



The dark side of BRICS Investment

Introduction

In October 2013, Zimbabwe's government released its economic blueprint for the next five years, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim Asset). The policy focuses its funding on the BRICS. BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa. The grouping was originally known as "BRIC" before the inclusion of South Africa in 2010. The BRICS members are all developing or newly industrialised countries, but they are distinguished by their large, fast-growing economies and significant influence on regional and global affairs. All five are G-20 members and as of 2013, the five BRICS countries represented almost 3 billion people, with a combined nominal GDP of US\$16.039 trillion¹ and an estimated US\$4 trillion² in combined foreign reserves.

In late March 2013, during the fifth BRICS summit in Durban, South Africa, the member countries agreed to create a global financial institution which they intended to rival the western-dominated IMF and World Bank.³ After the summit, the BRICS stated that they planned to finalise the arrangements for this new development bank by 2014. However, disputes relating to burden sharing and location have slowed down the agreements.

Zim-Asset

Zim Asset is built upon four strategic clusters identified as:

1. Food Security and Nutrition
2. Social Services and Poverty Eradication
3. Infrastructure and Utilities
4. Value Addition and Beneficiation

It is the fourth cluster which will most affect decisions in the extractives sector. Zim Asset projects the mining sector to grow by 11.4% in 2014, 9.2%, 6.5%, 12.0% and 12.6% in 2015, 2016, 2017 and 2018 respectively. These are highly optimistic projections given the waning commodity prices and lack of

¹ "World Economic Outlook". IMF. April 2013 data. Retrieved 17 April 2013.

² "Amid BRICS' rise and 'Arab Spring', a new global order forms". Christian Science Monitor. 18 October 2011. Retrieved 27 February 2014.

³ "Brics eye infrastructure funding through new development bank". The Guardian. 28 March 2013. Retrieved February 27, 2014.

investment in the mining industry. In order to achieve these targets the Government intends to establish a Sovereign Wealth Fund, attract FDI, establish special economic zones, continue using the multi-currency system, implement Value Addition policies and strategies and ensure improved electricity and water supply. One of the key strategies of Zim Asset is the re-capitalization and capacity-building of the Minerals Exploration Company, Zimbabwe Mining Development Corporation and Minerals Marketing Corporation of Zimbabwe.

Zim Asset recognizes that growth in the mining industry will be determined by:

1. Recovery in international commodity prices
2. Improved electricity and water supply
3. Strengthening and capacitating the key mining institutions of Minerals Exploration Company, ZMDC and MMCZ
4. Improved liquidity conditions resulting in availability of finance for the sector
5. Increased support to the SMEs and Cooperatives in the mining sector.

BRICS in Zimbabwe's Extractive Sector

BRICS investments in Zimbabwe over the past decade have been often highly controversial and of little consequence to employment creation and revenue generation. BRICS nations make up Zimbabwe's top three investors: China leads with investments of \$374,8 million approved by Zimbabwe Investment Authority in 2013, followed by Russia with approvals from it worth US\$40,1million and thirdly, South Africa with US\$39million. Below CNRG gives a panoramic view of BRICS investments in Zimbabwe.

1. Brazil

Brazil currently has no publicly known investments in Zimbabwe's mining sector.

However, Brazilian mining company Vale has a large coal project in the Tete province of Mozambique. The company relocated over 700 Mozambican families were relocated in Cateme, Moatize district, Tete province but these people are now being controlled by the police, who didn't hesitate in violently repressing them during a demonstration in 2013 where the families where claiming their rights. Tired of Vale's not keeping the promises made before the relocation in 2009, and of the fact that the national and provincial government are not responding, the over 700 families living in Cateme gave the company and authorities an ultimatum in December for them to address their demands by January 10th. Otherwise, they warned that they would mobilize. The families didn't receive any answer so they didn't

hesitate: on the eve of January 10th, over 600 people blocked the rail roads and roads of the area. A Vale's coal truck was blocked during the demonstration. But then, a violent police repression against the peaceful demonstration ended up with several injured people. In addition, 14 people were arrested and according to Justiça Ambiental, several of them were even tortured while in prison.

