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# **Illicit Financial Flows in Zimbabwe's Artisanal Mining Sector**

## **Abstract**

Zimbabwe is severely affected by the problem of illicit financial flows (IFF) in the extractives industry. The artisanal mining sector is one of the worst affected sectors. Artisanal mining is a mostly poverty-driven, rural activity which has debilitating environmental impacts. Due to the criminalization of the artisanal mining sector, it has become the norm that artisanal miners operate clandestinely, avoid selling their products to the state and do not contribute to the fiscus through taxation like other economic sectors. The formalization of this sector should be the first step towards reducing illicit financial flows.

Whilst government has vigorously pursued the indigenization agenda since 2007, particularly in the extractive sector, the empowerment drive has left out the artisanal mining sector whose activities continue to be criminalized. However, true indigenization should empower the poor and vulnerable groups of society such as the artisanal mining sector. Further, rather than spending resources in fighting the losing battle of trying to stop the practice of artisanal mining, government should start developing policy, institutional and legislative tools to regulate the artisanal mining sector as a way of creating employment and generating revenues. It is also essential for government to create conducive working conditions for women in the artisanal mining sector.

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## Acronyms

<b>CNRG</b>	-	<b>Centre for Natural Resource Governance</b>
<b>ZIMRA</b>	-	<b>Zimbabwe Revenue Authority</b>
<b>GDP</b>	-	<b>Gross Domestic Product</b>
<b>IFF</b>	-	<b>Illicit Financial Flow</b>
<b>ZMDC</b>	-	<b>Zimbabwe Mining Development Corporation</b>
<b>MMCZ</b>	-	<b>Minerals Marketing Corporation of Zimbabwe</b>
<b>EMA</b>	-	<b>Environmental Management Agency</b>
<b>ZRP</b>	-	<b>Zimbabwe Republic Police</b>
<b>ZMRTI</b>	-	<b>Zimbabwe Mining Revenue Transparency Initiative</b>

## Introduction

Globally, extractive sectors currently generate about US\$3.5 trillion in annual gross revenue, corresponding to around 5 per cent of global gross domestic product (GDP). Rents, or potential net revenues, are estimated at about US\$1 trillion for low-income and lower-middle-income countries, or about US\$200 per capita for a total population of 5 billion. Much of this money is lost by producing countries as a result of illicit financial flows. Zimbabwe has lost a cumulative US\$12 billion in the last three decades through illicit financial flows ranging from secret financial deals, tax avoidance and illegal commercial activities (African Development Bank and Global Financial Integrity, 2013).

Illicit financial flows occur when money is illegally earned, transferred or spent with the intention that this money disappear from any record in the country of origin.

There are a couple of reasons why the Zimbabwean extractive sector is prone to illicit financial flows. Firstly, the industry is under high-level discretionary political control, which has the potential to facilitate illicit financial flows. In 2012, the industry contributed 25.8% of GDP and 64 % export revenues(US\$1.3 billion).. This makes the industry a strategic instrument of economic and political power. As such, most contracts are shrouded in secrecy. Illegitimate wealth generated by the extractive sector increases political leaders' autonomy from the population and donors, thereby reducing accountability and openness to reform. This can lead to uneven development, widening income inequality and politics of patronage with far reaching consequences on governance.

Secondly, public, shareholder, and personal interests are blurred in the extractive sector. ZMDC has been accused of serving the personal interests of politicians at the expense of the fiscus. Some government officials have been accused of owning shares in Mauritius-registered diamond mining companies resulting in these companies operating above the law. Further in public as well as private companies, senior management officials may benefit from excessive compensation packages if there is weak regulation. Thirdly, competition is limited, especially in the diamond industry where miners apply for special grants from the President. Parliament is not consulted. This has resulted in fewer checks and balances in the industry compared to other more competitive sectors. With stable oligopolies, nominal competitors may in fact collaborate in illicit financial flows (Martin and Park 2010).

Fourth, the extractive industry involves complex technical and financial processes that require a high degree of expertise. Zimbabwean mining companies themselves, rather than ZIMRA, do much of the accounting for tax payments. This opens the door to manipulation, particularly if ZIMRA's auditing capacity is limited or corrupt. High reliance on taxes on profits encourages cost inflation and facilitates mispricing by companies.

