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A REVIEW OF POLICY AND LEGAL FRAMEWORK TO PROMOTE ZIMBABWE'S COMPETITIVENESS IN THE MINING SECTOR

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A research dissertation submitted to the Faculty of Engineering and the Built Environment, University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements for the degree of Master of Science in Engineering.

Johannesburg, 2005

DECLARATION

I declare that this research report is my own unaided work. It is being submitted for the degree of Master of Science in the University of the Witwatersrand, Johannesburg, South Africa. It has not been submitted before for any degree or examination in any other University.

Word count: 28 483 (excluding References and Appendices)

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Willis Z. Saungweme

This_____day of_____year _____

ABSTRACT

The **Republic of Zimbabwe** is a landlocked country located in the southern part of the continent of Africa, between the Victoria Falls, Zambezi River, Kariba Dam and Limpopo River. It is surrounded by South Africa to the south, Botswana to the west, Zambia to the north and Mozambique to the east. The country is well endowed with mineral wealth and has been a reputable contributor to the region's gold, coal, nickel and chromium production in the late 90's, but this has negatively changed for the worse. Since 2000, Zimbabwe has been on economic recession resulting in growing global interest in the country's economic and social environment.

The lucrative mining sector has also been adversely affected by the harsh economic climate hence thwarting flow of foreign direct investment (FDI) into the country which is needed to boost Greenfield and Brownfield competitiveness in the sector. Apart from its lucrative mining sector the country has done very little in harnessing the anticipated FDI that should ensue. Concerns about governance, the rule of law and human rights, and the continued lack of clarity about property rights have severely damaged confidence, discouraged investment, and promoted capital flight and emigration, thus contributing to the economic decline. Its competitiveness in attracting FDI has since declined because of the international perception of the country's high political risk. The country has failed to live up to expectations with regards to mineral resource development in the region.

The research established that, governance issues are at the helm of the current low performance of the economy. It therefore prescribes a complete change in government's attitude and calls for it to develop a long overdue mineral policy document to map a strategic way forward for the country's mineral resource development. Interestingly the country has been hailed to have one of the most liberal mineral administration laws through the Mines and Minerals Act of 1996. Its fiscal incentives to the mining sector compare favourably with the rest of the region e.g. a corporate tax of 15% for exporting mining companies and currently most gold operations are royalty exempt among others. There is a growing divergence from

policies to actions on the ground. The rule of law is under threat and corruption has taken its toll. It is therefore important for this research to analyse the historical performance of the country in the mining sector to formulate policies and recommendations that will improve the country's competitiveness in the sector. The policy and fiscal incentives should continuously be revisited to be in tandem with global developments. The endowment theory, strongly believed by the country's mining ministry as illustrated by Tilton in 1992 is not conclusive in attracting FDI especially in this dynamic global economy. More and more developing countries are revising their investment policies to try and improve competitiveness of their investment environments. Zimbabwe should emulate countries like Chile currently leading the pack in attracting FDI in the mining sector.

There is now fierce competition in attracting investment into a country because now, the investor has more countries to choose from. Zimbabwe should seriously focus on getting rid of all the negative aspects that have seriously affected its economic performance and quickly develop policies that auger well with regional integration and various other NEPAD, SADC and AU policies that underpin African development. The mining sector is a driver for economic development if properly supported as shown within the research.

DEDICATION

To my wife, Ruvarashe and daughter, Nicole
You have been my inspiration.
God bless you

ACKNOWLEDGEMENTS

I am greatly indebted to my supervisor Prof FT Cawood from the School of Mining engineering at the University of Witwatersrand for his unwavering support by providing guidelines and marathon discussions during the execution of the research. Many thanks go to Mr David Matyanga, Mineral Economist, Chamber of Mines Zimbabwe for discussions and sourcing up-to-date information about the sector. Mr T. Nyatsanga, Director of Mining Promotions and Development Zimbabwe helped with information on challenges facing the ministry of Mines and Mining Development. Other centres that facilitated include the MMCZ, ZIC and the Ministry of Finance and Economic Development.

This research would not have been successful without lecturers from the University of Witwatersrand, School of Mining who shared with me their talent, experience and passion ultimately gearing me for the challenge to critically analyse issues pertaining to the mining sector. They include Prof. RCA Minnitt, Mr A. MacFarlane, Mr C. Musingwini and once again my supervisor, they have given me the exposure to the knowledge I have placed in this research.

Space would not allow me to mention all the individuals who assisted in one way or the other in conducting the research but I sincerely thank you all for your contribution. To Mrs Hester Mey, thank you for the patience in editing the whole script.

To my mom, dad and the whole family I wish to express special thanks for always believing in me and your invaluable moral and financial support in my life. You are wonderful parents.

Last but not least I wish to express my profound gratitude to my lovely wife Ruvarashe for her support, dedication and deep commitment in holding on despite my long absence from home. I appreciate your encouragement and dedication to help fulfil my dreams. God bless you.

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LIST OF ABBREVIATIONS

Abbreviations

ACP	African, Caribbean and Pacific
ADB	African Development Bank
AIPPA	Access to Information and Protection of Privacy Act
AU	African Union
BEA	Bureau of Economic Analysis
BEE	Black Economic Empowerment
BIMCO	Buchwa Iron Mining Company
BNC	Bindura Nickel Corporation
CEO	Chief Executive Officer
COMESA	Common Market for East and Southern Africa
CPI	Consumer Price Index
DCF	Discounted Cashflow
DME	Department of Minerals and Energy
DRC	Democratic Republic of Congo
EEL	Exclusive Exploration Licence
EIA	Environmental Impact Assessment
EMPR	Environmental Management Program
ENR	Empress Nickel Refinery
EPL	Exclusive Prospecting Licence
EPO	Exclusive prospecting Order
EPSR	Enhanced Platinum Sector Regime
EPZ	Export Processing Zone
ESAP	Economic Structural Adjustment Program
EU	European Union
FCA	Foreign Currency Account
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSP	Generalised Systems of Preferences

GTZ	Germany Technical assistance to Zimbabwe
ICSID	International Convention of Settlement of Investment Disputes
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IMF	International Monitory Fund
IMR	Institute of Mining Research
ITDG	International Technical Development Group
JORC	Joint Ore Reserve Committee
MAP	Millennium Partnership for the African Recovery Program
MEPC	Minerals and Energy Policy Centre
MIGA	Multilateral Investment Guarantee Agency
MMCZ	Minerals and Marketing Corporation of Zimbabwe
MMSD	Mines and Minerals Sustainable Development
MRPD	Mineral Resource and Petroleum Development
Mt/a	Million tonnes per annum
NEPAD	New Partnership for African Development
NGO	Non Governmental Organisation
NRA	Natural Resource Accounting
NRZ	National Railways of Zimbabwe
NSONR	National Sovereignty over Natural Resources
OAU	Organisation of African Unity
OPIC	Overseas Private Investment Corporation
PGM's	Platinum Group Metals
POSA	Public Order Security Act
PSF	Productive Sector Fund
PTA	Preferential Trade Area
RBZ	Reserve Bank of Zimbabwe
R & D	Research and Development
SADC	Southern African Development Community
SAMREC	South African Mineral Resource Committee
SIA	Special Initial Allowance
SIRDC	Scientific and Industrial Research Development Centre
UK	United Kingdom

UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Commission on Trade and Development
USA	United States of America
US$	United States dollar
VALMIN	Valuation of Mineral Assets
WTO	World Trade Organisation
ZESA	Zimbabwe Electricity Supply Authority
ZIC	Zimbabwe Investment Centre
ZIMASCO	Zimbabwe Mining and Smelting Company
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZIMRA	Zimbabwe Revenue Authority
ZISCO	Zimbabwe Iron and Steel Company
ZMDC	Zimbabwe Mining and Development Centre
ZRP	Zimbabwe Republic Police
Z$	Zimbabwean dollar (currency)

CHAPTER 1

1.0 BACKGROUND AND OBJECTIVES OF RESEARCH

This chapter is a summary of the situation in Zimbabwe with regard to the mining sector: the research's main focus. Recent events in the country have had an impact on the industry, and these events are highlighted. Furthermore the country's performance in attracting foreign direct investment is discussed. The research also explains the unique characteristics of the mining industry and describes the criteria used for investment, based on competitive measures implemented to rate the country. A list of related studies and motivations to support this research further explains the importance and growing global interest in Zimbabwe's economic and social environment. The main objectives of this research is to clarify the importance of the mining sector to the economy by critically reviewing its past performance from 1995 to 2003 and by identifying ways and means of encouraging mineral resource development in Zimbabwe through a coherent mineral policy. The reader should note that the cut off date for quantitative results analysed in this research include up to end of 2003. Thereafter more qualitative results and recent developments up to February 2005 are discussed.

The country's negative publicity on the political front has further deterred investors. It is, therefore, important to analyse the country's policy, legal framework, and fiscal incentives separately from the highly publicised political risk that has overshadowed all its other lucrative and competitive structures. Political risk is a major concern which dominates any meaningful efforts to promote competitiveness.

Summary of country profile

Country name	:	Republic of Zimbabwe
Area	:	390,580 sq km
Population	:	13 million
People	:	Shona (76%), Ndebele (18%), Batonka (2%), Shangaan (1%), Venda (1%), European, Asian
Language	:	Shona, English

Religion : 50% syncretic, 25% Christian, 24% indigenous beliefs, 1% Muslim and other

Government : Parliamentary democracy

Head of State : President Robert Gabriel Mugabe

Major Industries: Mining, agriculture, manufacturing, clothing, tourism

Major Trading Partners: South Africa, UK, Argentina, US, Japan

Sources: http://www.lonelyplanet.com/destinations/africa/zimbabwe
Accessed 15 January 2005
http://encyclopedia.thefreedictionary.com/Economy%20of%20Zim
Accessed 15 January 2005

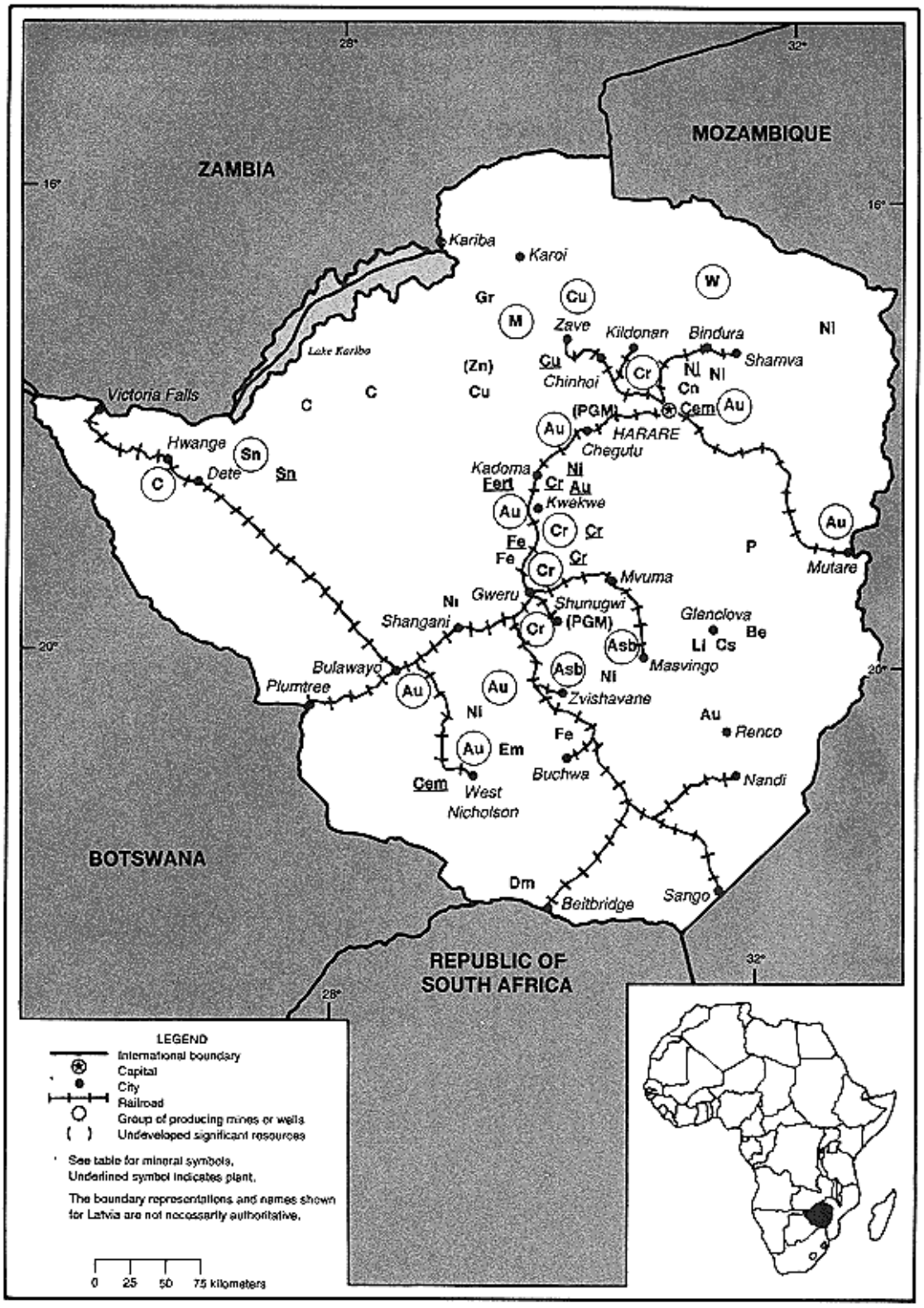
Map of Zimbabwe (overleaf) : Courtesy of Education maps Africa

Mineral map of Zimbabwe : Courtesy US Geological Survey

Map of Zimbabwe



ZIMBABWE


ZAMBIA
MOZAMBIQUE
BOTSWANA
REPUBLIC OF SOUTH AFRICA
Kariba
Karoi
Zave
Kildonan
Bindura
Shamva
Lake Kariba
Victoria Falls
Chinhoi
HARARE
Chegutu
Hwange
Dete
Kadoma
Kwekwe
Mvuma
Gweru
Shangani
Shurugwi
Glenclova
Masvingo
Bulawayo
Plumtree
Zvishavane
Renco
Buchwa
Nandi
West Nicholson
Beitbridge
Sango
Mutare
LEGEND
International boundary
Capital
City
Railroad
Group of producing mines or wells
( ) Undeveloped significant resources
* See table for mineral symbols. Underlined symbol indicates plant.
The boundary representations and names shown for Latvia are not necessarily authoritative.
0 25 50 75 kilometers

1.1 Introduction

Zimbabwe is well endowed with mineral wealth. It boasts of having more than forty economic minerals being mined which include precious metals, energy minerals, platinum group metals, and industrial minerals. The mining industry has contributed significantly to the development of the country. Most of the towns and cities in Zimbabwe owe their origins to mining activities (Svotwa, et al., 2001). Since 1999, the annual growth in the industry has taken a downturn and this downturn has been further exacerbated by the perceived political risk in the country (see Figure 1).

The country has lost out significantly on Greenfield competitiveness (Tilton, 2000) as illustrated by the number of projects that have been put on hold due to political risks. The Sengwa coal project in the north west of Zimbabwe is one good example. Once a project is put on hold for political reasons, it is difficult, in fact impossible, to restart it without serious policy reviews. Refer to Figure 2 showing the flow of mining investment into Zimbabwe from 1995 to 2003.

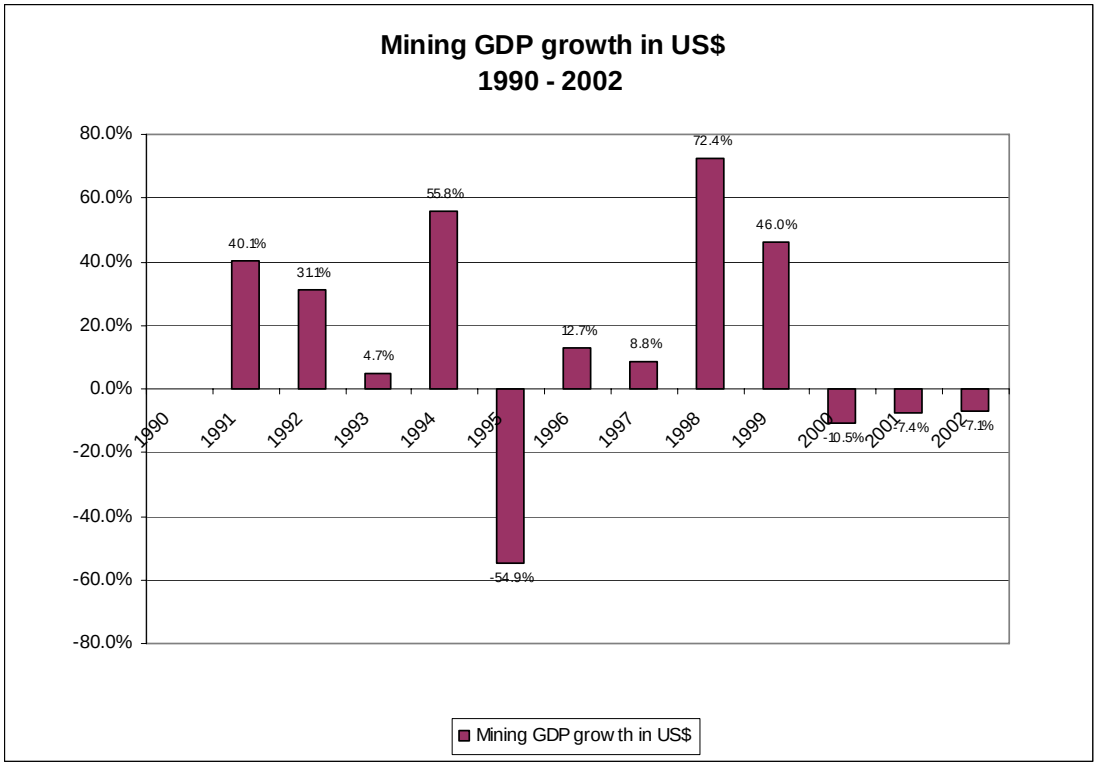
A survey by the Fraser Institute has put Zimbabwe among the lowest countries in investment attractiveness. This attractiveness index ranks a country's mineral potential and policy potential in attracting foreign direct investment in exploration. It is interesting to note that the mineral potential index for the country is high, but the overall investment attractiveness is very low because of the policy potential. A country with such a high mineral potential should enjoy the benefits of foreign direct investment in the sector. Refer to Appendix 1. Though Zimbabwe still has functioning mining operations, these operations have been harmed by the closures of some mines, thereby worsening the unemployment situation, mineral production, revenue generation, and foreign currency earnings. Its brownfield competitiveness (Tilton, 2000) is also under threat. If the situation continues, a complete re-evaluation of the situation is required to once again attract investment. Although some companies have braved the harsh political weather and invested in the country, companies such as Rio-Tinto on its Murowa diamond project which is likely to come on line in the near future and Zimplats in Makwiro which is now fully operational, other new and

expansion projects have adopted a wait and see attitude until after the 2005 parliamentary elections. However, much still has to be done to attract even more investment. The Murowa diamond project has downscaled its original planning production from 1.2Mt/a to just 0.2Mt/a because of perceived country risk (African Mining Journal, 2004). These developments can only be explained by the high Mineral Potential Index of the country that far outweighs the low Policy Potential Index. The country should strive to attract more investment by improving its low policy potential; certainly the endowment theory only works in exceptional cases (Tilton, 1992).

A combination of political disturbances emanating from the land redistribution exercise, poor governance, and lack of incoherent policies has affected the performance of all sectors of the economy including agriculture. From being the custodian of the food security portfolio for SADC, the country has been reduced to importing food.

According to projections or forecasts on mining development done in the 1990's by the World Bank, Zimbabwe was projected to be leading the region in the 2000 era in terms of investment in mining, but it has been overtaken by countries like Namibia and Tanzania which previously could not be compared with Zimbabwe.

Figure 1 Mining's GDP growth rates at factor cost



Source: CSO and Reserve Bank of Zimbabwe

The mining sector relies heavily on foreign direct investment (FDI) for its growth because very few governments in developing countries can afford such a risky sector with regard to investment. Mining has been classified as unique from other business sectors because of its inherent risk, long gestation periods, uncertainty in ore bodies, and its direct interaction with the global economy. The market volatility of the sector is threatened by world mineral price fluctuations, technological developments that might introduce substitutes for a commodity, and high environmental liability among others threats.

Figure 2 Number of new mining projects into Zimbabwe

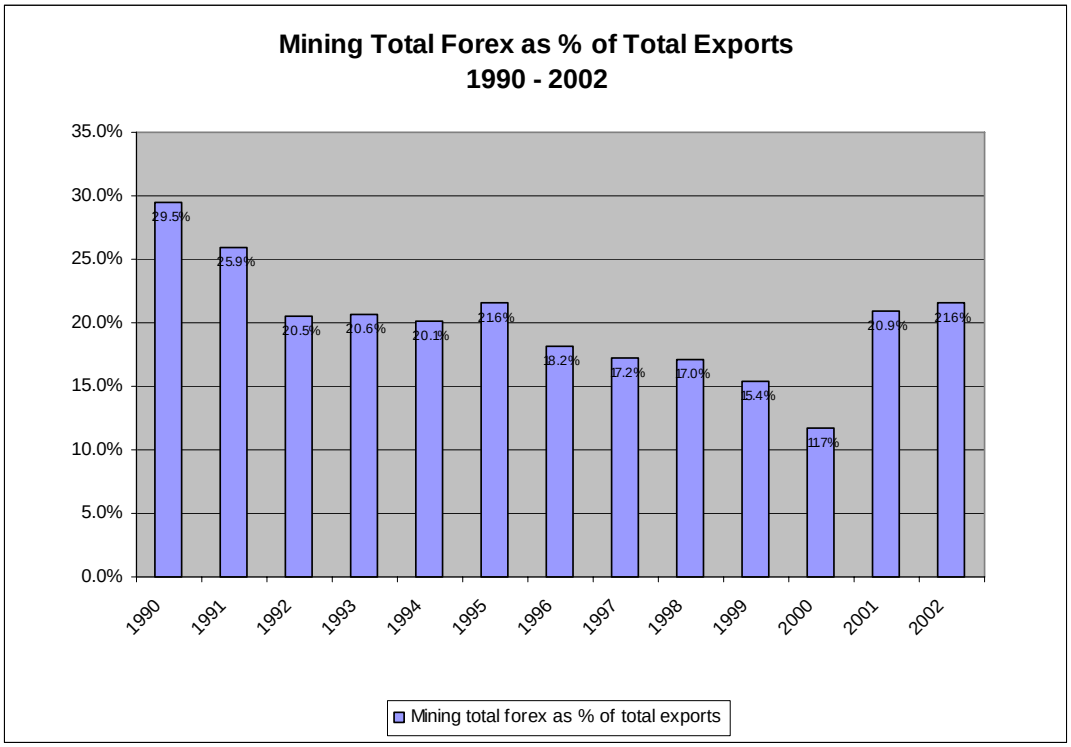


Source: Zimbabwe Investment Centre 2004

(2004 projects recorded only up to June 2004)

The sector, if properly supported, is a vehicle for development in developing countries. Zimbabwe should endeavour to fully utilise its resource potential for the benefit of the country. With the current southern African region being prone to droughts, it is important to recognise the imminent potential of other sectors, such as mining to supplement the agricultural sector, which is the backbone of Zimbabwe's economy. The sporadic droughts, coupled with recent political developments, have literally relinquished Zimbabwe of its duty as the bread basket of the SADC region (Food security). The sector's contribution to export earnings, despite its declining production and underutilisation of capacity, has increased in the past three years due to the frequent droughts experienced in the past years and the effects of the fast track agrarian reform programme on agricultural production, the backbone of the country's economy. Refer to Figure 3 below.

Figure 3 Mining foreign currency earnings as percentage of total exports



Source: Chamber of Mines –Zimbabwe

Vast areas of the country's endowed mineral wealth still remain untapped. The Great Dyke also hosts world-class deposits of chrome and platinum group metals. It should be borne in mind that a mineral resource is not worth anything if it lies dormant in the ground. It has to be converted into reproducible capital goods. It has become abundantly clear that a rich mineral endowment on its own cannot be effectively competitive without an associated sound mineral policy framework. Although already established mining companies have continued operating in Zimbabwe, new investment has been thwarted by the current political situation as well as the incoherent policies currently hampering the economy. It is, therefore, important to look at the historical performance of the sector from 1990 to 2003 and analyse the trends and possible explanations for these. The solution hinges on understanding what went wrong and the acceptance of the free market economy that is now the predominant determinant in most economies. Comparison of the current Zimbabwean investment environment with other SADC countries is important in order to align it with regional and world trends.

In mining, the past has a direct bearing on the future. Policies that discourage Greenfield competitiveness now will be manifested in lack of development of new mines in the future. Mining has long gestation periods, and if preparatory exploration work is violated, the result is self destructive. Countries, such as Namibia, Botswana, and Tanzania to mention a few, that are currently enjoying new mining developments, have had policies in the past that have promoted Greenfield investment which have now become mining operations. The need to promote Greenfield competitiveness should not be overemphasized. What must be taken into account is that the rate of exploration activities that finally develop into mining ventures is generally less than 1 in a 100.

The competitiveness of any country is measured by the broad attributes summarised below. The mineral endowment of the country also has a major influence on mining investment.

Economic Performance

- Domestic Economy
- International Trade
- International Investment
- Employment
- Prices

Government Efficiency

- Public Finance
- Fiscal Policy
- Institutional Framework
- Business Legislation
- Societal Framework

Business Efficiency

- Productivity
- Labour Market
- Finance
- Management Practices
- Attitudes and Values

Infrastructure

- Basic Infrastructure

- Technological Infrastructure
- Scientific Infrastructure
- Health and Environment
- Education

1.2 Related Studies and Motivations

The performance of the Zimbabwean economy has impacted negatively on all its sectors, and mining is no exception. Given its high mineral potential, the country has not lived up to its level of attracting foreign direct investment in the sector. Therefore, it is important to look at the mining sector performance and draw up explanations for these trends and also prescribe corrective action in accordance with strategies for mining development in the SADC region. The sector is faced with the following challenges and problems: decline in mineral production, negative growth, decline in the flow of new investment, reduction in the GDP contribution from the sector, employment creation, underutilisation of capacity, and most seriously, loss in competitiveness.

Otto (1998) in his paper entitled “Mining Policy, Legislation and Regulation” clarifies the importance of having a stand-alone mineral policy document as opposed to interpreting policy from diverse sources of information. A stand-alone policy document is a useful regulatory tool that serves two important functions both to the investor and the government. He describes the stand-alone document as quoted below:

> *First, it provides the mineral industry with a clear statement of the government's expectations and intent towards the industry. Secondly, it provides lawmakers and regulators with broad guidance. Implementation of mineral sector policies is done through many agencies and administrative channels. An important part of the policy implementation framework is the body of laws that will statutorily affect the industry. Investment and government mining policy are closely linked. Even the most highly geologically prospective nations will have difficulty in attracting foreign investment without adequate national policy, regulatory and fiscal systems Otto, (1998).*

Over the past few years, the level of mineral sector investment has increased in real terms, and those nations that have implemented regulatory systems to reduce or allow a company to manage risks at an acceptable level have, for the most part, enjoyed increased levels of investor interest. Zimbabwe needs to provide this conducive investment platform in all aspects in order to benefit from increased mineral resource development. At present, the country does not have a stand-alone policy document, whose importance has been highlighted above.

Matshediso (2002) established the investment criteria for mining companies to decide on investment destinations. It is important to benchmark Zimbabwe on the criteria given. The question is: what needs to be done to boost the country's position in Greenfield competitiveness?

Recent consecutive spells of droughts coupled with the fast track land redistribution program have affected Zimbabwe's agricultural sector: the backbone of the country's economy. The country has experienced droughts in 1982, 1992, 2001 and a looming drought again in 2004 and 2005 season. It is high time that the government instils competition within other sectors of the economy to fully promote the potential of other sectors in building the economy. Sector competition should be promoted by fostering a spirit of competition between different sectors in the economy.

A number of studies have been done to provide strategies for Southern African countries to attract investment in the mining sector. It is paramount for Zimbabwe, as part of the SADC region, to align itself with the latest developments in the mining sector. The African Development Report, under the auspices of the African Union (AU) and New Partnership for African Development (NEPAD), focuses on transformation and good governance through peer review as the driver to economic development in African countries and also encourages countries to diversify from being one sector-oriented, for example Botswana (mining). Zimbabwe is quite diverse in the economic sectors that contribute to its national economic development.

Below are studies and research areas done in an effort to attract investment, not just regionally but even globally.

- Strategies to attract new investment for African mining, (Strongman –World Bank 1994)
- The Fraser Institute Annual Survey of Mining companies, (www.fraserinstitute.com)

- Mining Taxation in Developing countries (Otto, 2000) a study done for UNCTAD in November 2000.

- Small Scale Mining and Sustainable development within the SADC region – Zimbabwe (Svotwa) MMSD Report 2002.

- The African Competitiveness Report (World Economic forum 2004 Maputo)

- African Development Report 2004

Research on Small Scale Mining in Zimbabwe

Svotwa (2000) highlighted the significant potential that can be realised from the sector, if given proper support and promotion. The number of small scale miners as well as informal artisanal miners has increased dramatically over the past five years, and it is projected that over 500 000 will be engaged in this activity by 2004. The informal miners, better known as gold panners or *makorokoza* in Zimbabwean circles, mainly concentrate on gold mining, and their operations lack control and organisation. Their operations are permeated with illegal dealings in the minerals. In most cases, the produced gold finds its way out of the country sidelining the normal channels. If all the minerals produced from the sector were properly accounted for by the state, it would have contributed immensely to the economic development. With the unemployment levels now reaching an alarming 70%, the sector can provide alternative employment and reduce other anti-social problems associated with high unemployment, like crime.

Informal mining has been negatively perceived because of the associated environmental degradation, dangerous and hazardous operating conditions, and illegal dealings in the minerals. It is, therefore, imperative to assist the sector through the provision of funding, training, and a review of legislation to accommodate the sector as a formal activity. Current developments include constant review of gold support price from Z$71 000 to Z$85 000 and now at Z$92 000 per gram of gold in 2004 to lure illegal operators to sell the metal through official channels, like the RBZ and Fidelity printers.

Mining taxation in developing countries (Otto 2000)

The paper discusses the objectives of mine taxation by the host government to raise revenue and guide the behaviour of taxpayers. The most important aspect of raising revenue is to decide on how high the tax burden should be. Higher tax burdens imply less profit for the investor, and the governments are faced with the challenge of balancing their share with the firms' willingness to invest. If tax becomes exceedingly low, governments risk losing fiscal revenue. On the other hand, the behaviour of investors has to be guided to align with the nation's objectives. One way is by using the command and control approach, specifying obligations that are supposed to be met through law. The other way to influence behaviour is by using tax as an incentive to comply with certain requirements that can range from environmental compliance to health and safety. A company emitting pollutants above the threshold limits can be taxed more in order to discourage the practice.

Fiscal methods used by governments can be grouped into two categories: the tax type and the incentive type summarised below. General comments about these fiscal methods in most African countries, as studied by Otto, have been added.

Tax type:

· Income or profits-based tax (common)
· Import duty (rare: exemptions often available)
· Export duty (rare: exemptions often available)
· Royalty tax (common: unit type, *ad valorem* type, profit type)
· Application/issuing/registration fees (common: usually minor)

· Surface rentals (common: usually minor)
· Withholding tax (common: loan interest, dividends, and services)
· VAT (common: exemptions or credits usually available)
· Stamp duty (common: usually minor)
· Sales tax (rare: exemptions usually available)
· Local government taxes (common: usually a property tax based on book or assessed value)
· Mandatory payroll-based taxes paid by company: (common)
· Government equity (very rare: except in West Africa region)

Incentive type:

· Accelerated depreciation (common)
· Depletion allowance (rare)
· Ring-fencing (common)
· Tax stabilization (used in some large producer developing countries)
· Exploration expense carry-forward (common)
· Deductible environmental, reclamation, closure costs (common)
· Tax holidays
· Loss carry forward (common)
· Loss carry back (rare)

The reasoning behind the tax types, such as income tax, royalties, withholding tax, import and export duties, surface rentals, value added tax, are explained precisely so that investors can appreciate their importance. The reasons for including incentives like accelerated depreciation, tax holidays, and ring fencing also show the commitment of governments to share the risk associated with mining.

Strategies to attract new mining investment in African countries (World Bank 1992)

The paper highlights concerns that African countries are only attracting less than 5% of exploration and capital expenditure of the world mining industry. The reason for this under performance is that Africa has failed to attract and mobilise the risk capital and development funds. Governments need to shift their objectives towards the prime objective of optimum maximisation of tax revenue from mining over the long term

instead of putting so much focus on political objectives. It is imperative that governments move from being participatory to regulatory.

The historic situation of African mining shows that soon after independence most governments nationalised mining entities in a bid to stress their sovereignty over mineral resources. This nationalisation operated to maximise short-term returns at the expense of long-term growth that would have sustained long-term revenue generation. The large state controlled enterprises have declined in performance, and the neglect of informal mining sectors has resulted in a mushrooming that has supported an increase in uncontrolled illegal mining. The success in Zimbabwe's mining development in the 1992 has been attributed to private ownership and operation of mining companies.

African governments should review their policy environment. The *Business As Usual* approach will not promote increased investment. Strengthening sector institutions, improving exploration, and promoting investment should be prioritised.

The study analyses in detail the specific actions which African governments need to take. The study suggests the following agenda of government action for the 1990s:

- Economic adjustment programs should continue to evolve. In African countries with important mining sectors, the macroeconomic effects of mining must be taken into account fully. Exchange rate policies should be market-based and should be aimed at economic stability. Trade regimes should not be restrictive.
- Governments should clearly spell out their mining development strategies. The private sector should take the lead. Private investors should own and operate mines. The government should promote private investment, establish policies and regulations, supervise implementation of established policies, and monitor the private companies.
- Existing state mining companies should be privatised at the earliest opportunity to improve productivity of the operations and to give a clear signal to investors with respect to the government's intention to follow a private sector-based strategy.

- The incentives for mining investors should be clearly determined in investment legislation. The taxation of mining companies should be consistent with the taxation of other sectors in the economy but should take the specific nature of mining as a resource-based industry into account. Mining taxes should be earnings-related rather than output or input related to avoid distorting investment and operational decisions. Mining taxation needs to take account of tax levels in other mining countries to maintain or establish competitiveness of the national industry.

- Mining legislation should reduce risk and uncertainty for potential investors and ensure easy access to exploration permits and mining concessions. Permits and concessions should be transferable with a minimum of government interference. Investment agreements, where required, should provide additional assurances to protect the investor from unwarranted government interference and provide additional safeguards for the government to ensure that investors will live up to their obligations.

- Mining institutions, such as the Ministry of Mines, Geological Survey, environmental protection and mine safety institutions, in most African countries should be reorganized and strengthened to better perform their promotional, regulatory, and monitoring functions. Government institutions should discontinue operational and marketing functions.

- Environmental and health and safety aspects of mining in Africa have been neglected in the past. To ensure sustainable mining development, appropriate regulations and standards need to be established together with effective monitoring and enforcement capabilities.

- Artisanal mining requires special attention by African governments. Legalisation and improved organisation of artisanal mining would generate income in rural areas and provide revenue to the government. Incentive-based marketing systems would reduce the illegal exportation of minerals by unlicensed traders.

