companies with economic power have no incentive to transfer upgrading skills to their supplier thereby restricting them from accessing global markets. The OECD (2014) report also noted that small developing countries face the challenge of 'being locked in into low value-added stages of GVCs' and 'foreign investors operating in isolation with only limited spill overs to the domestic economy.' Therefore, the important take away from the GVC analysis in connection with beneficiation and value addition is to place more emphasise on firms' participation in national and regional value chains to establish strong trade linkages and structure before they enter global markets (OECD, 2014).

3.3. Industrial policy: The role of the state

Industrial policy is a national strategy to reform the industrial structure of the country for achieving national developmental objectives and it is aligned with the country's trade policy (Chang, 1998). Chang (1994: 60) defines industrial policy as policy aimed at specific industries to achieve positive performance and outcomes that are perceived as efficient by the state. Industrial policy clearly defines the role of the state that is beyond the facilitatory role to redistribute resources, giving fiscal incentives, setting targets and implementing coordinated policy measures (Chang, 1994). The literature on industrial policy identifies three categories of industrial policies: vertical

policies that target specific sectors, horizontal policies that influence each industry and structural policies which aim to promote a structural change in the economic activity (Fine, 1997).

The rational behind industrial policy is that markets alone cannot address the developmental needs and economic gaps within a nation hence the need for the state to play a facilitatory role in stimulating economic growth as argued by Amsden, (1994) in her studies of the East Asian economies. She contends that "market forces cannot be relied upon to discipline business to act efficiently" (as cited by Tan Kock, in Fitzgerald, 1995:38). The argument is that, the state and market are intertwined; the markets provide natural economic incentives (that are arguably based on competitiveness), while the state will set the playing field, give incentives and provide regulatory frameworks through various forms of industrial policy. However, Evans (2012) argues that such a state should have an 'embedded autonomy' to successfully stimulate economic growth through industrial transformation and not to be manipulated by powerful rent-seeking elites. By 'embedded autonomy', he refers to the structure of the state and its relationship with the society. In addition, the implementation of the industrial policy is also important in optimising the mineral sector. This requires strategic policy coherence with other economic sectors and coordination of various departments and key institutions to effectively establish linkages and economic diversification.

Mainstream neo-liberal economists view industrial policy as an undesirable policy option because of government interference in the economy. They argue that government intervention of 'picking the industrial winners' does not guarantee industrial success since there is no substantive criteria that determine which industries are more competitive than others. They contend that the role of the government should be limited to the establishment of laws and regulation for market operations to effectively take place. Active government intervention is seen as disruptive leading to inefficiency in resource allocation and disequilibrium prices (Chang, (1994). There is also a general view that foreign investors, like donors as well as international organisations such as the World Bank and the International Monetary Fund (IMF) are ideologically opposed to the idea of economic linkages formation as these fall under industrial policy and government intervention which therefore distort market oriented

macroeconomic frameworks. Buur et al. (2013) therefore observed that "it is a characteristic of the World Bank's approach that the linkage issue is not given much attention in its advice and recommendations, possibly due to its aversion to industrial policy".

The debate on industrial policy is also controversial with different authors rhetorically emphasising different strands on how industrial policy should be articulated. Lin (2011b) narrows industrial policy by arguing that it should be aligned with the comparative advantage and current endowment of a country. Chang (2003) contend that industrial policy should be selective. A selective intervention strategy of industrial policy is important but the question remains whether the government is capable of 'picking winners', or do these selected sectors guarantee economic growth and development (Fine & Rustomjee, 1998:253). The debate on industrial policy has also been tied to the literature on developmental state that emphasises the political legitimacy and capacity of the state to actively intervene in directing the economy (Fine, 2010b) (Lin, 2011b). The major critic coming from the debate is that industrial policy has been used to fix what is already there and not necessarily to transform the structure of the economy. Cassim, (2006) and Fine, (2010b) argue that the use of industrial policy has not provided a break away from original capitalist economic structure. Rather, it has to some extend strengthened and perpetuated the existing colonial structure of most industries like mining, manufacturing and financial sectors. In South Africa for example, Cassim, (2006) argues that the implementation of industrial policy has often reinforced the existing economic structure and growth through provisions of state-backed funding for capital-intensive mining and manufacturing sectors. Hence, it is imperative for Zimbabwe to implement industrial policy to strategically transform the economy, achieve economic recovery and sustainable growth.

3.4. Shifting from mineral resource dependence to industrialisation

Zimbabwe is not industrialised relative to western countries and hence it is necessary to analyse the role of minerals in structural transformation and industrialisation. Beneficiation of mineral commodities is regarded as a viable path to industrialisation (Kalinsky, 2011). Industrialisation process can be understood as a production stage in

which countries shift their production systems from agrarian system to industrial economies that are characterised by use of advanced machinery, technological innovations. Lewis (1953) understood industrialisation as a production stage that is necessary for sustainable economic development and industrial diversification. Many developed states, between the period of 1940s and 1960s managed to develop their economies by actively pioneering and facilitating the emergence of industrialisation (Kiely, 1999:32). Kaldor (1978) sees the manufacturing sector is a key characterisation of industrialisation. He argues that manufacturing sector is an engine of growth and industrialisation in terms of absorbing labour, (both skilled and unskilled), skills creation through 'learning by doing', strong backward and forward linkages with other sectors and facilitating technological innovations. Kaldor's work also provides similar insights with Hirschman regarding linkages creation. Both Kaldor and Hirschman share the same view that manufacturing sector has greater forward and backward effects than other sectors of the economy, and argue that forward linkages offer potential contribution to industrialisation in the manufacturing sector. Thus, mining activities have the potential for creating forward and backward linkages with the manufacturing sector through beneficiation of mineral resources (Morris, Kaplinsky & Kaplan, 2010).

Studies also show that comparative advantage plays an important role of shifting economies from natural resource dependency to industrialisation. Ricardo coined the idea of comparative advantage in his attempt to explain trade theory. Trade theory rests on the assumption that each country has a comparative advantage in trade in relation to the rest of the world, and trade liberalisation and openness will allow specialisation in comparative advantage to take place. The Ricardian model of comparative advantage argues that countries will gain by specialising in the production of goods, which use their most abundant factor of production (Deraniyagala and Fine, 2001). The model is premised on the assumption that through trade liberalisation and openness, countries are able to generate positive growth results due to 'static gains that arise from resource allocation by following comparative advantage. This assumption is based on the mainstream neo-classical idea of market perfection.

The adoption of new technologies is crucial in turning a country's comparative advantage into a competitive advantage such as new skills, technological information and lower inputs costs. During the industrial revolution technological innovations of advanced machinery greased the wheels of industrialisation by promoting innovation and increasing production efficiency particularly in manufacturing sector. Foreign Direct Investments and (MNCs) are global actors that facilitate technology transfer within countries, as witnessed by the East Asian economies although these countries were selective on the type of FDI. (Morris, Kaplinsky & Kaplan, (2010). Therefore, in order to steer industrialisation process, linkages creation in the mineral industry should allow for a conducive environment for innovation and technology transfer to take place, for example, adopting public policy that integrates the private sector in development objectives. Also, the availability of information and knowledge in the contemporary world could mean that industrialisation and the overall economic development can be achieved in a more efficient and sustainable ways in contrast to earlier industrialisation of the West that was mainly based on destruction and plunder of resources.

3.5. Conclusion.

Since mineral resources are finite (Jourdan, 2012) (Barma et al, 2012), it is crucial for Zimbabwe to optimise the resource wealth through the creation of economic linkages to resuscitate its economy and to attain long-term growth and economic development. As noted by Morris et al (2012), the industrial growth of the United States, Finland, Norway, and Australia was pioneered by commodity production that operated as a stepping-stone towards diversification and industrialisation. This suggests that mining can be a catalyst for broad-based economic development through promoting 'upstream' and 'downstream' linkages as well as knowledge and spatial linkages. However, the successful development of the minerals sector as a platform for economic recovery in Zimbabwe also depends on economic and political institutions, policy coordination, and the capacity of the government to implement an industrial policy that promotes beneficiation and industrial diversification.

Chapter 4. Policy Environment and the Political Economy Dynamics

Introduction.