Today they live without basic services, warned activist Jeremias Vunjanhe, of Justiça Ambiental –Friends of the Earth Mozambique in an interview with Real World Radio. Vale is the largest producer of iron ore and pellets, a key raw material for the iron and steel industry and the second largest producer of nickel. Since 2007, the company owns the concession of a coal extraction project in Moatize, an area considered as one of the largest reservoirs of coal in the world. The project has been severely criticized by some national groups, among other things because 1300 families had to be displaced. In addition to the Cateme relocation center, the September 25th Center is home to 500 families.

In an interview with Real World Radio, the activist of Justiça Ambiental said that the Cateme inhabitants have a poor access to water, to land for agriculture and to transportation to get medical attention. The issue of transportation is extremely sensitive in order to transfer the people that need to get to the provincial hospital in Villa de Moatize, 40kms from Cateme. Cateme's Health Center can only meet some basic needs. The population of this area understands that the relocation process was ill-managed and they complain about Vale's broken promises, among them the ones referring to the maintenance of their homes for the first five years. They also demand the establishment of a water channel system that can ensure access to the resource for their daily needs. Also, the Brazilian company had said to the families that they would give them two hectares of land each for agriculture, and so far it has granted half of that amount.

2. Russia

There are a handful of Russian companies operating in Zimbabwe's mining sector. One company, DTZ-OZGEO (Private) Limited is jointly owned by the Development Trust of Zimbabwe (DTZ) and a Russian company, Econedra Limited. This company is involved in gold and diamond mining in Penhalonga and Chimanimani respectively and holds several claims all over Zimbabwe in places such as Shurugwi and

Vumba. The world's biggest diamond producer, ALROSA (it produced 26%⁴ of the world's diamonds in 2012) is seeking a joint venture partner to carry out geological explorations in Marange⁵.

Russian firms Rostec and Vneshekonombank are part of a consortium that bought a 40% stake in a project to develop one of the world's largest platinum fields in Zimbabwe. They will invest in Ruschrome Mining, a Russian-African joint venture licensed to mine the field. The Darwendale platinum deposit holds 19 tonnes in proven reserves and 775 total tonnes⁶ of metals including palladium, gold, nickel and copper. Ruschrome is partly owned by the Zimbabwean government and the Center of Business Cooperation with Foreign Countries, an association of machinery and defence firms that will retain a ten per cent stake in the project. Ruschrome is currently setting up a pilot open pit platinum mine in Darwendale.⁷

However DTZ OZGEO has performed poorly in terms of transparency, environmental management and corporate social responsibility. President Robert Mugabe expressed disappointment with the secretive nature of DTZ OZGEO operations during the ZANU PF People's Conference held in Mutare in December 2010 and during a meeting with traditional chiefs in Manicaland in 2011. He was quoted as saying: *"The company (Development Trust of Zimbabwe) having joined hands with the Russians approached us saying they wanted to mine gold in Mutare and we gave them the go-ahead. They later moved to Chimanimani. We were told that DTZ and their Russian counterparts are mining gold in Chimanimani and now it is diamonds. We have not realized any real revenue coming from them and they are saying they are having some difficulties. I talked to some of the directors during our December People's Conference here in Mutare and I told them that they were remaining too much in isolation and why don't they become transparent. We will pursue the matter because we want to know what they are doing. We want our people especially our children to benefit through this company."*

However, three years later DTZ OZGEO continues with its opaque operations amidst massive environmental degradation. In August 2013 the company was temporarily stopped from its environmentally unfriendly mining activities but later resumed operations, doing exactly the same things they had been fined for. DTZ-OZGEO co-director, Ismail Shillaev, speaking during a media tour of

⁴ <http://www.kitco.com/ind/Zimnisky/2013-08-05-The-Worlds-Biggest-Diamond-Producer-is-a-Company-that-you-Probably-Haven-t-Heard-of.html>

⁵ http://rbth.ru/business/2013/04/04/alrosa_considers_unfreezing_african_diamonds_24657.html

⁶ <http://www.platinum.matthey.com/news-and-events/news-articles/2013/august/12th/russian-firms-invest-in-zimbabwe-s-darwendale-platinum-project#sthash.RgDgzjQn.dpuf>

⁷ <http://bulawayo24.com/index-id-business-sc-companies-byo-5836-article-Russian+company+developing+a+platinum+mine+in+Zimbabwe.html>

journalists from Mutare on June 24, 2011, could not convincingly explain their operations, insisting that they sell their gold to Fidelity Printers. When asked to explain the actual quantities they were getting on a daily basis he remained mum. Shillaev said they were involved in community development work if approached by local authorities like the Mutasa Rural District Council. He said they had rehabilitated some of the roads in the district, a stark contrast to the prevailing situation on the ground, as most council roads are impassable.