The African Competitive report (World Economic forum 2004 Maputo)

The report compared the strength and weaknesses of 25 countries in Africa. Statistical data and information collected from chief executives of African countries was the basis of the report. The competitiveness was evaluated based on the following criteria: openness, governance, finance, labour, infrastructure, and institutions. It also showed that small, dynamic, and stable economies with solid export bases performed the best. Examples of these countries in Southern Africa were Botswana and Namibia. Most African countries have been trapped in economic and political disturbances to the detriment of their attractiveness to investment. Those countries with a stable track record of sound management of the economy, sustained growth, and experience in mineral development performed very well. Zimbabwe was ranked 22 out of the 25 countries reviewed.

1.3 Objectives of the Research

Below are listed objectives to be achieved by this research:

- to clarify the importance of mining to the Zimbabwean economy so that the problems and challenges facing the sector are given due attention by the responsible authorities.

- to critically review the performance of the minerals sector (1995 – 2003). The sector has suffered a decline in mineral production, growth, and loss of competitiveness. These factors highlight the need to address these problems urgently.

- to analyse the reasons for Zimbabwe falling behind in attracting foreign direct investment in the mining sector . It was envisaged to be leading the region in terms of mineral development, but this has not materialised.

- to enumerate the decision criteria influencing investment in the SADC region and how Zimbabwe can focus its policy revision along the guidelines of the Strategy for Mining Development in SADC (Matshediso, 2002), and the EU and NEPAD initiatives for African development.

- to compare mining taxes in Zimbabwe with other SADC countries and recommend any necessary adjustments that will improve its competitiveness

- to identify ways and means of encouraging mineral development in Zimbabwe and the need to have a coherent mineral policy.

1.4 Research Methodology

The research is overall qualitative: however, it is supported by quantitative analysis of Zimbabwean mining industry in explaining the trends observed in the past 8 to 10

years. An economic analysis provides a background of the importance of a review in policy.

The first approach entailed compiling statistics of the Zimbabwean mining sector and using researched facts to illustrate the importance of mining to provide sound arguments for the research. This approach also entailed consultation with relevant authorities especially in Zimbabwe, including the Ministry of Mines, Zimbabwe Chamber of Mines (ZCM), Zimbabwe Investment Centre (ZIC), and other relevant organisations, such as the Minerals and Energy Policy Centre (MEPC) in South Africa.

The second phase reviewed the country's investment environment and competitiveness with regard to its mineral development policies, taxation system, and fiscal regimes and how these fare regionally, based on investment criteria influencing investment in the region (Matshediso 2002)

The third phase looked at a comparative policy impact study of Zimbabwe with other SADC countries in terms of a policy and legal framework to establish how other countries have managed to attract investment. The legal framework of Zimbabwe's mineral policy, though not properly documented, compares favourably within the region, but the country is still lagging behind other countries. Has the uncertainty in the administration, interpretation, and enforcement of regulations been the cause of the lagging behind?

The final phase identifies issues within the policy and legal framework that need to be addressed to put the country back on the competitive list within the region and proposes recommendations based on the findings that will promote mining development in Zimbabwe, primarily focusing on policy formulation, administration of the sector, and support needed to achieve the set goal.

1.5 Limitations

The research is aimed at highlighting areas from which the problems facing the mining sector emanate. A thorough analysis and comparisons of tax regimes with all regional countries is beyond the scope of this report.

Small scale mining, both formal and illegal, require a separate research to conclusively address the problems in this sector: hence further research conducted primarily for this purpose is essential.

Information from various other governments' departments essential to the compilation of this report was difficult to access and this posed a problem for conducting the research.

Government departments were reluctant to provide vital information on the productivity of individual mines; therefore the analysis has been done on a national level.

1.6 Conclusion

The country's political situation has attracted global interest because of its past shining economic performance to its complete near collapse recently. It received global approval and recognition and regional admiration because of the sound policies that reaped results soon after independence in 1980. The country's recent political problems, stemming from poor governance, corruption, and economic mismanagement, have affected all the main sectors of the economy including agriculture, manufacturing, mining, service sectors, and so forth. Mining has played a pivotal role in the country's development even before independence. The following chapter analyses the role of the mining industry, its administration, mineral endowment as well as the performance of the sector since 1993 up to 2003. Gold is the highest single mineral export earner: consequently most of the industry's performance analysis is based on it, although platinum has recently recorded a boom in production contributing significantly to the economy's GDP.

CHAPTER 2

2.0 THE ROLE OF MINING IN ZIMBABWE

2.0 Introduction

This chapter describes the developments of Zimbabwean economy since 1995. The mining industry's administration has been described extensively, including the different departments' responsibilities, the role of the private sector, and marketing of the country's minerals. The country is well endowed with vast mineral wealth; the most important minerals include gold, PGMs, chrome, base metals, coal, and industrial minerals. A conclusive discussion of these minerals, locations, and operating mines as well as future resource and reserves has been done. See map of Zimbabwe operating mines in chapter 1 of the Background and Objectives section of the report. The performance of the mining industry has been divided into two phases (1993 – 1999) and then from 2000 to 2003. The division in 2000 occurred when events were suddenly exacerbated by inflation, interest rates, and foreign currency reserves posting unhealthy results. Mine closures worsened the unemployment situation, and the country's competitiveness has been harmed by these developments since 2000.

2.1 Zimbabwe's Economy

The country's economy is mainly dependent on agriculture, mining and manufacturing sectors which are arguably the main pillars of the economy. Zimbabwe is historically an agro-based economy, but the recent droughts have significantly affected agricultural output. In addition, the fast track land reform programme has affected the flow of operations in the commercial farming areas. The alarming reduction in agricultural output has even forced the country to import grain for local consumption, an indication of the gravity of the problem, considering that Zimbabwe was mandated with the food security portfolio as part of its SADC responsibility.

The government of Zimbabwe faces a variety of difficult economic problems, as it tries to consolidate earlier efforts to develop a free, market-oriented economy through

the Economic Structural Adjustment Program (ESAP 1991). The involvement of the government in the war in the Democratic Republic of the Congo has drained the economy of millions of dollars. The unclear position of the country's involvement has also caused the IMF to suspend its support because of failure by the government to meet budget obligations. Inflation has risen from 32% in 1998 to 59% in 1999 to 60% in 2000 and to about 135% by the end of 2002. The large government deficit, AIDS, and runaway inflation have contributed to the weakening of the economy. The land reform programme, characterised by violence, has seriously affected the commercial farming sector that was traditionally the source of exports, foreign exchange, and employment including the production of most agricultural crops, such as tobacco, maize, cotton, and so forth.

The mining sector generates more than 30% of the export earnings, although recently, due to underutilisation of capacity and falling mineral production, this figure has fallen to 21% in 2002. Most of the mineral production has been achieved by the private sector, although Zimbabwe controls the mineral rights and enforces environmental regulations and legislation pertaining to the mineral resource. Zimbabwe, therefore, cannot be described as a mineral-based economy. According to Nankani (1985) and Auty (1993), a mineral-based economy is defined as one in which mining accounts for at least 8–10% of the GDP and 40% of the export earnings.

2.1.1 Political Economy

On attaining independence in 1980, Zimbabwe adopted a socialist ideology until 1990 when it introduced the Economic Structural Adjustment Programme ESAP, 1991 to 1995. The programme, prescribed by the World Bank and IMF, was intended to reduce direct controls and let the economy utilise indirect market-based methods of resource allocation, which included the deregulation of the economy, trade liberalisation, public enterprise reform, and fiscal and monetary policy reforms (GoZ 1991).

Since the inception of ESAP, the average annual GDP growth rates have consistently fallen. The table below shows the GDP growth rates from 1991 to 2002.

Table 1: Zimbabwe's average annual GDP growth rates, by period, 1991-2003

Adjustment (ESAP) (1991-99)	2000	2001	2002	2003
2.5	-4	-7.3	-12	-9.0[1]

Source: computations from Zimbabwe Central Statistical Office Reports.

-9.0[1] Estimate figure for 2003

Though the ESAP programme facilitated easy procurement and access to foreign currency by the mining companies which helped to replace aging and old equipment, wages and operating costs escalated resulting in retrenchments of the labour force. Unemployment in the mining sector took its toll. The overall unemployment rate is over 70%, while over 60% of the population is living in dire poverty: below the poverty datum (Jowa, 2003).

For the past five years up to 2004, the economy has recorded alarming negative growth rates. The main sectors of the economy, including agriculture, mining, and manufacturing, have also recorded negative growth. With the current uncertainty concerning agricultural production due to droughts, it is important for the government to actively promote the development of the mining industry by luring foreign direct investment. The country has arguably the most diverse and developed mineral sector in the SADC region with a variety of over 40 minerals under production. The country is well endowed, and its mineral potential has always been rated highly (Matshediso, 2002). The most striking geological feature is the Great Dyke, a massive volcanic intrusion extending NE/SW over 500 km and with a width of 10 km. The Dyke is host to minerals, such as chrome and platinum group metals. The platinum resource is the world's second largest after South Africa. Most of the gold is hosted in the Greenstone belts.

2.1.2 Infrastructure

Most of the infrastructure currently enjoyed in Zimbabwe is owed to mining. The mines, aided by agricultural activities, formed the centres of commercial activities and finally developed into permanent communities with the basic infrastructure, such as clean water, communication, health, education, and ultimately, local governments. The development of at least 80% of infrastructure and the cities and towns in Zimbabwe are closely linked to mining and agricultural activities (Svotwa, 2000).

The Zimbabwean infrastructure is generally good. Road and rail networks are spread throughout the country. There are approximately 19,000 kilometres of roads: 8,500 of which are tarred and over 10,500 of which are not tarred. Local authorities and municipalities administer an additional 61,630 kilometres. The National Railways of Zimbabwe operate and maintain the rail system. The rail networks cover some 3,000 kilometres and provide strategic links with neighbouring countries, especially with the ports of South Africa and Mozambique. Significant rehabilitation of certain railway lines and the entire fleet of locomotives and wagons are required to cope with present-day demands for cost and time-effectiveness.

The freight handling section of Harare International Airport has been extensively upgraded to conform to international standards. This upgrading has greatly improved the airport handling of goods. The expansion was made possible by a US$2 million capital injection from DHL Aviation. As of 2000, a 24-hour service (seven days a week) is now provided, with major reductions in handling time of goods. To facilitate efficient handling of goods, the scaling method has subsequently been computerised (Zim Treasury report 2000).

Electricity is the main source of energy which is generated at Hwange Power station and Kariba power station. The total country's electrical output falls short by 40% and the remainder is imported from neighbouring countries, including South Africa and Mozambique. Plans to supplement the shortfall in electricity production was anticipated with the development of the Gokwe North thermal power station at a cost of USD63M in 1999, but the project has since been shelved. This was a joint venture between the Zimbabwe government, Britain, and the World Bank. The project also necessitated the development of the Sengwa coal mine to supply coal to the thermal power station. Indefinite suspension of these projects has dealt a heavy blow on

Zimbabwe's FDI. The perception of Zimbabwe as a lucrative investment destination has slowly been eroded.

The telecommunication network is quite substantial, covering almost the entire country. This network has been further improved by expanding the coverage of cellular networks. Over 32 people per every one thousand have access to telephones, either mobile phones or the conventional ground lines (Zimbabwe Treasury, 1999).

2.2 Zimbabwe's Mining Industry

2.2.1 Administration

The Ministry of Mines and Mining Development is the government-led agency in issues relating to the mining sector. The role of the Ministry is to promote the development of the industry as well as to regulate its activities pertaining to environment, health and safety. This Ministry has had different names which dictated its portfolios since 1996. During the period 1996 to 2000, it was called the Ministry of Mines, Environment and Tourism. Concerns were raised from the mining industry through its official mouthpiece, the Chamber of Mines, that the Minister tended to concentrate on tourism and environment at the expense of mining. Interestingly, this period coincided with the time when Zimbabwe was attracting foreign direct investment into the sector, for example the BHP Hartley Platinum Project. The momentum already established needed a strong, dedicated and determined Ministry to forge ahead in further attracting more FDIs. In 2001, its name was changed to Ministry of Mines and Energy. Amalgamation of the two sectors was logical in the sense that the mining industry consumes about a third of the nation's electricity and combining the two aided in stressing the importance of energy to the viability of the mining industry. Increases in energy charges were evaluated on the basis of the impact to the mining sector. The sole supplier of electricity in Zimbabwe, ZESA, viewed the development as thwarting the tariff increases they had anticipated, hence ZESA advocated for the separation of the two. In 2002 to date, the Ministry has been known as the Mines and Mining Development, a name that shows more focus and commitment to the development of the industry.

The Ministry has departments that handle specific functions such as:

- Geological Survey Department
- Mining Engineering Department
- Metallurgy
- Mining Law and Administration
- Minerals Promotion and Development

2.2.2 Geological Survey Department

This is an important department as it is the custodian of collated, compiled, and archived geo-scientific information about the country's geology which can then be used as a marketing tool of its mineral potential. This data is available to both exploration and mining companies. All exploration information from anyone is supposed to be submitted to the Department in order for the Department to continuously update its database with the latest information. Zimbabwe boasts of having one of the most up-to-date geological databases, a major attraction for exploration companies. The department also offers technical services to small and medium-scale miners on mostly geological matters.

2.2.3 Mining Engineering Department

The Department works mainly under the Mining, Management and Safety regulations. It is the inspectorate division of the Ministry, covering mine explosives, health safety and environmental regulations with regard to the mining industry. In a bid to support local small scale miners, it provides free advisory technical services to ensure sustainable exploitation of the resource. Apart from being mainly technical, it also plays a financial role in managing the Mining Industry Loan Fund Scheme assisting small scale mines with funds and equipment.

2.2.4 Metallurgy

Apparently this Department is not fully utilised since it is merely a referral laboratory for issues relating to metallurgy. Like most other departments, it also offers

metallurgical and analytical services to the public, including free advisory services to the small scale miners. If the marketing of minerals is liberalised, that is bypassing the MMCZ, this Department will be responsible for assessing declared export mineral production in terms of quantity, quality, and destination of such. Its critical role will then be to ensure that government is not deprived of revenue. It is a vital department to curb illegal and false declarations of outputs.

The declaration of cement copper as a by-product of nickel production by a top mining company has raised serious concerns about professional smuggling of worthwhile by-products of nickel, such as gold, under the pseudo name of cement copper. During the course of investigations into the matter, the Chief Executive Officer of the said company was assassinated by assailants, further raising suspicion of the complexity of the smuggling syndicate.

2.2.5 Mining Law and Administration

The department's main responsibility is the administration of the Mines and Minerals Act. This entails managing the application and processing of different mining titles as well as dispute resolution involving different parties. Lack of adequate funding is a major set back in the department's service delivery. Of late it has just emerged that the mining claims register is in disarray following double or multiple registry of the same claim. Inadequate funding of personnel is partly to blame, since this has restricted officials to office work, unable to co-ordinate actual field work.

2.2.6 Minerals Promotion and Development

The marketing of the country's mineral endowment in attracting investment through policy development and promotional activities is the sole responsibility of this Department. This Department is the nucleus of the Ministry, since it coordinates all technical departments. Appraisal of projects on technical and economic aspects of mining projects is undertaken by this section. The section provides information to the general public as well as undertaking promotional activities, such as road shows. It is important for this Department to expand its activities beyond the borders by attending

international mining trade fairs aimed at marketing the country's potential and explaining any misconceptions regarding investment in the country.

2.2.7 Private Sector

The mining sector is mostly dominated by foreign owners in the form of multinational companies. The government, over the years after independence, has slowly relinquished direct involvement in the control and operations of mining companies. Soon after independence Zimbabwe, like many other African countries, actively participated in the extraction and processing of minerals. This was done through the Zimbabwe Mining and Development Co-operation (ZMDC) and Zimbabwe Iron and Steel Company (ZISCO). In some cases, ZMDC took over collapsing companies, like Mhangura copper mine and Kamativi tin mine, in a bid to resuscitate them but paid dearly for the move and finally also abandoned them. Mining companies that are under its portfolio include, among others, Munyati Copper mine, Elvington Gold Mine, Lomagundi Smelting and Mining, Jena mines, and Sabi Consolidated Mines. By the end of 2002, Munyati Copper mine, the remaining sole copper producer, wound up operations citing viability constraints despite the firming in the copper price. The participatory stance of the corporation has been coming under scrutiny because of the fast reduction in its mines portfolio. Apart from involvement in the operations of mines, ZMDC also offers technical support to small scale mines.

The government has a direct influence in the marketing of all minerals through the Minerals Marketing Corporation of Zimbabwe (MMCZ), except for gold which is sold to the Reserve Bank through its subsidiary, Fidelity Printers in Harare. It also assists small scale miners in processing their gold, especially those who lack own facilities. A case study of the corporation revealed that it did not offer any significant benefit to both the government and private sector, apart from allaying fears of transfer pricing which was the main reason for its inception (Musingwini, 1999) The new PGMs have different marketing arrangements, where the companies export the concentrate for further refining, mainly in South Africa, due to the country's lack of facilities for full beneficiation of the mineral.

The private sector, which dominates the industry, is divided into three main groups, exploration companies, mining companies, and individuals and groups providing goods and services to the sector. In most cases, exploration companies are subsidiaries of mining companies, whilst a few are independent junior exploration companies that undertake exploration in their own right for other companies. Most of the mining companies in Zimbabwe are subsidiaries of multinational companies from South Africa, Canada, Australia, and Europe.

The mining companies and individuals' category also includes the small- to medium-scale mining sector. This sector has over 1300 producers and over 50 000 players who have mineral titles for gold and base metals. The other sector that has been operating illegally is gold panning with an estimated 1.5 million people involved in illegal gold panning (Svotwa & Mtetwa 2001). *Amakorokoza,* as they are popularly known, lack the proper organisation, hence they are generally viewed in bad light because their activities are fraught with environmental consequences, unsafe working conditions, and the resultant illegal gold dealings. There is a misconception that small scale miners are all gold panners, but this is not the case. These small scale miners are legally registered operators who declare their production as required by law and contribute significantly to mineral production in tin, gold, chrome, tantalite, gemstones, and limestone.

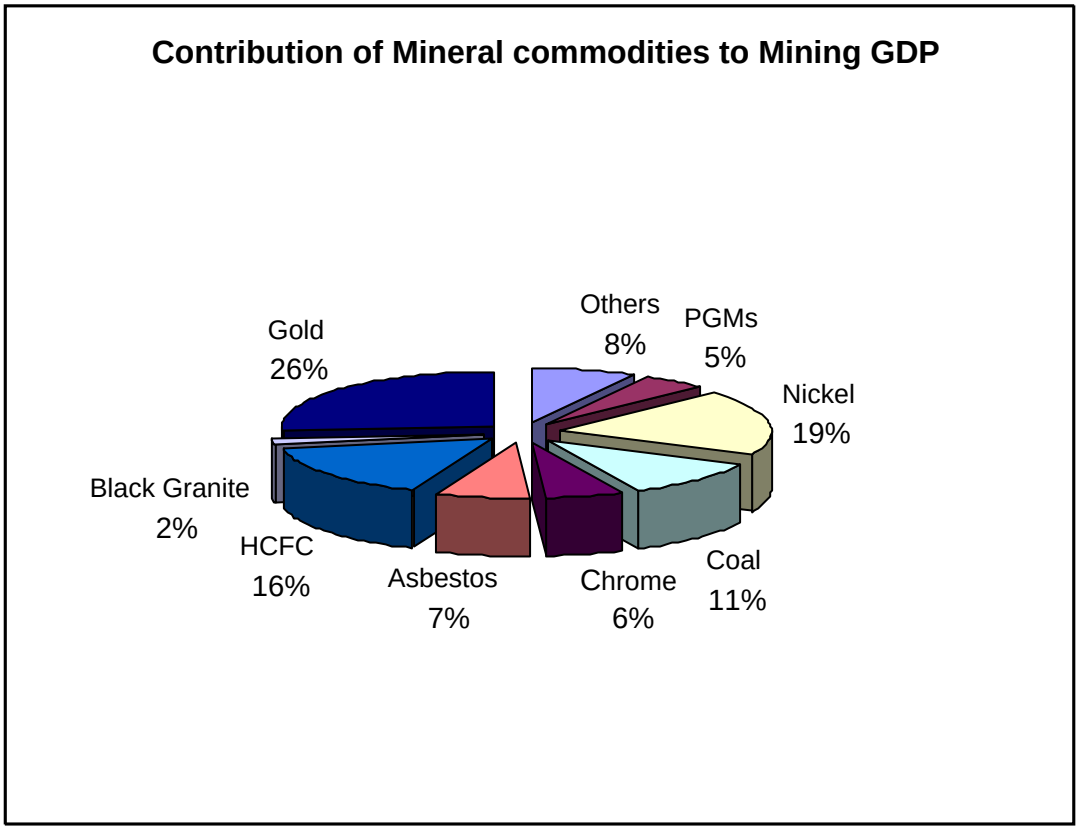
The sub-sector providing goods and services comprises suppliers of mining equipment and consumables, consultants, and analytical services. The sector plays a crucial role to the mining industry by providing valuable inputs necessary to maintain the production cycle. There is currently a shortage of consultancy services as evidenced in recent projects where services had to be brought into the country because of limited local experience or expertise. Investment in this area is quite lucrative. (Jowa, 2003)

2.2.8 Leading Mineral Products

Zimbabwe has diverse mineral deposits and currently produces over 40 different minerals. Most of the minerals are essential raw materials for the manufacturing and

agricultural industry. Only a few minerals account for most of the export revenue. The highest value of total mineral value comes from gold, nickel, high carbon ferrochrome, coal, asbestos, copper, iron ore, and most recently, the platinum group metals. Despite the high demand of even raw chrome, Zimbabwe, through ZIMASCO, has usurped the opportunity of adding value to the product and mostly export the fully beneficiated product as high carbon ferrochrome alloy (HCFC).

Figure 2 Contribution of mineral commodities to mining GDP



Source: Chamber of Mines Zimbabwe 2002

Zimbabwe's mineral sector is a major contributor to the economy's well being, with gold being the second largest commodity foreign currency earner after tobacco. Recent droughts, coupled with the fast track land reform programme, have adversely affected the agricultural contribution to GDP. Mining's contribution to the economy has generally decreased its contribution to GDP to less than 1%, employment 3.5% and exports 21%. This contribution is attributed to problems currently facing the country at macro and micro economic levels. The value of mineral production has also been affected by falling mineral prices on the world market as well as closures of old mining operations. The growth in gold trading at the parallel market also resulted in a significant reduction in output. The development is blamed on the RBZ's decision to reverse the payment of gold production from foreign currency to local currency in 1998. This was done in an effort to increase import cover and boost the country's foreign currency reserves.

Traditionally, the mining sector's contribution to national employment has averaged 4.2%. Its multiplier effect in employment with other sectors is high. In some mining locations, the whole community's existence is dependent on the mine, and the service infrastructure is extensive ranging from banks, post offices, and other commercial services. The additional employment created is quite substantial.

2.3 Mineral Endowment

Zimbabwe has a diverse mineral potential, and it boasts of having over 40 minerals in active production. The endowed mineral wealth has been successfully exploited for the socio-economic development of the country since the times of the Munhumutapa kingdom. Base metals, precious metals, energy minerals, industrial minerals, and the platinum group metals are all mined in the country. The Great Dyke, a massive volcanic intrusion approximately 500 km in length and 10 km in width, hosts world-class deposits of chrome and PGMs apart from other mineral deposits.

Gold

Gold has been the traditional mineral sought by explorers at the turn of the 20th century. Gold is mainly hosted in the Archean Greenstone belt mainly found in Manicaland, Matebeleland, Mashonaland, and the Midlands provinces. It arguably has one of the best gold yields per square kilometre in the world (Svotwa, et al., 2000). There are also indications that Zimbabwe has a huge resource of refractory gold. The belt still needs to be explored using the modern methods that have been successfully applied in countries like Canada and Australia. The Roasting Plant Project organised by the Scientific and Industrial Research Development Corporation (SIRDC) is currently carrying out extensive research on the processing of refractory gold.

Gold production in the country has been declining since 1999, with volume of production falling from 27 tonnes in 1999 to 22 tonnes in 2000, to 18 tonnes in 2001, to 15.5 tonnes in 2002 and further to 12.6 in 2003. By and large, gold still remains the main mineral product in value terms.

Base Metals

The main base metals mined in the country are nickel, chrome, copper, and cobalt. Cobalt is mainly a by-product of nickel processing and PGMs. Nickel production comes mainly from two mines located on the Greenstone belt, Bindura Nickel and Shangani Nickel mines, whilst the remainder comes as a by-product from PGMs. There are two operational nickel smelting and refining facilities. The one in Kadoma Empress Nickel Refinery (ENR) is currently being utilised on a toll basis to treat nickel concentrate from Botswana. There are very good prospects of investment in this sector. Recently, a low grade deposit has been discovered in Hunters Road near Gweru and is currently being evaluated.

Chrome

The main mineral associated with the Great Dyke is chrome. This geological feature hosts one of the world-class chrome deposits. A good percentage of formal small scale miners is engaged in chrome mining on a tribute arrangement with ZIMASCO and Zim Alloys. Although Zimasco operates its own mines, it is largely dependent on production from the small scale chrome miners, because production from their mines in Shurugwi and Mutorashanga do not meet the capacity requirements of its smelting plant in Kwekwe.

Chrome in the Great Dyke comes in seams averaging 10 cm, and this poses a challenge to large-scale fast production. Beneficiation of the mineral has benefited the country. Despite the high demand of raw chrome on the world market, ZIMASCO has taken a move to export all its chrome after considerable value addition as ferrochrome alloy thereby earning higher returns.

Copper

Copper has been a major mineral in the last decade with production mainly coming from Mhangura mine, a ZMDC-run operation. Its production declined tremendously from the highs of 8 000 tonnes in 1995 to just about 558 tonnes in 2000 until it finally closed at the end of the decade. The closure was as a result of the depletion of known reserves. A major boost in copper industry came about in 2000 when ZMDC again opened Munyati copper mine and that saw production escalating to 2000 tonnes in 2001. Misfortune surrounded the operation as it closed a year later due to viability constraints, despite firming copper prices. Exploration expenditure in the mineral has almost been non-existent, although there is huge exploration potential in the Makonde and Bikita areas. The firming copper prices can present an opportunity to resuscitate the sector.

Iron

Most of the iron ore comes from Buchwa Iron Mining Company (BIMCO) in Kwekwe. There is a huge resource with an average grade of 40% which can support the local iron and steel industry for many years. Iron production has dropped sharply from the highs of 1.2 million tonnes in 1990 to just 272 000 tonnes in 2002. The Zimbabwe Iron and Steel Company (ZISCO) has been operating under capacity due to various technical problems. The parastatal's declining iron ore consumption has not stimulated any growth in the production of the ore. The completion of a rehabilitation programme of the steel works is important for the development of the economy.

Platinum Group Metals

The discovery of a world-class deposit of PGMs in Zimbabwe has put the country on the world map. Union Carbide successfully mined the first PGMs in 1969 in the Wedza district, but the prices then were not attractive enough to warrant sustainable production. Later, in the 1990s, there was a major boost in platinum exploration that saw the emergence of MIMOSA mine in 1994, and a year later development of the massive Hartley Platinum mine, a joint venture between BHP and Delta Gold. The big investment stopped operations in 1999 citing serious ground condition problems and

failure to meet the planned target. The perception was that the Great Dyke PGM resource cannot be successfully exploited. The successful development of the Ngezi and Makwiro mines led to the expansion of the Mimosa mine and the current development of Unki platinum mine. These projects have been very successful and echo sentiments of the importance of mining and the viability of the PGMs sector in the economy.

Industrial Minerals

A variety of industrial minerals is mined in Zimbabwe and among them are asbestos, black granite, kyanite, limestone, phosphate, and vermiculite. Asbestos is mined at the Shabanie-Mashaba mines, and most of the production is exported. The known resources are able to meet the local and export requirements for a long time. The main challenge is developing new markets for the commodity. The main consumer was France in Europe. However, recent lobby groups from Europe and North America advocating a ban on or restrictive use of asbestos have seriously affected the viability of the sector. Further development of asbestos production hinges on establishing markets for the commodity.

Most of the limestone and phosphate produced is totally absorbed by the local industry as these constitute important raw materials for the manufacture of cement, fertilisers, paints, and many other industrial products. There is an abundance of these minerals to meet the country's current and future needs.

Minerals, like lithium and graphite, have limited local demand and are chiefly exported in small quantities. Other minerals, such as kyanite, tantalite, clays, and slates, are also known to occur in large resources irrespective of their current low production. There exist opportunities to develop the minerals on a small scale and a large scale by both local and foreign investors. With the widespread use of these minerals, the serious development of their production can substitute other imported equivalents and thus benefit the economy.

The Zimbabwean dimension stone industry is slowly growing. Its distinctive black granite has successfully captured European markets. The identified resources are vast,

and these can last the country more than 10 years at current production levels of close to 500 000 tonnes per year. New prospects are also being evaluated in the Manicaland area. It is critical to fully beneficiate the commodity since it is currently exported in block form. Improved value addition through processing of the stone will benefit the country extensively.

Diamonds

Diamond production in Zimbabwe only started in the late 90's with almost all the production coming from River Ranch Diamond Mine in the Limpopo basin in Beitbridge. This mine ceased operations in 1998, and no new efforts have been made reopen it. Since the beginning of the 90's, a big diamond exploration campaign has been underway throughout the country. The campaign has yielded positive results with the discovery of a number of viable prospects. Among these is the Murowa diamond project which has already passed feasibility studies and is currently in the mine development stage. It is hoped that this positive development in the sector will stimulate further growth in the production of the mineral.

Energy Minerals

Coal

Coal is the only major energy mineral mined in Zimbabwe. The vast reserve of this mineral is located in the north-western part of the country in the Hwange area, whilst Limpopo area and Sengwa also have significant reserves. The identified reserve is estimated to sufficiently meet local requirements for domestic heating, agricultural heating, industrial energy including power generation for the next 50 years at current production levels. Wankie Colliery Company is the sole producer of all the country's coal production. The Wankie coal is of a high quality, allowing the company to further process the low ash coal into coke. Portions of low phosphorous and sulphur coal are dotted within the current mining area at fairly low volumes. Since the company cannot meet the tonnage requirements of metallurgical coal for local consumption, it is necessary to import this coal from South Africa. The Sengwa coal reserve was evaluated for possible development of a coal mine and thermal power station in the late 90's to supplement the country power supply problem, but political developments discouraged the continuation of the projects.

Oil and Natural Gas

The country does not have any known production of oil and natural gas, although exploration for both oil and gas are still ongoing. Oil has been explored mainly in the Zambezi basin around Kariba, whilst methane gas, coal-bed methane, is being explored in the Lubimbi area in the Matebeleland north region. The gas can provide an alternative energy source in addition to coal. Several exploration companies working in Lubimbi have indicated the potential viability of the project, which is currently awaiting further development and investment. Coal-bed methane gas can have various uses, providing essential linkages with down-stream industries including pharmaceuticals, ammonia-based fertilisers, and other chemical industries.

By and large, Zimbabwe has a strong mineral endowment which can effectively be exploited for the benefit of the nation in terms of growth and for stabilising the economy at both the micro and macro economic levels.

2.4 Performance of the Mining Industry - 1993 to 1999

The period was characterised by prospects of growth, high investor confidence, a sound economic environment and, above all, was a symbol of upcoming developing economy. This was exemplified by expansion of most operations due to availability of foreign currency, new investment, and the acquisition of smaller operations by large multinational companies. BHP embarked on multi-million dollar platinum project in 1995, Reunion mining started operation at the Munyati Copper Mine, and Ashanti took over Fredda Rebecca and most of the resources of Cluff. During the same period, the technical evaluation of Sengwa Coal Mine and Gokwe North power station project were at an advanced stage.

All these developments were attributable to the Economic Structural Adjustment Programme (ESAP) (1991 – 1995) which sought to liberalise the economy in accordance with globalisation. The fundamental benefits to the mining industry, among others, included the availability of the much needed foreign currency for the sector. In 1996, the Reserve Bank of Zimbabwe (RBZ) agreed to pay gold producers

in foreign currency. A number of expansion projects and acquisitions took place in the sector.

The developments further depicted an economy poised for growth, especially in the mining sector. Considerable exploration was being conducted in the Great Dyke for other metals as well as on the Greenstone belts for gold. The number of registered claims increased as investors and local people alike envisaged the potential growth in the sector.

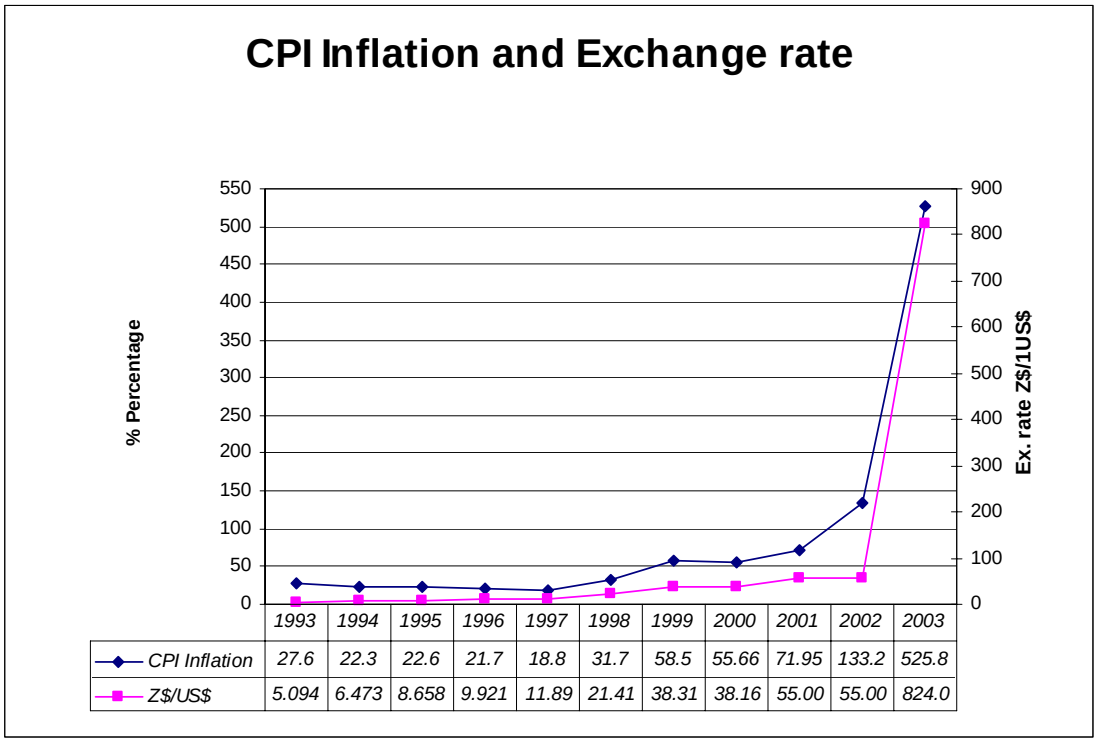
The growth momentum was not given adequate promotional attention through to 1997. Many economic parameters went out of control. Liberalisation awarded by ESAP, on the other hand, triggered hikes in interest rates and the commercial banks' minimum lending rate rocketed from 13.5% in 1995 to 65% in 2000 and peaked at 70% in 2001. Frantic efforts by RBZ in 2001 to provide the industry with affordable debt finance saw the minimum lending rate reduced to 38% in the same year. This came as a result of managing the government Treasury Bill rate downwards and of adopting an expansionary monetary policy since then.

