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# Leveraging Zimbabwe's mineral endowment for economic transformation and human development

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ABSTRACT

For the past two decades, Zimbabwe has experienced a pervasive economic collapse. Most of the challenges were caused by policy inconsistencies, bad policy choices, economic mismanagement and political instability. This led to deindustrialization with a sharp decline in manufacturing and agriculture productivity and output, which consequently caused a sharp increase in unemployment and poverty.

Although it is not fully developed, the mining industry in Zimbabwe presents an opportunity for economic stimulation that may lead to economic recovery, but requires broad-based economic reforms. This paper presents the findings of a review, and benchmarking of Zimbabwe's policies, which affect mining investment, inclusive economic growth and human development. The policies were benchmarked and compared to similar policies of Botswana, Namibia and South Africa using the Natural Resources Benchmarking Charter Framework. The outcomes of the review and benchmarking process were taken into consideration when coming up with policy suggestions that are meant to economically transform Zimbabwe, which at the same time brings sustained human development. The work reported in this paper is part of an MSc research study in the School of Mining Engineering at the University of the Witwatersrand.

## 1. Introduction

Zimbabwe has a long history of mining dating back over hundred years ago (Huffman, 1974). Currently mining accounts for more than 60% of exports and contributes around 15% to the Gross Domestic Product (GDP) making Zimbabwe a resource-driven economy (Segula, 2016). Mining has played a pivotal role in Zimbabwean economic history by providing direct and indirect benefits towards human development.

Early years after independence Zimbabwe's diversified economy was thriving. Zimbabwe was once called the bread basket of Africa due to its strong agricultural output. The education system was and still is highly regarded in the region with literacy rate above the Sub-Saharan average. The health sector was doing relative well as compared to other developing countries during the 1980s and 1990s. The decline of Zimbabwe's economy over the past years has caused hardships to ordinary citizens. Zimbabwe's prolonged economic underperformances, which began in the in late 1990s is attributed to a plethora of economic blunders such as massive pay-outs of former liberation fighters, the 1998 costly intervention of Zimbabwe in the Democratic Republic of Congo civil war and the fast track land reform program that followed in 2000 (Kanyeze, 2017; Mugoti, 2008; Munangagwa, 2009). This was followed by a series of poor macroeconomic policies choices, human right violations and political turmoil which led to international isolation that rendered Zimbabwe less attractive investment destination in the SADC region (Besada and LaChapelle, 2011). The devastating effects of the aforementioned blunders continue to be experienced in present day. Several industries collapsed, which led to skyrocketing unemployment rate, poverty level worsening and poor service delivery in access to health and basic education deteriorated.

The country is faced with challenges of achieving sustained economic growth, economic transformation, which is human development oriented. Zimbabwe's minerals present the potential for economic stimulation to growth, and with sound policies and good governance may lead to economic recovery, economic transformation and human development (Mahonye and Mandishara, 2015). Growth economists regard mining as an engine to fight poverty by creating jobs, generate revenues and through linkages to the other sectors of the economy.

Although mineral resources presents a comparative advantage for economic growth and development, Zimbabwe has failed to use this advantage to achieve positive development outcomes. Gupta (2013) explained comparative advantage as an economic principle believed to be the bed rock of international trade theory. This principle suggests that a company or a nation can produce goods and services at a lower

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opportunity cost compared to the other companies or nations due to comparative advantage. There are various determinants of comparative advantage such as resource endowments, labour availability and its cost, technology, demand patterns, specialization and government policies, which therefore suggest that comparative advantage is dynamic. Shaik (2004) stated that skills-based economies are industrialised and have high wages, which is not the same in developing countries. Therefore, the developing countries have comparative advantage of cheap labour which force to compete in primary sectors with low labour costs such a raw materials production (mining and agriculture). On the other hand, business believes that competitive advantage is the force behind global trade. Gupta (2013) described sustained competitive advantage as a prolonged benefit of implementing some unique value-creating strategies. Zimbabwe's comparative advantage is due to owning mineral resources such as iron ore, chrome and coal and cheap labour, which are important elements in manufacturing and construction industries. Zimbabwe could turn this into a competitive advantage by continuously improving in manufacturing using the available raw materials.

One of the reasons for the poor performance of Zimbabwe's mining industry is a failure to attract foreign direct investment (FDI) needed for the Greenfields and Brownfields operations which increase the competitiveness of the industry (Saungweme, 2005). There should be a balance between attracting FDI and national development interest, which is why developing countries are tying their development with mining projects. FDI has been applauded for the spill overs such as skills and technology transfer and competition enhancement in the host countries (Wentworth et al., 2015). The failure to attract FDI in Zimbabwe is due to radical policy changes, less respect for property rights by the government and political instability that has been prevailing over the years.