A teacher conducting a lesson in the open in the dead of winter at Tsvingwe Primary School, a few hundred meters from the DTZ OZGEO premises in Penhalonga. Picture by CNRG, June 2013

3. India

India's investments in Zimbabwe's mining sector have often been equally controversial. Essar, an Indian global company, emerged as the preferred bidder for Zimbabwe Iron and Steel Company (ZISCO) in 2011 after an international tender had been issued by government. It set up New Zim Steel, to revive the steel-making capacity at the currently not functional ZISCO plant and New Zim Minerals, which would explore beneficiation of iron ore that is owned by ZISCO Steel and create value so that the country becomes a world leader in beneficiated iron ore.

Two years on, operations have not started due to a myriad of challenges, chief of which is the controversy over rights to \$60 billion dollars worth of iron ore reserves in Chivhu. During the negotiations for the Zisco deal, Zimbabwe's Ministry of Industry and Commerce, then under MDC's Welshman Ncube, agreed to a deal that gave ESSAR 90% of Zimbabwe's iron ore reserves, thought to be the largest in the world, for just 750 million dollars. The Ministry of Mines and Mining Development refused to transfer the mining rights to ESSAR, demanding a revision of the deal first.

Even before the operationalization of the deal, ESSAR began feasibility studies to construct an iron ore pipeline from Redcliff to Beira. The Environmental Management Agency started carrying out environmental impact assessment for the pipeline when the deal had not yet been finalized. ESSAR's intention to export iron ore which would earn the company billions of dollars for just \$750 million is exploitative and clearly shows the deal is a bad one for Zimbabwe. There are fears money could have changed hands for Zimbabwe to accept such a terrible deal. The fact that the government minister responsible for the ESSAR deal remained adamant even after the Ministry of Mines and other stakeholders had pointed to the shortcomings of the deal strengthens the argument that the ESSAR deal was corruptly negotiated, benefitting individuals at the expense of the country.

Essar's Resident Director for Africa, Middle East and Turkey, Firdhose Coovadia has been quoted as saying: "Yes there are challenges, in our particular case bear in mind we are dealing with a national asset, it's an emotive asset. A lot of people have an opinion on that asset. But for an average investor dealing with the private sector on a smaller asset perhaps or less emotive asset, I don't think you have many issues in doing business in Zimbabwe. The country provides significant opportunities to investors across many industries. I believe beneficiation in the country is a crucial part of taking Zimbabwe to the next level. Re-distribution of wealth and opportunity is a key part of taking this country to the next level."⁸

Another company, India's State-owned National Mineral Development Corporation (NMDC) is reported to have signed a Memorandum of Understanding (MoU) with a Zimbabwean company, Mosi-oo-Tunya Development Company (MtDC). The MoU paves the way for the formation of a 50/50 joint venture (JV) company that will undertake diamond, gold, chrome and iron-ore exploration and mining in Zimbabwe. The Managing Director of NMDC, Shekar Verma remarked: "The signing of this MoU is a significant step

⁸ Bizday, Zimbabwe's Investment Risk Over-priced: Essar, 8 April 2013, <http://www.bizday.co.zw/2013/04/08/zims-investment-risk-over-priced-essar/>

towards ensuring augmentation of the NMDC's mineral reserves and globalisation of its operations." In terms of the MoU, the NMDC will invest financial and technical resources and the MtDC will undertake the projects. The MtDC is also required to carry out a due diligence within 60 days to establish the exact quantity and monetary value of the mineral resources covered by the agreement. The NMDC, which is listed on the Bombay Stock Exchange (BSE), is India's largest iron-ore producer, with a yearly output of 30-million tonnes.⁹

Mosi-oa-Tunya Development Company is reported to be a special purpose vehicle under the administrative control of Walter Mzembi's Tourism ministry. Ms Mukahanana-Sangarwe signed the MoU in her capacity as Chairperson of Mosi-oa-Tunya Development Company in presence of the NMDC board members.¹⁰ It is perplexing why a parastatal under the Ministry of Tourism is signing MoUs for mining deals when this is the prerogative of the Ministry of Mines through the Zimbabwe Mining Development Corporation. The 50/50 joint venture is contrary to the provisions of Zimbabwe's indigenization law which stipulates that foreign owned companies must cede 51% of shares to indigenous Zimbabweans. This violation of its own rules when dealing with BRICS nations indicates the Zimbabwe's government's desperation to attract investors, even if it means deals that have no long term economic value. BRICS nations appear to be taking advantage of Zimbabwe's standoff with western nations to negotiate deals that prejudice the Zimbabwean economy of billions of dollars at a time the Zimbabwean economy is in a comatose state. Zimbabwe need investors who inject life into its struggling economy, not those who take advantage of its situation to plunder resources.