The implementation of ESAP also saw the reduction of Consumer Price Index CPI from 42% in 1992 to 18.8% in 1997, but it started to increase in late 1997 and peaked at 525% in 2003. Growth of M2 money to pay war veterans also caused spiralling inflation. The system was also open to abuse by senior government officials who also claimed larger sums than the stipulated $50 000. The value of the Zimbabwean dollar came under renewed international pressure. It also weakened against most major currencies, and it slipped from about around Z$10 in 1997 to an alarming Z$824 to 1US$ in 2003. The government's involvement in the costly DRC war also seriously affected the economy. In 2004, it was trading at an unbelievable Z$5600 to the US dollar.

Contrary to the government's policy of adopting an expansionary policy, it reverted to the restrictive economic policy resulting in the pegging of the US$ exchange rate at Z$55 from 2001 to 2002. Its devaluation in March 2003 to Z$824 to 1US$ came a little too late because the exchange rate had soared to over Z$2500; this had stimulated an already flourishing black market in foreign currency dealings within the

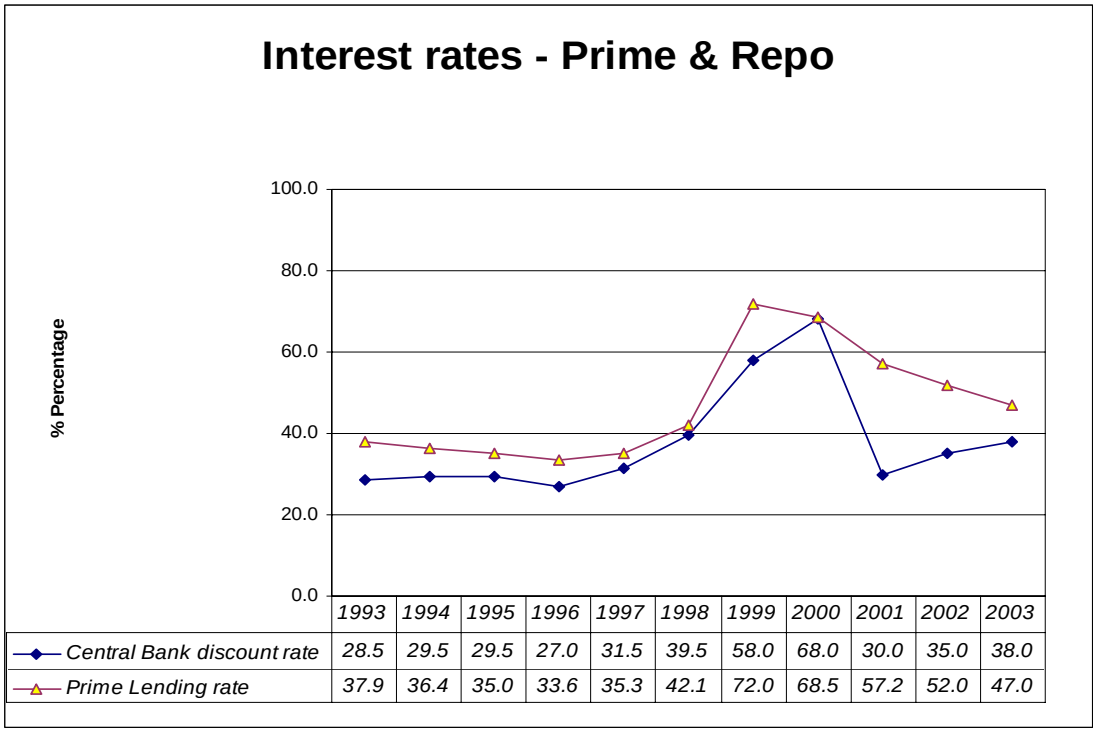
country. The foreign currency shortage took its toll with reserves diminishing to less than one month of import cover. The negative balance of payment widened as a result. Based on the progression of events, there were widespread fears that business would one day run to a grinding halt. The following graphs show the deterioration in major economic indicators, Exchange rate, CPI inflation, and interest rates. The country foreign currency reserves have dwindled to alarming levels.

Figure 3 Inflation and Exchange rates in Zimbabwe



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
CPI Inflation	27.6	22.3	22.6	21.7	18.8	31.7	58.5	55.66	71.95	133.2	525.8
Z$/US$	5.094	6.473	8.658	9.921	11.89	21.41	38.31	38.16	55.00	55.00	824.0

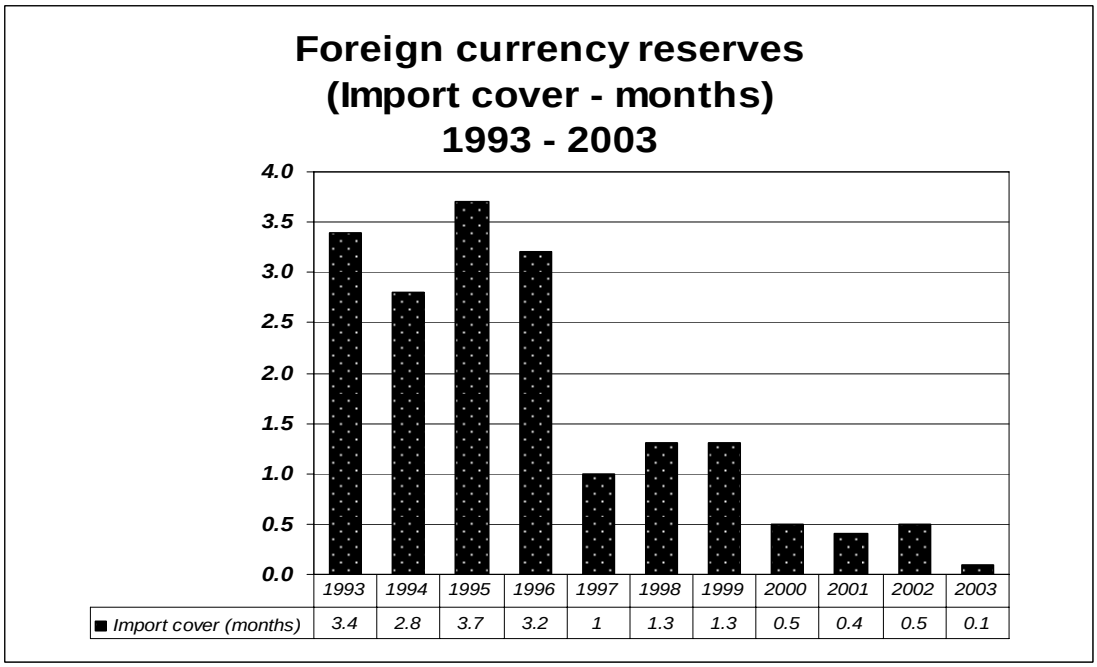
Figure 4 Interest rates developments in Zimbabwe



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Central Bank discount rate	28.5	29.5	29.5	27.0	31.5	39.5	58.0	68.0	30.0	35.0	38.0
Prime Lending rate	37.9	36.4	35.0	33.6	35.3	42.1	72.0	68.5	57.2	52.0	47.0

Source: Annual Profile - Zimbabwe 2003

Figure 5 Foreign currency reserves measured as months of import cover



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Import cover (months)	3.4	2.8	3.7	3.2	1	1.3	1.3	0.5	0.4	0.5	0.1

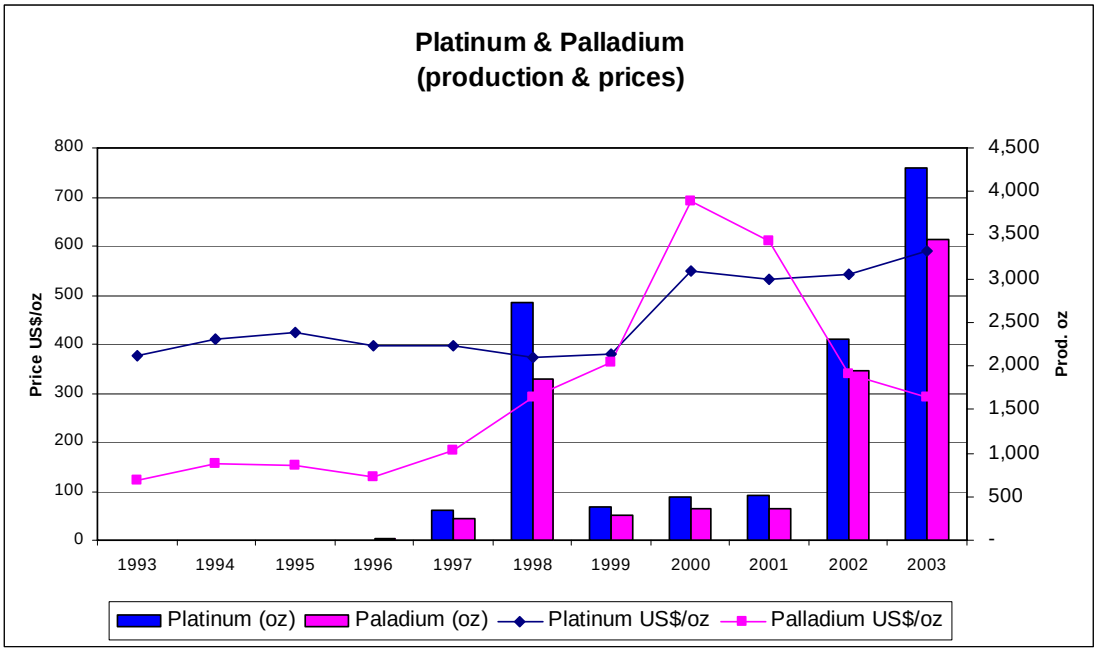
Source: Annual Profile Zimbabwe Jan 2004 - Standard Bank

http://www.sarpn.org.za/documents/d0000212/P203_Zim.pdf

In addition to the local economic turbulence, the weakening commodity prices on the international scene (Asian crisis 1997-99) worsened the country's dilemma. The average gold price fell from US$334 / ounce in 1997 to US$286/ ounce in 1999. The

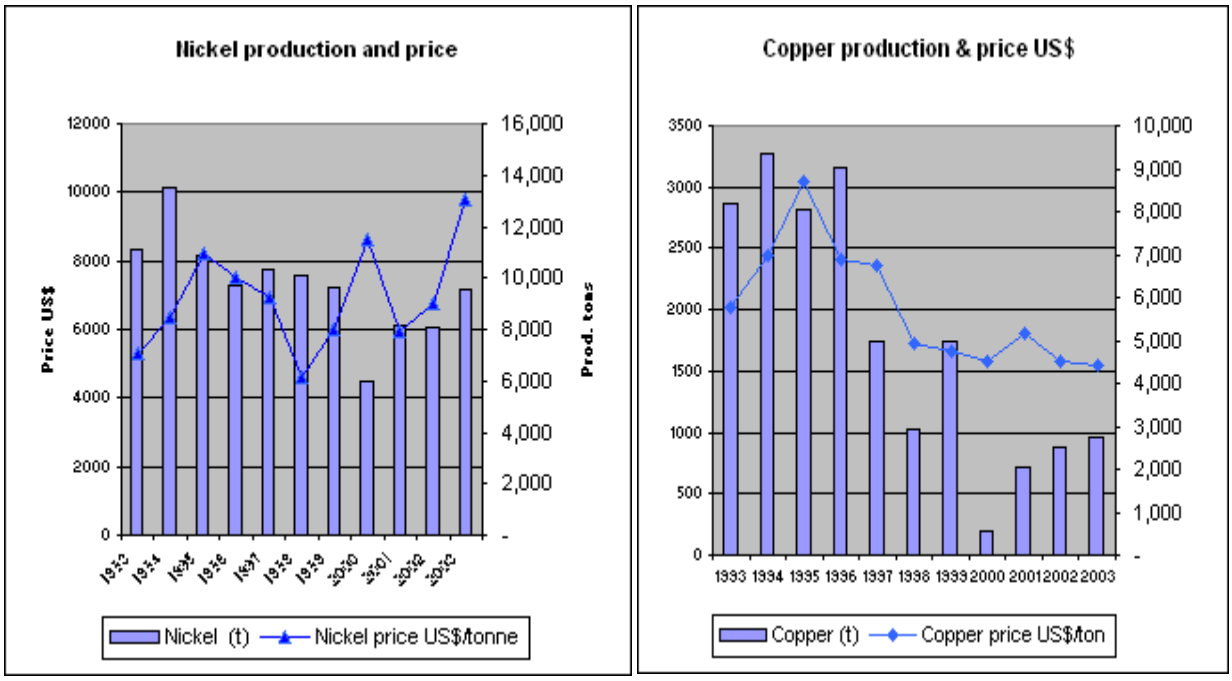
gold foreign currency revenue was dealt a heavy blow, and this resulted in reduced gold production on the background of spiralling operating costs as well as an acute shortage of foreign currency critical for the mining sector's day-to-day operations. Gold producers and other producers alike were faced with the challenge of striving to survive at the expense of viability. The trend in falling mineral prices was also felt on all precious metals with the exception of palladium. The price of palladium increased from US$171 in 1997 to US$358 / ounce. PGMs metal prices have a typical tendency or trend: an increase in the price of palladium results in a decrease in the price of platinum and vice-versa. Zimbabwe's top minerals are gold, nickel, coal, chrome, and the upcoming PGM metal: Platinum. The prices of most of the minerals have been seriously depressed in the period 1997 to 2000 as shown in the graphs below.

Figure 6 Zimbabwe platinum group metals production and metal prices



Source: NMA the American Resource

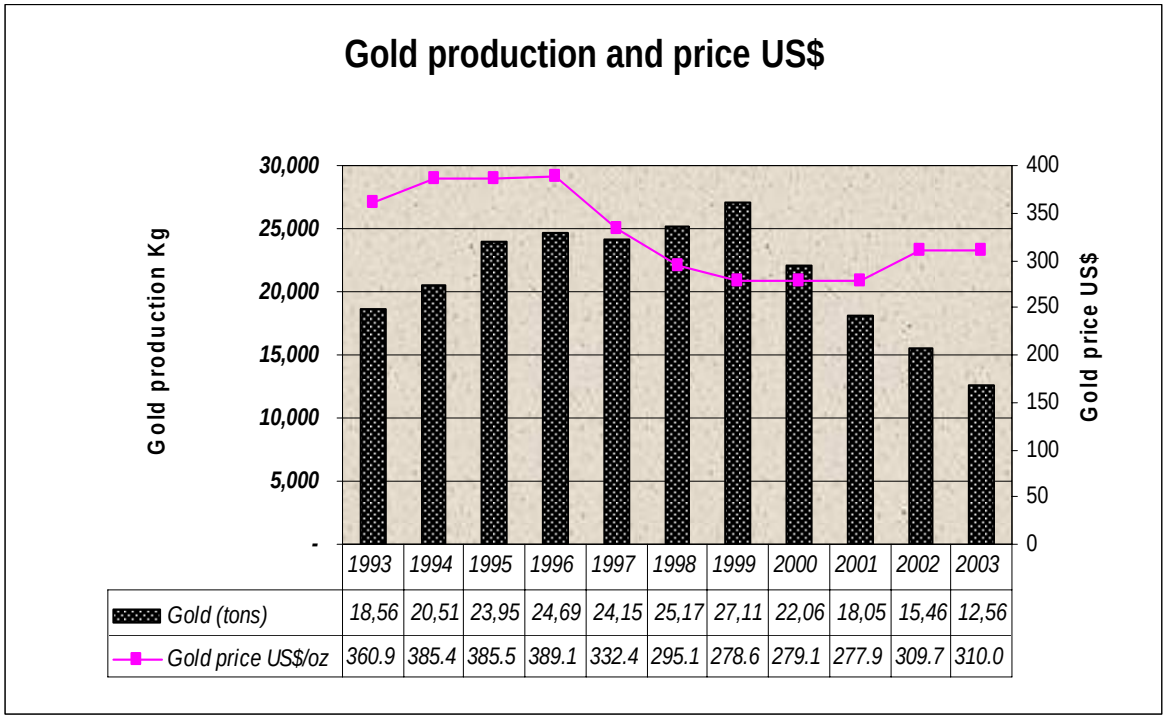
Figure 7 Base metals production and prices



Source: United States Geological Survey -http://minerals.usgs.gov/minerals

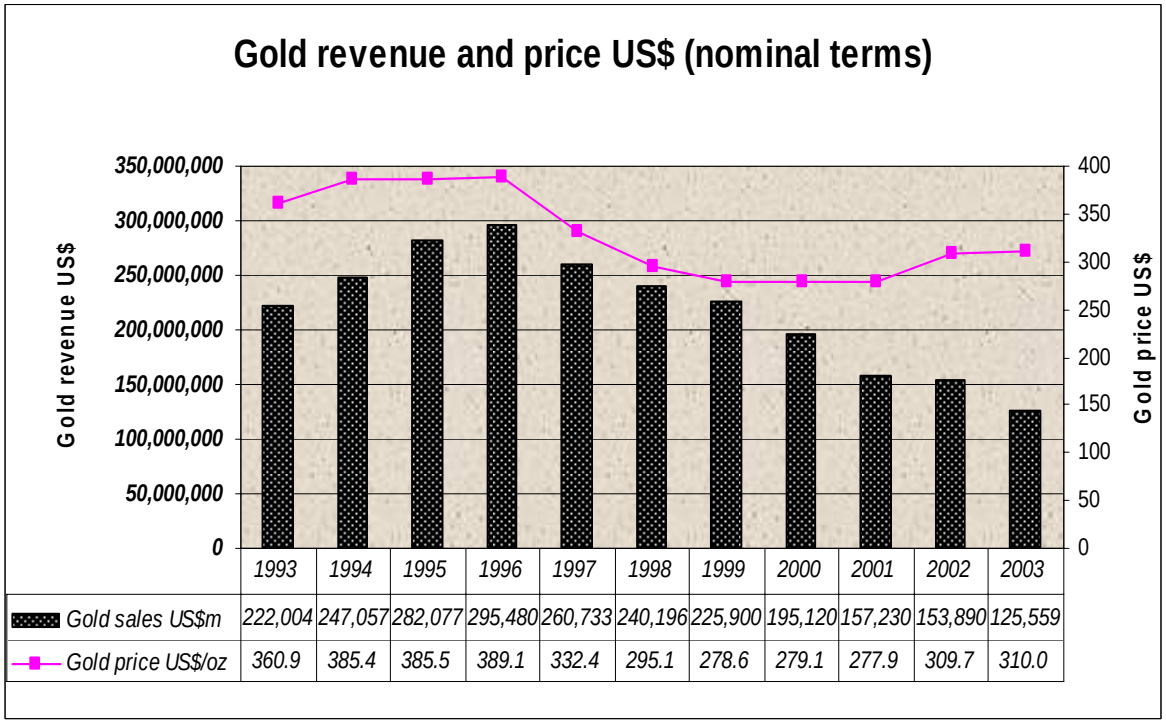
The policy adopted by RBZ to pay gold producers in foreign currency was only implemented from 1996 to 1998 when the Central Bank yet again reversed the policy and paid gold producers in local currency instead. Clearly the repercussions of the change were not satisfactorily addressed or deliberately ignored to the detriment of the industry. Gold is the main foreign currency earner contributing over 40% to the total mineral exports. Its production peaked at 27 tonnes in 1999, despite the prevalent depressed gold price. The problems facing the economy as a whole dates back to 1997, but government took a reactive approach instead of being proactive and this manifested into mine closures from 2000 onwards. The closures alarmed the government, forcing it to act, though the intervention will be best described as temporary measures instead of addressing the real issues. In a bid to discourage more mine closures that were imminent, the RBZ introduced a gold support price. Although it worked well in reducing the number of mine closures, it lacked a long-term focus. Gold prices are notoriously cyclic and the response time for the RBZ to review the prices in line with global trends showed a lack of urgency, thereby costing the operations. The revenue and gold production also slumped as shown in the following graphs.

Figure 8 Gold production and price from 1993 to 2003



Source: Zimbabwe Chamber of Mines

Figure 9 Gold revenue and price in US$



Source: Zimbabwe Chamber of Mines

The US$ revenue from gold has since declined. Despite all these negative effects, operating mines changed their strategy and focused on painstakingly increasing production so as to increase the recovered metal in the hope of covering rising costs. Most other operations also increased production volumes by stringent cost-cutting measures, resulting in suspension of exploration and development programmes. The apparent shortcomings of these desperate decisions dealt a major blow to long-term viability as some of the mines went on to high-grade, sterilising a significant percentage of ore reserves. The lucrative and much talked about project of the decade, BHP Platinum, also closed and stopped operations in June 1999 further costing the nation expected foreign currency earnings. Production took a slump only to be revitalised by the takeover of the operation by Zimplats which has seen considerable growth since then.

The BHP closure which was blamed on bad ground conditions worsened the unemployment situation. Farm invasions by the war veterans also impacted on mining particularly with regard to exploration where, in some instances, field work was disrupted. There were no substantial reports of disruptions in mining operations, despite the chaotic course of the farm invasions, although the situation could have deteriorated under the circumstances. Many companies were extremely apprehensive as they were uncertain of the outcome.

2.5 Performance of the Mining industry 2000 – 2003

Industry tried its best to stay at least operational up until end of 1999. The short-term decisions taken a few years previously ricocheted. Events did not change in the short term as anticipated, and eventually production started to decline because of ever-worsening shortages of foreign currency and runaway inflation, which caused costs to spiral and resulted in the fixed exchange rate eroding anticipated real earnings in the 2001 and 2002 period. As if these were not enough challenges, erratic electricity supply and a nationwide fuel shortage made the situation extremely difficult even for the large conglomerates. Bigger mining houses then resolved to source their own fuel from neighbouring countries to sustain their operations.

Shortage of maize meal affected productivity due to absenteeism, as most employees would rather queue for long hours, even during working hours, to procure the staple diet. Companies were called upon to act as drought relief distributors to their work force to maintain productive work force. ZIMASCO and African Associated Mines actually imported maize from South Africa to feed their employees.

The sense of insecurity caused by pre-election violence across the whole country prior to the June 2001 parliamentary elections also gripped the corporate community. The results of the presidential elections in March 2002 further eroded investor and business confidence, with some even basing their decisions to continue operating on the outcome of the election results.

Relations with IMF and the World Bank deteriorated as the organisations cited government's deliberate failure to control its economy. The attitude of the government in disregarding the inevitable need to join the global economy worsened the situation. IMF withdrew its financial support, and the stand off persists to the present date, 2004. Organisations, such as IMF and the World Bank, have a great influence on FDI flows into any country. Undue over-emphasis on sovereignty at the expense of accepting reality and moving with global trends has been detrimental to the economy. On the other hand, closures of indigenous banks on corruption allegations against their top executives have further dented the country competitiveness as well as worsened its Corruption Index.

2.6 Analysis of GDP contribution of the Mining industry

GDP contribution from mining averaged 3.14% in the pervious decade, reaching its peak of 5.01% in 1994. It has since then fallen sharply because of the economic hardships being faced by the country. The mining sector's GDP growth rate has consistently fallen since 2000, together with that of the other main sectors of the economy: agriculture and manufacturing.

Table 2 GDP contribution from main economic sectors

Year	Mining	Agriculture	Manufacturing	Total GDP
2000	-10.5%	-3.0%	-10.5%	-4.2%
2001	-7.4%	-12.2%	-7.5%	-7.3%
2002	-7.1%	-12.9%	-17.2%	-11.9%

Source: National Budget Statements

The factors that affected the whole economy also heavily affected the mining industry. The decline in mining sector performance is attributed to a substantial reduction in the volume of mineral output. The 2001-2002 drought affected output from the agricultural sector, causing a massive increase in gold-panning activities by the people for survival. The gold recovered from such activities by-passed the normal legal channels and was ultimately traded on the black market, depriving the government of revenue. At 26%, gold is the main contributor of mining GDP.

Policies to sustain gold production included the Gold Pool facilities, administered by Stanbic Bank and RBZ in 2000 to 2002. These policies were aimed at facilitating the procurement of imported inputs and consumables. The gold price support scheme was meant to provide a breakeven price for gold producers although it was overlooked that production costs vary from one operation to the other. The foreign currency availed by the Gold Pool facility was not only inadequate but also erratic in its distribution. The adjustments of the gold price support scheme were not in tandem with rate of operating costs escalations, leaving the gold producers to pay the difference. Export incentives awarded to other sectors, including manufacturing and agriculture, to boost export earnings excluded gold mines.

Coal was the hardest hit mineral by foreign currency shortages. With production reduced in 2003 to 2 781 962 tonnes, a more than 43% shortfall from its 5 million tonnes capacity, it was still supposed to satisfy the local market before exporting any of its product, thus further denting any of its anticipated foreign currency earnings. All this occurred at local coal prices fixed by the government, which were not in any way related to market reality. NRZ, the national railway operator, failed to facilitate coal delivery to customers causing a bottleneck at the Coal Processing Plant which was already running well under production strength. To alleviate this problem, coal

merchants contracted road haulage transporters to deliver coal to customers at an exorbitant price which was further exacerbated by the fuel shortage at that time.

2.6.1 Linkages with Other Sectors

Given the strong linkage of mining to other sectors, especially coal with agriculture, tobacco, thermal power generation, smelters, foundries, the effects of foreign currency shortages were also heavily felt by other sectors of the economy. The mining sector also provided inputs for the manufacturing sector ranging from iron ore, limestone for cement production, and phosphate for fertilisers, and many other industrial minerals for construction. On the other hand, the mining industry relies on products from the other sectors including timber, cement, explosives, steel products, and protective equipment. Linkages between these sectors were further weakened during the 2000 and 2003 period as compared to 1997 to 2000.

2.6.2 Employment

The employment in the mining industry has slowly been declining due to mine closures. From a contribution of over 4.5% of total national employment in the 1997 to 1999 period, the employment figure stood at just 35 000 in 2002. It has become apparent that most mines have to contemplate mine closure plans for operations like Mhangura, Empress Mine and Filabusi, to name just a few. Such closures have left a legacy of ghost towns. Former mine workers have no other form of employment, because their narrow scope of training was focused only on mining. Given the multiplier effects of mining, many mining-related jobs have been affected.

2.6.3 Funding of the Ministry of Mines by Central Government

The funding of the mining ministry has been declining in real terms, further in-capacitating the solid structure of the Ministry in managing the sector. See Appendix 11: *Report on the budgetary allocation to the Ministry of Mines and Mining Development – (Chamber of Mines Zimbabwe, November 2003)*

The structure of the ministry is well aligned in developing the sector from small scale to large scale. The sector has not been receiving enough support from the Ministry of Finance and Economic Development in terms of budget allocations, worsening the brain drain in the sector. Over 50% of the posts were still not filled in 2003. In such conditions, there is no meaningful advice or contribution the Ministry can make to industry as a whole. Considering that the sector contributes more than 25% of the country's GDP, its budget allocations has never gone beyond 1% of total budget when compared to Defence, Land and Agriculture, and Education. Efforts to strengthen the Ministry of Mines in terms of personnel have been thwarted by the Finance Ministry in its bid to reduce government expenditure even on such core ministries. It is, therefore, important to consider a policy review so that the intentions of the sector are spelt out, emphasizing its importance.

The Ministry has been trailing behind other ministries in the region in activities ranging from administration delivery to competitiveness within its borders and internationally. From a detailed preview of the mining industry, it is paramount to prescribe corrective action to regain the competitiveness of the country in attracting foreign direct investment. The main focus of the following chapters is to identify policy considerations that have to be adopted to improve the country's image, both regionally and internationally. Having highlighted the performance of the industry and the overall economic performance, it is paramount to proceed with both a policy and a legal framework analyses to enhance the country's competitiveness. Policy in any sector is heavily influenced by both macro and micro economics: hence the time spent in reviewing the performance of the industry. Competitiveness in attracting FDI has very a solid relationship with politics, economics, policies, and above all, governance.

2.7 Conclusion

Zimbabwe's economy has mainly been dependent on agriculture until the recent droughts in the region, which impelled the need to prioritise other sectors. The economy, as a whole, is faced with a myriad of economic challenges partly caused by the government's involvement in the costly DRC war. Unaffordable war veterans' compensation amounts, seizures of productive white commercial farming areas,

among others, have continuously pushed inflation upwards. Although the country's infrastructure is good, instead of the flow of FDI pouring into this well-endowed, mineral rich country, it has been directed to emerging economies in the region, such as Namibia and Botswana. Mineral resource development has been seriously affected by lack of capacity despite sound structures for its administration. Funding of the Ministry of Mines and Mineral Development from the central government has declined in real terms and only 50% of the staffing requirement is available to run the Ministry. See Appendix 11. Gold production has declined from 27 tonnes in 1999 to 12.6 tonnes in 2003, causing a slump in gold revenue. Though industry has continued to operate, a significant number of these mines have closed down due to viability problems caused by high inflation, the country's stand off with IMF and World Bank, the shortage of foreign currency, the Central Bank's requirement to buy all gold at non market-related prices and unrealistic exchange controls which have resulted in an over-valued currency. All these negative aspects promoted black market dealings in almost anything, including foreign currency, fuel, minerals, especially gold, and even basic commodities like food. The following chapter focuses on Zimbabwe's investment environment in a policy and legal framework and a discussion on investors' attitude towards investment into the country.

CHAPTER 3

3.0 ZIMBABWE'S INVESTMENT ENVIRONMENT AND COMPETITIVENESS

3.0 Introduction

This chapter looks at the overall investment environment of the country including mineral development issues. Investors' attitude towards the country has been negative, despite the high mineral potential as reported by the Fraser Institute Annual Survey of Mining Companies 2001 / 2002. A thorough analysis of the mineral legislation and a description of the various mining titles, as per the current Mines and Minerals Act of 1996, shows the liberal and competitive terms of entry for both exploration and actual mining. The mining industry has since been boosted with attractive fiscal incentives through the Export Processing Zone initiative. A review of the foreign currency retention scheme for gold producers has also been analysed, showing that the 10% surrender requirement of foreign currency to the RBZ at Z$824 to the US$ is far below the market rate and is costing the industry dearly.

3.1 Summary of Zimbabwe's Investment Environment

Investment into a developing country is mainly funded through national savings, financial assistance from world bodies, e.g. IMF and World Bank, and finally foreign direct investments (FDI). Zimbabwe is currently at a stand off with IMF, and its national savings are not dependable leaving it with the only option of attracting FDI for meaningful development. Its creditworthiness has been dealt a major blow by its inability to service its international debt obligation.

The country's investment environment compares favourably with most countries within the region. One of the striking attributes is the low corporate tax of 15 % for mining companies, although the nominal corporate tax for other sectors is 30%. This shows a solid intention to support mineral development in the country and to further its importance. The fiscal regime and the mineral development environment are conducive to investment. One then wonders why most of the FDI in the region is skewed in favour of South Africa, with Zimbabwe only registering negative capital

inflow. The economy has been battling with recession for the past five years. Although the investment environment shows a positive picture, in sharp contrast, the political governance has acted to the detriment of the economy as a whole. Companies are battling for survival in a harsh economic climate.

Below is a summary of the country‘s investment environment as shown by geographic and economic indicators as well as investment policies and fiscal regimes. Note the lucrative terms of the fiscal regime and the mineral development environment. The negative factors are apparent on the economic indicators which include high inflation, high interest rates, reduction in GDP, and a slump in gross capital formation, among others. All these can be squarely attributed to poor governance on the part of the government, thereby triggering the deterioration. What have emerged are the repercussions on the economy as a result of the Head of State’s political statements directed not only against the western world but against well-established world bodies and organisations, like the Commonwealth, IMF, World Bank, and others.

Table 3 Zimbabwe's Investment Environment

Geographic and Investment Indicators	
Population (2002)	13.4 million
Population growth (2001-2015)	0.60%
Surface area	391 m^2
GDP (2003)	US$ 7 100 million (nominal)
Average Annual GDP growth (2002)	-11.40%
Tax Revenue/GDP	Not specified
Mining Tax revenue	Not specified
Unemployment (2003)	70%
Population below international poverty datum (2003)	60% on <US$2 per day
Gross capital formation (2003)	-11.8% of GDP
Total capital inward (2003) est.	US$200 million
Total capital outward (2003) est.	-US$1300 million
Total mineral development capital inward	Not specified
Total mineral development capital outward	Not specified
Inflation (2004)	159%
Exchange rate December 2004	Z$5600 per US$1
Nominal treasury risk free rate (2004)	107.5%
Interest rate (2004)	202.9%
Foreign ownership allowed	100%
Compulsory government share	0%
Foreign Exchange controls	Yes through the RBZ forex Auction system
Transfer pricing	No but arm's length principle applies

Fiscal regime	
Special rules for mining	15% - 20% corporate tax
Different rules for different minerals	Only for strategic minerals assets Au and Pgm
Tax stability agreements	None
Corporate tax (national)	30%
Branch Office tax	None –consolidated into parent company
Income tax credits for foreigners	None
Corporate tax on oil or gas	-
Tax base	Not specified
Additional profit tax	0%
Tax holidays (year)	5 years for EPZ and mining companies
Tax treaties	Yes continuously updated
Deduct exploration/development costs	Yes 100%
Capital depletion allowance	Yes
Ring fencing	Yes
Forward carry of losses	Yes indefinitely for mines else max. 6 yrs
Backward carry of losses	Not permitted
Maximum cost deduction	Limited 0.75% allowable deduction G&A at Head Office
Depreciation	Straight Line and Accelerated
Capital gains tax	20% but 0% for EPZ
Tax on assets	15%
Value Added Tax	15%
Repatriation/dividend or Withholding tax	15% - listed and 20% - unlisted companies
Import duties	0% on essential capital goods & raw materials
Export duties	Minimal to none for minerals
Payroll tax / Income tax etc.	None / 0 - 40% Income tax + 3% Aids levy
Land Tax	0% mining exempt
Provincial State taxes	0%
Municipal taxes	very minimal

Mineral development	
Mineral royalty	State owned 0 – 10% NB currently gold is exempted and all other minerals for domestic market
Oil/Gas royalty	2%
Exploration fee	None – currently being revised
Surface rent	5c per hectare - currently being reviewed
Mineral ownership	State owned
Environmental provision required	Yes EIA required but lack administrative capacity
Mining precedence over other land use	No - based on maximum utilisation of resources
Special incentives in remote areas	Yes - in growth points

Allowable deductions for calculating taxable income:

All capital expenditure (exploration, development and operating)

Feasibility study, production exploration, development, capital equipment, royalties, and fees based on land area, operating costs, loan interest, duty charges, VAT, regional service levies, and payroll taxes

Deductions not allowed:

Losses of other companies within a group, if ring fenced, and head office charges outside Zimbabwe.

Any interest paid on borrowings exceeding 3:1 debt to equity ratio is treated as a dividend and will be taxed as such

G&A costs incurred at Head Office are limited within the pre-production and production phases

Sources: African Development Report 2004, ZIC, Annual Profile-Zim 2004, RBZ and IMF 2004

As indicated earlier, theoretically, the investment environment is favourable, but the facts tell a different story. Political uncertainty has plagued these positive developments. Regional leaders are currently under pressure to assist the Zimbabwean leader in accepting the problems at hand and solving them instead of adopting a defiant and defensive attitude. The region is afraid of a contagion effect emanating from the Zimbabwean crisis. For instance, the land grab style almost spread into countries like Kenya and South Africa, but the respective governments averted such lawlessness by thwarting this course of action to follow an organised land redistribution process. Though the regional leaders are trying, at a cost, to foster a

perception of unity, peace, and solidarity to the outside world, others have openly spoken out on Zimbabwe's attitude of failing the region.