## 2. Analysis of selected minerals and empowerment policies

Mineral policies are developed because of the availability or the unavailability of mineral resources in a country. Several factors such as economics, politics, history and technology advancements shape the structure of the mineral policy. The mineral policies are country-specific due to the differences in the previously mentioned factors although some regional trends are noticed (Otto, 1999). Mineral policies are useful in providing guidance on government's stunt on addressing key issues; it also provides the different government departments, administrators and the law drafters with guidance on the general expectations of the country on the resources governance. Furthermore, a standalone mineral policy document can be used as a tool for starting discussion on important issues (Otto, 1997).

Mtegha (2005) stated that the mining industry in many parts of the world is expected to provide not only jobs but also revenues and further bring socio-economic development. It is through mineral policies that the government can address concerns of stakeholders such as the international community, investors, communities and citizens. Mining has been a key economic driver in most SADC countries such as South Africa, Namibia, and Botswana.

### *2.1. Mineral policies*

#### *2.1.1. Mineral policy of Botswana*

The Government of Botswana is highly regarded in efficient and transparent use of mineral resources revenues for socio-economic development. Since early days of its independence in the 1960s, the mineral policy of Botswana had been based on attracting FDI and technical experts into the mining industry. This was first accomplished by establishing competitive real exchange rate, followed by creating an investor-friendly environment (Dougherty, 2012).

The objectives of the mineral policy of Botswana are to;

- Attract foreign and local investors to efficiently develop the mining sector for the country to reap maximum benefits and at the same time yielding attractive returns for the investors (Matshediso, 2005);
- Creating linkages between the extractive industry and other sectors of the economy to expand value addition (Matshediso, 2005);
- Creating a competitive environment to stimulate private sector investment in exploration (Dougherty, 2012); and
- Safeguarding private property rights, guaranteed tenure after exploration, protect the environment (Government of Botswana, 1999).

#### *2.1.2. Mineral policy of Namibia*

The Mineral Policy of Namibia was developed to fit the mining sector into the broader economy and national development agenda. The policy is based on the principle of attracting investment and private entities participation and encourages private companies to play a leading role in exploration, mining, value addition and marketing of the commodities. The mining industry is expected to play a crucial role in addressing development goals for the medium term Namibia Vision 2030 and the second National Development Plan (NDP2). The Namibia development goals are to; reduce poverty and create employment, promote economic empowerment, stimulate and sustain economic growth, reduce inequalities in income distribution, reduce regional development inequalities, promote gender equality and equity; and to increase environmental and ecological sustainability (Ministry of Mines and Energy, 2003).

#### *2.1.3. Mineral policy of South Africa*

South Africa's mineral policy was developed through a consultative process that involved the Government, organized business and organized labour (Department of Minerals and Energy, 1998). The policy was also designed with the idea of redressing the previous racial imbalances in the country and specifically the mining industry. The policy seek to create a business friendly environment to attract both domestic and foreign investment. The policy formulation process took into consideration the challenges and opportunities faced by the mining sector by both the investors and the workers. The government's position on issues raised by stakeholders was articulated in six themes. These themes are business climate and mineral development, participation ownership and management, people issues, environmental management, regional cooperation and governance. The Minerals and Petroleum Development Act (MPRDA) of 2002 was formed to legally enforce the mineral policy (Government of the Republic of South Africa, 2002).

#### *2.1.4. Mineral policy of Zimbabwe*

Unlike South Africa and Namibia, Zimbabwe and Botswana do not have standalone National Mineral Policy (NMP) documents. The mineral policy can be obtained from a number of laws and regulations which makes it difficult for investors to know what the government position on certain important issues is and further cause policy inconsistencies. The mineral policy applies to the entire minerals with the exception of diamonds mining that has its specific policy. The Zimbabwe mineral policy is summarized in Table 1.

### *2.2. Empowerment policies*

One of the decisive policy that has been controversial in post-colonial era is the redistribution of the wealth. Post-colonial policies began with the nationalization of natural resources with the creation of state enterprises. The policy shifted from the state participation in mining to the one, which is meant to attract foreign direct investment. The redistribution of the wealth came in form of economic empowerment of the previously excluded people. These policies have a huge bearing on the investment climate, which determines how much FDI inflows to the country. Before investing in a particular jurisdiction, mining companies require assurance of the security of their investment.