This chapter discusses the institutional and ideological context within which the policy space for mineral resource extraction and linkages development is designed. This involves looking at policy frameworks and the political context in Zimbabwe, and how that impacts mineral development and linkages creation. Various policy measures, and legislation have been introduced in the mining sector as government attempts to turn the sector into a springboard to economic recovery. The other section of the chapter discusses the political dynamics that effect and influence stakeholder's or actor's actions in addressing national development goals.

4.1. Government initiatives: policy instruments

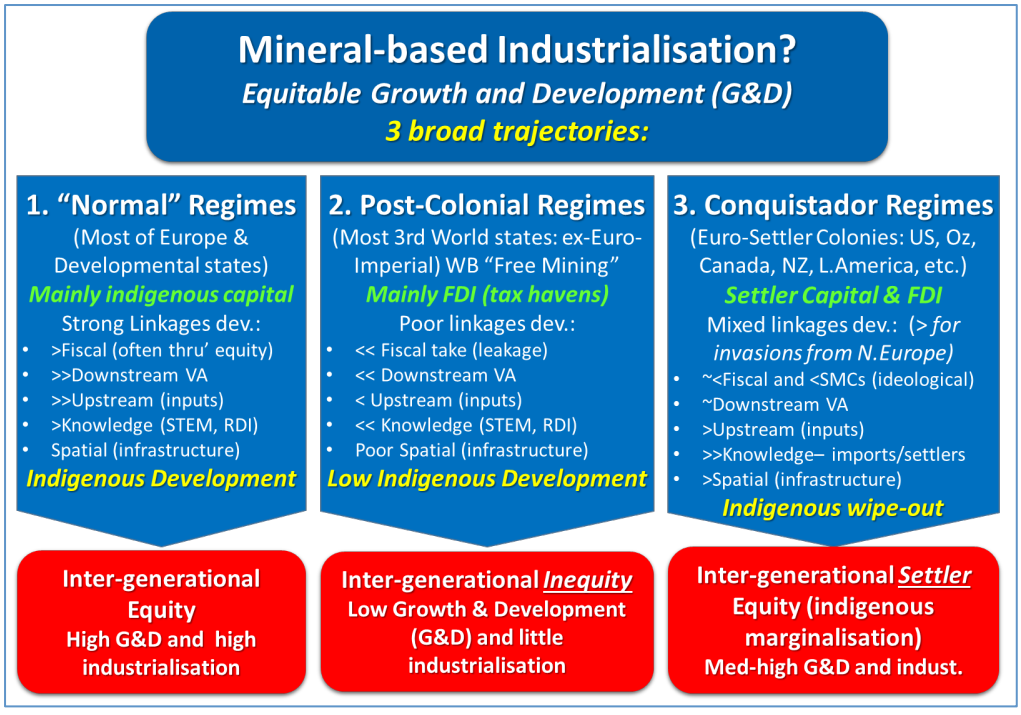
As mentioned earlier, the discovery of diamonds deposits, the rise of PGM mining as well as the need by the government to rise additional budgetary funds from mineral exports following the collapse of the economy forced the Zimbabwean government to undertake different policy initiatives. Various policy initiatives to turn the mining sector into a cornerstone for economic recovery have been undertaken including regional and national initiatives although the latter is given more prominence. Regional initiatives to which the government has subscribed to are Africa Mining Vision and Kimberly Process Certification Scheme (KPCS). National policy initiatives include:

(i) *Indigenisation and Economic Empowerment policy.*

The Indigenisation and Economic Empowerment Act (IEEA) (Chapter14: 33) was enacted in 2008. The Act, which seeks to address imbalances originating from the colonial era, stipulates that 51% of equity shares in all foreign owned companies must be in the hands of the indigenous Zimbabweans. This policy is not exclusive to foreign mining companies but to all foreign companies in all sectors (Chamber of Mines, 2009). From the 51%, 10% goes to Employee Share Ownership Trusts (ESOTs), another 10% goes to Community Share Ownership Trusts (CSOTs) and the

remaining 31% goes to indigenous investors (Mawowa, 2013). Tan Kock, (1995:38) contend that "the crucial role of the state in shaping and transforming class structure in a society is often ignored in the neo-classical and neo-liberal tradition – in spite of the fact that the pattern of ownership of productive assets often has profound impacts on production and growth". In support of the above quote, in order to achieve long-term economic development in emerging sectors, government interference in the allocation and ownership of the means of production is significant as manifested through the indigenisation policy. Previous policies on industrial development and mining did not make specific reference to changes in ownership structure and indigenous participation, empowerment and equal benefit of the country's natural resources. The following figure shows the three broad trajectories of mineral regimes.

Figure. 3. Three types of mineral regimes



Source: Jourdan, 2014

The indigenisation policy enacted by the government aspires to establish a 'normal' mining regime with high indigenous development (as shown in the figure above). The policy is clearly an attempt to transform the production structure of the economy. State ownership of natural resources is crucial for achieving national development objectives such as beneficiation of minerals and to create economic linkages.

Kadhani, (1986), argues that "…to what extent is it meaningful to plan an economy over which ownership and control of the productive assets reside in private hands and foreign private hands in large measure at that" (Kadhani, 1986:102). However, the success of the indigenisation policy is yet to be witnessed as its implementation has lacked consistency. The controversy that surrounds this policy is the timing. Most foreign companies argue that 51% equity on license renewal would be more attractive. The lack of capital in the economy entails that only a few indigenous people have access to the equity in the companies being indigenised. Most of these shares are then warehoused by the state.

(i) *The draft mineral policy*

The draft minerals development policy developed in 2013 by the Ministry of Mines and Mining Development defines the long-term developmental goals of the sector consistent with the country's macro and micro economic objectives. The policy is a review of the mineral regime of the colonial era that was pro-settler (claim system) pro-corporate mineral extraction (Jourdan, 2013). Thus, one of the objectives of the draft policy is to review the Mines and Mineral Act to come up with a new mines and minerals legislation that will unlock economic benefits from the country's mineral resources. The policy aims to leverage the mineral sector for sustainable development of the country through linkages, (including beneficiation) and the development of a national competitive advantage, through knowledge-intensification, technology development and infrastructure development (Dhliwayo, 2014). The draft policy is yet to be finalised and this affects the management of the mineral sector and long-term investments planning (see chapter 1). However, the draft mineral policy has some grey areas that need to be addressed in order for the country to optimally benefit from its mineral resources. The policy mentioned the need for transparency, accountability, access to information and public participation and consultation without explicitly stating how these will be achieved, although the policy itself was developed through a nation-wide participatory process.

(ii) *The diamond policy*

The diamond policy was adopted in 2012. The policy is sector specific, introduced to increase government control on all diamonds produced in the country in line with the KPCS. The KPCS is the product of diamond producing countries of Southern Africa

who in 2000, came together to develop best practices to stop the trade in conflict diamonds that were fuelling civil wars and conflict in many African countries. From a regional initiative, it received the blessings of the United Nations later in 2000 (U.N. General Assembly, 2001). Efforts to uphold the KPCS minimum requirements by government show a positive picture towards improve mineral governance to achieve mining-led economic development in Zimbabwe. The policy mentions various provisions such as transparency and accountability, relocations and compensations and community participation (especially by traditional leaders who are government agents) (The Diamond Policy, 2012). The extent to which the policy addresses these issues is important since there is no previous explicit policy on diamonds in Zimbabwe. The policy also mentions beneficiation and value addition as significant in promoting linkages creation. The country currently export rough diamonds hence the policy's emphasis on cutting and polishing of diamonds is critical for establishing downward linkages and employment creation.

(iii) *Community Share Ownership Trusts*

This scheme is a government initiative under the Indigenisation Policy that aims to compel mining companies to contribute to the development of the communities by ensuring that communities have shares in companies that mine resources in their areas. The proceeds from the shareholdings are invested back in community in which the companies operate (Parliament Report, 2015). Theoretical and empirical evidence show that Corporate Social Responsibility (CSR) programmes favoured by extractive corporations do not contribute to the development of the host country and the communities in which mining operations takes place have remained poor (Lydall, 2010), (Buur et al. 2013).