Zimbabwe's adamant reluctance towards supporting certain global trends and development policies has seen IMF and World Bank cut relations with the country. NEPAD policies, which chiefly centre on economic development in the region through peer review of governance, are being thwarted by the Zimbabwe's over statement of sovereignty. A country cannot operate in total isolation in this free market economy and globalisation on the pretext of national sovereignty. It is now realised that some of the policies pursued by the government have deviated from serving national interests to personal interests. Instead of enhancing Zimbabwe's image, the Head of State has undermined all the positive contributions by remaining in power too long. From being respected by the world, the Head of State is now deemed as a dictator, to the detriment of the country. Major successes achieved throughout the years since independence have been obliterated by recent political miscalculations.

The collapse of a once buoyant and booming economy is attributed to bad governance through the zeal to stay in power at all costs. Sadly, the Zimbabwean electorate is composed of more than 75% rural dwellers who do not fully appreciate the repercussions of the President's statements on the economy. Only about 25%, or perhaps even less, of the urban dwellers understands the fragile relationship between politics and economic development. The urban vote, which is in the minority, is unable to effect any change in leadership. One then questions the correctness of democracy in such a situation. What is principally wrong can never be righted, no matter the size of misinformed support.

3.2 Investors' attitude towards investment in Zimbabwe

Investor attitude to the country is very uncertain because of political risk, despite the excellent 2004 economic performance improvement, with inflation down to 159% from the runaway figure of over 600% in December 2003. This improvement has helped to stabilise prices of basic food commodities with a reduced month-on-month inflation of 6%. Investors have been classified as those who are already operating and running mining operations in the country and those who are weighing up the risks in the country with the intention of starting up business. In the mining sector, investment has to start from exploration. Therefore, the investor attitude is not just the view of potential new players but of any who can fit into the definitions of competitiveness, according to Tilton, that is Greenfield, Brownfield, and Redfield competitiveness.

The bulk of the anticipated FDI into the country is hoped will come from Eastern Block countries, such as China, because of the current impasse with IMF and the western world. The country has also deliberately focused the marketing efforts of the country on these countries, to the exclusion of the western world. The Look-East policy recently adopted totally disregard investment from the western countries.

Both local and foreign investors have cited poor governance as the root cause of the country's economic crisis. Established controls and measures, supported by legislation, have been overridden by an individual's deliberate abuse of power. Corruption has skyrocketed, even within the government ministries which ironically are the custodians of the rule of law. With the governing authorities being corrupt, the question is: What will become of the populace? Even worse is the unspoken message being sent to the investing world: the message is one of chaos. The main areas of concern to any mining investor or anyone in business are the mineral potential, legislation, political risk, fiscal regime, and business environment.

3.3 Mineral Potential

Zimbabwe is well endowed with mineral wealth, boasting of having the second largest platinum resource and the largest high grade chrome resource in the world. In

Africa, it is the second largest producer of ferrochrome, graphite, and coal. It is also the third largest producer of nickel in Africa. For the details of the various minerals produced, refer to section 2.2. By and large, the country's mineral potential is very attractive. The production of platinum has since improved, and more platinum mines are expected to start operation in the next few years. Delays on some expansion projects are attributed to a *wait and see* attitude silently adopted by investors.

Some people argue that the country is well endowed with small deposits of minerals, but this is not generally true because the exploitation rate has not been matched with the real size of some of the deposits. The current concern is that some of the large ore deposits are not being optimally exploited, and it seems as if the deposits are small in size. Optimal exploitation rates should relate to the size of the discovered reserve. When granting mining leases, this important concept is not seriously taken into account. This relationship to size is important in order to realise optimal returns for both the government and the investor. With the advent of technology, the mineral potential of the country can be boosted by the possibility of profitably exploiting low grade deposits which had been shunned previously. Mining operations tended to concentrate on high grade deposits, for example Globe and Phoenix mine in Kwekwe averaged a head grade of over 50g / ton for the first 15 years when it started operations in the 1930s. The country realises that it is a resource-based economy, hence the drive to push the export of minerals. Various incentives for the export of production have been implemented, which include primarily the setting up of the Export Processing Zone (EPZ).

3.4 Mineral Legislation

The country has one of the most liberal and rational mining laws in Africa (John Lee 2004). Mineral legislation is administered through the Mines and Minerals Act, Chapter 21.05 of 1996. In addition to the Environmental Act, Mining, Management and Safety Regulations and Explosives Regulations (1989), other legislation involving environmental issues include the following Acts:

- *The Hazardous Substances and Articles Control Act, 1972*, administered by the Ministry of Health also deals with the use and control of hazardous substances on mines.

- *The Mining (Health and Sanitation) Regulations, 1977* administered by the same Ministry makes provisions for adequate hygiene in and around mines.

- *The Mining (Alluvial Gold) (Public streams) Regulations, 1991* deals with small scale gold panning and places restrictions on the miner and the minimum distance he/she can work from a river-bank.

- *The Water Act (1976)* makes provision for the prevention of water pollution and the preservation of water resources and is controlled by the Ministry of Lands, Agriculture and Water Development.

- *The Natural Resources Amendment Act (1975)* deals generally with the conservation of natural resources and is administered by the Natural Resources Board.

- *The Atmospheric Pollution Prevention Act (1971)* is the responsibility of the Ministry of Health and is concerned with the prevention and control of air pollution by gases, dust, fumes, and smoke.

- *The Forest Act (1949)* is designed to protect forests and trees and is controlled by the Forestry Commission.

- *The Parks and Wildlife Act (1975)* is administered by the Department of National Parks and Wildlife and deals with the preservation of plants and animals, including specially protected animals and indigenous plants.

- *The National Museums and Monuments Act (1972)* provides for the protection of sites of historic or cultural interest.

The country does not have a comprehensive mineral policy despite its heavy dependency on the minerals industry since colonial rule. Although policy thrusts are

attempted within the Act, a real drafted policy document, addressing salient issues mapping the direction of the mineral development, is long overdue. Such policies will facilitate marketing of the country as they will stipulate the intent, the long-term strategy, and goals in the development of the sector.

Resource ownership is vested in the state through the President in agreement with the concept of National Sovereignty over Natural Resources (NSONR) observed by most African countries. NSONR recognises mineral resources as national patrimony and hence should be exploited for the benefit of the nation and all its citizens.

3.4.1 Mining Titles

(i) Prospecting Rights

Mineral prospecting in the country is open to anyone, although one has to be registered as an approved prospector. This registration is valid for five years and also renewable for the same period of time.

(ii) Prospecting Licence

This is granted for the sole purpose of searching and prospecting for any mineral. The discovered areas of potential exploration interests can then be pegged into blocks, thereby constituting a claim in the eventual discovery of any deposit. The acceptable work requirements do not allow any drilling or excavation work or removal or disposal of any discovered mineral. The licence is valid for two years and renewable at the discretion of the Minister.

(iii) Exclusive Prospecting Order

Despite the word *prospecting*, this permit is granted to carry out detailed exploration work for any mineral. The particular requirements that should accompany the application include:

- Program of prospecting operations
- Surface rental charge of 2c/ hectare / month
- Limitations on the aerial extent but these can be waived depending on
    - Financial and operational capacity
    - Geographic location
    - Need for geological mapping, geophysical and geochemical investigations of the area, especially in remote areas.

This permit is valid for three years and is renewable for periods not exceeding three years in total.

iv Authority to Prospect

This authority is granted to allow prospecting on reserved ground. It was enacted to utilise or harness the most efficient use of a resource, be it agricultural or mining, in an area in the best interest of the country.

v Mining Lease

The purpose of this lease is to grant the right to mine any mineral or deposit in areas covered by the lease. It is transferable subject to approval by the Mining Affairs Board. The requirements are very basic and include:

- Particulars of mineral being mined
- Sketch plan showing position and aerial extent
- Financial status of the applicant to meet dues, for example rentals
- Mining operations should be on a substantial scale

Any breach is punishable by cancellation or penalties.

The mining lease does not require a detailed evaluation of the project because it also tries to cater for small scale operators. There are no strict requirements of a technical and economic plan as well as an Environmental Impact Assessment (EIA).
The validity is not clearly specified, but it is approximately 20 years.

vi Special Mining Lease

This mining right is granted to investment wholly or mainly in foreign currency, that is FDI in excess of US$100 million. In short, this is earmarked for large mining projects as deemed by the Board. The requirements are quite detailed and exclusive.
Requirements:

- Feasibility study
- Financing plan
- Marketing plan
- Proposals of efficient economic exploitation and treatment of ore
- Economic evaluation of proposed mine plus detailed forecast of capital investment, operating cost, and projected revenue and profits. These include DCF valuation.
- Detailed mineral resource and reserve estimate reporting distinguishing between probable and proven reserves.
- Environmental impact assessment carried out
- Any insurance details of liability arising from mining operations and damage to the environment
- Extent of use of local goods and services for the development and operation of the mine
- Manpower requirements, that is the number of expatriate staff and any training for locals

It is valid for 25 years and renewable for periods not exceeding 10 years. The Special Mining Lease is more detailed than the Mining Lease because it tries to provide a policy concept of the mining sector.

vii Preservation of Mining Rights

The above mining rights can be reserved through three broad categories and inspection certificates are issued on these bases

- Minimum work requirement
- Through production output
- Through capital expenditure incurred

viii Security of Tenure

Any holder of a mining lease has a right to purchase either state land or private land within the area of the mining lease according to the Mines and Minerals Act of 1996. Any mining location not being worked or developed risks being expropriated, that is transferred to the Minister. This is done to avoid sterilisation of resources and the Minister, through the Mining Affairs Board, can sell such expropriated locations on such terms and conditions he/she deems fit. If the expropriated location has not been sold within a certain time period, it is forfeited or such lease cancelled.

A recent development has seen the Central Bank adding platinum to the strategic mineral list of gold and silver. It has shown its strong intentions to control the marketing of the mineral. Concerns have been raised about the unprecedented change of terms of the initial agreement in these PGM mining projects. What is required upfront is an agreement that is not signed in perpetuity but one with reasonable time scales of any major policy changes that might result during the project life. Platinum producers are now required to surrender all their offshore foreign currency accounts (FCAs) to locally administered FCAs. Although the Central Bank's argument is altruistic for the purpose of realising maximum benefit of the mineral development to the country, transparency would eliminate the perception of greed on the part of the government. The details of the Enhanced Platinum Sector Regime (EPSR) require setting up four different FCAs for platinum producers which are

1. **Platinum Collection FCA** - catering for all platinum revenues, equity injection and so forth.
2. **Debt-service Coverage FCA** - servicing of external loans with a minimum service debt cover of two months.
3. **Dividend Sinking Fund FCA -** which guarantees foreign shareholders the exporter's ability to meet dividend payment.

4. **Operating trust FCA -** for firms' daily operational requirements.

(Adapted from Fingaz 28 Jan. 2004)

vix Mine Rehabilitation

The Mines and Minerals Act is silent on how this can be achieved, apart from the usual general statement that any mine that disturbs the environment to unacceptable levels shall be liable for an offence. There is no direct approach in dealing with the issue. Recently the Mines and Minerals Act has been amended to enable the possible introduction and administration of a rehabilitation trust or fund. The current approach is not long term as the thrust is primarily focused on imposing fines on high pollution levels, for example pollution in water streams caused by the discharge of effluent from mining operations.

3.5 Fiscal Regime

The country's fiscal regime is quite attractive with the major attraction being the 15% corporate tax on mining companies. The country is concerned with the development of the minerals industry for socio-economic benefits, such as employment infrastructural development and for the provision of a life line for the development of the remote parts of the country. For example the hot region of Hwange town is host to the country's sole coal producer and most development in that part is related to mining activities. Generally, income tax in Zimbabwe is source-based and is levied under the Income Tax Act and the Financial Act enacted every year that fixes rates of the tax deduction.

Contribution of the sector to macro-economic development mainly includes the associated knock-on effects, not precisely revenue generation as *per se*, because of the low corporate tax. On the other hand, there is a provision in the Act that marginal operations struggling to remain viable can be awarded royalty rebates to sustain operations. See Appendix 8 on Royalty. The country has not fully realised remarkable rent as compared to other countries in the region. South Africa's corporate tax is 37%.

3.5.1 Corporate Tax

The corporate tax rate is 30%, but for mining companies and for those that export at least 80% of their production, the tax is 15%. These companies fall within the export processing zone (EPZ) established in 1987 to promote exports in a bid to improve the foreign currency reserves. Taxable income of non-resident and resident companies is taxed in the same manner. Taxable income is calculated as gross income less any allowable deductions which include assessed losses brought forward from previous years. Generally, deductions allowed include expenditure incurred for purpose of trade, approved donations to the state or funds for hospitals up to Z$10 million, or Z$20 million donations as approved by the Minister of Higher Education to a research institute. All tax evaluation and collection is done by the Zimbabwe Revenue authority (ZIMRA), similar to the South African Revenue Services (SARS) in South Africa. The authority was established in 2002 to replace the Ministry of Finance Income Tax Department which had become inefficient.

3.5.2 Withholding Tax

All tax payers are liable to withholding taxes on dividends

- Listed companies on ZSE (subject to DTA) 15%
- Unlisted companies (subject to DTA) 20%
- Interest received on financial institutions 20%

3.5.3 Capital Allowance

For the compilation of capital allowance, the assets are categorised from commercial buildings, industrial buildings, motor vehicles and mining equipment. Assets can be depreciated using either the special initial allowance (SIA) or wear and tear. If the SIA is chosen, 50% accelerated wear and tear on a straight line basis is allowed in year of acquisition and 25% for the following two years. For mining equipment, 100% of cost is allowed for depreciation in the first year.

3.5.4 Incentives Pertaining to the Mining Industry

- A five-year tax holiday is granted to mining companies that fall within the EPZ and 15% tax thereafter.
- Taxable income or loss from each mining location of a particular company is ring fenced. The ring fence is based on the operations within the same mining titles.
- Thin capitalization rules apply for companies with debt to equity ratio exceeding 3:1. This is done to maintain the tax base.
- Restrictions on deductibility of management fees and head office expense allocation. This facility has been abused by companies resulting in the enactment of the restriction.

3.5.5 Export Processing Zone (EPZ)

An EPZ is a company in either the mining, service, manufacturing, and processing sector that exports at least 80% of its production and is designated as such by the Minister of Finance. Most mining companies fall into this category. The benefits include

- Five-year tax holiday from beginning of operation
- Thereafter 15% corporate tax
- Exempted from capital gains tax
- Exempted from non-resident and resident shareholder taxes
- Duty-free importations
- Sales tax on goods and services is refundable
- Foreign companies can borrow locally for working capital

Most mining companies enjoy the above benefits.

3.6 Political Risk

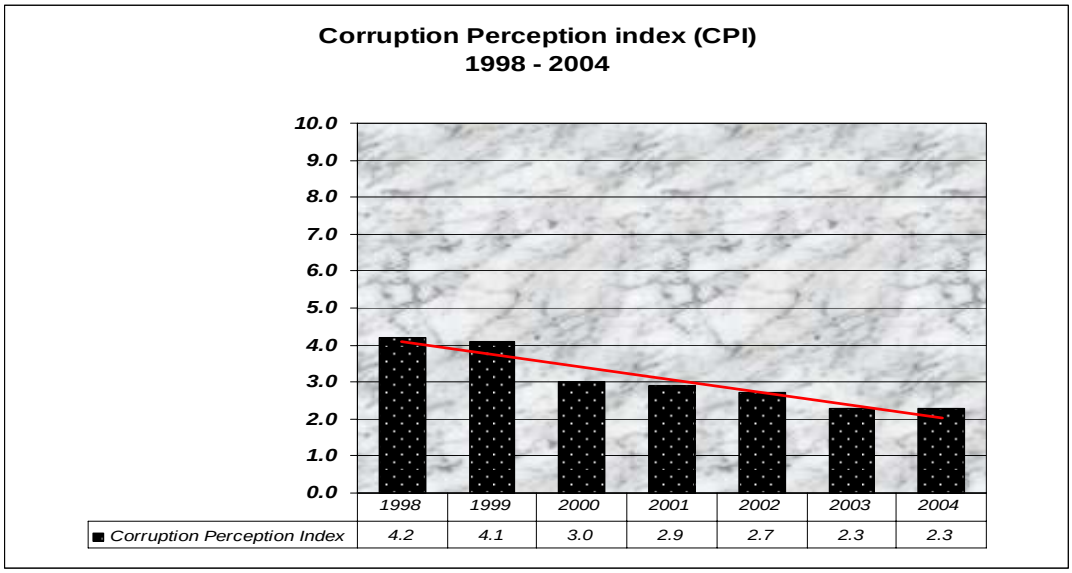
In any investment environment of a country, political risk can be broadly evaluated by the following criteria (Otto, et al., 1993).

- Long-term national stability

- Regime stability
- Availability and consistency of mineral policies
- Internal security
- Hostile borders
- Availability of foreign investment insurance, such as MIGA
- Form of government (democracy, socialist, communist, authoritarian)
- Good governance, respecting rule of law
- Head of State's attitude and level of international respect

The perception of political risk has overall affected the competitiveness of the country in attracting foreign direct investment (FDI) in the mining sector. Corruption has also damaged the country, as published by Transparency International. It recorded a corruption perception index of 2.3 in 2003 with ten being the least corrupt and clean and one as most corrupt (see Figure 12). The Commonwealth observer group has reiterated that the 2000 and 2002 elections were not free and fair, as they were marred by alleged state-sponsored violence and intimidation.

Figure 10 Corruption Perception Index of Zimbabwe



Source: Transparency International

Since Zimbabwe withdrew from the Commonwealth in March 2002, sanctions imposed by the European Union and the United States have scared away investors. This has further increased the insurance premium required by investors to cover for this risk. Although the country is signatory to MIGA and other foreign investment insurance agencies, the increased premiums for the country have slowed down investment. The risk has been dubbed *the Mugabe factor* when deciding on the minimum accepted rate of return for new mining projects.

The fast track land reform programme characterised by land grabbing and disregard of the rule of law has made the mining community very hesitant, fearing possible loss of security of tenure on their establishments. The proposal to abolish title deeds in place of 99-year lease on any freehold land has frightened away investors because such a policy does not promote development and lacks full collateral security. Uncertainty about the future land tenure system is high, to the detriment of development.

The African Economic Outlook 2004 reports that President Mugabe continues to divide international opinion. His policies have affected the rest of the region and also threaten the success of the ambitious New Partnership for African Development (NEPAD) initiative which is based on peer review of governance within the region. South Africa, which has been leading efforts to improve governance in Africa, fears

that a strong stand off against Zimbabwean government could have sub-regional repercussions, whilst Botswana and Kenya are increasingly critical and have called upon the African Union (AU) to conduct a peer review of Zimbabwe. Sam Nujoma from Namibia considers Robert Mugabe a heroic figure in agrarian reform. It is widely accepted that land redistribution was long overdue in Zimbabwe, but the disorderly manner in which it was conducted has affected the whole economy.

Governance issues within the country have also adversely impacted on the country's competitiveness. Rule of law has not been upheld and the introduction of draconian laws, such as Public Order Security Act (POSA, 2003) and Access to Information and Protection of Privacy Act (AIPPA), has further affected confidence in the country. In December 2004, a bill seeking control of the operations of NGOs, that had previously been autonomous bodies, was passed. Such bodies are instrumental in providing guidelines and compliance with worldly accepted policies, including human rights and environmental issues. These laws also affect mining in the sense that the country is perceived to have a high probability of unexpected rules being enacted.

To a large extent the President's attitude has deterred investors, and this has caused the IMF and World Bank to freeze aid to Zimbabwe. Diplomacy should be enshrined in any leadership for the benefit of the subjects. In reality, the President's statements have not affected him in a personal capacity but have affected the general population.

Zimbabweans are generally peace-loving people, thus guaranteeing long-term national stability because the citizens still hope for a democratic change process similar to that which took place in South Africa and Zambia. With the political furore currently rampaging through the country, one would think that the citizens' patience was running low. The fact that most citizens are educated to Ordinary Level and the greater percentage is more concerned with uplifting itself rules out an armed uprising except as a last resort, which is most unlikely.

3.7 Business Environment

Mineral production for 2004 was relatively better than in 2003 as the industry responded well to the positive developments in international mineral prices. This was due to an increase in mineral demand stimulated by the Chinese economic boom.

Inflation was tightly monitored and a massive drop from 627% by end of December 2003 to 159% by end of 2004 was recorded. This drop helped in the stabilisation of basic commodity prices. The currency was devalued from Z$824 per US$1 to a partially market-driven exchange rate averaging Z$5 600. An auction system of trading foreign currency was introduced and administered by the Central Bank in January 2004. This has resulted in the currency trading closer to realistic open market rates. The demand for foreign currency still outweighs supply and the Central Bank has deliberately rejected bids higher than $7000 per US$ in an effort to reduce the inflationary pressure that will result. The auction system allocates foreign currency on a priority basis and this has seen many bids over 80% being rejected because of the shortage. Needless to say that these companies or individuals with rejected bids will still look elsewhere for foreign currency, as a result the black market has become fully operational again.

In a bid to generate foreign currency for the *fiscus*, the RBZ requires all exporting companies, including mining companies, to remit foreign currency as follows: (examples for gold mining companies):

- 40% of gold sales can be retained in companies FCAs
- 50% of gold sold to RBZ at Z$92,000 per gram
- 10% foreign currency surrendered to the RBZ at Z$824

Before October 2004, 25% of the foreign currency was surrendered to the RBZ at Z$824, and the above is a positive development for mining companies though it still underplays the sector. An analysis of the effect of the 10% compulsory surrender of foreign currency earned to the RBZ at an unjustified rate of Z$824 per US$1, well below the auction rate of Z$5 800, results in an effective blend price of gold down to US$387.7 for local mining companies as compared to the current gold spot price of US$425. This compulsory surrender of foreign currency at Z$824 per US$1 is costing mining companies US$37.3 per ounce.

Table 4 Evaluation of effective blend price of gold per ounce

Gold support price /gram	Z$92 000
Support price per oz x 31.103g	Z$2 861 476
Gold spot price / ounce	US$425
Equivalent Ex. Rate (realistic rate)	Z$6 733

Table 5 Foreign currency Retention Scheme for Gold Producers

10% surrendered to RBZ @ Z$824 / US$1	Z$ 35 020
40% retained in FCA's converted to Z$ equivalent at ruling auction rate	Z$1 144 590
50% of gold sold to RBZ @ Z$92 000 per gram	Z$1 430 738
Effective blend gold price / ounce	Z$2 610 348
Equivalent Ex. Rate (realistic rate)	Z$ 6 733
Ruling Auction Ex. Rate per 1US$	Z$ 5 800
Blend gold price/ounce to producers at realistic Ex. Rate	US$ 387.7

Cost to Gold producers = Gold spot price – Gold blend price
= US$425 – US$387.7
=US$37.7

NB: This cost is not tax deductible

The gold support price increased to Z$92,000 per gram from Z$60,000 per gram in November 2004 which represents a 53% increase. On the other hand, wages and salaries have increased by more that 170% since March 2004. Wages negotiations were being done on a quarterly basis because of the high inflation. The resulting labour costs have seriously drained the positive impacts of increases in the support price to the sector. Since inflation is currently down to 159%, wage increases above this figure will only exert inflationary pressure on the economy in 2005. To a large extent, Zimbabwean wages and salaries are very low, hence competitive from a business perspective compared to other SADC states, such as South Africa and Botswana. This has caused the influx of Zimbabwean professionals into these

countries. The personal income tax ranges from 30% to 45%; this is considered the highest tax on individual earnings, being even higher than corporate tax.

The year 2004 also saw the financial sector plagued with woes of the closure of many indigenous-owned financial institutions. There was a massive clamp down on corruption and economic crimes, resulting in the closure of up to eight financial institutions, banks included. Most of the perpetrators, high business executives, fled the country to safe havens in the U.S.A. and the U.K. The main problem was externalisation of foreign currency as banks diverted from their banking activities to speculation, further compounding the foreign currency crisis. The monetary policy gazetted in December 2003 by the newly appointed RBZ governor sought to restore sanity and corporate responsibility into economic activities by tightening the allocation of foreign currency to genuinely deserving importers. It also cancelled licences of all bureaux de change and is now administering all foreign currency allocation. Throughout 2004, the major goal of the monetary policy (fighting inflation) has broadly been met through a strict monitoring system of banks and efficient revenue collection.

The mining industry performance improved in 2004 as compared to 2003 but this does not signal a return to normalcy. The period was marred with erratic fuel supplies and hikes in electricity on the background of an industry operating at a 60% capacity. The improvement is mainly attributed to firming mineral prices due to increased demand in the global market.

3.8 Conclusion

In summary the country's investment environment is theoretically quite competitive within the region, regardless of the poor economic performance. Major attractions or incentives to the mining industry include a 15% corporate tax, non payment of royalty for gold producers to sustain continued operation and also royalty rebates for mines producing for domestic consumption. Up to 100% foreign ownership is allowed and a five-year tax holiday for EPZ companies to encourage exports. Mineral ownership is vested in the state, and exploration and application fees for mining titles are

comparatively low. The major setbacks are due to poor economic performance, as shown by the following indicators: Inflation (159% - 2004), interest rates (202% - 2004), unemployment (70% - 2004) and the high political risk increasing the risk premium on new investments. The investor attitude is currently mainly influenced by the perception of high political risk, dubbed *the Mugabe factor*. Capacity building is one major area that needs immediate attention to facilitate the efficient discharge of the Ministry's duties. On the other hand, platinum has continuously registered significant growth within the sector despite the harsh economic climate. This growth is attributed to increasingly favourable international platinum prices. The Central Bank has added platinum to the strategic mineral list that previously only included gold and silver. The Central Bank, as from February 2005, will have control over the marketing of the white metal through the Enhanced Platinum Sector Regime (EPSR) introduced in January 2005. The EPSR requires setting up of four distinct locally administered foreign currency accounts which can be monitored by the bank. The long-term view is to set up a PGM refinery in the country to promote local beneficiation since the metal is currently exported in concentrate form.

The mining industry performance improved in 2004 as compared to 2003, as noted by increases in production volume of gold at 21 tonnes compared to 12.6 tonnes in 2003, and platinum produced approximately 130 000 ounces, almost double the 2003 production. This increase is attributed to the positive response of the industry to the improved mineral commodity prices stimulated by the Chinese boom and increased demand of most minerals. Measures implemented by the new RBZ governor in his December 2003 monetary policy have managed to curtail inflation from over 600% in January 2004 to 159% by end of year 2004. The relaxation of tight exchange controls through the introduction of the foreign currency auction system to devalue the Zimbabwean dollar has helped to reduce inflation. However, the positive developments in 2004 in some sectors do not reflect a back-to-normalcy situation. Much still has to be done in line with the transformation: fighting corruption, poverty alleviation, and instilling confidence in the economy by strict corporate governance structures. The country is currently operating under sanctions imposed by the EU and United States, barring top country officials from entering any of these nations. Although the sanctions have not included embargos of any Zimbabwean products, the effects are already being felt. The President has deliberately focused on attracting FDI

from Eastern Block countries, such as China, Iran, and Korea whom he calls friends rather than turning to the western world, further alienating the country from the global market.

The next chapter deals with economic policies and instruments introduced to attract FDI, including mining investment incentives.

CHAPTER 4

4.0 ECONOMIC POLICIES

4.0 Introduction

The chapter focuses on the broad economic policies adopted by the country. Its investment policy is administered by the Zimbabwe Investment Centre (ZIC). The major activities and tasks of this promotion agency are described in this chapter. Following the country's poor, and still deteriorating, performance since 2000, the monetary and fiscal policies were revisited in December 2003 to seriously address the persistent economic challenges. A detailed discussion of these policies has been included. The economic instruments incorporated for the country's economic transformation include ESAP (1991 to 1995), followed by ZIMPREST which sought to include a social dimension to the former programme since it resulted in job losses as well as opening up the economy to global community. The subsequent economic instruments have focused on economic development through fiscal discipline in government expenditure among others.

4.1 Investment Policy

Zimbabwe Investment Centre (ZIC) is the country's prime investment promotion agency. It was established by an Act of Parliament in 1993 and tasked with the following functions:

1. Co-ordinate and facilitate non-resident investment proposals for acceptance;
2. Promote and facilitate investment by both domestic and foreign investors;
3. Promote joint ventures between local and foreign investors;
4. Promote decentralisation of investment;
5. Advise government on policies that relate to the private sector

Investors have a choice of the sectors in which they would want to invest. Foreign investors are free to invest in any of the three sectors of the economy: Priority, Services, and Reserved sectors. The difference lies in foreign ownership and permitted shareholding.

4.1.1 Priority Sector

- Manufacturing
- Mining quarrying and mineral exploration
- Development of infrastructure for tourism. Foreign investors are welcome to take 100% ownership though joint ventures with local partners.

4.1.2 Service Sector

This includes areas such as management consultancy and construction, and foreign investors are allowed up to 70% shareholding

4.1.3 Reserved Sectors

Foreign investors are only allowed to take up stipulated maximum shareholding of up to 35%. The sectors are viewed as strategic and sensitive to the country and, therefore, reserved for local investors by the government through Statutory Law 108 of 1994. These sectors include agriculture, transportation, retail and wholesale trade. Foreign participation in this sector can only be through joint ventures with locals.

The Zimbabwe Investment Act stipulates that the turn around time for approval of projects should not exceed 45 days, if all necessary conditions are met.

Companies with foreign shareholding are allowed to remit 100% after tax profits due to their foreign shareholders. Disinvestment is also allowed without restrictions as long as this is done after a period of at least two years. No maximum and minimum investment amounts are required if the investor intends to take up Zimbabwean citizenship.

The country's access to world markets regionally is through SADC and Common Market for East and Southern Africa (COMESA), and internationally ACP (Lome

Convention) General System of Preference (GSP), and the World Trade Organisation (WTO).

4.1.4 Investor Protection

The country is a signatory to the following treaties including bilateral international protection agreements with a number of countries worldwide:

- Multilateral Investment Guarantee Agency(MIGA)
- Overseas Private Investment Corporation (OPIC)
- International Convention of Settlement of Investment Disputes (ICSID)
- New York convention of the enforcement of Foreign Arbitral awards
- United Nations Convention on International Trade Law

4.2 Monitory and Fiscal Policies

The Zimbabwe Monetary Policy of December 2003 seeks to address inflation which remains the number one enemy and requires total and unwavering commitment and the collaboration of all stakeholders. It also seeks to converge the current dual interest rate to as close as possible in the long term. On the other hand, exchange rate management has been in disarray, contributing immensely to the escalating inflation. The monetary policy seeks to realistically align exchange rates with global trends. On the investment front, the expeditious handling of exchange control applications, guaranteeing a turn around of not more than 14 days, will be implemented. An FDI unit, set up in the Central Bank, will facilitate with the co-ordination of matters with other investment promotion authorities.

On the fiscal policy front, the main focus is on reducing government spending thereby reducing the current large budget deficit. The government deficit is a function of inflation through the growth of M2 money to fund its exorbitant and uncontrolled expenditure. Both the fiscal and monetary policy initiatives are being driven by the Central Bank to bring convergence in the two since the overall success relies on their mutual relationship.

The challenges for the monetary policy for 2004 and 2005 relating to the mining sector that need to be addressed include

- Contradiction between policy and actions on the ground
- Structural weakness at policy implementation levels
- Strained relations with the international donor and financial communities
- Weaker economic empowerment especially among the poor and the marginalised
- Declining levels for both local and foreign investment energy supplies.
- Shortage of foreign currency for critical imports
- Price, interest, and exchange rate distortions in the economy.
- Industrial production capacity underutilisation and diminished export competitiveness.
- High unemployment levels.
- High perceived country risk and reduced international creditworthiness

4.3 Economic Instruments

Several economic instruments have been adopted by the government since 1990 which include the Economic Structural Adjustment Programme (ESAP, 1991-1995) followed by the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST), the Millennium Economic Recovery Programme (MERP) and the National Economic Revival Programme in 2004. All these policies had a common objective, to stabilise the macro-economic environment after ESAP, which sought to liberalise the economy in accordance with entry into global market.

4.4 Taxation of Minerals

Miners are assessed for income tax in a manner similar to that applicable to any trader with certain exceptions, notably, the method of claiming capital allowances. Other major exceptions include

- A favourable tax rate of 25% for mining companies and trusts, but those in EPZ enjoy an even lower corporate tax of 15%;

- The computed taxable income (or loss) from each mining location of a particular company is ring-fenced;

- Thin capitalization rules apply to companies whose debt equity ratios exceed 3:1.

- Restrictions on deductibility of management fees and head office expense allocations.

4.5 Royalties

Royalties are not deductible for income tax purposes and are levied as a percentage of gross fair market value of the minerals produced and sold as follows:

Precious stones	10%
Precious metals	3%
Base metals	2%
Industrial minerals	2%
Coal Bed methane gas	2%
Coal	1%

In a bid to prevent mine closures, some gold mining companies have been exempted from paying royalty. On the other hand, mines producing locally consumed mineral products are also exempt from royalty on the understanding that their products are being used for the benefit of the country and its citizens: national patrimony. This exemption includes most industrial minerals, such as phosphate, limestone, coal. Lucrative as it might sound, it is not healthy for revenue generation in a country like Zimbabwe which already has a low corporate tax on mining companies. The realised revenue from royalty should be used to improve institutional capacity and to further mineral resource development. The introduction of such a waiver was a desperate move by the Central Bank to prevent mine closures, fearing massive retrenchments.

See Appendix 8 for the extract of the Royalty section from the Mines and Minerals Act sections 243 to 254.

Most exporting mining companies enjoy the EPZ benefits, illustrated in section 3.5.5. The bone of contention lies with the mining companies producing energy and agricultural minerals such as coal, phosphate and limestone. They are mandated to satisfy the local market before exporting hence fail to enjoy EPZ tax incentives because of government directives. Such companies have a 25% corporate tax levied on them. A balance has to be met when failure to export is not by choice but because of government intervention.

4.6 Conclusion

ZIC is the main agent for promoting and facilitating FDI into the country, concentrating on economic development for socio and micro economic achievements. The regulatory framework of the country is quite competitive and the incorporated incentives include, among others, up to 100% foreign ownership, unlimited repatriation of dividends, international investor protection, such as MIGA. The government's intention to promote local participation is altruistic and in accordance with SADC and NEPAD policies as well as the United Nations NSONR principle. It is, therefore, important, and makes business sense, to carry out the local participation drive thus avoiding an over-emphasis of political interests. The Black Economic Empowerment (BEE) programme in South Africa is slowly receiving nationwide approval from corporate organisations because of the business advantages of sustainable development. The current challenge stems from allegations that the programme has enriched an elite few at the expense of ordinary black South Africans. Zimbabwe should learn lessons from the South African approach.

The Monetary Policy of December 2003 has been hailed the best turnaround strategy for the country's economy since 2000. Its main theme focused on fighting inflation, and this has seen inflation tumbling from over 600% in January 2004 to 159% by the December 2004. This positive improvement is as a result of relaxing foreign exchange controls, strict monitoring of the country operations from government expenditure, to promotion of corporate governance and economic transformation in all sectors of the

economy. Apart from all previous policies, this recent one tries to address root causes of the problems affecting the economy instead of the previous fighting fires approach which lacked a holistic approach.

There is no correlation between policy and actions on the ground in most sectors of the economy, including mineral resource development. Enhancement of institutional and regulatory authority in the mining sector will facilitate efficient policy implementation. Any policy formulation is now governed by this concept as well as regional and international protocols, such as NEPAD, SADC, African Development Bank Report, ADB and the promotion of regional integration and corporation.