4. China

Since 2000, China has been Zimbabwe's biggest investor. The Zimbabwe Investment Authority (ZIA) recently revealed that China emerges as a consistent top investor in Zimbabwe from 2010, with its investments contributing 72 percent, or US\$670million from a total of US\$930million worth of projects approved last year. By end of October, ZIA had approved US\$374,8million worth of investments mainly in the areas of energy and mining. In fact in 2012, China's cumulative investments in the mining sector (gold, diamonds and chrome) totalled US\$583million, or 62percent of the total US\$688million FDI approvals for the entire Zimbabwean mining industry last year.¹¹

⁹ <http://www.miningweekly.com/article/indias-nmdc-signs-exploration-mining-deal-with-zim-state-owned-firm-2013-07-19>

¹⁰ <http://www.indiaafricaconnect.in/index.php?param=news/6142/business-industry/107>

¹¹ "China – the 'Enemy' the West donates to us". The Herald. 30 November 2013. Retrieved 27 February 2014.

China has also made inroads in Zimbabwe's agricultural sector, taking up several farms acquired by government during the fast track land reform program. They grow a variety of crops ranging from tobacco, wheat, sorghum to soya beans, majority of which is exported to China. There is no evidence that China's agricultural produce is contributing to food security in Zimbabwe. Maize, Zimbabwe's staple food, is shunned by Chinese farmers. In 2013 the World Food Program estimated that over 2.2 million Zimbabweans would need of food aid before the 2014 harvest.¹²

The other challenge with Chinese investments in Zimbabwe is poor labor relations and an influx of Chinese laborers in Zimbabwe at a time unemployment levels have reached unprecedented levels. Some of the jobs being taken up by the Chinese can easily be done by Zimbabweans. CNRG has noticed that Chinese have taken up all sorts of jobs ranging from security guards, drivers, brick layers, accountants and human resources managers, in violation of Zimbabwe's labour laws. According to Zimbabwe's immigration laws temporary work permits are issued to professionals offering scarce skills which are not readily available in Zimbabwe. This provision has been sidestepped by many Chinese investors whose employees are competing with Zimbabweans for the limited employment opportunities.

There have been numerous reports of human rights abuses perpetrated by Chinese employers on their Zimbabwean employees.

¹² Gumbo T., 2013. WFP: 2.2 Million Zimbabweans May Need Food Aid Before Next Harvest. <http://www.voazimbabwe.com/content/world-food-programme-over-2-million-need-food-aid-zimbabwe/1742523.html>



A Chinese and a Zimbabwean security guard at Marange.

China has become a major player in the country's economy through their joint venture enterprises like Anjin Investments — involved in a controversial diamond mining venture with the military at Chiadzwa — and Sino-Zimbabwe Holdings which previously had a concession in Marange as well. Anjin has by far the most lucrative and largest diamond concession in Marange. Anjin, thought to be a joint venture between Anhui Foreign Economic Construction Group and the Zimbabwe National Army, has been accused of not remitting to treasury. In 2011 the company entered a controversial \$98 million loan deal for the construction of Zimbabwe Defence College. The loan was to be repaid by revenues from Anjin. Critics have argued that Chinese aid and investments in Africa, Zimbabwe included, have done little to improve human security, but rather have strengthened military and political ties at the expense of development. Anjin has also been accused of unfair labour practices and grow human rights abuses against employees. In a bizarre case, a Chinese national at Anjin reportedly struck a Zimbabwean subordinate with a hammer on the forehead in 2011. Rather than bringing him before a court of law, Zimbabwean authorities deported the perpetrator back to China.