Hence, in this regard trusts funds, if properly managed, through transparency and accountability, could be effective for transforming mining communities. The advantage of community share ownership trust is that it provides social and economic benefits (like schools, hospitals and water boreholes) to the community other than local employment. However, reinvesting the resource wealth in mining communities alone could increase the inequality gap with the resource poor communities. The resource wealth should be therefore used to benefit all the indigenous people to achieve broader development.

(iv) *The Sovereign Fund*

The Sovereign Wealth Fund of Zimbabwe Act was passed in 2014 and it seeks to establish a reserve fund to secure investment for the benefit of future generations of Zimbabweans. The Act is meant to support the objectives of the government that include long-term economic and social development, fiscal and macro – economic stabilization, and to supplement national revenue when it is low. The fund will be driven primarily by 25% of all royalties on mineral exports. The establishment of the Fund is focused on the main argument that resource rents can be received in large quantities but they are also unstable due to price volatility leading to fiscal policy problems (Humphreys & Sandbu, (2007). Thus, the 'booms and bust cycles' have important policy implications regarding government fiscal expenditure and management and history has shown that it is not necessarily the presence of a resource fund that matters, rather it is the good economic expenditure policies that are adopted (Humphreys & Sandbu, 2007:194). SWF can be a window of opportunities for future mines as the funds can be used for exploration (geo-survey) and R&D projects.

(v) *The ZimAsset*

The ZimAsset is an ambitious industrial development policy that spelt out a number of measures to revive the economy including beneficiation of mineral resources that was not mentioned in prior mining development policies such as the Industrial Development policy. The ZimAsset policy blueprint was developed in 2013 and it is a deliberate attempt by government to promote development of mineral linkages, especially beneficiation and local procurement, which is consistent with the African Mining Vision. (Dhliwayo, 2014). The policy blue print also alludes to transparency and accountability in the mining sector, which is a positive step towards reducing corruption. However, the feasibility of the ZimAsset is challenged by lack of capital in the country.

4.2. Fiscal revenue measures

The government also introduced a number of fiscal measures to promote local beneficiation. In 2010 export tax on raw chrome was increased from 10% to 15% and a 10% quota on diamond production was reserved for local cutting and polishing.

(Midterm National Budget Statement: 2010). Exports of unrefined chrome and unrefined gold were banned in 2011 and 2014 respectively. However, the two year suspension (January 2015 to 2017) of 15% export tax for unrefined platinum (National Budget Statement: 2014) has been uplifted due to lack of unsatisfactory and concrete progress by platinum producers to build platinum base metals and precious metals refineries (The Herald: 2015). A platinum refinery is seen as inevitable by the government as this could be a vehicle to local beneficiation mainly in terms of providing feedstock for further value addition (catalysts, jewellery). The government is also considering the removal of 15% Value Added Tax (VAT) on local beneficiated diamonds to encourage beneficiation of minerals (Mining News, 2014). Although these fiscal policy instruments are important, however the government should also look at other incentives to encourage both foreign and local investors to build downstream processing and beneficiation plants. This includes investing in electricity supply, which is the lifeblood of a plant. Current electricity shortage in the country is a major disincentive to investors to set up value addition plants in the country as well as to mining itself.

4. 3. The political economy dynamics

Political economy can be understood as the interrelationship between the political and economic processes. According to the Organisation for Economic Corporation and Development (OECD), political economy analysis is "concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time" (OECD as cited in Copestake & Williams, 2012:1). Political economy analysis moves beyond the institutional quality and economic illiteracy (as in making bad / wrong economic policies) convectional analysis of natural resource development. Rather, it shows that development process is not linear, one that can be addressed by following a set of policy prescriptions without understanding the economic and political dynamics and interactions that influence and shape policy decisions, implementation and their outcomes (Frits, Levy & Rachel, 2014) (Amin, 2014) (Copestake & Williams, 2012). This study shows that actors' or stakeholder's actions, motivations, and power to influence the development outcome are different in each country (Copestake & Williams, 2012). Hence, it is

important to analyse the creation of linkages in the mining sector from a political economy perspective.

Government's slow pace in finalising the draft mineral policy and transferring into law is a reflection of the political economy dynamics. Beneficiation means reducing exports of raw minerals and imports of minerals sector inputs (local content). Other actors or government officials who have shares in mining companies are reluctant to radically shift to beneficiation (up- & downstream) due to lower returns on investment (ROI). Their interest is to maximise exports of raw materials to gain high returns on investment (resource rents), which is not in line with national objectives of beneficiating and value addition of the country's mineral resources. It is thus, imperative to analyse the influence of institutional arrangements on stakeholders' opportunities and incentives for action. (Copestake & Williams, (2012).

In the Zimbabwean context, the indigenisation policy is not an ideological assertion, the pursuit of an alternative ideology or the rejection of capitalism. Rather, it is a strategic policy designed to promote localisation (through ownership and control of the means of production) and the development of local capital (see figure 3 on 3-trajectories), but the problems appears to lie in its implementation. Government agents lack the political will to successfully implement the policy hence the policy tends to benefit only a few elites who have political connections and access to capital and not the intended people. The policy is a relevant instrument, as resource-based industrialisation successes were almost all executed by local capital and not FDI. However, it needs proper implementation and expertise not only to optimise the mining industry but also to transform other economic sectors.

Modern capitalism is driven by pursuit of self-interest that is individuals are obsessed with how much they are accumulating. Although Adam Smith argues that the pursuit of self-interest can result in economic efficiency through the 'invisible hand', this has not been the case given the rise of inequalities, environmental externalities and other economic costs left to societies and developing countries to shoulder (Stiglitz, 2007). The political economy dynamics in each country shape and influence the policy developments and their outcomes.

4.4. Policy inconsistency and unpredictability

Policy frameworks and recommendations by governments to rectify certain tax system and profits levels of extractive companies are often unwelcomed and / or meet with resentment and fear of tampering with the investors confidence (Nkrumah, 1965). Policy 'unpredictability' and 'inappropriate policies' in the mining industry have been echoed as the main obstacles to the growth of the sector. There are concerns that the government laws and policies are hostile to foreign mining companies (Dhliwayo, 2014). The 'fast track' land reform program and policy inconsistency coupled with economic downfall have created a crisis in confidence in mining as an investment sector. In addition, the risk profile of the host country has been echoed as an important factor in attracting FDI (in terms of viable economic institutions and political stability). However, some empirical evidence shows that the number of exploration companies and the quality of the mineral resources (prospectivity) are more critical to foreign investors than the risk profile of the country (Barma et al, 2012). This is evidenced in some African countries like Democratic Republic of Congo (DRC), and also in oil rich countries such as Nigeria and Somalia that attract FDI despite sovereign risk.

4.5. Conclusion

Continuing policy initiatives by the government show that there is policy space in Zimbabwe. These new policies and legislations seek to identify and bridge the gaps associated with previous industrial development and mining policies. Prior mining development policies such as Industrial Development Policy and the Minerals Act were not sufficient enough to address the dynamics of the mining industry and of development process. The colonial mining policies did not take into account the need to change ownership structure to promote indigenous entrepreneurs, local procurement and mineral beneficiation to create economic linkages as envisaged in the indigenisation policy. The new policies are premised on the idea of industrial policy to transform the mining sector through beneficiation and the promotion of domestic production. However, implementation of the policies could be a challenge due to on-going political tensions. The conflict of interests and pursuit of self-enrichment by local elites and government agents are major challenges to policy

consistency and successful implementation of economic policy. The political economy literature provided some crucial insights on political incentives that shape the actors decisions on policy making. The process of establishing linkages in the mineral sector is itself a matter of changing the production structure, ownership, and power relations that exist within the sector and this have significant implications to the political context in Zimbabwe. Therefore, it is important to analyse mining linkages development not only from an economic viewpoint but also from a political economy perspective.