CHAPTER 5

5.0 MINERAL RESOURCES DEVELOPMENT

5.0 Introduction

This chapter deals with mineral resource development issues specific to Zimbabwe. The emerging view on policy formulation is its relevance to sustainable development. An important aspect of the mineral resource development is the formulation of a stand alone mineral policy document, and Zimbabwe does not have one. Its policies are enshrined in the Mines and Minerals Act of 1996. The Ministry of Mines, in consultation with the Chamber of Mines of Zimbabwe, is currently working on draft changes to the Act focusing on revising mineral rights and the introduction of mandatory local ownership targets for the historically disadvantaged people. A discussion on the current challenges faced by the industry and the mining ministry are also evaluated. Training and research and development are important for professional execution of duties as well as consistent review of global dynamics and uniqueness of the industry.

5.1 Sustainable Development

Following work on the MMSD project instituted by mining company executives to improve the perception of the industry which has been plagued with legacies of mistrust and an insensitive attitude, it has become imperative for any policy to adhere strictly to this new development. For companies to operate in a sustainable manner, broader policy guidelines are of utmost importance. Sustainable development in mining relates to the quadruple bottom line which by definition encompasses four spheres: economic viability, environmental soundness, social responsibility, and over and above a climate of good effective governance to provide long-term community value. This is a paradigm shift from the narrow environmentally focused notion to a broader and overall concept. (Adapted Strongman World Bank).

The business case for sustainable development is gaining greater acceptance, facilitating the ease of policy formulation based on this concept. Reporting guidelines

on sustainability based on Global Reporting Initiative by Stewart 2003 identified the following issues on policing sustainable development:

Governance

- Viability of the sector
- Transparency, disclosure, and information sharing
- Consultation and participation

Economic

- Revenue capture management and distribution
- Capacity building
- Good government

Environmental

- Land and resource planning
- Environmental issues from mine operations
- Mining legacies

Social

- Sustainable communities and livelihoods
- Artisanal and small scale mining
- Health and safety

To evaluate the business case for sustainable development, World Bank International Finance Corporation (IFC) developed a matrix which compares seven sustainability factors: governance, management, stakeholder participation, and environmental process improvement, and human resource development, with six business factors: revenue growth and market access, cost saving and productivity improvement, access to capital, risk management and licence to operate, human value, and brand value reputation. A thorough research establishing the expected correlation between business benefits and sustainability initiatives is required although there are a number of examples that support this view, especially in the asbestos, diamond, and uranium sectors.

5.2 Mineral Policy

A mineral policy shows the intent, goal, and long-term development of the sector. It marries national objectives both at macro and micro economic levels. In addition, the Act spells out the regulatory regime and enforces the road map to the delivery of mineral resource development goals. Zimbabwe does not have a well-defined separate mineral policy document. Policy concepts are dotted within the Mines and Minerals Act. The current focus is on social aspect of sustainable development, especially on community development. To honour this commitment to community development, government should aim for proper revenue capture, management, and distribution.

The implementation of the policy thrust is currently through implicit avenues. The Central Bank has taken over the responsibility of issuing public statements with regard to the direction it would want the industry to take. The Mines and Mineral Development Ministry has been docile and needs to be proactive in policy initiatives. The current Minister of Mines is not *au fait* with the whole mineral industry and needs an understanding of the industry that is well above that of the ordinary citizen. The Health Ministry is headed by medical professionals; therefore it is axiomatic that the Mining Ministry should also be headed by experts. Negotiations undertaken should result in a win-win situation, if both parties are well informed.

The main elements of a national mineral policy formulation for a developing country, like Zimbabwe, should include:

- The establishment of good standards of operation in all the spheres of sustainable development.

- The encouragement of beneficiation to obtain maximum value of primary products before exporting. Zimbabwe currently has a royalty rebate for promoting this aspect.

- The encouragement of indigenous ownership and control of mineral resources. To derive full benefit, this aspect has to be dissociated from politics so that the theme is well understood.

- The maintenance and constant improvement of the country's competitiveness in the minerals industry.

- The provision of infrastructure. Energy reliability is currently a problem in Zimbabwe and should be addressed as more than 40% of the country's electrical power is imported.

- The availability of technical and economic information. The geological survey department should strive to have the whole country's geology on database, and the current regulations requiring submission of exploration results annually should be maintained.

- The forecast of problems associated with mineral depletion and the minimisation of the impact of such problems through proper policy. A field that is slowly gaining popularity is Natural Resource Accounting (NRA) for minerals in an attempt to understand the growth illusion as evaluated through the widely used GDP measures.

- The encouragement of optimal depletion of reserves and minimise waste

- The assurance that the mineral industry contributes an equitable share of tax revenue to the nation. Currently, Zimbabwe has a very lenient taxation regime with royalty rebates on some minerals in the sector. Rents generated from the sector are seen to be proportionally lower. A research on mineral rent for the country compared to the value of minerals over the past 10 years will show the country's position in this regard. It is the author's own deduction that, by and large, the country has not generated the equivalent proportional rent when compared to its counterparts. This area cannot be addressed overnight as the highest priority should be to attract foreign direct investment.

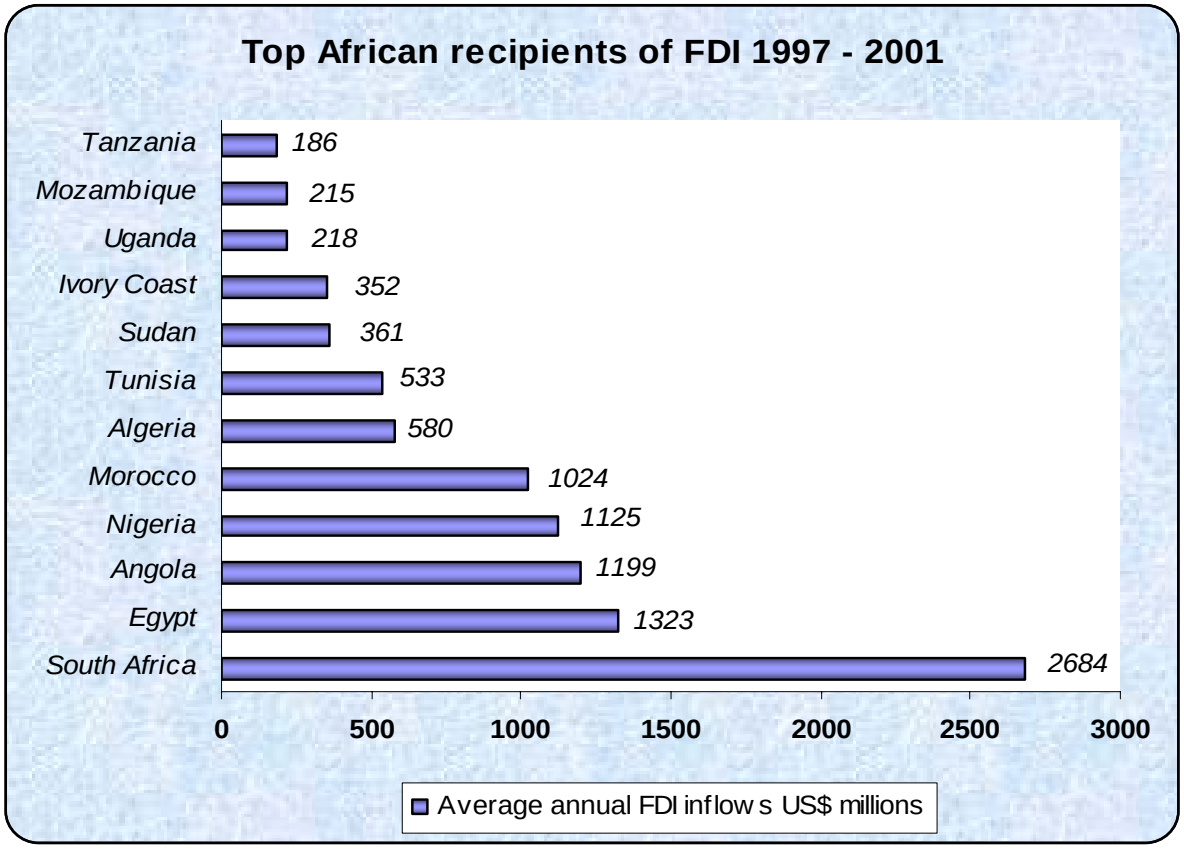
- The increase of the development and use of domestic skills. The country's achievements are remarkable in this respect through the development of institutions and facilities for training professionals in the mining field. Unemployment has resulted in a massive brain drain of skilled personnel out of

the country. Other key areas for development include research and development, as well as training in policy and mineral legislation of ministry officials.

- The mineral policy should ensure government policy on sovereignty and socio-economic development are echoed in mineral industries' activities.

The above require multiple stakeholder input to produce a document that will be endorsed by everybody. When South Africa produced its mineral policy document in 1998, mineral contracts registered at the Deeds office rose to 11 993 a year later (Cawood 2003). The country has the largest portion of FDI flows into Africa. The figure below shows the distribution of FDI in Africa. Zimbabwe does not feature in the top ten. According to Industrial Development Corporation (IDC) of South Africa's review of FDI flow into Africa. " …..*South Africa is playing a vital … role in the repositioning of Africa in the global investment arena, and increasingly becoming a regional springboard for TNCs."*

Figure 11 Top African countries Recipients of FDI



Source: UNCTAD

The current themes of the country's mineral policy, as enshrined in the Act, focus on mineral extraction for the economic development and other issues not specifically mentioned include beneficiations, revenue base for government, expansion and diversification of mineral production.

5.2.1 Proposed themes for the development of Zimbabwe mineral policy:

- Emphasis on business climate and mineral development
- Good effective governance and political will under the auspices of NEPAD and AU to improve the country's image regionally and internationally
- Regional integration within SADC, COMESA, PTA regional markets and a reduction of barriers to trade
- Local indigenous participation in a coherent and orderly manner without disrupting the normal flow of industry activities.
- The setting of realistic targets for indigenous participation
- People (health safety, human development and social responsibility)
- Sound environmental management policies in accordance with global trends
- Compliance with mineral resource and reserve reporting in accordance with the requirements of current developments internationally SAMREC or JORC.

5.3 Mines and Minerals Act

Administration of the minerals sector is through the Mines and Minerals Act, Chapter 21.05 of 1996 which is currently being amended to focus on addressing mining titles. It should be appreciated that a mineral policy formulation draft policy should be done prior to amendment of any existing Act.

The proposed changes in mining titles compared to old order rights are compared below. According to the draft, the old order rights shall remain in force for the period of their validity, though a problem of administering dual regulations over a long

period is anticipated. The new order rights, if approved, will only be effective to rights granted after the enactment of the proposed Mines and Minerals Act 2004.

Table 6 Current mining rights and proposed new order rights in Zimbabwe

Old order rights	Proposed new order rights
Prospecting Right Purpose :- ▪ right to prospect and search for any mineral Conditions/Requirements ▪ no any drilling or excavation work or removal or disposal of any discovered mineral is allowed Duration:- ▪ min 2 years ▪ renewable at minister's discretion	**Exclusive Prospecting Licence (EPL)** Purpose :- ▪ right to do detailed exploration at artisinal and small scale level Conditions/Requirements ▪ sketch plan ▪ mineral being searched for ▪ environmental deposit ▪ supplied with UTM coordinates ▪ prospecting to start within 14 days ▪ area= min 1km^2 Duration:- ▪ months ▪ renewable for 6 months
Exclusive Prospecting Order (EPO) Purpose :- ▪ right to carry out detailed exploration for any mineral Conditions/Requirements ▪ program of prospecting/exploration operations ▪ surface rental charge ▪ limitations to aerial extent but can be wavered depending on geographic location or need to exploration coverage in remote area and financial and operational capacity Duration:- ▪ min 3 years ▪ renewable at periods not exceeding 3 yrs in all	**Exclusive Exploration Licence (EEL)** Purpose :- ▪ right to carry out detailed exploration on medium to large scale Conditions/Requirements ▪ financial status ▪ sketch plan ▪ programme of work done by competent person. ▪ guarantees offered for performance ▪ submission of 6 monthly geological report Duration:- ▪ min 1 year ▪ renewable for any period but requires presidential approval. ▪ turn around time 60-90 days
Mining Lease Purpose :- ▪ right to mine any mineral deposit within vertical limits Conditions/Requirements ▪ details of mineral to be mined ▪ sketch plan showing position and aerial extent ▪ financial status of applicant to just meet dues e.g. rentals ▪ operation to be at a substantial scale. ▪ Transferable	**Retention Permit** Purpose :- ▪ to retain any EEL for any given reasons Conditions/Requirements ▪ details of reasons for retention

Duration:- ▪ approx. 20 years and renewable	Duration:- ▪ subject to discretion of the Mining Affairs Board
Special Mining Lease Purpose :- ▪ right to mine any mineral project by big FDI co. excess of ≥ US$100m ▪ production intended for export Conditions/Requirements ▪ feasibility, financing and marketing plan ▪ proposals for efficient economic exploitation and treatment of ore ▪ detailed mineral resource and reserve ▪ EIA ▪ Insurance details covering any liability due to mining ▪ extent of use of local services ▪ manpower development Duration:- ▪ min 25 years ▪ renewable at periods not exceeding 10 yrs	**Mining Claim** Purpose :- ▪ granted for development and mining to individual syndicates/companies Conditions/Requirements ▪ EPL holder ▪ submit supporting field data ▪ environmental mining certificate ▪ possibility to upgrade to mining lease Duration:- ▪ not specified but its rather for a short time approx 2 years.
	Mining Lease Retained from the old order
	Special Mining Lease Retained from the old order right

Source: Mines and Mineral Act 1996 & draft Regulations Mines and Minerals Act 2004

5.3.1 Proposed Changes to the Mines and Minerals Act

The draft amendment bill has only focused on mining titles and the introduction of historically disadvantaged persons' participation; however, stakeholders, through the Chamber of Mines, have proposed a thorough review of the complete Act.

There is now more focus on the Environmental Impact assessment (EIA) and environmental rehabilitation. An effective Environmental Management Program (EMPR) needs to be established by lawfully setting up a separate fund for rehabilitation, and for any company failing to undertake its ongoing rehabilitation duties, the Minister can have access to all or part of its contributions after informing the titleholder for the said purpose. Any holder of a mining title failing to meet its environmental rehabilitation obligation will be blacklisted.

The preservation of mining rights through the issuance of inspection certificates based on assessing production, capital injected or development work involves a rigorous process for which the Ministry currently does not have the capacity. The inspection should rather be based on the final end dump utilisation which will reduce the cumbersome option mentioned above since the concentration will only be on the end: the dump.

Conversion of any mineral block should be indiscriminate of mineral and at the discretion of the leaseholder; the current conversion only allows base metals claims to be converted to precious metals.

An impediment in the mine development stage, for example during construction, includes the approved plan requirement which has to be gazetted before issue. Such bureaucratic process slows down project development and only the relevant experienced people, including the Mining Commissioner, Regional Planner and other relevant departments, can approve such plans without necessarily gazetting.

Currently, according to the Act, only special mining leaseholders are liable for royalty payment. The current incentive on royalty rebate for all mineral products used within

Zimbabwe and full beneficiation through approved refineries should be openly advertised. The Minister's discretional power to review royalty annually should be invoked through a statutory instrument. Royalty exemption seriously undermines government revenue, given the low tax regime in the sector. Royalty is a cost of depleting a non-renewable asset.

In a bid to curb the dubious export and import of minerals, all exporting companies should have valid export licences.

In local ownership, the emphasis on historically disadvantaged people segregates those born after independence who now constitute a significant number of the working class. It should rather be considered as a local or indigenous participation. The ownership targets have been set at 30% in 10 years scheduled as below:

5.3.2 Local Ownership Targets

- 20% within the first 2 years
- 25% within 7 years
- 30% within 10 years

Learning form the South African experience, the local participation should be tailor made to benefit the better part of the ordinary population and to avoid only black elite economic enrichment. In terms of procurement, local people should be given preferred supplier status, provided they meet some minimum standard requirements, and to avoid forcing large companies to be satisfied with inadequate leftovers. Quality should be respected. The South African case has seen some ineffective black people manipulating the BEE, which resulted in them being appointed in top positions in which they were unable to cope to the detriment of the entire country.

The proposed Exclusive Exploration Licence requiring Presidential approval is not in accordance with the concept of reducing unnecessary bureaucratic process. The Minister can do this and reduce the turn around time of processing applications. The

proposed fee structure for licensing, transfer, and surface rentals has been adjusted accordingly and the following relate to the new order rights.

Table 7 Proposed fees for new order rights

	EPL	EEL
Application fee	Z$50 000	Z$50 000
Surface rental	Z$20 000 / 5 hectares	Z$20 000 / 5 hectares
6 monthly fee	Z$40 000 / 5 hectares	Z$50 000 / 5 hectares

All mining rights transfer will then attract a 10% fee based on the selling price of the transfer.

The annual submission of geological information is important for maintenance of an up- to-date geological database, although the Director of Geological Survey is not allowed by law to publish such results without the consent of the holder if he is still the entitled to the property only, and unless it is for growing public interest.

5.4 Current Challenges in Mineral Resource Development in Zimbabwe

In his speech to Cabinet in June 2004, the Minister of Mines and Mining Development highlighted the performance and challenges facing the sector. The challenges stemmed from lack of administrative justice by the relevant authorities to inefficient monitoring of sound systems that are in place. A summary of the challenges include

- Establishing **monitoring mechanisms** to curb leakages and robberies in the mining sector. The current structure of the Mining Ministry can handle this problem with the assistance of Zimbabwe Republic Police (ZRP), MMCZ and ZIMRA, The Ministry's capacity is threatened by understaffed departments. Efficient monitoring is required in the different domains of

  - **Exploration** – managing mining titles, renewals, and issuing of mining rights and keeping a real database that translates to issues happening on the ground.

- **Mining** – monitoring quality of deposits, including reserves and potential for future development, up-to-date recording of production data, and efficient royalty collection

- **Mineral Processing -** maintaining an inventory of all custom milling centres and metallurgical plants and building a PGM refinery in the country similar to Fidelity Printers

- **Beneficiation incentives** – realising more revenue for the country through its mineral exports if it offers incentives for beneficiation. High value to low volume exports should be promoted as far as is feasible. Currently, most platinum is exported as a concentrate, and iron ore would be more beneficial if exported as steel. Progress has been made in the ferrochrome industry: very little chrome ore is exported but ferrochrome is.

- **Corporate monitoring** – implementing a database of all mining corporations will facilitate the analysis of the performance of the sector from a regulatory point of view. The current analysis is only done by the Chamber of Mines. The chief government mining engineer's annual report is a ministry report on the industry and is not published for confidentiality reasons.

5.5 Natural Resources Accounting

The concept of Natural Resource Accounting (NRA) is gaining greater international acclaim as more and more countries implement it. The Bureau of Economic Analysis (BEA) in USA initiated the program for the USA. NRA mainly tries to demystify the growth illusion by taking a holistic approach to national accounting in which all possible measures of wealth and actions that have an impact on future developments are included. It focuses on long-term development in terms of intergenerational equity. The externalities due to non-renewable resource depletion include, among others, environmental consequences.

A thorough knowledge of the resource base, though not feasibly accurate, will help in formulating long-term sustainable development policies taking cognisance of depletion. This avoids a sudden realisation of exhaustion of certain non-renewable resources. NRA will signal critical areas when it is necessary to reinvest a portion of the mineral rent in alternative forms of capital or to slow the rate of depletion to optimal rate (Minnitt, Blignaut & Cawood, 2003)

The introduction of the NRA system will assist in valuing the resource rent of a country and how it has been used. The latest development in valuation, including SAMREC code, VALMIN code, and other international reporting guidelines or standards have provided the basis to moving to NRA.

5.6 Training and Skills Development

The basis of development of any country relies on a sufficient skills base. To this effect, the tax regimes provides for training allowance of up to 50% of expenses on training facilities and equipment (Cawood, 2004), The mining industry is no excerption, and some of its skill requirements are industry-specific. Most corporate organisations have set up vibrant, reputable training centres for their employees which include training for the general public. Such companies include Wankie Colliery Company, BNC, ZIMASCO, African Associated Mines. Despite all these positive efforts, HIV and AIDS have affected the prime productive sector of the society,

hampering the gains anticipated from training and development. The country boasts of having one of the best education systems within the region for primary, secondary, and tertiary education. The country's education policy adopted after independence is hailed as one of the best in the region as the majority of the population is educated up to O-level though unemployment is rife. The current challenges of the education system include:-

- Infrastructural development and equipping of growing number of tertiary institutions.
- Remuneration and motivation of lecturing staff is very low prompting a massive brain drain.
- Growing resentment amongst qualified people to work in the country because of the economic melt down.

5.6.1 Mining Sector

Before the negative political developments, a number of NGOs supported research and development within the mining sector and this resulted in the introduction of the Institute of Mining Research (IMR) and the Faculty of Mining Engineering at the University of Zimbabwe, thanks to GTZ funding. The Bulawayo School of Mines was established soon after independence in the early 80's to train demobilised soldiers with the idea of re-opening mines that had been closed during the war (Svotwa, 2002). To date, the school is still functioning and offers courses that attract students from within the region. Intermediate Technology Development Group (ITDG) has focused on promoting small scale and artisanal miners with financial and technical support. Since the beginning of the political upheavals, it has withdrawn its support to the sector. Other NGOs that supported the sector include

- EU Micro Project which provided funding for small scale miners
- COMIC RELIEF which provided capacity building funds for National Mines Association.

- SNV- Netherlands NGO focused on developing a vibrant small scale and artisanal mining sector in Insiza

- AFSM (Austria) provided loan funds to chrome mining cooperatives on the Great Dyke

All these projects have been suspended indefinitely because of the political developments in the country. Adapted from Svotwa (2002)

5.7 Research and Development

Most government funded institutions, such as the IMR, should focus on carrying out research relevant to the needs of the country and industry as a whole which include

- Technology for the extraction of refractory gold-bearing deposits
- Coal fines agglomeration to usable forms
- Funding of schemes for small scale miners and gender issues in the sector
- Production and marketing of industrial minerals since the country is well endowed with the resource
- An overdue mineral policy initiative for the country to market the country's investment environment.

Training of Ministry officials with regard to policy and law issues should be improved. The current calibre, though technically apt, lack that specialised training.
More and more women are engaged in small scale artisanal mining but also lack the technical and management skills to run their operations. The Shamva Mining Centre established through the ITDG offers courses earmarked for small scale operators.
The University of Zimbabwe's Department of Mining Engineering and the Bulawayo School of Mines have produced well-qualified graduates throughout the years. The skills development has to be extended further to artisanal and small scale miners to boost their environmental awareness when conducting their activities.

5.8 Conclusion

Mineral policy formulation should be based on the principle of sustainable development. This involves multi-stakeholder participation to produce an overall acceptable document. The importance of a stand alone mineral policy document is exemplified by the increase in the number of mineral contracts registered at the Deeds Office in South Africa after publishing its mineral policy document in 1998, followed by the Mineral Resources and Petroleum Development Act (MRPD) of 2002 (Cawood, 2003). Proposed themes for Zimbabwe mineral policy should focus on improving business climate, mineral resource development, regional integration, local indigenous participation in a coherent and orderly manner without disrupting normal economic activities. The current Mines and Minerals Act amendments should not just focus on mining titles and local participation but be a complete review of the whole Act. It should be borne in mind that the Act should supersede the mineral policy formulation not the reverse.

Current challenges in mineral resource development include setting up monitoring mechanisms to curb leakages and robberies in the mining sector, beneficiation incentives, corporate monitoring through setting up of database for mining operations that will facilitate analysis of the performance of the industry, up-to-date recording of production data, efficient royalty collection and improved management of mining titles renewals and applications. Research and development has been spearheaded by IMR SIRDC, IDC and the University of Zimbabwe's Mining and Metallurgy departments through sponsorship from NGOs. Due to political upheavals, these NGOs have frozen most funding causing an almost complete halt in most R&D projects.

The following chapter highlights recommendations on the whole research on a chapter-by-chapter basis. These recommendations will help the country regain its competitiveness especially in the mining sector. It will also align the country with global trends in aiming to provide an ever conducive investment environment.

CHAPTER 6

6.0 RECOMMENDATIONS

6.0 Introduction

A number of forums focusing on African development have detailed requirements for the countries to be competitive. The SADC protocols also give guidelines for economic development within Southern African region. The African Union (AU) born from the Organisation of African Unity (OAU) also provides guidelines for the continent's co-operation in fostering peace and stability to promote economic development. The recently established NEPAD was inspired by the UN Millennium Declaration approved by 149 world leaders in September 2000, which called for a new partnership and a pledge to assist African countries in their struggle for lasting peace, poverty reduction, and sustainable development. Earlier initiatives, including Millennium Partnership for the African Recovery Program (MAP) together with NEPAD, focus on structural transformation, growth, investment climate, reduction of crime and corruption, regional integration, poverty alleviation, and peer review of governance of member states. These themes, meant to improve competitiveness of African countries in the global scene, require dedicated practical implementation. These themes are applicable in any sector's policy formulation, including mineral development. The uniqueness of the mining sector will then require heavy emphasis on sustainable development as described in the MMSD report. Beneficiation promotion arises from the fact that African countries produce and only sell raw materials abroad for further processing into final usable goods. It is more beneficial for Africa to export value-added products that will realise better revenue. Some African countries suffer from over dependency on one sector, for example Botswana on diamond mining. Such countries should diversify their economies to include other sectors, such as agriculture, manufacturing, services, to balance the economy. Zimbabwe is fortunate in that it inherited a diversified economy with well-established agricultural, manufacturing, mining and service sectors. Economic and mineral resource development policies, based on broader themes of NEPAD, ADB, SADC as well as home-grown, country-specific solutions, are recommended on the following section.

6.1 Recommendations on Improving Zimbabwe's Investment Environment

The fiscal regime and mineral potential of the country are very conducive, but regional co-operation and integration in terms of policy initiatives should be improved.

The country should aim for regional and international acceptance through reviving positive relations with the outside world.

A diplomatic approach in expressing different views should be respected.

The level of political risk, as perceived by investors, is over-stated, though admittedly there is a problem, and it requires a non-discriminatory campaign by the government to market the country by explaining some of the subtle facts. The government's political attitude should change dramatically.

The economic performance for 2004 has improved from 2003 with inflation down to 159% from over 600%. Such momentum should be maintained to re-establish the economy. The government, through the Central Bank, should try to tackle both transformation and growth simultaneously.

There is a dire need to have a mineral policy considering the experience the country has in mineral extraction. Such a policy should be based on sustainable development and all its spheres, economic, environmental, social, and good governance.

Capacity utilisation in the mining sector needs to be propped up from the paltry 60% by providing an enabling and conducive business environment. This entails a tight grip on producer price index and overall inflation, among other factors. Inflation is considered ***number 1 enemy*** to the Zimbabwean economy (Zimbabwe Monitory Policy Dec-2003).

The resuscitation of mining companies and other sectors by the Central Bank through provision of loans at concessionary rate through the Public Sector Fund (PSF) loan scheme should be tightly monitored, so that the support serves its intended purpose.

There needs to be a reduction of unnecessary bureaucratic procedures in the establishment of business. Policy makers should also be aware of investor's expectations so that the bargaining process in mining investments is executed from a well-informed platform resulting in a win-win situation.

6.2 Recommendations on Economic Policies

- Royalty is a fee charged for depletion of a non-renewable resource. Scrapping it seriously compromises the solid promotion of intergenerational equity; though it is a competitive incentive for attracting FDI.

- Royalties should be set aside from national treasury and used to promote mineral resource development.

- National budget allocations should also take into consideration the revenue contribution of these sectors to avoid a situation of "killing the goose that lay the golden eggs." The Mining Ministry is under funded. See Appendix 12.

- Policy and actions must be harmonised in practice.

- The institutional and regulatory authority of the mining sector should be enhanced to facilitate policy implementation.

- The disparity in tax regimes between non-exporting and exporting mining companies should be addressed in cases where the mineral export is controlled by the government which might attach high priority on satisfying local consumption before exporting. Wankie Colliery Company could have had better earnings from export sales rather than domestic sales.

6.3 Recommendations on Mineral Resource Development

The country needs to formulate a separate national mineral policy document that will serve as a marketing tool for the country in mineral resource development. The South African mineral policy themes can be adapted and moderately adjusted to suit the

Zimbabwean situation. The themes include a revision of the business climate, participation, people, environment, regional co-operation and integration, and governance. The policy should be formulated in accordance with NEPAD and SADC protocols of economic development, peer review of governance, regional co-operation and integration.

Amendment of the Mines and Minerals Act should only be done after a policy has been implemented. The policy should also focus on invoking certain critical principles in the current Mines and Minerals Act which includes the *use it or lose it* principle. Administrative capacity to enforce this aspect is lacking. Drafting a mining charter will also help in providing more comprehensive avenues of achieving policy thrusts. Vigorous marketing campaigns should be implemented by setting up a Ministry of Mines website for Zimbabwe where any investor can access the policy document as well as the Act, as is the case with the South African Department of Minerals and Energy DME website.

The draft revision of the Act should entail a total revision of the whole Act instead of just focusing on the mining titles and the participation of historically disadvantaged Zimbabweans. Considering that the country has been independent for close to 25 years, a suggested appropriate terminology is indigenous or local participation.

The Ministry has largely been under funded, with its budget significantly declining in real times. This has incapacitated the Department in discharging its duties efficiently and professionally. In addition to only 50% staffing positions filled, there is also a high rate of staff turnover. Capacity improvement is paramount for proper functioning of the Department as that would facilitate administrative justice in its operations.

Policy makers should promote beneficiation so that the country can realise better returns from the sector. Resource rent capture and management and distribution has to be enhanced. A number of robberies involving metal transporting vehicles and also companies exporting minerals under pseudo names have been recorded. The socio-economic development directly associated with mining has mainly been through the investing companies and the resultant knock-on effects with minimal direct

government contribution, because the resource rents are collected into national treasury basket and used for other purposes which the government sees fit.

Training and development of specialised personnel in mineral policy issues is long overdue. This calls for personnel who fully appreciate the dynamic global market demands and the associated impact on policy.

The country's competitiveness has been mainly affected by the perception of political risk, poor governance, and the head of state's attitude. All the economic turmoil facing the nation is a result of all of the above.

There is need to formalise the activities of small scale miners and diggers since their contribution to the economy can be substantial. If formalised, the sector can access support funds and operate in an environmentally conscious manner. The prevailing mistrust and dislike between the large mining companies and small scale miners and diggers has to be harmonised to promote an exchange of information and technology. This is a major undertaking since the two have always viewed each other as rivals.

The government should promote any meaningful FDI regardless of its origin as long as its terms and conditions are met within sustainable development protocols. It is a cause for concern that the Head of State is deliberately contracting his catchment area with regard to FDI with the Look East policy.

6.4 Conclusion

Zimbabwe has the potential to improve its competitiveness in line with regional trends. It's the author's view that the country's problems in the mining sector are to a greater extent exacerbated by poor governance and lack of political will to effect change for the benefit of the country's economic development. Its mineral resource base is the critical sector that can spring bound the country's economy if properly supported and promoted. The government must show as much considerable commitment to the mining sector transformation as it did with its other reforms. The government ought to understand the importance of global recognition in helping to lure FDI into the country especially in the mining sector.

The major critical concern that should be addressed by the government urgently is fostering investor confidence by developing a coherent mineral resources policy document blessed with stakeholder participation. A paradigm shift in political mindset is the only way to gain investor confidence and thereby promoting international acceptance in the global arena. This entails government's solid commitment in honouring regional and international initiatives that include among others: NEPAD, SADC, COMESA, PTA, AU and UN policies. The hard line stance adopted by the government has worsened the alienation of the country internationally. Zimbabwe as a country, should benchmark itself with regards to mineral resources development with upcoming or developing regional countries like Botswana, Namibia, Malawi, Angola, Zambia and Madagascar just to mention a few. Apparently Botswana a developing country has overtaken South Africa with regards to attracting Australian investors in diamond and gold exploration. Botswana is also currently evaluating developing its vast coal reserves which has not been extensively exploited to date. On the other hand Zambia has usurped the current boom in copper prices by opening up some of the old copper mines and even developing new copper mines in country. The fact that the Democratic Republic of Congo DRC, having a turbulent civil strife is currently enjoying better FDI inflows in mineral resource development than Zimbabwe is a great cause for concern. These countries show good improvements in mineral resources development in Greenfield and Brownfield competitiveness.

In conclusion, the structural instruments in place including Investment policies, Taxation regimes, and Mineral rights administration are all conducive to FDI inflows, but all these have been overshadowed by the current political situation as well as a failing economy. The structures in place have sound developmental policies but lack administrative capacity to implement them into action. Recent economic policies implemented by the central bank saw an improvement in the country's inflation from 623% in January 2004 down to 159 % by end of that year (2004). However, soon after the March 2005 parliamentary elections, inflation has been projected to skyrocket again to 425% by the end of the year. The economic turnaround programme has been undermined by lack of political support to sustain the positive gains that had already been realised by the end of 2004. Zimbabwe's vast mineral resources if vigorously developed can be the main vehicle for economic recovery. The current

bullish performance of most mineral commodities further supports this view. The country should derive maximum benefit from its platinum resource, one of the most valued mineral globally. Finally, by and large the government should avoid the temptation of trying to manage and control the mining sector but focus on adopting a regulatory role of the sector.