Finally, Zimbabwe has a high degree of integration into the global economy but through a limited number of channels due to economic sanctions. Sanctions, whether targeted or wholesale, opens lucrative opportunities for illicit financial flows since both the local businesses and the international clients prefer to trade secretly to safeguard their interests.

## **Background**

The research was carried out in and around Penhalonga, a mining town in the Manicaland province, 18km north of Mutare. It is located in a valley where the Tsambe and Imbeza Rivers meet the Mutare River. Ancient gold workings have been found in the area. While mining is predominant, forestry, dairy and mixed farming also take place in the area. The Mutare River is lined with pairs of palm trees at 30 metre intervals. One local, who served as a guide during the site visit said these were planted by German prospectors in colonial times. They were planted as pegs to demarcate areas that had been sampled and found to be gold-bearing. The artisanal miners use these as markers of where to dig their pits.

## **IFFs in Artisanal Mining**

The term *illicit* refers to an activity which is morally reprehensible whereas an *illegal* activity is one which is prohibited by law. To put this in perspective: gold panning along the Mutare river is illegal. However, it is perceived as licit by the local community. On the other hand, the granting of huge tracts of land along the Mutare River as an alluvial mining claim is legal but is still viewed as illicit by the community. The local community feel artisanal mining is the only way they can benefit from the gold in their locality since the big mining corporations which are licensed by government to mine in the area do not share their profits with the community.

Large scale mining, therefore, may be legal but still be perceived as ethically wrong if it does not benefit the local community. This underscores the importance of ethical standards within industry to ensure that mining activities are deemed both legal and ethical by the surrounding communities. . Ethical norms need to be dictated by codes of conduct and possibly certification by professional bodies at the international level to address regulatory gaps in national jurisdictions (Global Witness 2011; Mao 2011).

There are two types of artisanal miners in the Penhalonga area. The first are gold panners along the Mutare River and its tributaries. They pan for gold in the river and dig pits on the river's banks. These 1x1 metre square pits are between 9 and 15 metres deep, a depth at which these artisanal miners intercept a sedimentary reef. A typical pit is shown below:



***Fig 1: A pit dug by artisanal miners on the banks of the Mutare River***

In areas where the grade is high enough and the reef is thick enough, the artisanal miners develop these pits into large open pits. In the process top-soil and vegetation are stripped and trees are uprooted.



***Fig 2: An open pit***

These open pits are left uncovered leading to high incidence of soil erosion, land degradation and siltation of the river. Gold panners are not limited to the confines of the Mutare River. The hills in the area between Old Mutare and Tsvingwe are pock-marked with pits and shallow trenches.



***Fig 3: Old trenches dug in the hills surrounding Mutare River***

The local police estimate that there should be up to 500 panners along the stretch of the river under their jurisdiction. Panners cited the erratic nature of the deposits they work on and thus their production as the main reason why they cannot estimate how much gold they can obtain in a week. "Anything from nothing to a kilogram", said one artisanal miner, "It comes down to your luck." Pressed to make an estimate, he went on to state, "As a syndicate, we sell consignments of 100 grams or more about five or six times in a year." Syndicates are groups of five to thirty artisanal miners working together. With probably twenty syndicates working along the Mutare River, a conservative estimate of the gold they extract in a year is 12 kg. Thus about US\$500,000 worth of gold is illegally extracted, sold and smuggled from the Mutare River in a year.

The second type are mine workers employed at small-scale gold mining operations. One miner, who hails from Buhera, described these operations:

"I am employed as a miner at a claim. There are ten miners and four security guards. We work during the day using picks and remit all the ore at the end of the day. We usually achieve our target of 6 tonnes in about a week. The claim owner comes to collect it and takes it to a mill at Riverside. The owner takes 50% of the proceeds and the ten of us share the other 50%. On average we get 300g from a 6-tonne load and at the current prices offered by Fidelity Printers [48 dollars per gram of gold], we make about \$15 000 per load. Each miner makes about \$750 a week. We are accommodated in cabins at the claim and we are not allowed to enter the mining area at night. However at night we pay off the guards and enter the mining area to dig for gold or collect ore that we would have hidden during the day. We process this ore using mercury and metal pans. On average I get 11 to 15 grams of gold in a night. We sell this gold to buyers at US\$22 a gram as it is the price they offer and the gold will be of low purity, between 82 and 84 percent". As we were speaking, he received a call informing him that there had been 857g of gold in the 6 tonne load they had sent to the mill in the morning. US\$35,000 worth of gold! With more than 100 of these artisanal miners illegally obtaining between 11 and 15 grams of gold every night, the amount of gold they obtain in a month can be conservatively estimated to be 30 kg. Over US\$1.2 million worth of gold is illegally mined, sold and smuggled out of the Penhalonga small scale mines annually.