Chapter 5. Research Findings and Discussion

5.1. Findings: Introduction

This study carried out semi-structured interviews to analyse how the mineral sector can be optimised to achieve economic recovery and sustainable growth in Zimbabwe. A total number of nine respondents from different institutions were interviewed for this study. A total number of five stakeholders were interviewed from government institutions which are: Chamber of Mines of Zimbabwe (COMZ), the Ministry of Mines and Mining Development, the Zimbabwe Mining Development Corporation (ZMDC), Zimbabwe Revenue Authority (ZIMRA) and the National Mines Workers Union of Zimbabwe (NMWUZ). Three participants were from the policy think tanks, which are: Economic Policy Analysis and Research Unit (ZEPARU), the Institute of Mining Research (IMR) and Protect All Children Today (PACT). One Non-Governmental Organisation (NGO) that is Zimbabwe Environmental Law Association (ZELA) participated in this study with three respondents interviewed at the same site. The sample size is fairly adequate for this small study. These institutions together with the informants were earmarked for their relevance and usefulness to the study due to their expertise in mineral sector. Most of the stakeholders that participated in the study were from government institutions and ministries that actively participate in mineral sector and economic development of the country. Desk top material, such as government reports, annual reports of government ministries and Non-Governmental Organisations formal documents were also used to assist in comparing primary data to determine consistency, conflict and areas of interest.

5.2. Results

1. Creation of economic linkages (through beneficiation and value addition) in the mineral sector and across sectors is crucial for economic recovery in Zimbabwe.
2. State capacity, political commitment and policy consistency is crucial for leveraging the mineral resources to anchor economic growth.
3. Current political tensions in Zimbabwe are major challenges that weaken the case for establishing linkages based strategy.

5.3. Data Analysis

Zimbabwe's mining regime and its contribution to national economy (GDP).

The mining policies of post-independence that were borrowed from colonial regime mainly focused on maximum extraction and on exports of raw minerals. However, these policy strategies led to two negative implications for the Zimbabwean economy. First, the prices of raw minerals were subject to cyclical price fluctuations, meaning that export revenues in the economy declined. Second, the continued reliance on raw materials for exports revenues led to slow or lack of industrialisation and diversification (Mandaza, (1986). The colonial mineral legislation was not amended to reflect a transition to post-independence era and to allow indigenous people (entrepreneurs) greater economic participation in the mineral extractive industry.

Zimbabwe is rich in minerals that have a crucial industrial use that include steel, platinum, coal, polymers, copper, chromium and iron ore (Chamber of Mines, 2013) (Jourdan et al, 2012). These minerals can be used in most manufacturing sector as feedstocks for domestic production and industrialisation (Jourdan et al, 2012). Statistics from the Chamber of Mines of Zimbabwe and Zimstat show that the mining sector is now the leading sector in terms of economic contribution. It contributes more than 15% of the country's nominal Gross Domestic Product (GDP), 58% of the national total exports, 13% of fiscal revenue, 50% of the current Foreign Direct Investment (FDI) and more than 45,000 people are formally employed in the sector (Chamber of Mines, (2013).

Table 1. Growth trends of economic sectors.

Economic Sectors	Actual Values					Projected Values	
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Agriculture	37.6	7.2	1.4	7.8	-1.3	9	5.1
Mining	18.9	37.4	24.4	8	6.5	11.4	9.2
Manufacturing	17	2	13.8	5.3	1.5	3.2	6.5
Finance & insurance	4.5	8.3	8.3	28	2.6	6.3	6.2
Distribution	6.5	8.8	4.3	4.3	3.4	5.1	5
GDP at Market Prices	5.4	11.4	11.9	10.6	3.4	6.1	6.4

Source: Chamber of Mines, 2013.

The growth trends in the Table 1 above show that mining growth rate is increasing relative to other sectors. The mining sector contribution to GDP from 2009 to 2013 has expanded relative to other sectors and economic activities of comparison. The 2014 and 2015 period show the projected values of the mining sector contribution to GDP in comparison with other economic sectors. Overall, the growth trends reflect that the mining sector contribution to GDP is relatively large and increasing. Table 2 below shows the contribution of total mineral exports from 1993 to 2012.

Table 2. Contribution of mining to total mineral exports

	Contribution to Total Mineral Exports		
	1993-2003 (%)	2004-2011 (%)	2012 (%)
Gold	57.3	24.2	26.9%
HCF	20	10.7	8.6%
Nickel	15.1	11.0	0.7
PGMS*	2.3	46.1	27.2%
Diamonds	0.8	6.7	26.1%
Others	6.8%	1.3%	10.5%

Source: Chamber of Mines of Zimbabwe, 2013.

As illustrated in Table 1, the mining sector share of contribution to GDP growth has surpassed both agriculture and manufacturing. In table 2, the PGMs in 2012 were the largest contributors of mineral exports (exports revenues) followed by gold and diamonds. The HCF stands for Hydro Carbon Fuels (oil and gas). With these growth trends, the sector has potential to grow through rents capture, royalties and linkages formation. However, infrastructure (power, transport, water) is arguably the greatest constraint to an extension of the mineral sector.

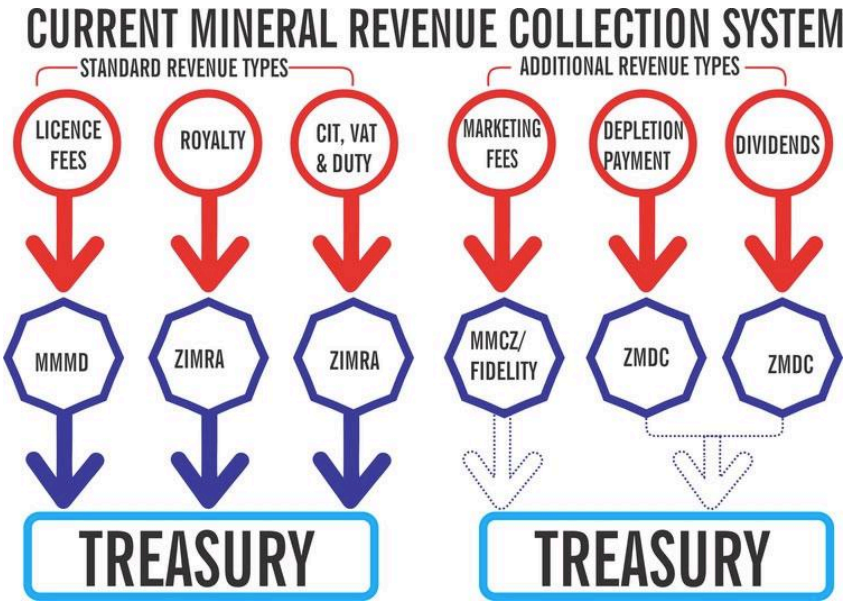
Taxation regime

All tax evaluation and collection is done by the Zimbabwe Revenue Authority (ZIMRA) that replaced the Ministry of Finance Income Tax Department in 2002. The

institution is mandated with the administration of the mining tax code and issues tax revenue reports based on tax heads (Value Added Tax, Pay As You Earn, Corporate Income Tax, withholding taxes, royalties, capital gain tax among other taxes). The ministry plays an important role in capturing revenue earnings as well as monitoring and implementing beneficiation policy of government in taxation of unbeneficiated platinum and rough diamonds. A consistent tax regime is preferable since it can attract or repels investments (both domestic and foreign investments). It is also important to note that there are various government agencies administering non-tax mineral charges like ZMDC and the Minerals Marketing Corporation of Zimbabwe (MMCZ). The two are state-owned enterprises. This can contribute to confusion and inconsistency in revenue projections when two or more actors are involved as noted by the interviewees. Hence, there is strong need for institutional coordination and transparency among the three ministries to successfully capture the resource revenues.