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Ministry of Mines and Mining Development Zimbabwe

Geological Survey Department of Zimbabwe

Contact details: e-mail zgs@samara.co.zw

IMR Institute of Mining Research publications

UZ website http:// www.**uz**.ac.zw

SIRDC, Scientific and Industrial Research Corporation

website http:// www.**sirdc**.ac.zw/articles/bulletin.htm - 14k

IDC, Industrial Development Corporation Zimbabwe

website http:// ww.**idc**.co.zw/current**idc**.html - 19k

9.0 APPENDICES

Appendix 1: Fraser Institute Annual Survey of Mining Companies 2001 / 2002

Survey Coordinators:Laura Jones & Liv Fredricksen Extracts of mineral potential, policy potential and Attractiveness Index for various countries including Zimbabwe countries

Figure 1: Policy Potential Index

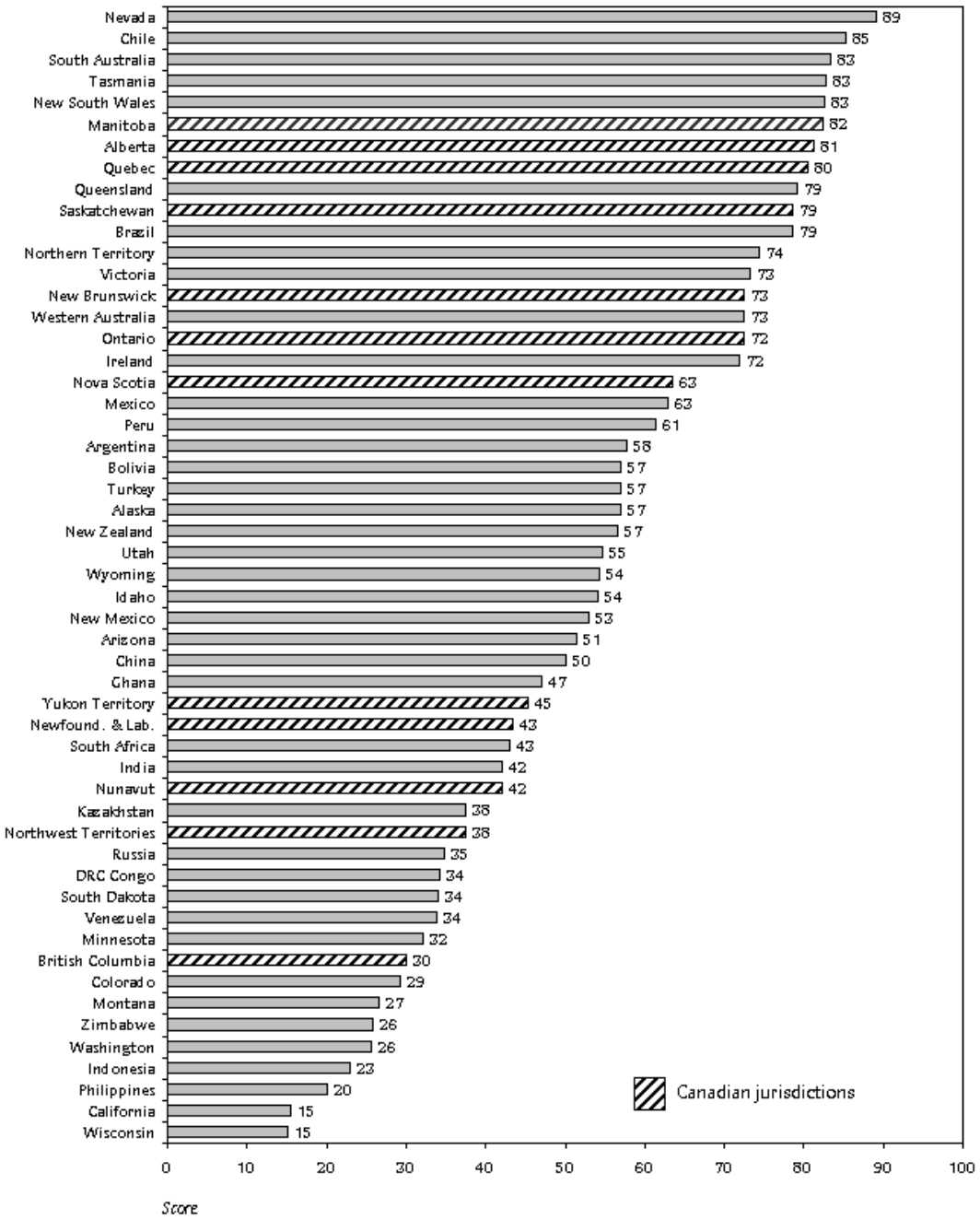
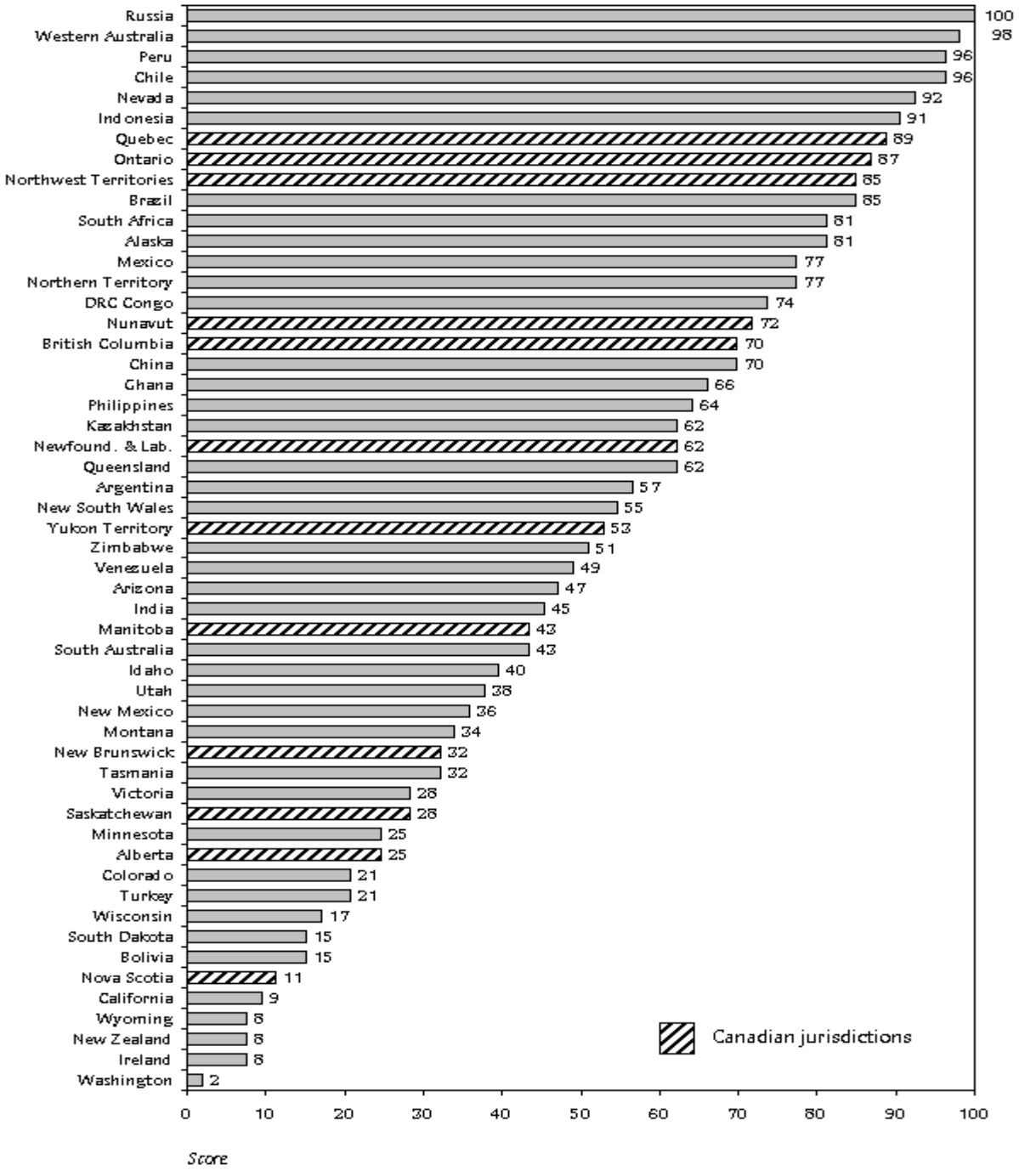


Figure 2: Mineral Potential Index



Appendix 2: Zimbabwe Economic Indicators

Zimbabwe Economic Indicators - Statistics

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Population (millions)	10.8	11.2	11.5	11.9	12.3	12.7	13.1	12.6	12.9	13.4	14
Nominal GDP at market prices US$m	6,446	8,838	7,128	8,475	8,235	9,300	9,000	8,600	8,100	7,100	6800 est
Real GDP growth rate, %	1.2	5.3	-1.0	8.5	1.6	2.9	1.7	-4.8	-8.6	-13.7	-13.2
GDP per capita, US$	598	613.2	616.4	711.7	684	732	687	683	620	530	540
Private consumption as % of GDP	63.4	61	64.4	63.3	71.5	68.5	-	-	-	-	-
Gross domestic savings as % of GDP	20.6	21.5	16.5	22.8	9.3	-	-	-	-	-	-
Gross investment as % of GDP	23.6	21.4	24.8	14.2	18	-	-	-	-	-	-
Inflation rate, %	27.6	22.3	22.6	21.7	18.8	31.7	58.5	55.66	71.95	133.2	525.8
Merchandise exports as % of GDP	32.2	36.5	40.9	36.3	44.6	47.8	46.8	30.3	23.3	9.6	34.6
Merchandise imports as % of GDP	23.5	26	29.9	26.6	32.2	36.1	47.2	31.6	24.6	16.1	55
Capital account of balance of payments	173	181	437	109	102	124	-	-	-	-	-
Foreign direct investment as % of GDP	0.5	0.4	1.4	0.4	1.3	7.8	-	-	-	-	-
Foreign portfolio investment as % of GDP	0.6	0.7	0.9	0	0.4	0.2	-	-	-	-	-
Overall balance on capital flow US$m	176	268	210	-21	-740	-182	277	-246	-800	-812	-1,520
Average exchange rate: ZWD to USD	6.60	8.20	8.70	10.00	12.10	23.50	38.31	38.17	55.00	55.00	824.00
Foreign exchange reserves excluding gold US$m	-	-	-	-	160.1	54.5	46.7	22.1	20.0	15.1	10.0
Foreign exchange reserves (months of import cover)	3.4	2.8	3.7	3.2	1	1.3	1.3	0.5	0.4	0.5	0.1
Total External debt from 1997 US$m	-	-	-	-	4,966	5,003	5,022	5,100	5,120	5,169	5,440
Total external debt as % of GDP	61.4	62.7	62.1	55.4	59	53.8	55.8	59.3	64.0	72.8	80 est
Total external debt service as % of exports	30.1	25	19.9	18	18	21.2	26.3	22.1	31.4	35.1	35.4
Budget deficit as % of GDP	-5.9	-4.2	-9.9	-7.0	-5.5	-4.9	-10.0	-22.5	-8.0	-13.1	-12.3
Central bank discount rate (end of year), %	28.5	29.5	29.5	27	31.5	39.5	58.0	68.0	30.0	35.0	81.0
Prime lending rate (average for year), %	37.9	36.4	35	33.6	35.3	42.1	72	68.5	57.2	52	260
Growth rate of M2 money supply, %	43	33.8	30	27.7	34.7	14.1	-	68.9	102.7	164.8	413.5

Sources:

Zimbabwe Source: IFS with some adjustments by EconStats

Zim Treausry report 1999

Zim Annual Profile 2004 Standard Bank

CSO and Central bank RBZ

Appendix 3: Sector Investment in Zimbabwe (1993 – 2004)

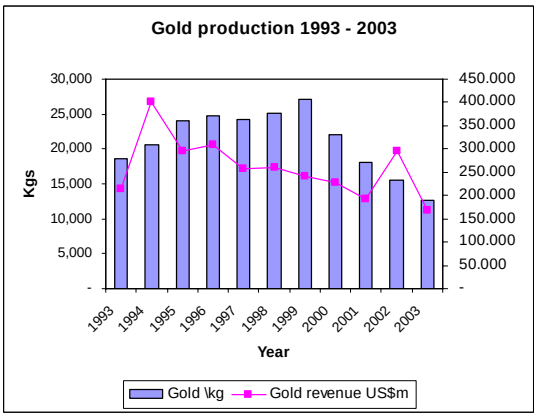
SECTOR INVESTMENT IN ZIMBABWE in Z$ millions (1993 – 2004)

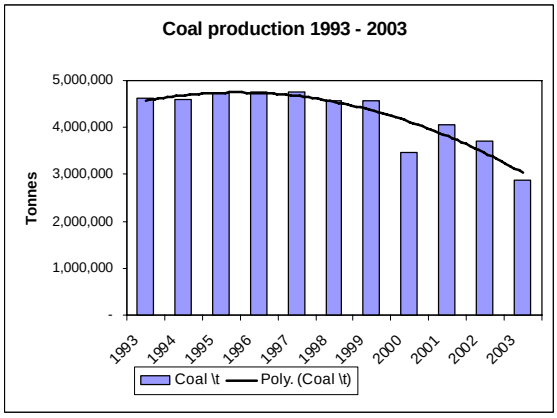
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (Jun)
Type of Projects												
New	1,098	5,078	3,801	9,377	-	-	-	-	-	-	-	-
Expansion	822	857	0	197	-	-	-	-	-	-	-	-
Total	**1,920**	**5,935**	**3,801**	**9,574**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Ownership												
Local	382	167	9	17	0	0	0	0	0	0	0	0
Foreign	1,240	2,766	1,676	4,246	1,003	3,147	12,556	736	2,848	2,521	4,057	16,741
Joint	298	3,003	2,116	5,311	7,123	57,194	9,969	2,072	2,535	1,076	21,571	65,437
Total	**1,920**	**5,935**	**3,801**	**9,574**	**8,127**	**60,341**	**22,525**	**2,807**	**5,383**	**3,598**	**25,628**	**82,177**
Sector												
Manufacturing	602	2,808	1,587	740	2,350	5,800	12,208	1,536	790	1,616	14,196	26,536
Mining	613	2,308	493	3,518	882	4,258	1,856	313	3,353	329	3,225	36,650
Agriculture	105	127	238	677	107	69	74	37	108	0	1,612	0
Tourism	0	62	741	2,638	508	3,128	1,645	243	244	196	1,235	12,010
Construction	0	0	14	948	2,143	10,996	212	37	12	0	0	0
Commercial	600	630	728	1,007	2,086	34,919	6,427	559	842	1,458	3,057	2,216
Transport	0	0	0	47	51	1,172	102	84	33	0	2,304	4,765
Total	**1,920**	**5,935**	**3,801**	**9,574**	**8,127**	**60,341**	**22,525**	**2,807**	**5,383**	**3,598**	**25,628**	**82,177**
% of Mining Investment to total	32%	39%	13%	37%	11%	7%	8%	11%	62%	9%	13%	45%

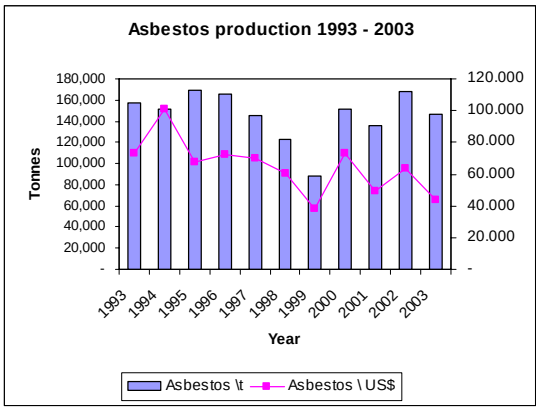
NB 2004 statistics only includes up to June

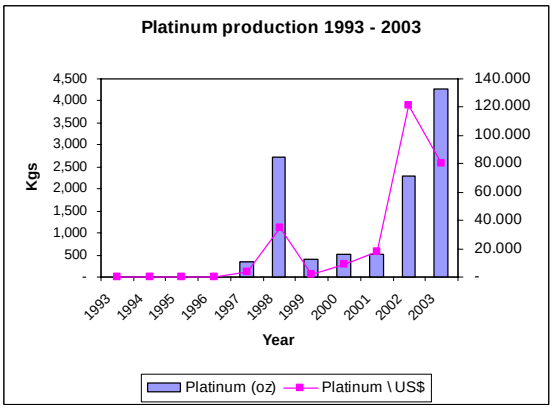
source: Zimbabwe Investment Centre 2004

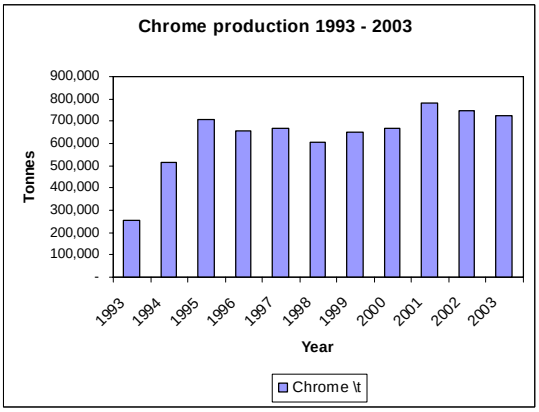
Appendix 4: Zimbabwe Mineral Production

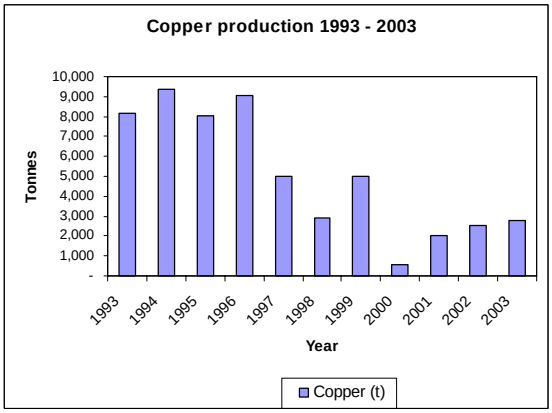




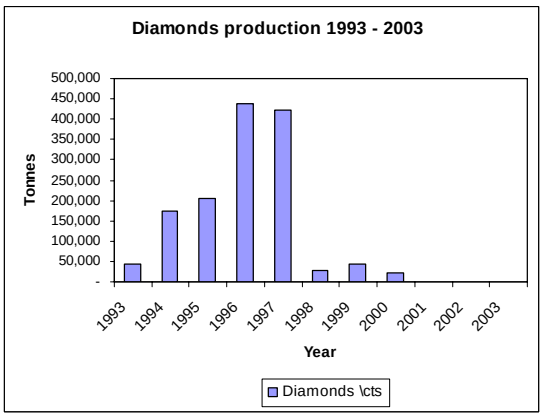


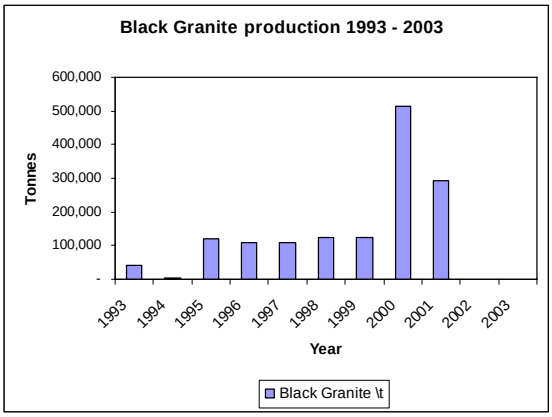


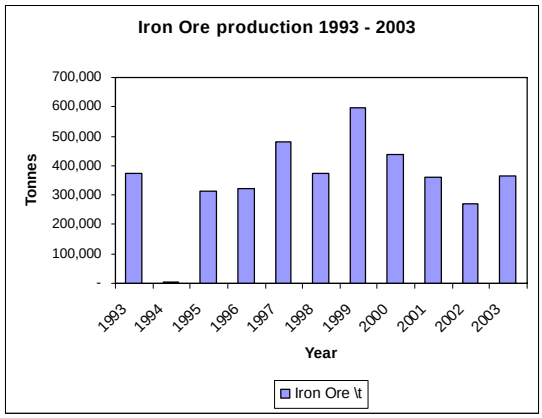


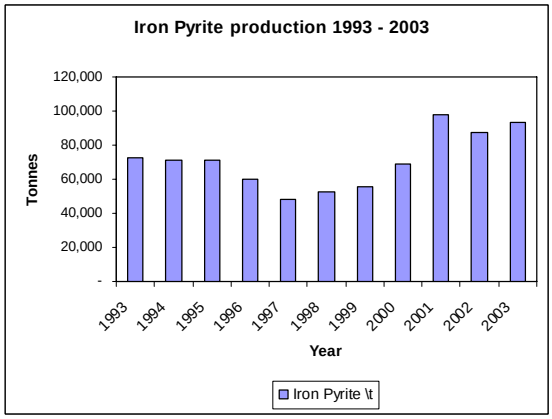


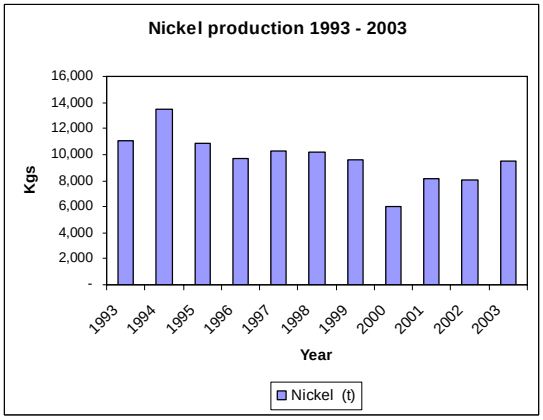
ZIMBABWE MINERAL PRODUCTION (cont'd)

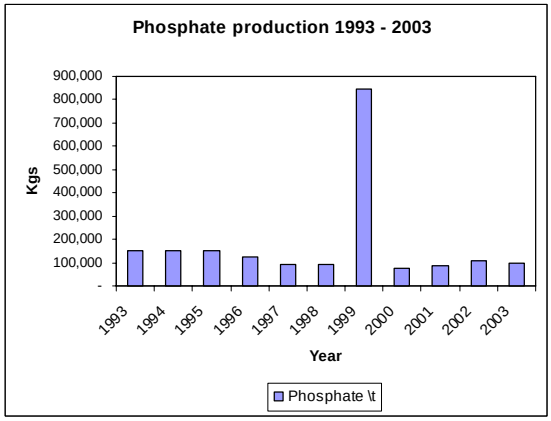

Diamonds production 1993 - 2003
Tonnes
500,000
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Year
Diamonds \cts


Black Granite production 1993 - 2003
Tonnes
600,000
500,000
400,000
300,000
200,000
100,000
-
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Year
Black Granite \t


Iron Ore production 1993 - 2003
Tonnes
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Year
Iron Ore \t


Iron Pyrite production 1993 - 2003
Tonnes
120,000
100,000
80,000
60,000
40,000
20,000
-
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Year
Iron Pyrite \t

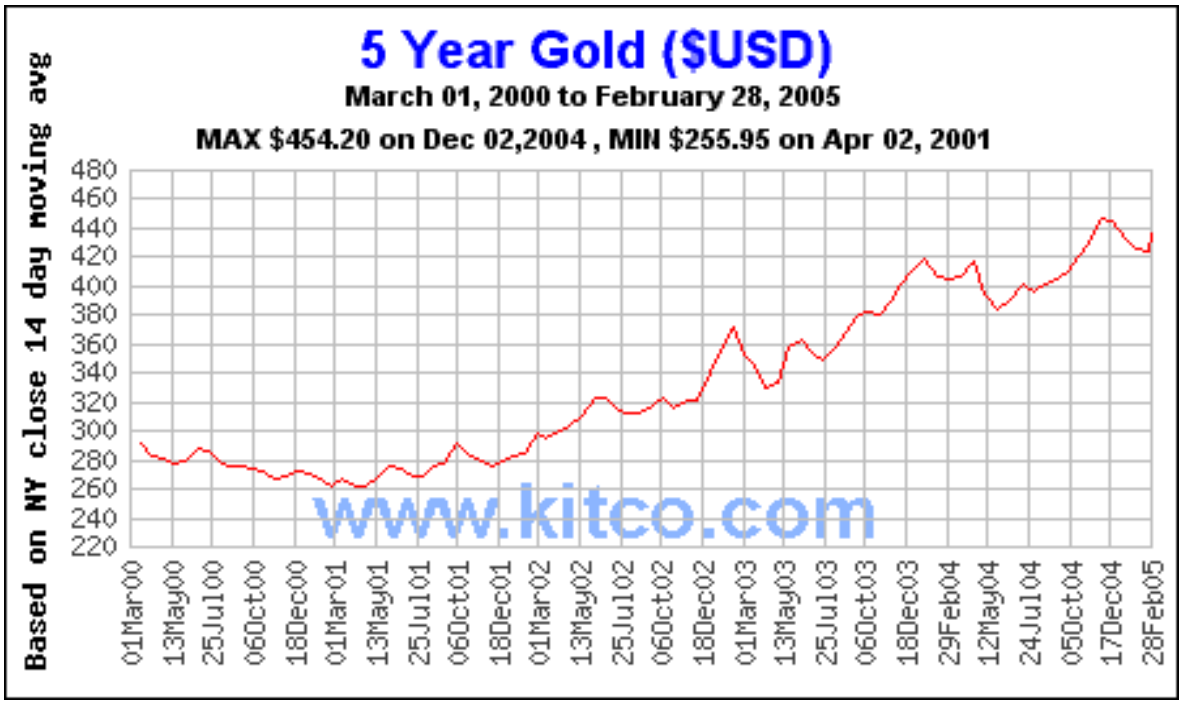

Nickel production 1993 - 2003
Kgs
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Year
Nickel (t)

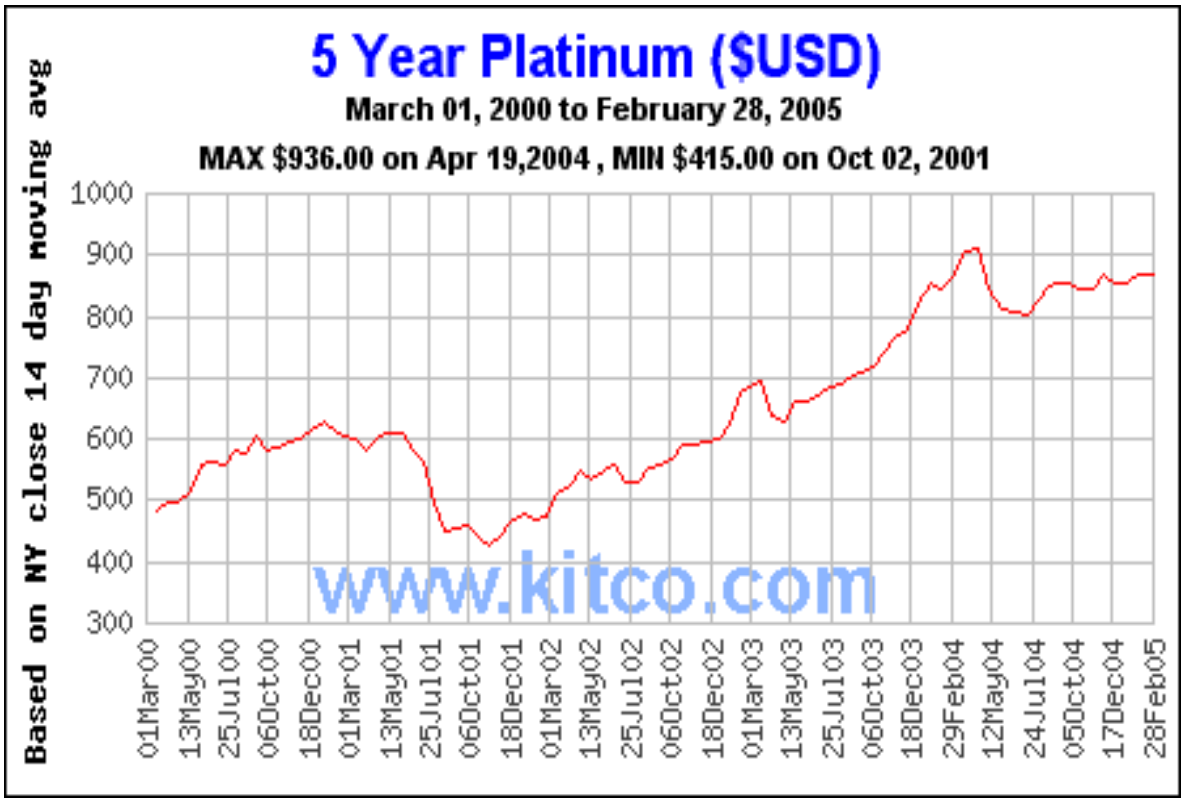

Phosphate production 1993 - 2003
Kgs
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Year
Phosphate \t

Appendix 5: Zimbabwe Mineral production Revenue
Source: Chamber of Mines Zimbabwe

MINERAL	1993 US$m	1994 US$ m	1995 US$m	1996 US$m	1997 US$m	1998 US$m	1999 US$m	2000 US$m	2001 US$m	2002 US$m	2003 US$m
Antimony	0.010	0.181	0.032	0.005	-	-	-	-	-	-	-
Asbestos	73.493	101.228	67.742	72.226	69.785	60.773	38.276	72.738	48.909	63.515	43.312
Black Granite	3.997	0.458	12.232	9.060	15.484	10.982	10.697	14.638	10.992	-	-
Chrome	8.478	26.740	22.802	19.109	22.164	12.576	12.757	20.393	46.540	134.040	6.197
Coal	62.539	88.939	64.348	65.336	68.716	46.493	42.875	61.490	77.010	141.685	64.872
Cobalt	1.990	6.185	4.929	3.559	3.455	3.346	2.590	1.389	2.330	-	1.115
Copper	13.559	30.448	21.790	18.573	10.414	4.918	7.147	0.600	10.009	5.995	3.110
Diamonds	2.898	11.215	4.927	8.697	7.671	0.268	0.893	0.332	-	-	-
Emeralds	1.296	0.994	1.125	14.378	-	0.417	0.381	0.059	0.851	-	-
Feldspar	0.048	0.086	0.098	0.100	0.111	0.074	0.055	0.136	0.006	-	-
Ferrosilicon	-	-	-	-	-	-	-	-	14.141	-	-
Fireclay	0.058	0.086	0.067	0.031	0.010	0.003	0.002	0.001	0.000	-	-
Gold.	215.283	400.294	295.347	308.181	258.003	260.674	240.882	226.463	192.453	296.240	167.671
Graphite	1.539	2.562	2.226	1.660	2.367	1.812	1.703	2.409	2.615	6.847	1.480
High Carbon Ferrochrome	-	-	-	-	-	-	-	-	120.847	363.448	222.685
Iron Ore	6.201	0.034	6.131	7.194	5.294	2.997	3.785	4.088	5.024	6.364	2.207
Iron Pyrite	0.815	1.680	1.367	1.180	1.004	0.856	0.849	2.329	3.293	12.029	4.557
Kyanite	0.016	0.021	0.047	0.005	0.032	0.071	0.053	0.115	0.070	-	-
Limestone	3.935	8.117	4.773	4.702	9.311	3.887	4.169	5.865	7.852	-	-
Lithium minerals	0.616	1.422	0.887	0.823	1.210	0.465	0.413	1.353	1.573	1.638	-
Low Carbon Ferrochrome	-	-	-	-	-	-	-	-	6.640	-	-
Magnesite	0.243	0.106	0.194	0.450	0.510	0.200	0.305	0.341	0.524	-	0.181
Nickel	57.032	123.964	85.345	71.752	69.754	49.068	52.006	2.056	137.814	268.824	165.957
Palladium	-	-	-	0.044	0.855	17.833	1.193	7.867	13.520	49.608	18.556
Phosphate	4.461	6.987	4.917	4.401	3.946	2.538	1.945	3.026	3.788	12.632	4.243
Platinum	-	-	-	0.087	3.807	35.214	1.793	9.174	17.461	121.212	80.122
Quartz rough	0.729	1.271	1.007	0.364	0.331	0.500	0.296	0.382	0.130	-	-
Rhodium	-	-	-	-	-	3.644	0.253	2.174	36.131	14.029	4.776
Silver	2.461	4.160	2.779	1.648	0.927	1.313	0.886	0.685	0.451	-	-
Slate	-	-	-	-	-	-	0.006	0.017	0.007	-	-
Talc	0.018	0.059	0.045	0.025	0.015	0.010	0.007	0.012	0.010	-	-
Tantalite	1.411	0.287	0.000	-	0.003	0.150	0.072	0.137	0.731	-	-
Vermiculite	-	-	0.491	0.351	0.567	0.870	0.732	1.317	0.854	1.669	0.961
Total	**463**	**818**	**606**	**614**	**556**	**522**	**427**	**442**	**763**	**1,500**	**792**

Appendix 6: Mineral prices: Gold, Platinum, Copper and Nickel
Source: http://www.kitco.com/charts/liveplatinum.html
Accessed: 28/02/2005







Nickel and copper prices

Appendix 7: Enhanced Platinum Sector Regime (EPSR) for Zimbabwe
Source: Financial Gazette publication 27 Jan 2005

Platinum guidelines unveiled

Staff Reporter
1/27/2005 8:16:09 AM (GMT +2)

DETAILS of the Enhanced Platinum Sector Regime (EPSR) were laid out in the Reserve Bank of Zimbabwe (RBZ) fourth quarter monetary policy review unveiled by governor Gideon Gono in Harare yesterday.

The authorities had kept the market guessing since government branded platinum a strategic mineral and prescribed that a state organ — the Minerals Marketing Corporation of Zimbabwe — would oversee all marketing of the white metal.
The regime, which comes into effect on February 1, will require that each platinum-producing firm opens four special platinum sector foreign currency accounts (FCAs), to be held at local banks.
The banks will, in turn, lodge the foreign currency in mirror offshore Trust Foreign Currency Accounts (TFCAs) for the exporter, held by the RBZ.
The first account would be a platinum collection foreign currency account, in which all inflows, including export proceeds, loan draw-downs and equity injections would be deposited.
Upon receipt of fund into the collection account, the managing bank would reconcile inflows against shipments, in the case of exports, loan agreements in the case of loans or investment programmes, in the case of equity injection. The funds are then channelled into the other three trust accounts, held with the RBZ.
Funds will not be allowed to stay in the collection account for more than two working days before being transferred into the other accounts.
The second account is the debt-service coverage foreign currency account (FCA), which secures the ability of an exporter to meet foreign obligations through the maintenance of a minimum debt service cover ratio of two months, as determined from existing outstanding offshore loans. Gono said the main objective of this account would be to give assurance to financiers on the capacity of the exporters to service loan obligations.
Platinum group metal (PGM) firms would also be required to operate a dividend sinking fund FCA, to guarantee foreign shareholders the ability of the exporter to meet dividend payments.
The fourth account would be the operating trust FCA, for the firm's daily operational requirements. Inflows into this account can be held for up to 45 days, after which any residual balances would be sold onto the market at the going foreign exchange auction rate.
PGM investors, who have enjoyed generous concessions from government, have been jittery over the new framework, which analysts cautioned could scare potential and existing investors out of the growing industry.
Gono, who has held consultative meetings with the South African investor community over the new regime, said the guidelines were a result of consultations with stakeholders.
"The special FCA accounts shall be managed in strict conformity to account management agreements drawn and agreed upon, and to the full satisfaction of the platinum exporters, the reserve bank and the managing bank. The overriding objective of the account management agreements is to give maximum assurance and protection of interests of exporters and their creditor and investor communities.
"Monetary authorities wish to emphasise to platinum industry players, financiers and creditors that the structure is meant to promote a win-win framework for all stakeholders in platinum mining," Gono said.
The RBZ chief also took a swipe at government, which has failed to facilitate transparent

indi-genous participation in the lucrative white metal business.
Two major PGM projects, Anglo American Corporation's Unki and Zimbabwe Platinum Mine (Zimplats), have availed significant equity for empowerment placement, but controversy, which has dogged the Zimplats scheme amid charges of favouritism, has muddied the waters.
"We would like to see sober, well thought out empowerment programmes, that shun products of undue pressure for cosmetic or disruptive intrusion by those not bringing strategic value to the growth and development of the industry.
"Rather, sustainable empowerment programmes are ones that are born out of transparent, value-adding strategic synergies, where participating indigenous investors bring on the table insightful contributions, whether financial or strategic initiative. We, therefore, call upon the relevant authorities to map out a transparent, investor-friendly national empowerment policy that takes into account the collectivity of stakeholder inputs and aspirations," Gono said.

Appendix 8: Mines and Minerals Act 1996 chapter 21:05 of 1996 (*extracts)*
Source: Mines and Minerals Act 1996 chapter 21:05 of 1996 *extracts from* :-

PART VIII	MINING LEASES	sections 135 to 157
PART IX	SPECIAL MINING LEASES	sections 158 to 168
PART XIV	ROYALTY	sections 243 to 254



ZIMBABWE

Mines and Minerals Act

Chapter 21:05

Revised Edition
1996

Printed by the Government Printer, Harare.

127 Order may not be ceded

The rights granted under an order shall be personal to the authorized holder who may not cede or assign any such rights to any other person.

128 Approval of transfer of underground extension block

(1) An underground extension block may not be transferred except to a person approved of by the Board.

(2) The Board shall not approve of the transfer of an underground extension block to any person unless it is satisfied that his financial status is such that he will be able to pay any compensation payable under section *one hundred and thirty-three* and that the existing holder of the block has paid all compensation payable by him in terms of that section.