The buyers mentioned above are almost always local Zimbabweans who either act as middle-men (runners) for wealthy barons or are independent buyers who go on to sell the gold to the barons. The barons range from Zimbabweans to foreigners from as far as Lebanon. One buyer interviewed works

independently and is an auto-mechanic at a garage in Mutare. The married father of two says he takes part in this illegal trade to supplement his income. “Currently I sell gold to three people”, he says, “a white Zimbabwean who stays in Murambi [one of the leafy suburbs of Mutare], a Lebanese guy and a Zimbabwean who owns a small-scale mine in Penhalonga.” Asked whether his deals are exclusive to gold, he replied “I also deal in tantalite but it is bulkier and harder to come by. I take it across the nearby border and sell it to a white man in Manica in Mozambique. Once in a while I come across ivory though that is a very risky commodity but it fetches a good price with the Chinese in Harare.”

These middle-men buy gold at US\$22 a gram from the artisanal miners and then further refine it. The auto-mechanic uses a welding machine to burn the button of gold and thus remove some impurities and increase the purity of the gold to between 90 and 95%. He then goes on to sell the gold at up to US\$36 per gram. He says one potential buyer who works in the Ministry of Mines boasted that for amounts higher than 100 grams, they can pay you US\$40 per gram. This official claimed they represented someone high up in Government who buys gold at a higher price than Fidelity Printers. This person goes on to smuggle the gold through Mozambique to Malawi. From Malawi the gold is flown to South Africa where it is sold on the international market.

## Sources of IFFs in Artisanal mining

There are four main sources of illicit financial flows in artisanal mining, each from activities that reward different beneficiaries. These are:

- 1. Proceeds of corruption**

Artisanal mining is illegal under the laws of Zimbabwe. Artisanal miners bribe police and EMA officials when they are caught. EMA officials conduct their inspections in conjunction with the police. These are usually carried out in the form of raids where some miners are arrested and fined. Gold buyers are often arrested by officials from the Minerals Unit of the ZRP. One buyer narrated how these officers connive with some buyers to raid other buyers so as to ensure their buyers have a monopoly. Sometimes they go on to confiscate gold and money from the buyers they raid, or demand bribes. The amount of money involved is difficult to estimate.

- 2. Revenues from illegal resource exploitation**

All forms of artisanal mining are illegal in Zimbabwe and thus any revenue made from artisanal mining is illicit. Revenue is generated by the artisanal miners, buyers and barons who smuggle the gold to South Africa and Mozambique where better prices are offered. We estimate that

over US\$1.7 million worth of gold is illegally extracted and smuggled out of the Penhalonga area annually.

### 3. Tax evasion

An estimated US\$1.7 million worth of gold is smuggled out of Penhalonga annually and MMCZ estimates that US\$50 million worth of gold is smuggled out of the whole country every month. Given that ZIMRA is supposed to collect a royalty of 7% on gold production, Zimbabwe is losing out on US\$42 million in potential royalties annually. This figure does not factor in other sur-taxes such as surface rents, corporate tax, income tax and export duty that would be charged had artisanal mining been formal.