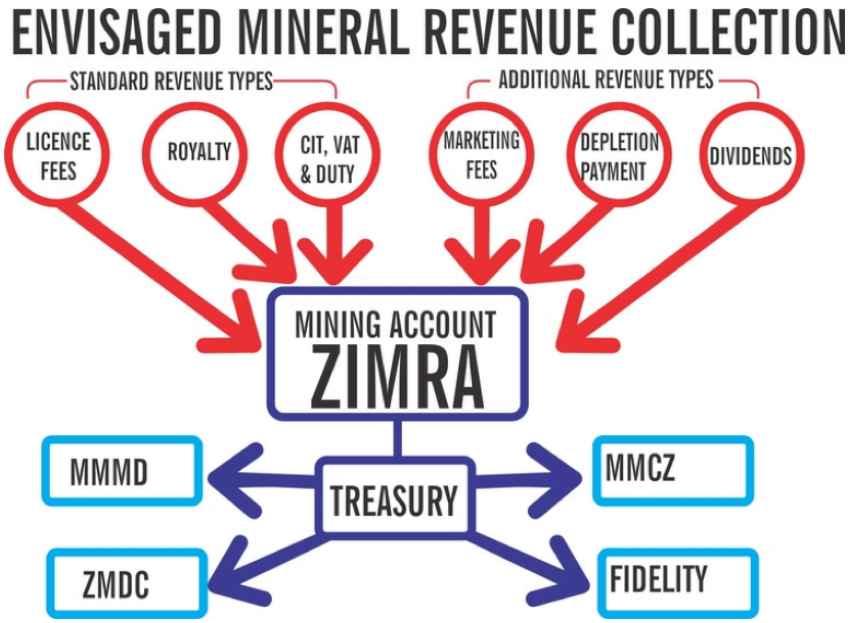
However, concerns about lack of transparency in these institutions have been raised. Interview respondents note that without transparency it will be difficult to access information on how much revenues are generated from the mining sector and how these revenues are being used. Transparency is also crucial in revenue projections as this can help to address suspicion between government and mining industry regarding issues of transfer pricing, re-invoicing and under-costing. The major challenge facing ZIMRA is the illicit trade of diamonds that started in Marange in 2006 after the discovery of alluvial diamonds. The following two figures show the current and the envisaged revenue collection system in Zimbabwe.

Figure. 4. The current revenue collection system.



Source: T. Farawo, (2014). www.sarwatch .org

Figure. 5. The proposed mineral revenue collection



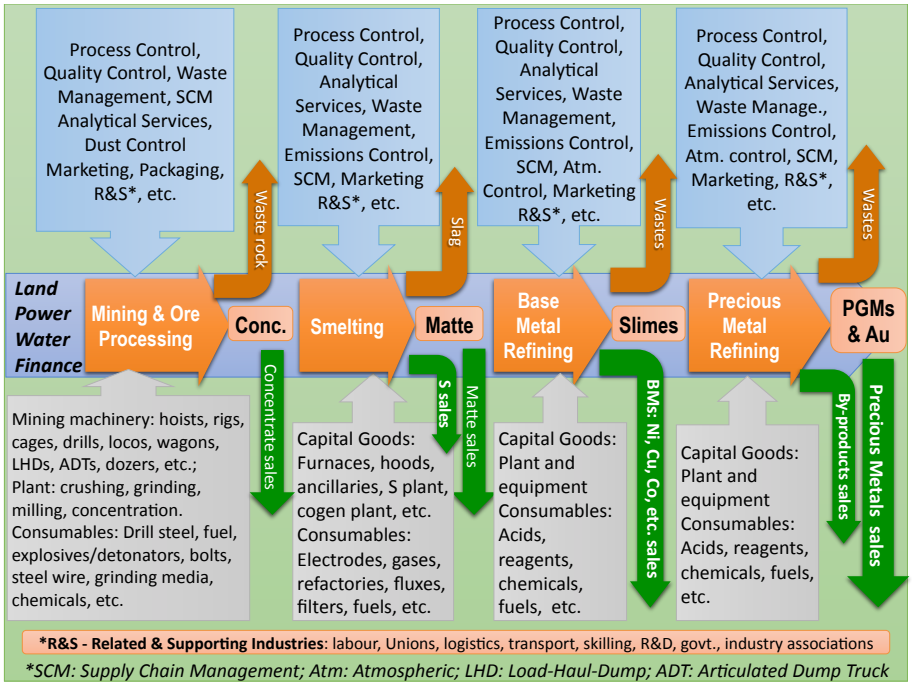
Source: T. Farawo, (2014). www.sarwatch .org

License contracts and taxation policy are crucial tools for the government to secure maximum rents, depending on the geological prospectivity of Zimbabwe. Interview respondents emphasise that the government must invest in geological information (geo-survey) to determine quality and quantity of the mineral deposits as this enhances the bargaining power of the government in negotiating contracts with investors. They argue that this is important given that often times investors have more information on mineral reserves than the state. Allocation of licences by the government is also important, as this can be a major way of gaining capital (resources) or government revenues that are crucial for public spending. Thus various forms of allocating mineral concession can be used, for example, competitive bidding, negotiated deals and sealed bidding (auction).

Linkages creation

The (PGM) value chain

Figure 6. The PGM value chain



Source: Jourdan, (2012, 2014).

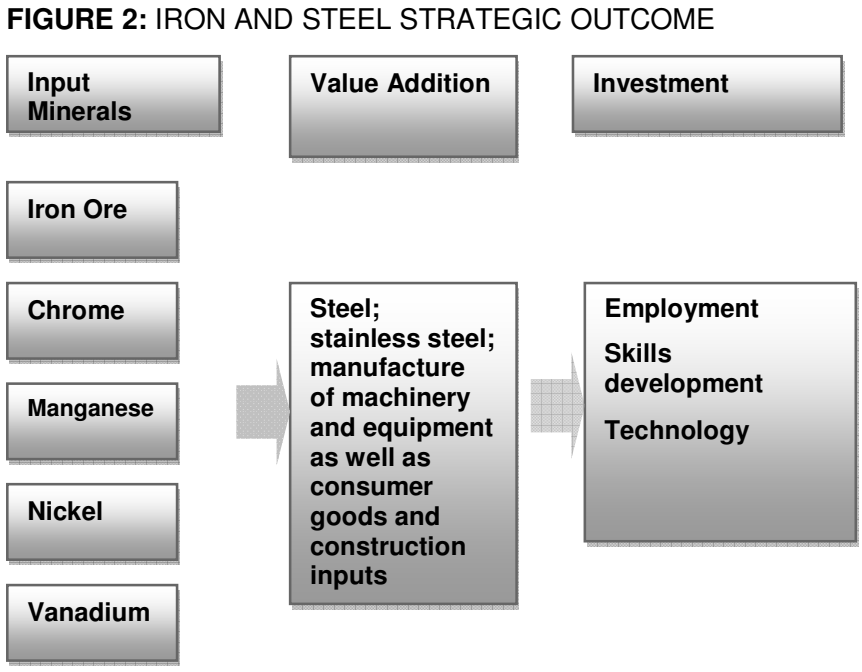
Platinum or the Platinum Group Metals (PGMs) are made up of six metals (platinum, palladium, ruthenium, rhodium, iridium and osmium as shown in figure 6. PGM's are mainly used to manufacture auto-catalysts (53%), jewellery (20%), electronics (11%),

medical applications and dental alloys (6%) and chemical catalysts (6%). Platinum is in high demand due to increasing demand from the emerging economies like China and India (Kaplinsky, 2011) (Barma et al, 2012). Zimbabwe holds the second largest platinum reserves after South Africa (Chamber of Mines, 2013). Zimplats, Unki and Mimosa are the current platinum mines in Zimbabwe producing about 430,000 ounces annually (Chamber of Mines, 2013). Currently, the country exports its platinum as raw concentrate or matte. Interview respondents noted that beneficiation of platinum value chain offers potential for linkages creation in the mining sector and across other economic sectors. However, the availability of geological survey of known platinum reserves is important for investors to invest in platinum plant in host country.

The Steel value chain

The steel value chain is critical for industrial development as illustrated in the figure 7 below. Coal and iron-ore are the key inputs in steel production However, iron and steel production in Zimbabwe ceased at ZISCO since 2007 due to economic meltdown. The respondents pointed out that this has led to higher demand of imports for manufacturing (machinery and equipment), job losses and reduction in steel revenues.

Figure 7. The Iron and Steel Outcome.



Source: Beneficiation Strategy for the minerals industry of South Africa, 2011.

Themes

The key themes picked out from the results are firstly, the importance of beneficiation and value addition of mineral resources. Secondly, local content is key to linkages creation. And thirdly, political tensions affect the prospect of establishing linkages based strategy. These themes reflect some important consistency in data and also show areas of interest among respondents (and the institutions) on how to achieve economic linkages and the challenges to linkages creation in Zimbabwe.

5.4. Discussion Section

This study investigated how the mineral resources can be optimised to achieve economic recovery and sustainable growth. The results of the findings show that the establishment of linkages based strategy is a viable path to achieve economic recovery and sustainable growth in Zimbabwe. Beneficiation and value addition not only increase and stabilize the export value of mineral commodities, but also have a positive multiplier effect on the macro-economy through local employment creation,

knowledge and capacity building in upstream and downstream industries, diversification of the economy, and the industrialization of the whole economy.