Across Africa, several nations have started standing up to China's exploitative behaviour. The Zambian government has been the most aggressive about keeping Chinese companies in check. In February 2013, it revoked the licence of the Collum coal mine from its Chinese owners over safety concerns and conflicts between workers and management. The Gabonese government cancelled its joint venture with China Machinery Engineering Corporation for the Belinga iron ore mine in December 2011 and will soon be restarting negotiations to find a company to develop the mine.

5. South Africa

Due to its proximity to Zimbabwe and close political relations over the past century, there have been many South African companies that have invested in Zimbabwe's mining sector. The major players have been De Beers, Gold Fields, Implats, Aquarius Platinum and Anglo American plc. Anglo American and its subsidiary companies have invested in Zimbabwe for 60 years. While De Beers has been fingered in murky underhand dealings in Marange from 1965 to 2004, other South African companies in the chrome sector have shown vibrant policies of corporate social responsibility. However the value of South African investments to the Zimbabwean economy is questionable. For instance, South African companies have for long been exporting raw chrome from Zimbabwe to South Africa where it greatly appreciated in value. Extracting raw minerals and exporting them to South Africa for value addition is the same mentality which informed the Berlin Colonial Conference of 1884 where European countries partitioned Africa chiefly to extract mineral resources to feed the European industries. Zimbabwe temporarily banned the export of raw chrome in April 2011 only to lift the ban in March 2014 due to a global rise in demand for chrome. A recent audit of MMCZ revealed that in 2011 close to 500 000 tonnes of ferrochrome was illicitly exported through Beira without invoices from the parastatal charged with marketing Zimbabwe's minerals.

BRICS Development Bank

The major reason why Chinese companies were able to make major advances in Africa's extractive sector since the global recession of 2008 is the strong financial backing they received from state-run banks. In March 2013, at the fifth BRICS summit held in Durban, South Africa, the BRICS leaders agreed to establish a new \$50 billion development bank and a \$100 billion Contingent Reserve Arrangement. BRICS finance ministers expressed dissatisfaction about the International Monetary Fund's governance at the September 2013 G20 Summit, notwithstanding having collectively spent \$75 billion in the IMF's recapitalization the year before.

Professor Patrick Bond observes that the BRICS strategy – especially in relation to the expedited extraction of Africa’s minerals, petroleum, gas and cash crops – raises questions about how different their pro-corporate economic growth model is from the West’s, and whether their role in world capitalism is limited to assimilation, not alternative development finance.¹³ He goes on to ask why BRICS leaders see it fit to form a new bank when there was an alternative already in place that they could have supported: the Bank of the South. Founded by the late Venezuelan president Hugo Chavez in 2007 and supported by Argentina, Bolivia, Brazil, Ecuador, Paraguay and Uruguay, Banco del Sur already had \$7 billion in capital by 2013. It offered a more profound development finance challenge to the Washington Consensus, especially after Ecuadoran radical economists led by Pedro Paez improved the design. Instead, the BRICS appear to favour the stabilization of the world financial status quo, rather than radically changing the most unfair and intrinsically destabilizing components. In essence BRICS intends not to reverse neo-colonialism in Africa but rather take a leading role on it.

Conclusion

Zimbabwe is a rich country in terms of mineral wealth. However, a plethora of bad decisions and corruption have ensured Zimbabwe’s mineral wealth is benefiting other countries at its own expense. Below are some alternatives to be considered.

1. Intra-African investments

Intra-African investments accounted for 32.5% of new foreign investment from 2003 to 2011, according to Ernst&Young. Given the unprecedented rise of several African economies this is set to rise, as more and more African countries and businesses invest in fellow African countries.

2. Western investments

While riddled with concerns over illicit financial flows in the form of transfer pricing, Western investments remain favourable as they come with a better regard for human rights, better working conditions and better corporate social responsibility.

3. Good vetting of BRICS investments

BRICS countries have performed better in countries where there is greater industry regulation and checks and balances. Zimbabwe needs a clear strategy of how to engage BRICS nations in a manner that maximizes gains and minimizes losses. As shown in this paper, not all BRICS investors have poor corporate governance practices and there is need for thorough vetting of potential investors before engaging with them.

¹³ Prof. Patrick Bond. Rising subimperial geopolitical-economy, declining eco-socio-economic conditions and coming ‘brics-from-below’ resistances. 9 September 2013.

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3. Katarina Kobylinski, Chinese Investment in Africa: Checking the Facts and Figures, July 2012