129 Forfeiture of underground extension block

(1) The terms and conditions attached to an order shall be binding on every registered holder of an underground extension block.

(2) If the holder of an underground extension block fails to comply with such terms and conditions, he shall be guilty of an offence and liable to a fine not exceeding five hundred dollars or, in default of payment, to imprisonment for a period not exceeding twelve months.

(3) In addition the Board may direct the mining commissioner to declare the underground extension block to be forfeited and the mining commissioner shall, whether or not such block is currently protected from forfeiture by an inspection or protection certificate issued in terms of Part XI, comply with such direction.

130 Indicatory beacons

Notwithstanding anything to the contrary contained in this Act, the mining commissioner may authorize the authorized holder to demarcate his underground extension block by indicatory beacons posted off the reserved ground in accordance with regulations.

131 Surface rights abrogated

The holder of an underground extension block may not exercise in respect of such block any of the surface rights mentioned in section *one hundred and seventy-eight*.

132 Secondary reefs

(1) The holder of an underground extension block who discovers a secondary reef therein shall notify the Board of such discovery.

(2) The Board may authorize such holder on such terms and conditions as it thinks fit to impose to mine such secondary reef.

(3) Such holder shall upon such authorization register the secondary reef with the mining commissioner in terms of this Act, but shall not post a DP peg or secondary reef registration notice or Q and R pegs.

133 Compensation

Any owner or occupier of reserved ground who is injuriously affected by any mining operations carried on any underground extension block shall be entitled to recover compensation from the holder of such block in such amount as may be agreed or, failing agreement, as shall be determined by the Administrative Court.

134 Conversion of underground extension block

(1) If the surface of an underground extension block ceases to be reserved ground, the holder of such block shall immediately notify the mining commissioner of the fact, and if the mining commissioner is, after due inquiry, satisfied that such ground is no longer reserved ground, he shall direct such holder to beacon the block in terms of this Act and, if such block has been pegged in irregular form, to erect pegs marked Q and R in terms of paragraph (*e*) of subsection (3) of section *forty-three*, and, if a secondary reef has been registered, to erect pegs marked Q and R in terms of paragraph (*c*) of subsection (1) of section *one hundred and seventy*.

(2) As soon as the holder has complied with the directions of the mining commissioner under subsection (1) the block shall cease to be an underground extension block and shall no longer be held subject to the order under which it was pegged and registered.

PART VIII

MINING LEASES

135 Application for mining lease

(1) The holder of a registered mining location or of contiguous registered mining locations may make written application to the mining commissioner for the issue to him of a mining lease in respect of a defined area within which such mining location or locations are situated:

Provided that, save as is provided in section *thirty-four*, ground not registered as a mining location in the name of the applicant shall not be included within the defined area unless it is open to prospecting.

(2) The applicant shall furnish to the mining commissioner—

(*a*) particulars of the minerals which are being mined or are to be mined in the area applied for;

(*b*) details illustrated by a sketch plan based on a map issued under the authority of the State and of a scale of not less than 1:25 000 identifying the position of the area applied for and of any registered mining locations situated therein and specifying the extent of such area;

(*c*) if any precious metal reef blocks are covered by the application, details of such blocks in respect of which he wishes to retain extra-lateral rights in the event of the mining lease being issued;

(*d*) a list of all the mining locations registered in his name, situated within the area applied for, and the certificates of registration of such locations;

(*e*) the name and address of the owner and the occupier, if any, of the land to which the application relates;

(*f*) any other information relevant to the application which may be required of him by the mining commissioner or the Board.

(3) The sketch plan mentioned in paragraph (*b*) of subsection (2) shall indicate the position of each mining location mentioned in paragraph (*d*) of that subsection and the position of the boundaries of any holding of land falling within the area applied for.

(4) The boundaries of the area applied for shall be straight lines.

136 Reservation of ground by mining commissioner

(1) Where the area applied for includes any ground which is not registered as a mining location in the name of the applicant, the mining commissioner shall, on receipt of the application, without obtaining the authority of the Minister, reserve the ground against prospecting and pegging in terms of section *thirty-five*.

(2) The landowner or occupier of land shall, in respect of the ground not so registered in the name of the applicant and reserved under subsection (1) and which was open to prospecting at the time such reservation was made, during the period of the reservation, have the same rights in all respects as if the ground not so registered formed part of a mining location registered in the name of the applicant.

137 Submission of application for provisional approval by Board

(1) On receipt of an application in terms of section *one hundred and thirty-five* and after complying where necessary with the provisions of subsection (1) of section *one hundred and thirty-six*, the mining commissioner shall submit the application to the Board together with any report he may wish to make on the application.

(2) The Board shall consider any application submitted to it under subsection (1) and shall, if it is satisfied, having regard to the provisions of subsections (3) and (5) of section *one hundred and forty-two*, that the application has a reasonable prospect of success, provisionally approve the application in respect of either the whole or a portion of the area applied for or, if not so satisfied, shall refuse the application.

(3) Notwithstanding subsection (2), if the Board is satisfied—

(*a*) that the applicant will meet the criteria mentioned in paragraphs (*a*) and (*b*) of subsection (1) of section *one hundred and fifty-nine*; or

(*b*) having regard to the matters set out in subsection (2) of section *one hundred and fifty-nine*, that it is desirable in the interests of the development of Zimbabwe's mineral resources to consider the grant of a special mining lease to the applicant;

the Board may require the applicant to apply for a special mining lease in terms of Part IX.

(4) When the Board has arrived at a decision under subsection (2) or (3) it shall return the application to the mining commissioner together with written notification of the decision.

(5) The mining commissioner shall notify the applicant in writing of the Board's decision under subsection (2) or (3) and, where the Board has provisionally approved the application, the mining commissioner shall in writing require the applicant to submit, within such period as the mining commissioner shall specify, a plan in triplicate prepared by a land surveyor of the area provisionally approved by the Board which shall, where it is a portion of the area originally applied for, thereafter be deemed to be the area applied for.

(6) The plan mentioned in subsection (5) shall show all points of intersection of the boundary lines of the area concerned and all points of intersection of such boundary lines by the boundary lines of any piece of land in respect of which an approved diagram or general plan is filed on record in the office of the Surveyor-General.

(7) If the applicant fails to submit the plan mentioned in subsection (5) within the period specified by the mining commissioner, or within such extended period as the mining commissioner may have allowed, the application shall be deemed to have been withdrawn.

(8) Within the period or extended period mentioned in subsection (7), the applicant may, by written notice to the mining commissioner, withdraw his application.

(9) The decision of the Board under subsection (2) or (3) shall be final and without appeal, but—

(*a*) the provisional granting of an application under subsection (2) shall not in any way affect the discretion of the Board to approve or refuse the application under section *one hundred and forty-two*;

(*b*) a decision that the applicant should apply for a special mining lease under Part IX shall not in any way affect the discretion of the Board, the Minister or the President under that Part to make or not to make a recommendation or to grant or refuse an application, as the case may be.

138 Notice of application to be published in *Gazette*

On receipt of the plan mentioned in section *one hundred and thirty-seven* the mining commissioner shall—

(*a*) publish a notice in the *Gazette* giving details of the application, including particulars of the mining locations to which the application relates, and inviting the lodging, within a period of thirty days from the date of such publication, of objections thereto;

(*b*) by registered letter notify the owner and the occupier, if any, of the ground applied for of the application and invite them to lodge, within a period of thirty days from the date of the publication in the *Gazette* of the notice mentioned in paragraph (*a*), their objections thereto.

139 Determination of objections

(1) If in any objection lodged with the mining commissioner under section *one hundred and thirty-eight* it is alleged that the title of the applicant to any of the mining locations to which the application relates is defective on the ground that the pegging of such locations was invalid or illegal or that this Act was not complied with prior to the issue of the certificate of registration in respect of such locations, the objection shall be determined by the mining commissioner in terms of this Act.

(2) If in any objection so lodged it is alleged by the owner or the occupier of the land that any ground which is not registered in the name of the applicant as a mining location was not, on the date of the reservation of the ground by the mining commissioner under subsection (1) of section *one hundred and thirty-six* open to prospecting and pegging, the matter shall be determined by the Administrative Court.

(3) Any objection not mentioned in subsections (1) and (2) shall be determined by the Board.

140 Transmission of objections to Administrative Court

(1) The mining commissioner shall, as soon as he receives an objection mentioned in subsection (2) of section *one hundred and thirty-nine* transmit it to the Administrative Court for determination.

(2) The registrar of the Administrative Court shall, as soon as the Court has determined an objection transmitted to it under subsection (1), forward to the mining commissioner a copy of the Court's determination.

141 Submission of application to Board

After the period for the lodging of objections has expired and all the objections mentioned in subsections (1) and (2) of section *one hundred and thirty-nine* have been determined, the mining commissioner shall submit the application to the Board, together with—

(*a*) any objections thereto mentioned in subsection (3) of that section; and

(*b*) copies of the determinations made in respect of any other objections lodged with him; and

(*c*) his report on the application.

142 Consideration of application by Board

(1) On receipt of the documents mentioned in section *one hundred and forty-one* the Board shall consider the application and any objections mentioned in subsection (3) of section *one hundred and thirty-nine*.

(2) The Board may, having regard to any determination made on any objection by the Administrative Court or the mining commissioner and any objection mentioned in subsection (3) of section *one hundred and thirty-nine* refuse the application or, subject to subsections (3), (4) and (5), approve it.

(3) The Board shall not approve an application unless it is satisfied—

(*a*) that the applicant's financial status is such that he will be able to meet any payment which may become due by him under the provisions of section *three hundred and forty-four*; and

(*b*) that mining operations on a substantial scale are likely to be conducted for a considerable period within the area applied for; and

(*c*) that no ground not open to prospecting, save as provided in section *thirty-four* is included in the area to which such approval would relate.

(4) Before approving an application the Board may, and, if so required by the landowner, shall, require the applicant to furnish a guarantee satisfactory to the Board for the payment mentioned in paragraph (*a*) of subsection (3).

(5) The Board may approve the application in respect of the whole of the area applied for or, having regard to the dispersal of the mineral deposits within the area, to the extent of the ground necessary for the mining operations mentioned in paragraph (*b*) of subsection (3) and to any other factor which the Board may deem to be relevant, may approve the application in respect of a portion of the area applied for, and may, in approving the application require the inclusion in the mining lease of such terms and conditions not inconsistent with this Act, as the Board may fix, including a condition amending any plan previously approved in terms of Part XIII.

(6) The decision of the Board to grant or refuse an application under this section shall be final and without appeal.

143 Notice to applicant of Board's decision

(1) The Board shall notify the applicant and any objector in writing of its decision under section *one hundred and forty-two* and, where the application has been approved, of the terms and conditions to be included in the mining lease under subsection (5) of that section.

(2) Where such approval relates to a portion of the area applied for, the Board shall furnish the applicant with details of such portion.

(3) Within thirty days of the date of the notification mentioned in subsection (1), the applicant may, by written notice given to the Board, the owner and the occupier, if any, of the land withdraw his application.

144 Submission of amended survey plan

(1) Where the Board has approved of the application in respect of a portion of the area applied for and the applicant does not withdraw his application under subsection (3) of section *one hundred and forty-three* he shall, within the period mentioned in that subsection, or such longer period as the Board may allow, submit to the Board an amended plan in triplicate prepared by a land surveyor of the area approved.

(2) If the applicant fails to submit such amended plan within the period mentioned in subsection (1), the Board shall inform him that the amended plan has not been received and, if the plan is not received by the Board within thirty days from such notification, the application shall be deemed to have been withdrawn.

(3) Subsection (6) of section *one hundred and thirty-seven* shall apply, *mutatis mutandis* to the preparation of an amended plan for the purposes of this section.

145 Issue of mining lease

(1) Where the Board has approved an application under section *one hundred and forty-two* the Board shall, unless the application has been withdrawn under subsection (3) of section *one hundred and forty-three* or the application is deemed to have been withdrawn under subsection (2) of section *one hundred and forty-four* forthwith issue a mining lease in favour of the applicant in respect of the area approved and in accordance with the terms and conditions fixed by the Board under subsection (5) of section *one hundred and forty-two* and shall give notice in writing of the issue thereof to the owner and the occupier, if any, of the land and to any objector.

(2) The original of such lease shall be sent to the applicant together with a copy of the plan prepared by a land surveyor mentioned in section *one hundred and thirty-seven* or *one hundred and forty-four* as the case may be, and one copy of such mining lease and such plan shall be sent to the mining commissioner by the Board.

(3) The Board shall retain a copy of such mining lease and of such plan for purposes of record.

146 Registers of mining leases

(1) The Board shall assign a number to each mining lease issued under this Part and such number and the particulars of each lease shall be recorded in a register of mining leases kept by the Board for the purpose.

(2) The mining commissioner shall keep a register in which shall be recorded the number assigned thereto by the Board and the particulars of every mining lease issued in respect of ground within his district.

147 Withdrawal of reservation

Where the mining commissioner has reserved ground under section *one hundred and thirty-six* and—

(*a*) the application has been withdrawn or is deemed to have been withdrawn under section *one hundred and thirty-seven* or has been refused, the mining commissioner shall forthwith, without obtaining the authority of the Minister, withdraw the reservation;

(*b*) the application has been provisionally approved in respect of a portion of the area applied for, the mining commissioner shall forthwith, without obtaining the authority of the Minister, withdraw the reservation in respect of the portion not approved;

(*c*) the application has been approved in respect of the whole or a portion of the area applied for, the mining commissioner shall, without obtaining the authority of the Minister, withdraw the reservation—

(i) after the mining lease has been issued; or

(ii) after the application has been withdrawn under section *one hundred and forty-three*; or

(iii) after the application is deemed to have been withdrawn under section *one hundred and forty-four*;

as the case may be.

148 Second or subsequent applications

Where an application has been refused under section *one hundred and thirty-seven* or *one hundred and forty-three* or has been withdrawn under section *one hundred and thirty-seven* or *one hundred and forty-three* or is deemed to have been withdrawn under section *one hundred and thirty-seven* or *one hundred and forty-four* the person who made the application may not make a second or subsequent application for a mining lease in respect of the same area until a period of twelve months has elapsed from the date of the refusal or withdrawal or the date on which the application is deemed to have been withdrawn, as the case may be.

149 Approval of transfer of mining lease

(1) A mining lease may not be transferred except to a person approved of by the Board, after consultation with the owner of the ground covered by the lease.

(2) The Board shall not approve of the transfer of a mining lease to any person unless the Board is satisfied that his financial status is such that he will be able to meet any payment which may become due by him under section *three hundred and fourteen*.

(3) Before approving of the transfer of a mining lease to any person the Board may, and if so required by the landowner, shall, require that person to furnish a guarantee satisfactory to the Board for the payment mentioned in subsection (2).

150 Mining rights of holder of mining lease

(1) Subject to any prior right possessed by the holder of any mining location under section *one hundred and seventy-one*, every holder of a mining lease, hereinafter in this Part called the lease holder, shall possess the following mining rights—

(*a*) the exclusive right of mining any ore or deposit of any mineral mentioned in paragraph (*a*) of subsection (2) of section *one hundred and thirty-five* which occurs within the vertical limits of the area covered by his lease; and

(*b*) the exclusive right within the vertical limits of the area covered by his lease of mining any ore or deposit of any other mineral discovered within such area after he has notified the mining commissioner of such discovery:

Provided that nothing in this paragraph contained shall be construed so as to confer any right to mine any coal or mineral oil or natural gas.

(2) The holder of a mining lease which includes any precious metal blocks in respect of which he gave details under paragraph (*c*) of subsection (2) of section *one hundred and thirty-five* shall retain, in respect of such blocks, the extra-lateral rights which he held at the date of issue of the lease.

(3) The holder of a mining lease which includes such precious metal blocks shall, notwithstanding anything contained in this Part, keep and maintain in good order all the original beacons, pegs and claim plates of such blocks and shall make a certificate to the mining commissioner annually that such beacons, pegs and claim plates are in good order and condition and that they comply with section *fifty-one*.

151 Beaconing of mining lease area

(1) Subject to this section, within a period of two months from the date of issue of a mining lease or such longer period as the mining commissioner may allow, the lease holder shall—

(*a*) erect beacons of concrete or solid mason work at all points of intersection of the boundary lines of the area covered by the lease and at all points of intersection of such boundary lines by the boundary lines of any piece of land in respect of which an approved diagram or general plan is filed on record in the office of the Surveyor-General; and

(*b*) if any boundary is more than three hundred metres in length, erect intermediate beacons so that no beacon shall be more than three hundred metres from the next adjoining beacon on either side.

(2) All beacons mentioned in paragraph (*a*) of subsection (1) shall be erected under the supervision of, and in the position determined by, a land surveyor and may be so erected at the time the area concerned is surveyed for the purposes of preparing the plan mentioned in section *one hundred and thirty-seven* or *one hundred and forty-four*.

(3) The beacons referred to in subsection (1) shall be lettered in consecutive alphabetical order in a clockwise direction commencing with the letter A but omitting the letters Y and Z, and if there are more beacons than twenty-four the letters and figures A2, B2 and so on shall be used in respect of the beacons up to forty-eight and thereafter the letters and figures A3, B3 and so on shall be used

(4) Every beacon mentioned in this section shall bear on it, in addition to the distinguishing letter, the words "Mining Lease" followed by the number assigned to such lease by the Board.

(5) The distinguishing letter and the particulars mentioned in subsection (4) shall be engraved upon the beacon or otherwise affixed thereto in such permanent manner and in such position as the mining commissioner may approve.

(6) Subsections (3) and (4), paragraph (*b*) of subsection (5) and subsections (7) and (8) of section *fifty-one* shall apply, *mutatis mutandis* to and in respect of all such beacons.

152 Cancellation of certificates of registration

Upon the issue of a mining lease the certificates of registration in respect of all mining locations situated within the area covered by such lease shall be deemed to have been cancelled:

Provided that any site attached to any such mining location shall be deemed to be attached to such lease, and thereafter section *forty-nine* shall apply, *mutatis mutandis* to or in respect of such sites.

153 No impeachment of title to mining leases

When a mining lease has been issued it shall not be competent for any person to dispute the title of the lease holder to any of the ground covered by the lease on the following grounds—

(*a*) that the pegging of any of the mining locations which were included in the area covered by such lease or of any secondary reef which was registered in respect of any such location was invalid or illegal or that provisions of this Act or of any other enactment were not complied with prior to the issue of the certificate of registration of any such location or reef;

(*b*) that any ground not open to prospecting was included in the area covered by the lease;

(*c*) that provisions of this Act were not complied with in respect of such lease prior to the issue thereof.

154 Increase of area of mining lease

(1) A lease holder may make written application to the Board for the inclusion in his mining lease of an additional contiguous area of ground.

(2) Subsections (2), (3) and (4) of section *one hundred and thirty-five* and sections *one hundred and thirty-six* to *one hundred and forty-four* and sections *one hundred and forty-seven*, *one hundred and forty-eight* and *one hundred and fifty-two* shall apply, *mutatis mutandis* to or in respect of such application, the reservation of the ground, the plan of the area concerned, any objections to the application, the approval or refusal of the application, the withdrawal of the reservation, the beaconing of the additional area and the certificates of registration of mining locations within such area, respectively.

(3) Where the Board has approved an application made under this section, the Board shall, unless the application has been withdrawn or is deemed to have been withdrawn, amend the original and the copies of the mining lease mentioned in section *one hundred and forty-five* accordingly, and shall return the amended original and a copy of the lease to the lease holder and the mining commissioner, respectively, and send a copy of the plan to each of them and shall retain one copy of the lease and of the plan.

(4) As soon as subsection (3) has been complied with, the registers mentioned in section *one hundred and forty-six* shall be amended accordingly.

(5) Where the area covered by a mining lease is amended by the inclusion of an additional area, the lease holder shall beacon such additional area in accordance with section *one hundred and fifty-one* so however, that—

(*a*) the letter Y shall precede the letter or letters to be engraved upon or affixed to the beacons of the additional area under that section; and

(*b*) it shall not be necessary for the lease holder to erect a new beacon at any point which is already demarcated by a beacon of the original area of the lease.

(6) Where the area covered by a mining lease is amended under this section, section *one hundred and fifty-three* shall apply in all respects as if the lease had been issued in respect of the increased area.

155 Abandonment of portion of mining lease

(1) A lease holder may make written application to the Board, through the mining commissioner, for the abandonment of any portion or portions of his mining lease:

Provided that it shall not be competent for a lease holder so to apply if—

(*a*) the mining lease is the subject of a hypothecation or option registered under Part XVII; or

(*b*) such abandonment would result in the area covered by the lease to be retained by him being divided into separate portions or if the boundaries of the reduced area of the lease would not be straight lines.

(2) The applicant shall, with his application, submit to the Board a plan in triplicate prepared by a land surveyor of the area or areas which he wishes to abandon.

(3) The Board may, if it is satisfied that all the terms and conditions of the mining lease have been complied with by the applicant, approve the application or may refuse it, and the Board's decision shall be final and without appeal.

(4) Where the Board has approved an application made under this section, the Board shall amend the original and the copies of the mining lease accordingly and shall retain one copy of the plan and send a copy thereof to the lease holder and the mining commissioner.

(5) As soon as subsection (4) has been complied with, the registers mentioned in section *one hundred and forty-six* shall be amended accordingly.

(6) Upon any such abandonment the lease holder shall—

(*a*) remove the pegs or direction marks indicating the direction of boundary lines of any beacon which falls outside the reduced area of the mining lease;

(*b*) erect beacons in accordance with the provisions of section *one hundred and fifty-one* along such boundaries of the reduced area of the lease as do not form part of the boundaries of the area covered by the lease before such abandonment, so, however, that the letter Z shall precede the letter or letters to be inscribed on the new beacons under that section.

(7) Where the area covered by a mining lease is amended under this section, section *one hundred and fifty-three* shall apply in all respects as if the lease had been issued in respect of the reduced area.

156 Total abandonment of mining lease

(1) A lease holder who desires to abandon the whole of his mining lease may in writing apply to the Board, through the mining commissioner, for the cancellation of his mining lease:

Provided that it shall not be competent for a lease holder so to apply if the mining lease is the subject of a hypothecation or option registered under Part XVII.

(2) The lease holder shall together with such application lodge with the mining commissioner his copy of the mining lease.

(3) On receipt of the application the Board shall cancel the mining lease and shall inform the mining commissioner and the applicant of such cancellation, and the fact of such cancellation shall be noted in the registers mentioned in section *one hundred and forty-six*.

157 Failure to comply with terms and conditions of mining lease

(1) If the Board is satisfied that a lease holder has failed to comply with any of the terms and conditions of his mining lease, the Board may recommend to the Minister that—

(*a*) there be recovered from the lease holder as a penalty such sum as the Board may deem appropriate; or

(*b*) that the mining lease be cancelled.

(2) Where the Board has recommended the recovery of a penalty under paragraph (*a*) of subsection (1), the Minister may by action in any court of competent jurisdiction recover from the lease holder the sum so recommended or such lesser sum as the Minister may deem fit.

(3) Where the Board has recommended that the lease be cancelled, the Minister may—

(*a*) direct the Board to cancel the lease; or

(*b*) recover from the lease holder by action in any court of competent jurisdiction, as a penalty, such sum as he may determine after consultation with the Board.

(4) If the Minister directs that the lease be cancelled, the Board shall comply with such direction and shall inform the mining commissioner and the lease holder, and the fact of such cancellation shall be noted in the registers mentioned in section *one hundred and forty-six*.

PART IX

SPECIAL MINING LEASES

158 Interpretation in Part IX

In this Part—

"application" means an application for a special mining lease made in terms of section *one hundred and fifty-nine*;

"mining development plan" means a plan referred to in paragraph (*e*) of subsection (3) of section *one hundred and fifty-nine*.

159 Application for special mining lease

(1) Where the holder of one or more contiguous registered mining locations intends to establish or develop a mine thereon and, subject to subsection (2)—

(*a*) investment in the mine will be wholly or mainly in foreign currency and will exceed one hundred million United States dollars in value; and

(*b*) the mine's output is intended principally for export;

he may apply in writing to the mining commissioner for a special mining lease in respect of a defined area within which his mining location or locations are situated:

Provided that, except as provided in section *one hundred and thirty-five*, ground not registered as a mining location in the name of the applicant shall not be included within the defined area unless it is open to prospecting.

(2) The Board may permit a person to make an application under subsection (1) notwithstanding that either or both the criteria mentioned in paragraphs (*a*) and (*b*) of that subsection will not be met, if the Board, having regard to—

(*a*) the nature and size of the mineral deposits within the area over which the applicant seeks a special mining lease; and

(*b*) the estimated life and economic viability of the proposed mine; and

(*c*) the extent of the investment that will be made in the proposed mine; and

(*d*) the proposed method of extraction, mining and treatment of ore from the proposed mine; and

(*e*) any other relevant circumstance;

considers that it is desirable in the interests of the development of Zimbabwe's mineral resources to consider the grant of a special mining lease to the applicant.

(3) An applicant for a special mining lease shall furnish to the mining commissioner—

(*a*) particulars of the minerals which are being mined or are to be mined in the area applied for; and

(*b*) a sketch plan based on a map issued under the authority of the State and of a scale not less than 1:25 000 identifying the position of the area applied for and any registered mining locations situated therein and specifying the extent of the area; and

(*c*) a list of all the registered mining locations of which he is the sole or joint holder and which are situated within the area applied for, and the certificates of registration of such locations; and

(*d*) the name and address of each owner and the occupier, if any, of the land to which the application relates; and

(*e*) a plan for the development and operation of the proposed mine, including—

(i) a feasibility study relating to the development of the proposed mine; and

(ii) a financing plan indicating the type and source of finance to be obtained in order to develop the proposed mine and construct the necessary infrastructure and facilities; and

(iii) a marketing plan setting out proposals and a timetable for the beneficiation and disposal of the output of the proposed mine, together with any relevant marketing studies; and

(iv) proposals for the efficient and economic exploitation of the mineral deposits to be mined, specifying the proposed method of mining and treatment of the ore and the dates on which such mining and treatment will commence; and

(v) an economic evaluation of the proposed mine, including a detailed forecast of the capital investment, operating costs and projected revenues and profits; and

(vi) a comprehensive report, supported by documentary evidence, on the mineral deposits to be mined, including details of their extent, grade and quantity and distinguishing between proven, probable and estimated ore reserves and indicating the anticipated mining conditions; and

(vii) a report on the anticipated impact of mining operations on the environment and any measures to be taken to assess, prevent or minimize such impact, including proposals for—

A. the prevention or treatment of pollution; and

B. the treatment and disposal of waste;

C. the protection of rivers and other sources of water; and

D. the reclamation and rehabilitation of land disturbed by mining operations; and

E. monitoring the effect of mining operations on the environment;

and

(viii) details of any roads, railway lines, electricity supply and other infrastructure which will be required and which the applicant proposes to provide for the purposes of mining operations; and

(ix) the proposed timetable for the establishment and operation of the proposed mine and the facilities associated with it; and

(x) details of any insurance to be taken out against liability arising from mining operations, including liability for damage to the environment and injury to persons and property; and

(xi) proposals for the storage, recording and shipment of the output of the proposed mine; and

(xii) information on the extent to which local goods and services will be utilized in the development and operation of the proposed time; and

(xiii) details of the manpower requirements of the proposed time, including the numbers of expatriate staff and any proposals for training citizens of Zimbabwe;

and

(*f*) any other information which might reasonably affect the grant or refusal of the application or which relates to the applicant's ability to perform his obligations under a special mining lease or any agreement under section *one hundred and sixty-seven;* and

(*g*) any other information relevant to the application which the mining commissioner or the Board may require

160 Applications of certain provisions of Part VIII to special mining leases

(1) Subject to this section, sections *one hundred and thirty-six* to *one hundred and forty-two* shall apply, *mutatis*

mutandis, to the consideration of applications and the determination of any objections thereto:

Provided that the Board shall not have power to approve or refuse an application, but instead shall make recommendations thereon to the Minister, and any reference in those sections to an approval or refusal of an application by the Board shall be construed as a recommendation by the Board to the Minister that the application should be granted or refused, as the case may be.

(2) The Board shall not recommend to the Minister that an application be granted unless the Board is satisfied, in addition to the matters referred to in subsection (3) of section *one hundred and forty-two*, that—

(*a*) the criteria mentioned in paragraphs (*a*) and (*b*) of subsection (1) of section *one hundred and fifty-nine* will be met or, if those criteria will not be met, that having regard to the matters referred to in paragraphs (*a*) to (*e*) of subsection (2) of section *one hundred and fifty-nine*, it would be desirable in the interests of the development of Zimbabwe's mineral resources for the application to be granted; and

(*b*) the area to which the application relates contains a mineral or group of minerals which may profitably be mined and sold or otherwise disposed of; and

(*c*) the applicant's mining development plan takes proper account of environmental and safety factors; and

(*d*) the applicant's programme of mining operations will ensure the efficient, timely and beneficial use of the mineral resources concerned; and

(*e*) the applicant's proposals for the procurement and use of local goods and services and the employment of Zimbabwean citizens are satisfactory; and

(*f*) the applicant is able and willing to comply with the terms and conditions of any special mining lease that may be granted to him and of any agreement that may be concluded with him in terms of section *one hundred and sixty-seven*; and

(*g*) the applicant possesses or can obtain the technical and financial resources required to develop and operate the proposed mine; and

(*h*) it would be in the national interest for the applicant to be granted a special mining lease.

(3) The Board shall not recommend refusal of an application on the ground that the Board is not satisfied as to any matter referred to in subsection (2) unless the Board has notified the applicant of the proposed recommendation and the reasons therefor, and has given the applicant a reasonable opportunity to modify his mining plan or make representations or otherwise to remove the ground on which the proposed recommendation is based.

(4) Where the Board recommends to the Minister that an application should be granted, the Board may include in its report recommendations as to—

(*a*) the minimum amount which the applicant should be required to invest in the development of the proposed mine; and

(*b*) where the proposed mine is to be developed by a company, the minimum shareholding which the applicant should hold in the company; and

(*c*) the area to be included in the special mining lease; and

(*d*) the period of the special mining lease and any renewal thereof; and

(*e*) the terms and conditions to be inserted in the special mining lease and in any agreement to be entered into with the applicant under section *one hundred and sixty-seven*; and

(*f*) the period within which construction of the proposed mine should commence; and

(*g*) any other matter connected with or incidental to the special mining lease.

161 Recommendation that application be granted in part

(1) Before recommending to the Minister that an application should be granted in respect of a portion of the area applied for, the Board shall notify the applicant in writing of its intention to make the recommendation and shall furnish him with details of the portion concerned.

(2) Within thirty days of the date of the notification mentioned in subsection (1), the applicant may, by written notice to the Board and any owner and occupier of land within the area applied for, withdraw his application.

(3) If the applicant does not withdraw his application in terms of subsection (2) he shall, within the period mentioned in that subsection, or such longer period as the Board may allow, submit to the Board an amended plan in triplicate, prepared by a land surveyor, of the area in respect of which the Board has recommended that the application should be granted.

(4) If the applicant fails to submit an amended plan in terms of subsection (3) within the period mentioned in subsection (2), the Board shall notify him in writing that the amended plan has not been received and, if the plan is not received by the Board within thirty days from such notification, the application shall be deemed to have been withdrawn.

(5) Subsection (6) of section *one hundred and thirty-seven* shall apply, *mutatis mutandis*, to the preparation of an amended plan for the purposes of this section.

162 Forwarding of application to Minister and President

(1) Having considered an application in terms of section *one hundred and sixty*, and, where appropriate, having complied with section *one hundred and sixty-one*, the Board shall without delay forward the application to the Minister together with its recommendations thereon and—

(*a*) copies of all objections lodged in respect of the application and copies of the determinations made in respect of the objections; and

(*b*) the mining commissioner's report on the application.

(2) The Minister, having considered the documents forwarded to him in terms of subsection (1), shall submit them to the President, together with his recommendations thereon, for the President's approval.

163 Issue of special mining lease

(1) After considering documents submitted to him in terms of subsection (2) of section *one hundred and sixty-two*, the President may authorize the Minister to issue a special mining lease in accordance with the Board's recommendations or on such other terms and conditions as the President may direct.

(2) Where the President has authorized him to do so, the Minister shall forthwith issue a special mining lease to the applicant, subject to sections *one hundred and sixty-four* and *one hundred and sixty-seven*, in accordance with the President's authorization or directions.

(3) The Minister shall cause the original of any special mining lease he issues under subsection (2) to be sent to the applicant together with a copy of the plan, prepared by a

land surveyor, of the area over which the lease is issued, and shall cause copies of the lease and the plan to be sent to the Board and the mining commissioner.

164 Terms and conditions of special mining lease

(1) A special mining lease shall not be issued in respect of an area within which there is more than one mine that will be established and developed by the holder of the special mining lease

(2) A special mining lease shall not be issued—

(*a*) to an individual, unless he is a citizen of Zimbabwe; or

(*b*) subject to subsection (3), to a body of persons, unless they constitute a body corporate.

(3) A special mining lease may be issued to two or more persons jointly if each of them is qualified under subsection (2) to be issued with the lease:

Provided that, where a special mining lease is issued to two or more persons jointly, their obligations under the lease shall be joint and several.

(4) A special mining lease shall not be issued for a period exceeding twenty-five years, but provision may be made for its renewal by the Minister with the President's approval for periods not exceeding ten years, having regard to the life of the mine concerned and the circumstances then prevailing.

(5) Subject to the President's directions, a special mining lease shall contain such provisions, not inconsistent with this Act, as the Minister may determine.

165 Application of further provisions of Part VIII to special mining leases

Subject to this Part, sections *one hundred and forty-six* to *one hundred and fifty-three* and *one hundred and fifty-five* to *one hundred and fifty-seven* shall apply, *mutatis mutandis*, to special mining leases.

166 Issue of mining lease instead of special mining lease

If an application for a special mining lease has been refused in terms of this Part but the Board is satisfied that the applicant meets the requirements for the issue of a mining lease under Part VIII, the Board may, with the applicant's consent, issue him with a mining lease under section *one hundred and forty-five*.

167 Agreement *re* issue of special mining lease

The Minister, with the approval of the President, may enter into an agreement, not inconsistent with this Act, with any person regarding—

(*a*) the issue of a special mining lease to that person, and the renewal of the special mining lease; and

(*b*) the terms and conditions of any special mining lease that may be issued to that person; and

(*c*) the liabilities and obligations of that person in terms of any special mining lease that may be issued to him, including payments by way of royalties, rents and fees; and

(*d*) any other matter connected with or incidental to any special mining lease that may be granted to that person.

168 Application of other provisions of this Act relating to mining leases

Subject to this Part, provisions of this Act relating to mining leases and the rights and obligations of the holders thereof shall apply, *mutatis mutandis*, in relation to any special mining lease and its lease holder, except to the extent that those provisions are inconsistent with this Part.

PART X

RIGHTS OF CLAIM HOLDERS AND LANDOWNERS

169 Precious metal reef claims; mining rights within vertical limits

Every holder of a registered block of precious metal reef claims shall possess the following mining rights—

(*a*) the exclusive right of mining such portions of his discovery reef as are comprised within the vertical limits of his block;

(*b*) the exclusive right within the vertical limits of his block of prospecting for any other precious metal reefs which may exist within such limits in addition to his discovery reef, such reefs being hereinafter designated "secondary reefs";

(*c*) the exclusive right, after discovery of any secondary reef, of pegging and registering such reef in the manner provided in section *one hundred and seventy* and thereafter of mining such portions of such reef as are comprised within the vertical limits of his block;

(*d*) the exclusive right of mining any placer deposit, alluvial deposit, eluvial deposit, rubble deposit or dump containing precious metals found within the vertical limits of his block;

(*e*) the exclusive right within the vertical limits of his block of prospecting for any base mineral or precious stones and if any ore or deposit of any base mineral or precious stones is discovered within the block, the holder thereof shall notify the mining commissioner of such discovery and shall, subject to this Act, thereafter have the right of working such ore or deposit within the vertical limits of his block.