5.4.1. Backward linkages (Upstream value addition)

There is an assumption that backward linkages have great potential for industrialisation arising from 'localisation' (in the form of local ownership in the commodity producer) and local content policies (Kaplinsky, 2011). Local content measures are aimed at increasing local employment and procurement from domestic suppliers in the minerals value chain. Thus, local content policies generally are designed to build the capacity of domestic companies to become more competitive in the long run.

Much of Zimbabwe's mineral capital goods are imported and some capital goods companies have shut down partly due to the disinvestment of other mining companies such Anglo American and Lonrho, which used to invest in a plethora of up- and downstream industries. Mining license should attach conditions for local content (local value-added) targets. In an (OECD) Development Centre policy brief, Havro & Santiso (2008) point out that both Norway and Chile experienced:

> *"...direct efforts to diversify their economy and to support industries associated with the natural-resource sector – such as engineering and supply – as well as non-resource sectors. Norwegian policies in the 1970s were markedly interventionist in this regard . . . The legal framework emphasised local content until 1990, to develop the infant petroleum supply industry. Norway also pushed for state participation in the same areas, in spite of reluctance on the part of many of the international companies."*

Research interviewees also note that local content needs to be based on the local value added contained in the goods and services supplied. They argue that government intervention through credit facility, tax exemptions and subsidies can also strengthen and deepen local content in domestic supplies in the economy.

The on-going production requires service inputs (apart from material inputs) for example, repair, engineering and maintenance that build industrial capabilities. For

example, advanced IT-technology in mining extraction could improve skills and efficiency thereby reducing the cost of production in the long term. In order for Zimbabwe to benefit from its natural resources, the license contracts should make provisions for local content, corporate skills formation and R&D spending. However, protectionist policies such as 'infant industry' protection can also be imposed to protect the domestic suppliers and to reduce imports of mineral inputs. The protectionist policies can be lifted or reduced once the domestic supply industry has gained the competitive advantage from knowledge and technology transfer (Amsden, 1994).

5.4.2. Forward (downstream) linkages

Forward linkages consist of downstream value addition (mineral beneficiation). Minerals such as ferrochrome, iron ore, gold, copper and platinum have potential for creating downward linkages mainly with manufacturing sector. Most of the interview respondents argue that in order to unlock the full benefits of platinum and to develop downward-processing linkages (as illustrated in figure 6 above) there is need to invest in a platinum refinery. PGM's are "high tech" metals, which require advanced technological skills to beneficiate. However, some respondents have argued that investing in a platinum plant might not be cost effective (from an investor's point of view) given the low production levels of platinum in the country. Thus, it is cheaper for platinum producers to refine the concentrate in large South African refineries where their marginal cost is lower. Another disincentive to invest in a refinery is that the PGM value chain is highly concentrated because platinum mining producers supply their raw PGM concentrate to PGM downstream manufacturers, for example BASF, hence there is no incentive for foreign investors to invest in a cost refinery project.

The idea behind linkages creations (through beneficiation and value addition) is to industrialise by empowering the local people since foreign investors have no incentive to industrialise in host countries. The main objective of foreign mining investors is to secure an optimal lease contract that maximises returns on investments (ROI). Thus, there is conflict of interest between the private foreign companies and the state. These dynamics have major policy implications on state policy. The government has to provide greater incentives and disincentives for foreign mining companies to invest in

a refinery (either to provide huge tax exemptions to beneficiate domestically or to impose a higher export tax on raw PGM concentrate/matte.

Diamonds

Zimbabwe is ranked among the top producers of rough diamonds such as South Africa and Botswana (Dhliwayo, 2014). This is due to the discovery of diamond reserves in Chiadzwa in 2006 and its increasing share of contribution to the country's total mineral exports as shown in table 2 above. Interview respondents argue that despite Zimbabwe being one of the top diamond producers globally, the country has not captured significant revenues and downward linkages from its exploitation of diamonds. Lack of beneficiation and value addition to create downward linkages in Zimbabwe is also witnessed in the diamonds sector (Centre for Natural Resources Governance, 2013). Most of the diamonds are exported as rough diamonds at a lower price value. However, the Zimbabwe Diamond Policy enacted in 2012 makes provisions for the government to reserve quota of all the diamonds produced in Zimbabwe for local cutting and polishing and jewellery manufacturing to encourage indigenous entrepreneurs. Efforts to beneficiate and value add the diamonds through cutting and polishing has been perfunctory. Some respondents argued that this is due to lack of political will by government agents and policy makers to implement economic policies.

The production capacity in the diamond sector is focused to go down due to the increase in cost of production and the depletion of alluvial resources. Most of the deposits in Chiadzwa are kimberlite diamonds, which are capital intensive. Recently the government has proposed to merge all the diamond mining firms into a single entity in a deliberate attempt to rescue the industry as most of the miners operating in Chiadzwa lack the sophisticated machinery for deep underground extraction (Mining.com, 2015). The government will own 50% of the shares making it the major shareholder of the conglomerate. The move to merge the diamond firms is arguably a positive arrangement from the point of view that the government will have ownership and control of diamond production. This move is also seen as important and long overdue by looking to successful experiences of Botswana. However, it should be highlighted that development is not about replicating what others have done because

the socio-economic and political contexts and institutions of countries vary as well as the actor's motivations and political incentives (Amsden, 1994). The success of the diamond industry in Zimbabwe depends on visionary leadership and political will of the actor's to serve the interests of the country.

Gold

Zimbabwe has enjoyed positive downstream beneficiation of gold that takes place through Fidelity Refineries (Chamber of Mines, 2013). Gold production increased from 3.6 tons in 2008 to a massive 14.7 tons in 2012. The rise in production output was partly due to the introduction of multi-currency in 2009 (Chamber of Mines, 2013). Artisanal and small-scale gold miners contribute significantly to production output in Zimbabwe. Government intervention to equip these miners is crucial for sustainable development and to include the artisanal miners into the mainstream economy. The government also needs to resuscitate the exiting gold mines and refineries in order to increase output and create employment. Interview respondents noted that in order to establish more downstream linkages from mining with other sectors particularly manufacturing, the government needs to resuscitate the existing mines for example, Hwange Colliery Company, Zimbabwe Mining and Smelting Company (ZIMASCO) for ferrochrome, Shabani and Mashaba mines – for asbestos production, ZISCO now called NewZim Steel – for iron and steel production, Bindura Nickel Corporation – for nickel production. With resuscitation of the mines and increased investment in resource mapping and geodata acquisition, government can effectively stimulate linkages creation in mining industry with other sectors and restore the economy.

Steel

Steel production is crucial for the establishment of forward (downstream) linkages in the manufacturing sector. Interview respondents noted that the resuscitation of (ZISCO) (now called NewZim Steel of a joint venture between government and Essar Africa Holdings) is critical for developing downwards linkages and to revive the economy. Steel production has potential for value addition, employment creation, skills development and technological innovation as illustrated by the Iron and Steel Outcome figure 7 above. Failure by the government to consummate the ZISCO Steel

takeover deal with Essar signed in 2011 (The Source, 2015) clearly shows a gap in the Mines and Minerals Act to provide for beneficiation and value addition as condition for license granting. Studies have shown that the current emerging economies have steel-related manufacturing sectors (NUMSA Beneficiation Strategy, 2012). As observed by Jourdan, 2012, resource contracts need to provide incentives or disincentives for mineral resources downstream beneficiation.

5.4.3. Spatial (sidestream) linkages

There is a growing emphasis on linking up mining infrastructure with economic growth planning. That is mining infrastructure should provide opportunities of linkages with other sectors such as agriculture, forestry and service sector (Di Bascio, Slade & Ward, 2014). The argument is that mining companies should explore other innovative ways to develop infrastructure and this means embracing participatory economic planning beyond mining (Di Bascio, Slade & Ward, 2014). Government intervention through public infrastructure investment and policy will strengthen and deepen these horizontal linkages. Most respondents pointed out that Zimbabwe has a huge infrastructure gap particularly energy (electricity) that is vital for the functioning of mining industry. The country needs to invest in coal thermal power station, increase electricity output from Kariba dam and import more electricity to sustain the economy. Some interview respondents argue that mining infrastructure development should generate spillovers into other sectors and this could be achieved through public and private investment. Effort to upgrade transport infrastructure has been limited by lack of fiscal capital.