	Corruption	Illegal exploitation	Tax evasion
<b>Main Financial Flows</b>	Bribes paid by artisanal miners to police, EMA and mine's security personnel	Artisanal mining is outlawed in Zimbabwe and all proceeds from it are deemed illegal	Artisanal miners do not pay any taxes due to the informality of their operations
<b>Main beneficiaries</b>	Corrupt officials	Barons, middle-men and neighbouring governments	Artisanal miners, barons, middle-men
<b>Risk Level</b>	Medium for grand corruption but high for petty corruption, due to diffuse resource flows except at official export channel	High, due to accessibility of deposits and difficulties in monitoring	High, due to smuggling

**Table 1: Sources of illicit Financial Flows**

### 4. Sales of mercury

A fourth source is in the sale of mercury to artisanal miners. Zimbabwe, along with more than 140 other countries agreed to sign a mercury treaty which seeks to ban the use of mercury for industrial purposes. This makes the use of mercury in artisanal mining illicit and the proceeds of the sale of mercury a source of illicit financial flows. Gold panners obtain mercury freely from buyers of their gold while the small scale mine workers have it sold to them. Zimbabwe's 2011 imports of mercury are tabled below:

Source	Net weight / kg	Trade Value / US\$
South Africa	4 175	411 834
United Kingdom	4 502	308 121

United Arab Emirates	1 725	157 024
<b>Total</b>	<b>10 402</b>	<b>876 979</b>

**Table 2: Mercury Imports**

## Causes of IFFs in artisanal mining

### 1. Informality

Artisanal mining is an illegal activity under the laws of Zimbabwe thus the miners have no access to the formal markets. They resort to selling their gold on the black market. They have no protection of the law. The informality of their operations also encourages petty corruption in the form of bribes and unofficial confiscation of gold and money by the Police. Women artisanal miners number up to about 150 000. Some of these women have complained of bullying and sexual harassment by both their male counterparts and the police.

### 2. Desire to maximise profits

By evading tax and smuggling the gold into neighbouring countries where it fetches a higher price, gold barons are sure to make a higher profit than they would by selling on the official market.

## Impact of IFFs on the development of communities

### 1. Loss of revenue to the government

Artisanal mining generates no income for the Government and thus artisanal mining communities tend to be neglected by the Government.

### 2. Establishment of a local processing industry is hampered

The gold is smuggled out in bullion form and no downstream industries are formed in the communities from which the gold is extracted. No mills or jewellery shops exist in Penhalonga.

### 3. 'The Resource Curse'

Most of the US\$1.7 million generated from gold extracted illegally in Penhalonga is pocketed outside of the Penhalonga community. Artisanal miners are on average paid 54% of the global market price of gold, thus only about US\$900,000 is pocketed by the artisanal miners. Most miners have a 'gambler mentality' and a large proportion of their revenue is spent on alcohol, clothes and electronic gadgets which are bought outside of their communities. This leaves a very small proportion of the proceeds of artisanal mining to circulate in the community thus perpetuating poverty in a locale that generates wealth.

## Conclusion

Illicit financial flows from the Penhalonga area can be harnessed to alleviate poverty in the community. Money generated by artisanal miners has the potential to become the driver of sustainable development. In order to achieve this CNRG recommends that the following measures be taken:

### **1. Formalisation of the artisanal mining sector**

In order to stem or reduce IFFs from artisanal mining it is important that the artisanal mining sector be formalized through legalization and capacity building. By ensuring artisanal miners can obtain claims and operate legally, they can contribute to the national fiscus while being well monitored to ensure they operate in an environmentally friendly manner. A multi-stakeholder taskforce, involving the Ministry of Mines and Mining Development, Environmental Management Agency, Chamber of Mines, Police Minerals Unit, Zimbabwe Revenue Authority, Civil Society and Artisanal Miners themselves should be set up to draw up recommendations for the formalization of artisanal mining.

### **2. Institutionalization of the Zimbabwe Mining Revenue Transparency Initiative (ZMRTI)**

ZMRTI was established in the former Deputy Prime Minister, Thokozani Khupe's office on the 8<sup>th</sup> of September 2011. It was established to ensure Zimbabwe attains EITI compliance by 2015 and its objectives are to combat tax evasion and to ensure transparency in the use of mining revenue. However the initiative has faced several challenges and has thus far failed to achieve its goals. It is imperative to have it institutionalized in government, preferably in the Ministries of Finance and of Mines and Minerals Development.

### **3. Recapitalize RBZ and Fidelity Printers**

The RBZ through Fidelity Printers is unable to offer competitive prices for gold. By capitalizing this institution, the benefits of smuggling may be extinguished and all gold produced in Zimbabwe can be channelled through Fidelity Printers.