170 Pegging of secondary reef

(1) If the holder of a registered block of precious metal reef claims by the work of himself or his agents discovers a secondary reef, he may peg such reef in the following manner—

(*a*) the point of discovery shall be marked by a peg marked DP:

Provided that where the reef is discovered at depth the said peg shall be placed at surface at a point as nearly as possible vertically above the point of discovery;

(*b*) the pegger shall post near such peg a notice to be styled a secondary reef registration notice which shall be so far as is material in the form prescribed and shall contain the following particulars—

(i) the depth from the surface of the reef;

(ii) the direction of the dip of the reef;

(iii) the approximate angle from the horizontal of the dip of such reef;

(*c*) the pegger shall fix pegs marked Q and R respectively at two points within the boundaries of his block, the straight line joining such pegs being at right angles to the strike of the reef.

(2) The pegger of any secondary reef in respect of which a registration notice has been posted may, on application to the mining commissioner within a period of thirty-one days after the date of the posting of such registration notice, obtain a certificate of registration.

(3) The applicant shall lodge with every such application the following with the mining commissioner—

(2) If such holder or miner fails to comply with such order within the period specified therein, he shall be guilty of an offence and liable to a fine not exceeding five hundred dollars or, in default of payment, to imprisonment for a period not exceeding twelve months and the mining commissioner may thereafter make a fresh order or orders requiring such holder or miner to comply with his original order within a period which the mining commissioner shall specify, and if such holder or miner fails to comply with such further order or orders he may again be prosecuted notwithstanding any previous conviction or acquittal for failing to comply with any previous order and shall be liable to the penalties prescribed by this subsection.

(3) Upon the conviction of a person for a contravention of subsection (2), the mining commissioner may authorize the owner or occupier of the land concerned or the holder or miner of a contiguous mining location to remove such works and if such owner, occupier, holder or miner does so he shall be entitled to recover the cost of such removal from the holder or miner to whom the order was given under subsection (1).

241 Re-siting of existing roads

(1) Where any road in respect of which a plan has not been approved under section *two hundred and thirty-seven* has been constructed upon a registered mining location, whether it was constructed before or after the 1st November, 1961, the mining commissioner may, on the application of the owner or occupier of the land concerned, order the holder or miner of the mining location concerned to discontinue the use of such road or to alter the course thereof within such period as the mining commissioner may specify.

(2) If such holder or miner fails to comply with such order within the period specified therein he shall be guilty of an offence and liable to a fine not exceeding two hundred dollars or, in default of payment, to imprisonment for a period not exceeding three months.

242 Approved plan to be binding on successors in title

A plan approved under section *two hundred and thirty-seven* shall, subject to section *two hundred and thirty-eight*, be binding upon any holder or miner of the mining location concerned and upon any owner or occupier of the land.

PART XIV
ROYALTY

243 Application of Part XIV

This Part shall apply to the holder of a special mining lease only to the extent that the terms and conditions of his special mining lease or of any agreement entered into with him in terms of section *one hundred and sixty-seven* are consistent with this Part.

244 Royalty

(1) Subject to this Part, the miner of a registered mining location shall pay royalty on all minerals or mineral-bearing products won from such location which have been disposed of by him or on his behalf, whether within or outside Zimbabwe, during any month, at such rate per unit of mass as may be fixed in terms of section *two hundred and forty-five*.

(2) Where a registered mining location forms part of a property mentioned in section *two hundred and forty-six* royalty shall be paid in terms of subsection (1) on the total of all minerals or mineral-bearing products won from such property.

(3) Where the royalty assessed in respect of minerals or mineral-bearing products disposed of in any one month—

(*a*) does not exceed two hundred dollars, there shall be a full rebate of such royalty;

(*b*) exceeds two hundred dollars but does not exceed three hundred dollars, the royalty payable shall be three times the amount by which the assessed royalty exceeds two hundred dollars.

(4) There shall be a full rebate of royalty in respect of all minerals or mineral-bearing products used wholly within Zimbabwe.

(5) There shall be a rebate of royalty in respect of any mineral or mineral-bearing product which is—

(*a*) disposed of to or received for treatment by an approved beneficiation plant; and

(*b*) specified in relation to that approved beneficiation plant;

at the rate specified by the Minister in terms of section *two hundred and forty-seven* in respect of that approved beneficiation plant:

Provided that where the degree of beneficiation specified in the application made in terms of subsection (1) of section *two hundred and forty-seven* relating to the approved beneficiation plant is not carried out in relation to any mineral or mineral-bearing product in respect of which a rebate referred to in this subsection has been earned, the owner of such mineral or mineral-bearing product shall, on the disposal thereof, pay royalty in the amount of the rebate to the mining commissioner within whose mining district the registered mining location from which the mineral or mineral-bearing product was won is situated.

245 Fixing of royalty

(1) Before the 31st August in each year the Minister may fix the rate of royalty payable in terms of section *two hundred and forty-four*.

(2) The rate of royalty fixed in terms of subsection (1) shall apply to the period of twelve months commencing on the 1st January next following the year in which the rate of royalty is fixed.

(3) In fixing the rate of royalty in terms of subsection (1) the Minister shall have regard to—

(*a*) the prices at which minerals or mineral-bearing products were sold during the period of three years immediately preceding the 1st July in the year in which the rate is fixed;

(*b*) the representations, if any, by the Chamber of Mines of Zimbabwe relating to the rate of royalty;

(*c*) any other matter which he deems fit.

(4) Notwithstanding subsections (1) and (2), where production commences in Zimbabwe of a mineral or mineral-bearing product in respect of which no rate of royalty has been fixed or, if the Minister considers it desirable in the national interest, where production of such a mineral or mineral-bearing product has previously commenced and been carried on, the Minister—

(*a*) may as soon as possible fix the rate of royalty which shall be payable in respect of that mineral or mineral-bearing product for—

(i) the period ending on the 31st December of the year in which such rate is fixed; or

(ii) if no rate has been fixed for such period in terms of subsection (1), the period of twelve months commencing on the 1st January next following the date on which such rate is fixed;

or both;

(*b*) shall, in fixing the rate of royalty in terms of this subsection, have regard to—

(i) the prices at which that mineral or mineral-bearing product was sold during the period of three years ending on the 30th June preceding the date when the rate of royalty is fixed;

(ii) the representations, if any, by the Chamber of Mines of Zimbabwe relating to the rate of royalty;

(iii) such other matters as he may deem fit.

(5) In fixing the rate of royalty in terms of this section the Minister may fix different rates of royalty in respect of different minerals or mineral-bearing products.

(6) As soon as any rate of royalty has been fixed in terms of this section it shall be advertised by notice in the *Gazette* and by notice posted at the office of every mining commissioner.

246 Meaning of "property"

(1) For the purpose of calculating royalty on any mineral or mineral-bearing product, other than chrome, when ore from two or more blocks of claims, whether contiguous or otherwise, owned or held under a tribute agreement by the same person is treated at the same milling or reduction plant, then such blocks of claims shall be deemed to be one property.

(2) For the purpose of calculating royalty on chrome, all blocks owned or held under a tribute agreement and worked by the same person in any one mining district shall be deemed to be one property.

247 Beneficiation plant

(1) The Minister may, upon the application by the owner thereof, by statutory instrument, declare any bank assay department, factory, refinery, smelter or treatment plant which is situated in Zimbabwe to be an approved beneficiation plant in relation to a mineral or mineral-bearing product to be specified in the notice.

(2) In a declaration made in terms of subsection (1) the Minister shall specify the rate of rebate of royalty which shall apply in respect of any specified mineral or mineral-bearing pro duct treated at the approved beneficiation plant referred to in the declaration.

(3) A person making an application referred to in subsection (1) shall specify the degree of beneficiation which it is proposed to carry out at the bank assay department, factory, refinery, smelter or treatment plant, as the case may be.

(4) The Minister may, by statutory instrument, withdraw a declaration made in terms of subsection (1) in respect of any approved beneficiation plant—

(*a*) where the approved beneficiation plant is not operated as such for any period which exceeds, or aggregate of periods which exceed, three months in any one year; or

(*b*) where the degree of beneficiation carried out at the approved beneficiation plant is reduced below that specified in the application made in terms of subsection (1) relating to that plant.

(5) The owner of an approved beneficiation plant shall, not later than the tenth day of each month, render a return in the form prescribed of all minerals and mineral-bearing products disposed of to or received for treatment by the beneficiation plant in the preceding month to the mining commissioner within whose mining district the registered mining location from which the minerals or mineral-bearing products were won is situated.

248 Dump may be unit for royalty purposes

Notwithstanding anything to the contrary contained in section *two hundred and forty-six*, a dump shall be deemed to be a separate property if—

(*a*) the right to work the dump is held by a person other than the miner working the block on which it is situated; or

(*b*) the dump is worked by a person other than the miner working the block on which it is situated; or

(*c*) the reduction plant for the treatment of the dump is entirely separate from that in or at which the ore extracted from the block on which the dump is situated is being treated; or

(*d*) the person who has disposed of the right to work the dump or block on which the dump is situated has no interest in the working of the reduction plant for the treatment of the dump or of the ore extracted from the block on which the dump is situated, as the case may be, or the extraction from such dump or block, other than the payment, rental or royalty specified in the agreement under which the right to work the dump or block is given.

249 Exemption of royalty when ore extracted for experimental purposes

If any miner desires to extract or treat ore from his location for experimental or similar purposes, he may apply to the Secretary for permission to treat or deal with the mineral or mineral-bearing product obtained from his location for a limited period or up to a limited amount, and the Secretary may permit such treatment or dealing without payment of royalty under such terms and conditions as may by him be deemed expedient.

250 Acquisition or removal of ore, etc., to be declared

If any person acquires or removes from the mining location from which it was derived any ore, tailings, slimes, concentrates, residues or other mineral-bearing product he shall immediately—

(*a*) declare such acquisition or removal to the mining commissioner;

(*b*) render to the mining commissioner such returns thereof as may be prescribed.

251 Monthly returns and payment of royalty

(1) A miner shall, not later than the tenth day of each month—

(*a*) render to the mining commissioner a return in the prescribed form showing—

(i) in respect of minerals, other than precious stones, or mineral-bearing products won from his mining location—

A. the output; and

B. full details of the disposal thereof by him or on his behalf;

(ii) in respect of precious stones won from his mining location, such details relating thereto and to the disposal thereof during the preceding month and the quantity thereof held by him at the end of the preceding month as may be prescribed;

and

(*b*) furnish the mining commissioner with such affidavits, certificates and documents relating to any matter referred to in paragraph (*a*) as the mining commissioner may require; and

(*c*) submit to the mining commissioner the royalty payable by him in terms of section *two hundred and*

forty-four in respect of the preceding month or the provisional amount of royalty assessed in terms of subsection (2).

(2) Where it is impracticable for any reason to calculate before the tenth day of any month the royalty payable in respect of the preceding month the mining commissioner may assess a provisional amount of royalty which shall be payable.

(3) When the correct amount of royalty is assessed the miner shall—

(*a*) be entitled to a refund of any sum paid by him in terms of subsection (2) which exceeds the correct amount of royalty payable in terms of section *two hundred and forty-four*; or

(*b*) pay to the mining commissioner such sum as represents the difference between the correct amount of royalty payable in terms of section *two hundred and forty-four* and the amount paid in terms of subsection (2).

252 Inspection of books and records, etc.

The mining commissioner or any person duly authorized by him shall at all reasonable times have access for the purpose of inspection to all books and records, reports and other documents relating to the acquisition, disposal or removal of any mineral or mineral-bearing product as may be necessary for the purpose of ascertaining or verifying any return, details, solemn declaration, certificate or document rendered under this Part.

253 Prohibition of disposal of minerals when royalty or returns, etc., have not been lodged

(1) If the miner of a registered mining location fails to pay any royalty due in respect of such location the mining commissioner may issue an order prohibiting the disposal of any minerals or mineral-bearing products from such location or from any other location which is being worked by the miner, whether or not the miner has failed to pay any royalty due in respect of the other location, until all outstanding royalty has been paid or until an arrangement has been made which is acceptable to the mining commissioner for the payment of such royalty.

(2) If the mining commissioner has reason to believe that minerals or mineral-bearing products have been produced or disposed of from any registered mining location and he has not received in respect thereof the return, details, solemn declarations, certificates and documents referred to in section *two hundred and fifty-one* he may issue an order prohibiting the disposal of any minerals or mineral-bearing products from that location until the return, details, solemn declarations, certificates and documents have been rendered and any royalty due in respect of such disposal has been paid or until an arrangement has been made which is acceptable to the mining commissioner for the payment of such royalty.

(3) A miner who fails to observe an order issued in terms of this section and any person who, knowing of such order, receives any minerals from the location referred to in the order contrary to the terms thereof shall be guilty of an offence.

254 Remission of royalty

(1) The President may remit, in whole or in part, the royalty payable on—

(*a*) any mineral or mineral-bearing product or class thereof; or

(*b*) any mineral or mineral-bearing product won from any specified registered mining location or property mentioned in section *two hundred and forty-six*;

for such period as he may determine whenever he deems it expedient to do so as an inducement to—

(i) the commencement or continuation of mining operations; or

(ii) the processing or refining within Zimbabwe of minerals or mineral-bearing products; or

(iii) the development of any export market;

and such remission may be granted with effect from a date which precedes the date on which it is granted by not more than four years.

(2) Notwithstanding the provisions of this Part, where a remission of royalty was granted or ordered before the 1st January, 1970, in respect of any period extending beyond the 31st December, 1969, that remission of royalty shall continue to apply in respect of that period.

PART XV

PAYMENTS TO LOCAL AUTHORITIES

255 Miners to make certain payments to local authorities

(1) The Minister, acting with the approval of the Minister responsible for finance and after consultation with the Minister responsible for local government and any organization which the Minister considers represents mining interests, may by statutory instrument, require any miner of a registered mining location, or any class of such miners, to pay a specified sum at specified intervals to any local authority within whose area the registered mining location is situated.

(2) The Minister may specify a sum for the purposes of subsection (1) as a lump sum or as a percentage of the value of the output of the mining location concerned, or in such other manner as the Minister may think appropriate.

(3) Every miner to whom a notice in terms of subsection (1) applies shall make the payments required by the notice, and in the event of his default any sums unpaid shall be a debt due to the local authority concerned, and may be recovered by the local authority from the miner by proceedings in a competent court.

256 Certain dumps to constitute separate mining locations

For the purposes of section *two hundred and fifty-five*, a dump shall be deemed to be a separate mining location if—

(*a*) the right to work the dump is held by a person other than the minor working the mining location on which it is situated; or

(*b*) the dump is worked by a person other than the miner working the mining location on which it is situated;

and the person working the dump or holding the right to work it shall be deemed to be the miner of the dump.

257 Remission or exemption from liability to make payments

(1) The Minister, acting with the approval of the Minister responsible for finance and after consultation with the Minister responsible for local government and any organization which the Minister considers represents mining interests, may remit, in whole or in part, the sums payable in terms of section *two hundred and fifty-five*—

(*a*) by any miner or class thereof; or

(*b*) in respect of any mineral or mineral-bearing product or class thereof;

Appendix 9: Fiscal Incentives for Mining in Zimbabwe

Source: Government Printers Harare, Zimbabwe

USEFUL ADDRESSES

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FISCAL INCENTIVES FOR MINING IN ZIMBABWE



THE FISCAL INCENTIVES FOR MINING

Zimbabwe is blessed with a wide range of minerals which are being exploited today. The country's main geological features are the Archean Greenstone belts, the Great Dyke and the Mid-Precambrian sedimentary sequence.

In global mining, Zimbabwe:

- Hosts the second largest platinum resource in the world and also
- is the largest high-grade chrome resource in the world.

In Africa, Zimbabwe is:

- the second largest producer of ferro-chrome, graphite and coal, and,
- the third largest producer of nickel.

The main mineral and mineral related exports produced by the Zimbabwe mining industry are gold, nickel, chromium ores and ferrochrome alloys, iron and steel, asbestos, diamonds, coal and platinum group metals.

Government recognises the importance of mining to the economy and has identified it as a strategic priority sector. The mining sector employs an average of 55 000 people, contributes about 40% to net foreign currency earnings and about 4% to the country's GDP.

Zimbabwe welcomes foreign investment and offers immense opportunities in the mining sector. To start with, acquisition of mining title is the simplest in Africa and it is equitable and transparent. Security of tenure is guaranteed and the legal framework has been redesigned to support increased exploration and the development of new mines.

With a mining history spanning over 1000 years, Zimbabwe has a highly developed road and rail network, a good geo-scientific database, highly educated skilled manpower base and efficient technical support services for the mining industry.

In order to ensure that the mining investment regime in Zimbabwe maintains its competitiveness in the face of heightened international and regional competition for mining capital, Government has now improved Fiscal Incentives for Mining in Zimbabwe. The incentives contained in this document seek to enhance the competiveness of the whole mining industry. These incentives are intended to substantially support increased mineral exploration activities leading to the development of new mines as well as increase the life span of existing enterprises.

Government incentives to the mining industry are flexible and will constantly be reviewed in order to respond to market conditions and viability concerns of the mining industry.

THE FISCAL INCENTIVES PACKAGE

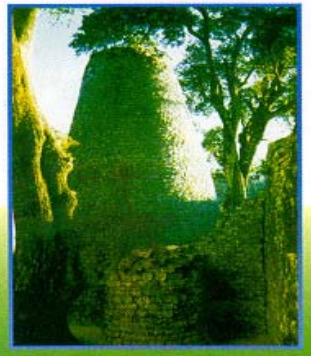
The following is a summary of the Revised Fiscal Package For Mining in Zimbabwe:

ROYALTY, RENTALS & TAXATION

- Royalty, which is not deductible for income tax purposes, shall be calculated as a percentage of the gross fair market value of minerals produced and sold as follows:

Precious Stones	10%
Precious Metals	3%
Base Metals	2%
Industrial Minerals	2%
Coal Bed Methane Gas	2%
Coal	1%

- Surface Rentals, which are not deductible for income tax purposes, shall be charged at different rates/levels, during the prospecting/exploration phase and the development/mining phase of a mining project, and will be levied according to a published table of the rates of surface rents.
- Income tax on mining operations shall be levied at a flat rate of 15%.
- All capital expenditure (exploration, development and operating) incurred wholly and exclusively for mining operations will be allowed as a deduction at the rate of 100%.
- Mining companies shall continue to enjoy indefinite carry forward of their tax losses.
- A 5% Withholding Tax on dividends for both residents and non-residents for companies listed on the Zimbabwe Stock Exchange shall be levied. All other companies shall be levied at a rate of 10%.
- In addition, a 5% Withholding Tax on interest for both residents and non-residents shall be levied.



ALLOWABLE DEDUCTIONS

- Separate mines (operating under separate mining titles) shall, as a general rule, be ring fenced.

  ⇒ However, upon application to the appropriate authorities, combinations could be entertained for exploration that has been relinquished by a mining company.

  ⇒ In exceptional situations where a combination of mining operations of a similar nature, for a limited period, will avert a mine closure, accounts could be combined for tax purposes.

- General and Administrative Costs (G&A) incurred at a Head Office or by a Parent Company shall be limited to a maximum of 0.75% of allowable deductions (as defined in the Income Tax Legislation) during the pre-production phase of the project and, a maximum of 1% of gross income for that year in the production phase of the project.
- Allowable as a deduction shall be interest paid on borrowings of a debt to equity ratio of up to a maximum of 3 to 1, and any payments in excess of this figure shall be treated and taxed as a dividend.
- Loans or any other form of financial accommodation from an affiliated company or any financial institutions shall be at Arm's Length Interest Rates. With regards to interest rate that the Director General of the Zimbabwe Revenue Authority considers to be in excess of the market rate, that part of payment which exceeds the market rate shall be disallowed as a deduction and the amount of interest so disallowed shall be treated and taxed as a dividend.

FCAs, CUSTOMS & MINERAL EXPORT

- There shall be exemption from Customs Duty, Import Tax and Surtax and refund of Sales Tax on all capital goods, during the exploration phase of a mining project and, for a period of up to a maximum of 5 years from the date of grant of a mining title, during the development phase of a mining project.
- Mining companies shall be granted the right to market their minerals directly, in accordance with the provisions of the Minerals Marketing Corporation of Zimbabwe Act, and subject to adequate monitoring arrangements and reporting obligations on the part of the mining company.
- Offshore Foreign Currency Accounts shall be granted to major mining projects upon application to the Reserve Bank of Zimbabwe.

Appendix 10: Zimbabwe Monitory Policy Statement, December 2003
Source: http://www.rbz.co.zw Accessed 15 September 2004

(*Extract Of Conclusion)*

35. CONCLUSION

(a) This Monetary Policy Vision and Statement has tried to define the process through which financial resources, and instruments at our disposal will be used to achieve national objectives.

- I have given different emphasis to different policy instruments, but the key has been
- to strengthen our supervisory role of the financial sector as an instrument for fighting inflation,
- to try and eliminate parallel market forces, boost our productive sector capacity,
- mobilize and redirect resources in the economy,
- and hopefully in the process, provide the basis for stabilizing the value of our currency.

(b) **Collaboration with other policy instruments and commitment to agreed policies and actions, without reversal, will be a key success factor upon which the effectiveness of our turn-around strategies and their impact, will be judged.**

(c) I am acutely aware of the (unrealistic) **high expectations** that have been laid before me, by both the media and the nation at large.

In accepting to live up to the challenge, **I hereby make a request;…** to the same media and the nation at large, that, beyond the Bank's Policy Vision, **let us put our heads together, let us harness our individual and collective intelligence, knowledge, skills and goodwill, into one basket, and like bees, work around the clock, $^{24}/_{7}$, towards producing the much needed milk and honey** for ourselves**.**

(d) My late father always reminded me, whenever there was a difficult task to be accomplished, that, "**if you want honey, you must be prepared to be stung by the bees".**

(e) I believe that as Zimbabweans, we desperately want honey today, **expressed in various forms of wealth, stability, security and accomplishment.**

While this roadmap has all the ingredients for getting us a pot of honey, **time will tell whether individually and collectively, as a nation we are prepared and ready to "be stung by the bees"!**

(f) The roadmap, **with its profound strategic implications**, is concortion of hard political decisions, taken and those yet to be taken, as well as sincere commitments from the business community.

The extent, form and character of recommended interventions to correct our situation are **home-grown**, and, **Zimbabweans from all walks of life contributed to this roadmap.**

I spoke to many, and many wrote to me from within and from outside the country.

(g) My **modest role** has **only been** to listen to their views, **and put them all together,** as my ideas.
I accept full responsibility for any weaknesses in the roadmap, but take no credit for whatever positive impact these monetary policies may have on the wellbeing of our economy.

(h) Finally, I remain truly grateful to all, **especially to H.E. the President, the Minister of Finance and Economic Development, and his Permanent Secretary and staff, the Commissioner General, Mr. Pasi and the entire Cabinet of whom** I consulted extensively while putting my thoughts together.

I am also grateful to all stakeholders too numerous to mention by name and my staff at the Bank who had to endure my questions, and midnight demands and for supporting my initiatives at such a difficult time in the history of our country.

(f) **May God bless you all; May God bless Zimbabwe and in God's hands I commit this turnaround journey. Amen!**

(g) **I Thank You All and**

(h) **now open the floor for questions and answer.**

DR. G. GONO
GOVERNOR
RESERVE BANK OF ZIMBABWE.
Thursday, 18 December, 2003.

Appendix 11: Report on the Budgetary allocation to the Ministry of Mines and Mining Development

Source: Chamber of Mines Budget Review Zimbabwe - November 2003

Executive Summary

1.0 Background

1. The 2004 national budget was announced on 20 November 2003 under an environment of severe socio-economic difficulties.
2. The environment was characterised by galloping inflation (526% for October 2003), critical shortages of foreign currency, a static exchange rate, low capacity utilisation within the productive sectors of the economy and company closures.
3. In addition the year witness rapid deterioration of the country's basic infrastructure.
4. It is estimated that the economy as a result contracted by 13.2 %.
5. The mining sector felt the full brunt of this environment resulting in a decline in volumes of most minerals.
6. Production costs increased at a pace that was not matched by movements in revenues.
7. Under this environment very little exploration and development work was undertaken.
8. The country also experienced an expansion of gold panning activities.
9. The ministry was not able to fill in the critical post for Head Office and the departments. With vacancy rates of 45% for professional staff some of the resources could not be adequately applied to the various activities under the ministry's programme of action.

2.0 Development Objectives for 2004

The Ministry of Mines and Mining Development identified four key capacity development areas necessary in order to gear the ministry to effectively discharge its duties. These are:

1. Achieving full staffing levels for current posts.
2. Acquiring sufficient vehicles to allow the ministry to be fully mobile.
3. Provision of adequate Travel and Subsistence resources for field personnel.
4. Acquiring modern equipment for generation of accurate and reliable data.

3.0 Statement by Minister of Finance and Economic Development

1. The budget statement pointed out that the Ministry of Mines and Mining Development is undergoing capacity development to respond to the challenges facing the sector.
2. These challenges can be listed as declining performance in employment, volume and export terms. In addition there are leakages in the marketing of minerals produced. The sector is also experiencing high levels of illegal mining activities particularly within the country's river courses.

3. The greatest challenge facing the Ministry of Mines and Mining Development is that of formalising activities of thousands of small-scale operators to ensure that their activities contribute to the country's economic development.
4. The budget statement stressed the need for line ministries to live within their budget provisions.

4.0 Resources

1. Allocations under the subhead of **Salaries Wages and Allow**ances for the ministry for 2004 are only sufficient to cover staff currently in posts. There is no room for the Ministry of Mines and Mining Development to recruit the critically needed professional staff necessary to operationalise the budget.
2. The central component of the ministry's operational activities (**travel and subsistence**) received substantial allocations in 2004 compared to 2003 in nominal terms. However, only Administration and General received an allocation higher than that made in 2003, in real terms, for this subhead.
3. Government is commended for its bold decision to increase in real terms allocations for **field stores**. However this subhead is at risk of realising low utilisation levels due to inadequate staffing.
4. The sub-vote of laboratory equipment, in respect of the Government Metallurgical Laboratory, for which the minister singled out in his statement, was 55% lower than the 2003 allocation in real terms.
5. The Ministry of Mines and Mining Development must be commended for biding separately for funds for Monitoring and surveillance.

5.0 Critique of the above

1. The budget has failed to address the core issues affecting the performance of the Ministry of Mines and Mining Development.
2. The capacity development exercise is not going to be fully realised if the issues of high vacancy rates and low mobility are not addressed.

6.0 Recommendations

1. The Portfolio committee is recommending that some resources from unallocated reserves and from royalties, to be collected starting January 1 2004, be made available to the Ministry of Mines and Mining Development for the purposes of recruiting professional staff and for Travel and Subsistence.
2. It is recommended that the vacancy level be reduced by 50% in 2004 and that by 2005 provisions be made for all the professional posts to be filled.

7.0 Conclusions

1. The requirement for ministries to live within their budget provisions will reduce the ability of the Ministry of Mines and Mining Development to effectively regulate the sector's activities. It is projected that the budget will allow the ministry to function for the first six month of 2004. The last three months may limit ministry personnel to office work only.

Appendix 12: Government Budgetary Allocations to ministry of Mines in Z$m

Source: Chamber of Mines Zimbabwe

Governemnt Expenditure for the Ministry of Mines in Z$ millions

Vote Appropriations	2003	2002	2001	2000	1999	1997/98	1996/97
Total Expenditure Z$ millions	703,934	401,707	276,450	175,063	65,199	73,207	33,152
Ministry of Mines Total	2,019	725	408	229	209	313	33
Ministry of Mines H. O.	1,417	459	248	118	128	194	19
Geological Survey	234	90	32	20	10	8	4
Mining Engineering Dept	259	120	55	33	13	13	6
Metallurgy Dept	108	56	34	22	15	18	5
Institute of Mining Research	126	55	38	23	6	9	5
Zimbabwe School of Mines	55	22	24	9	6	3	2
Mining Industry Loan Fund	450	50	1	2	1	2	1
Defence	76,417	37,738	16,208	15,361	5,540	5,567	2,349
Lands, Agriculture & Rural Resettlement	40,549	26,957	5,520	2,795	1,318	931	464
Local Governemt PW & NH	18,036	9,604	2,351	1,955	1,176	2,379	367
Education Sport & Culture	109,221	56,972	31,362	25,585	12,312	11,382	4,457
Mining allocation as % of total	0.29%	0.18%	0.15%	0.13%	0.32%	0.43%	0.10%

Notes

The 2001 H.O figures include allocations for division of Energy

Names of the Ministry: ***Mines and Mining Development - 2002 – 04***
Mines and Energy - 2001 -02
Mines Environment and Tourism 1996 – 2000

1997/98 was an 18 months year due to conversion to calendar year reporting format

1996/97 The ministry of Education stood alone.

1996/97 The ministry of Agriculture stood alone.

Courtesy: Jowa 2003

Appendix 13: Zimbabwe redivivus - article by David Mckay

Source: Mineweb 23 May 2004

Zimbabwe redivivus
By: David McKay
Posted: '23-MAY-04 06:00' GMT © Mineweb 1997-2004
JOHANNESBURG (Mineweb.com) -- Notwithstanding a breathtakingly capricious leadership, Zimbabwe continues to lure investors to its verdant land. Mining companies, particularly, find new reasons to set camp there. In the case of Rio Tinto, the UK mining giant, it is clearly waiting it out in Zimbabwe despite its long-time disaffection with risky political climes. How else explain the recent announcement regarding its Murowa diamond mine?
What Rio Tinto has done is to swap a large part of its stake in Rio Zimbabwe (to be renamed RioZim Ltd) with higher ownership of Murowa. That suggests, in this instance, that the part is larger than the sum. Bloomberg, the news agency, reports that the mine has a 14.5 million carat reserve, equal to one year's South African production. But a UK analyst says it's much, much richer than that.
To be sure, Rio Tinto would have exited from the Zimbabwe without much fuss if Murowa weren't such a trove. The mining group is some 18 months into a restructuring exercise that has already realised $600m in the sale of non-core assets.
Punters on the Toronto Stock Exchange may also be faced with investing in their own piece of Zimbabwe. That's because Metallon Resources, a South African company with roughly 180,000 oz/year of Zimbabwean gold to its name – is thinking of listing there, or in Johannesburg.
Greg Hunter, CEO of Metallon Resources, says it's reasonable to work on a valuation of $300m for a company with some three million ounces of economic gold reserves. Hunter says a positive decision will lead to a year-end debut for Metallon.
It's true that Zimbabwe is like a warrant on Mugabe's political longevity, one that many companies have taken. Impala Platinum, the world's second largest platinum producer, has bought 83% of Zimplats, a company that holds around 165 million oz of platinum in the Great Dyke. It also has a direct and indirect stake of about 80% in Makwiro Platinum that, in turn, owns the Selous metallurgical plant, Hartley Platinum and its infrastructure, and the Ngezi platinum mine. Impala also has a 50% stake in Zimbabwe's Mimosa mine. The outcome is that Impala can repatriate its dividends and keep its value-added smelting technology in Johannesburg, safe from risk of expropriation. And the Zimbabwean platinum upside isn't yet in the share price, analysts say.
The potential of Zimbabwean platinum is not lost on Anglo Platinum either. Its Unki project was long regarded as mere blue-sky wistfulness. However, it has been thrust back in the limelight because South African platinum projects are less tasty than before owing to the strengthening of the rand. Unki is expected to add total additional production of some 58,000 oz/year to Anglo Platinum's total output by 2008. Capital expenditure of $84 million has been approved for the project. Risk and reward is relative.
Yet Zimbabwe has a way of rocking expectations. Its Mines and Minerals Amendment Act (2004) – termed the indigenisation bill - effectively enforces

empowerment legislation on Zimbabwean mining in a manner evocative of draft empowerment legislation produced by South Africa in 2002. One irony, however, is that those liable to qualify as 'Historically Disadvantaged Persons' in the Zimbabwean legislation must have been born before 18 April, 1980, independence day, achieved some 25 years ago. In a country where the median age is 19 years, one might be hard pushed to find candidates. The CIA Fact Book further reports that many Zimbabweans are dead by their fortieth year.

Nonetheless, Metallon's Hunter says the Zimbabwean government is making efforts to stimulate its gold industry (and avoid having the profits fly offshore as they do in the platinum sector). Says Hunter: "Zimbabwe used to be the third largest gold producer in Africa, but now it has slipped off the map". As a result, government has made a number of concessions to encourage investment.

Its treasury, for instance, has dropped the 3% royalty on gold mining. In addition, there's speculation that the corporate tax rate could be reduced to 15% from its current 25%. Metallon Resources has also been able to negotiate a special package for two of its mines considered marginal – Mazowe and Arcturus - such that revenue is predicated on a fixed contract of Z$71,000/gram. This is equal to US$402/oz, higher than the current spot price. As for the other mines, half of the revenue is paid in hard currency, a quarter at a rate of Z$824:US$1.00 and the balance at whichever is the better of Z$72,000/g or Z$5.200:US$1.00. The net effect is that 75% of total gold production from Zimbabwe is received at internationally traded spot US prices. Zimbabwe anybody?

Appendix 14: Zim Hostile to Business: Zimbabwe Independent Press

Source: Zimbabwe Independent (Harare) Posted to the web June 4, 2004,

By Shakeman Mugari

ZIMBABWE has one of the most hostile business environments in Africa, according to a World Economic Forum (WEF) report released in Maputo this week.

The Switzerland-based WEF's annual Africa Competitive Report ranked Zimbabwe as one of the worst investment destinations in Africa.

Zimbabwe is at the bottom of the rankings based on a survey of world economic leaders in 25 African countries surveyed in areas of macroeconomic environment, macroeconomic stability and governance.

The ranking coincides with another report by Transparency International, which shows Zimbabwe continued to drop in the corruption index. The report, produced this week, revealed that Zimbabwe's average Corruption Perception Index score has continued to decline, from 4,2 in 1998 to 2,3 last year. The points range between 10 (clean) to 0 (highly corrupt). According to the index, Zimbabwe is the third most corrupt country in Southern Africa after Angola and the Democratic Republic of Congo, both countries just emerging from debilitating civil wars.

Transparency International noted that average CPI scores for countries in Africa have continued to decline despite strategies adopted to fight graft.

The WEF report on the other hand noted that Zimbabwe's economic demise was self-inflicted because of misguided policies. It made reference to the country's battered human rights record which has been the subject of widespread international condemnation.

"Zimbabwe has seriously backtracked in the areas of individual freedom and human rights, with the efficiency and stability of its economy suffering greatly from self-inflicted and misguided policies," the WEF said.

The report ranked Zimbabwe 22nd out of 25 countries on the growth competitiveness index due to lack of rule of law, intimidation of opposition, violent elections and government's iron-fisted rule.

The government has also nullified individuals' property rights through hurried land laws, used to justify its seizure of white-owned commercial farms, it said

Botswana continues to be the most conducive investment destination in Africa, coming first in six categories.

The report cited the country's democracy and fiscal stability. South Africa was ranked third on the growth competitiveness index.