5.4.4. Fiscal linkages

Fiscal management of national resource rents determines whether a country is able to successfully reinvest its resource rents into assets such as physical capital, human capital and wealth reserves assets that will sustain the economy when the natural resources are extinct (Kaplinsky, 2011). Hirschman pointed out that achieving fiscal linkage is difficult because there are no criteria on which sector to invest. Hence, in order to maximize the fiscal linkages for economic development, the state must possess both the capacity to capture rents and to reinvest productively (Kaplinsky, 2011), (Jourdan, 2012). The need to monitor exchange rates appreciation and the

ability to implement counter-cyclical macro-economic polices in respond to price volatility also call for a strong fiscal management in mineral rich nations (Kaplinsky, 2011).

Most of the interview respondents agree that capital injection is of key importance in terms of investments. Many respondents share the same view that the fiscal budgetary constraint and energy constraint are the main obstacle limiting the development of the mining industry in Zimbabwe. These views are supported by the underutilisation of some of the mines such as the Zimbabwe Mining and Smelting Company (ZIMASCO), Shabanie Mines, Mashaba Mines, Hwange Colliery Company and Zimbabwe Iron and Steel Company (ZISCO) (Chamber of Mines, 2013). The lack of production and capital has also led to the shutdown of other mines including: Bindura Nickel Corporation, Madziwa Nickel Mines, and Mhangura Copper Mines (Chamber of Mines, 2013).

Some of the respondents interviewed in this study raised concerns on the feasibility of beneficiation in Zimbabwe. Currently the economy needs a massive capital injection to stabilise its fiscal crisis and to grow the mining industry as highlighted in the ZimAsset report (National Budget Statement, 2013). Interview respondents also highlight that in order to maximise resource revenues the license contracts should attach conditions for renegotiation of the contracts when commodity prices are increasing due to higher demand. The AMV also note that there should be tax instruments that self-adjust such as a Resource Rent Tax (RRT) for countries to gain more from their natural resources (AMV as cited in Batida & Ericsson, 2014), (Jourdan, 2012). Some respondents argue that the ZimAsset is an ambitious policy that recognises the importance of beneficiation in promoting forward linkages in the mining sector but the chronic shortages of state financing and energy constraints limit its implementation.

Most of the interviewees share the same view that policy consistency and a favourable political environment increase investment confidence. The argument is that foreign investors are suspicious of Zimbabwe's political situation since the land reform process started in early 2000. They express the view that the legal and policy frameworks in the mining sector are unattractive to foreign capital and investors. This

unattractiveness of the policy regime in the mining industry is constraining investors from making long-term investment commitments. Thus, it negatively impacts on the growth rate of the economy due to limited capital inflows from investments.

5.5. Limitations

The data collection method used to contact this research (semi-structured interviews) has some limitations on the outcome of the research. The major limitation of this study was the constitution / composition of the sample. The sample had a few private institutions and NGOs. This might have biased the results as these institutions could have different opinions regarding mineral extraction and linkages creation through beneficiation. Also, the views of the respondents and the economic ideologies held by the interviewed institutions may not necessarily represent the views of the state on how the mineral sector should be optimised for economic recovery. However, desktop material on mineral resource extraction and beneficiation was used to supplement the primary data and to minimise any bias.

This discussion section has analysed the results of the findings. The analysis of linkages creation in the mining sector and across other sectors offers a promising development path to revive the Zimbabwean economy and achieve sustainable growth. However, concrete linkages development and ultimate economic recovery fundamentally depends on government capacity and political commitment, which remains a challenge in the midst of political tensions. The discussion section has also showed that the resource curse thesis and mineral linkages development discourse connect with entire new literature on beneficiation that paints a different picture to our understanding of mineral extraction. The literature offers a plausible analysis on value addition of minerals that could address the resource curse problem in mineral abundant countries by diversifying and expanding the economic sectors through linkages creation.

5.6. Policy implications

This analysis holds some important policy implications for Zimbabwe's future. Leveraging of the mineral resources includes adopting strategic and pragmatic

policies such as beneficiation that ensure that the economy grows internally and also builds competitive advantage. The nature and effects of natural resources on economic and political outcomes especially in developing countries often give rise to various policy implications for governments. The volatility of mineral prices has a profound effect on government fiscal planning but most importantly it highlights weaknesses and vulnerabilities in the economy. Lower commodity prices or the fluctuations in the value of the natural resource produced will lead to reduction in tax revenue and royalties (Humphreys, Sachs and Stiglitz, 2007).

The shortage of capital in the country undoubtedly affects the running of the economy and the ability of the government to effectively plan and implement its economic goals. Borrowing has also become extremely difficult as it often depends on the ability of the country to demonstrate a secure revenue base (Karl, 2007). Hence under these circumstances, it is crucial to note that the government has to make some trade offs in order to attract foreign investors to gain capital (Jourdan, 2013). The argument is that resource extraction involves some trade offs such as environmental degradation and community relocations, and the impact on various groups within a country (Humphreys, Sachs & Stiglitz, 2007). However, it should be noted that the kinds of trade-offs depend on the level of economic development and developmental priorities of each country that inform policy choice.

That being said, the government should identify policies that are instrumental in attracting FDI. This entails looking at how the government uses contractual arrangements to reflect the national objectives and to cope with price volatility (Barma et al, 2012). However, Zimbabwe has been very critical about FDI. This has contributed to policy inconsistency on FDI as once argued by Chimbombe, (1986). In her interesting essay edited by Mandaza (1986) she discussed the country's ambivalence towards foreign investors and pointed that this has been a hindrance to a clear definition of the role of foreign capital in serving Zimbabwe's planned goals Chimombe, (1986). The country is suspicious of foreign capital and has been unable to offer convincing guarantees to attract FDIs.

Foreign investors have the power to exert pressure on national governments because they are financially powerful and they have access to knowledge which make them a

threat to national states (Hamphreys, Sachs & Stiglitz, 2007). Also foreign investors' interests are often not in alignment with that of individual states of attaining national development. This entails that the government must constantly monitor and regulate the activities of foreign investors, as well as aligning their interest with national goals by making mandatory provisions for the creation of backward and forward linkages on license granting system.

The issue of transparency in the mining sector has been highly echoed by ZELA and other think tanks such as PACT. Transparency has been presented as instrumental for civil participation, addressing corruption, by providing some checks and balance on government operations and paving way to mutual contractual agreements between government and private companies (Karl. 2007). However, one can contend that transparency, while supposedly provides civil participation and openness in license negotiations, can be used as a weapon through which powerful private companies use to advance their private self-interests as opposed to national interests. Transparency has replaced the conventional norms of democracy and good governance.

Reforms in economic and political institutions, transparency and anti-corruption measures are necessary but not sufficient for leveraging the mineral resources in Zimbabwe. In fact, many developing nations and Africa in particular, have since argued that advocating for a certain governance system and specific democratic institutions is another form of colonisation. Although it is generally acknowledged that 'right' institutions and good governance assist mineral-rich countries to escape the resource curse, it does not necessarily mean that the adoption of the prescribed democracy will automatically result in economic growth. (Barma, et al, 2014). Institutions arise out of historical political settings and the establishment of effective institutions "requires coming to grips with the political underpinnings and the drivers that shape how institutions develop and how decisions are made as well as how *de jure* institutions are used *de facto*" (Fritz, Levy & Rachel, 2014:2-3). In light of the above, it should be noted that institutions are effective to a certain extend. The political economy literature paints a different picture. It attempts to move beyond the 'context factors' and argues that we need to place actors in their immediate strategic context that shapes their decision-making that ultimately, moulds economic outcomes. That is, it is not always about having the 'right institutions' but it is also about

providing political incentives and opportunities to influence policy implementation and economic outcomes.

However, the analysis of the interviews and desk top study material on the Zimbabwean situation mirrored what other studies have shown: that mineral abundant countries are prone to resource curse problem and slow economic growth (Arezki & Van der Ploeg, 2010; Collier & Goderis, 2007 and Lydall, 2007).) Insights from interviews and secondary data show that availability of mineral endowments and the institutional and socio-political context in Zimbabwe weaken the case for applying economic linkages based strategy due to the current political tensions. The political contestation in the country is not only weakening the institutions, resulting in policy inconsistency and corruption but it is also making political gains more appealing than economic development. Both the socio-political and economic institutional arrangements are not neutral but are fundamentally intertwined. This entanglement of economic institutions with political institutional arrangements hinders the successful creation of linkages development and economic recovery.

5.7. Conclusion

This chapter has discussed how the mineral beneficiation and value addition of the mineral resources can create linkages based strategy to catalyse economic recovery in Zimbabwe. The data analysis section has presented how the mineral resources can facilitate linkages creation and the discussion section has analysed the results of the findings. Insights from the interviews and desktop analysis show that linkages creation through beneficiation of mineral resources has potential to revive the economy. The discussion section shows that literature on mineral beneficiation and value addition offers a plausible explanation on how to achieve economic growth in resource rich countries. The policy implications section has reflected that mineral extraction is a challenging development process that requires collaboration and dedication among actors on policy design and implementation. The prevailing political situation in the country is a major obstacle for linkages formation. Thus, Zimbabwe needs a strong leadership with the political will and capacity to implement the policies, such as industrial policies to transform the mining sector and revive the troubled economy.

Chapter 6: Conclusion and Recommendations

6.1. Summary of Chapters

Zimbabwe has been awash in resource discoveries in recent years. The prospect of these mineral resources appears to offer the country a renewed sense of hope in the wake of continued economic crisis post land-reform programme. This study started by analysing the neoclassical explanation of resource dependency and slow growth in resource-rich countries. Literature review on neoclassical economics in chapter 2 reviewed that resource curse is inevitable in resource dependency countries due to internal factors such as lack of functional institutions, corruption, non-transparency, rent seeking behaviour, Dutch disease and wrong policies like protectionist policies and industrial policy. Neoclassical economists policy solutions to the resource curse problem of institutional reform often miss the underlying political economy dynamics in different countries.

The political economy literature on linkages creation in chapter 3 highlighted that linkages creation through mineral beneficiation can be a stepping-stone towards broad-base economic growth. Chapter 4 presented, among others, strategic policies that seek to restructure the mining sector and facilitate linkages creation across economic sectors. The political economy dynamics literature provided important insights on the resource curse problem in mineral resource abundance countries. The literature shows that the resource curse problem is not always caused by internal factors of weak institutions, weak policies, corruption and rent-seeking behaviour. Rather, it can be caused by other factors beyond 'functional' institutions that include incentives and opportunities influencing the actors' choice to commit to the development of society. Thus, the political risk within a country impede on the successful implementation of linkages based strategy to steer economic growth. The results of the findings presented in chapter 5 reviewed that creating linkages based strategy could be a development path to economic recovery in Zimbabwe. However, it appears that the current political tensions, policy environment and fiscal shortages in the country are the overriding obstacles for economic linkages to materialise.

In conclusion, the optimisation of mineral resources through the establishment of linkages presents a huge potential for economic recovery in Zimbabwe. However, what the analysis presented in the previous chapter is that the political turmoil characterising Zimbabwe has profound impact on how the government co-ordinate and regulate economic activities. Mineral extraction is a challenging development process that requires a strong state with oversight powers and capacity to regulate economic institutions to achieve economic transformation. Political tension and policy inconsistency in the country makes it difficult to leverage more opportunities for local people in the mining sector.

Insights from the interviews and desktop study highlight that in order for Zimbabwe to leverage its mineral resources economic recovery and sustainable growth, there is need to establish economic linkages. This means that the government has to play a leading role in directing and supporting the mining sector and other key economic sectors such as manufacturing in creating linkages. This involves strategic intervention that include the implementation of industrial policies and provision of subsidies, for example, to ensure structural transformation of the economy by promoting domestic production through beneficiation process. This intervention should also ensure strategic policy coherence within economic sectors and coordination of various departments such as manufacturing, and infrastructure sectors to effectively establish linkages and economic diversification.

A shift towards a progressive policy regime presents significant steps by the government to transform and improve the production capacity of the mining industry. The diamond policy has played a major role in facilitation the emergence of indigenous mining entrepreneurs and employment in the diamond industry. The indigenisation policy has so far led to minimal success in ownership transfer due to conflict of interests between government and foreign companies and lack of capital to acquire mining company shares. The deepening of the mineral sector linkages into the domestic economy through beneficiation of these resources and creating supplier and service industries around the minerals sector is crucial for reviving Zimbabwe's economy. This critically dependents on the state capacity (Collier & Goderis, 2007) to invest in infrastructure, human skills, R&D and to ensure that the development of

mineral beneficiation and value addition is part of the national industrialisation strategy. However, the current political contestations in the country is negatively impacting on the successful implementation of economic policy and commitment to economic resuscitation, and if remain unsolved, will make economic linkages creation very complex.

6.1 Recommendations

1. Resource extraction activity should be developed as an anchor of economic linkages with other sectors so that the when the finite resources are depleted the economy will continue to grow in other sectors using the skills and infrastructure put in by reinvesting the resource rents and establishing the linkages.

2 a). The government should invest in energy (electricity) and infrastructure for successfully linkages formation. Mining infrastructure is an important catalyst for development with other sectors such as agriculture and forestry. Also, Zimbabwe is a land-locked country and it has access to ports via Mozambique and South Africa. Collaboration in infrastructure investments with these countries is imperative in order for Zimbabwe to alleviate logistical costs of infrastructure.

b). The government should invest in upgrading skills and RDI (skills capability) that support and deepen linkages in the economy.

c). The government should also ensure that the indigenisation act is implemented in order to encourage local context and indigenous entrepreneurs (grow local capital). This can be achieved by providing access to capital for indigenous people to acquire equity shares in the mining sector in line with the objectives of the indigenisation policy.

d). The government should concretise its progressive mining policies through effective laws and regulations.

e). The government and other stakeholders should aim to address the political economy dynamics facing the country through collaboration, political inclusive and effective engagement.

3. The study recommends future research on the impact of the resource curse theory on achieving economic development. That is: to what extent and with what consequences does the theory's political, economic and ideological manifestations constitutes structural limitations on the developmental momentum of Africa?

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Table 1. Growth trends of economic sectors

Table 2. Contribution of mining to total mineral exports

Appendix

Semi-Structured Interview Questions

Key Questions.

1. Is mining becoming a major sector to the Zimbabwean economy?

2. If yes to 1, how and why do you believe that mining is becoming a larger contributing sector to the economy?

3. Which are the mineral resources of strategic importance in Zimbabwe?

4. What does it take for a country to be able to use its mineral deposits to achieve economic and social development?

5. The draft minerals development policy is very significant in terms of addressing important factors within the mining industry such as rents capture, licence issuance and mineral value addition. Why was this draft mining policy needed and do you think that this policy will be implemented?

6. How will this mining policy improve the mineral sector if enacted by the government?

7. What are your thoughts on the increasing state involvement in the mining industry?

8. How can the government implement development policies that can leverage the mineral resources for economic recovery and long-term growth?

9. Part of the increased total value exports is due to higher global prices mainly of platinum and diamonds; do you think that the demand for these minerals will increase?

10. What other policy strategies do you think the government should implement in the industry that can accelerate economic recovery.

11. What are the likely challenges that could prevent the mining industry from reaching its full potential? Or what are the challenges to mineral beneficiation in the country.

12. Many authors share the same argument that resource dependent countries have slow economic development due to corruption and rent seeking by government officials, particularly in Africa, what are your views on this?

13. What is an optimal environment for attracting foreign investment in the mining sector?

14. Increasing environmental awareness and the prevalence of anti-mining sentiments have led to a huge impact on the mining industry. Is this not going to impede on the growth of the industry?

15. How do we strike a balance between the interests of the mining companies, the government and the local people?

16. What policies are in place to ensure that beneficiation and value addition takes place in mining sector?

17. Do we have adequate transport and energy infrastructure to make the mining industry the driver of economic recovery?

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