



# MINING SECTOR EXEMPTIONS FROM THE COVID-19 LOCKDOWN

## MOTIVATIONS AND TRIGGERS

## KEY HIGHLIGHTS

### DID YOU KNOW?

01

Zimbabwe now relies heavily on mining. In 2019, mineral exports contributed US\$2.9 billion, accounting for 55.2% of the country's total export earnings and approximately 73% of the value of the National Budget. The 2020 National Budget of Zimbabwe was valued at US\$3.975 at the time of its presentation in November, 2019 (Using Interbank Exchange Rate of US\$1: ZW\$16 that prevailed at the time of its presentation). Therefore, the country cannot afford to continue without mining activities during this COVID-19 induced lockdown.

02

In Zimbabwe, there is evidence of money laundering, illicit financial and mineral flows that are affecting extractive and natural resources revenue. Zimbabwe Environmental Law Association (ZELA) and its partner Centre for Natural Resource Governance (CNRG) will be closely monitoring these cases, specifically through tracking mining financial statements in the coming months to determine impact of mining sector exemption on production during Covid-19 lockdown, and to unearth any cases of mineral revenue mismanagement. ZELA and CNRG will engage parliamentarians in a move to build their capacity to play their oversight role and pass laws that uphold community rights and curb potential public revenue loss as a result of smuggling and illicit financial flows in the mining and extractive sector.

03

Most mining companies either remained operational, maintained a skeletal staff complement or reduced operational levels during the first 21-day lockdown period, after the Minister of Mines and Mining Development issued a statement on 29th of March 2020 on Guidelines on essential services required to preserve operational capacity in the mining industry during the lockdown. Apart from coal mining companies exempted by the initial National Lockdown Order (considered essential for production of electricity), the Ministry indicated that the mining industry needs to keep certain critical equipment and services operational.

04

The decision to fully reopen key industries such as the mining sector whilst maintaining social distancing and public health measures indicates that the government has shifted to a balanced approach between public health and the economy due to COVID-19. The government realised that closing critical sectors of the economy during lockdown would cause more economic damage to the nation.

05

Achieving the vision to transform the country into an upper middle-income economy by 2030 is hinged on mining. Through the mining strategy that was launched in October 2019, the Government is ambitiously targeting to realise US\$12 billion annually from mining by 2023. The government's decision to allow the mines to operate was triggered by the need to preserve the US\$12 billion mining milestone that will become the country's bedrock for turning around the economy.

06

The government's decision to exempt mining sector during lockdown was also influenced by demands from the mining industry and artisanal and small-scale miners. The Chamber of Mines released a report before the 21-day lockdown in which it argued that mining equipment needed continuous operations and shutting down of mining operations was going to affect the mining equipment itself, future profitability and return to production. The Chamber of Mines estimated that Zimbabwe had lost US\$200 million by 29th March 2020, and projected that Zimbabwe could lose 60% of its mineral production in the second quarter, valued at US\$400 million. This was complemented by statements issued by the Zimbabwe Miners Federation on the need for artisanal and small-scale miners to be exempted to continue mining since it is the major contributor of gold deliveries to Fidelity Printers accounting for more than 60% in 2019.

07

The country has limited fiscal leg room to finance COVID-19 related health programmes due to inflation and continuous decline in the value of the local currency (ZWL\$) and low foreign currency inflows from tourism and remittances. In the face of the COVID-19, the government may have wanted to leverage on the mining sector to generate funds for COVID-19 response.

08

Lack of access to COVID-19 external financing is also one of the factors that can possibly explain why the government decided to fully reopen the mining sector. Other developing countries have received debt relief from International Monetary Fund (IMF) resulting in them being able to access new loans to finance COVID -19 and mitigate against the effect of the pandemic to their economies. Unfortunately, Zimbabwe is not part of the countries that have benefited from the IMF's intervention. Zimbabwe's poor creditworthiness position and failure to address governance issues are some of the factors that explain why the government failed to mobilise COVID-19 funding from external sources.

09

On the world market, gold prices have been buoyant, surpassing US\$1600 per ounce on account of increased demand as giant stock market investors rush towards safe haven assets such as gold. There was, therefore, a huge economic incentive for government to consider giving the gold mining sector a full exemption to operate in order to earn more revenue.

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Gold mining, including artisanal and small-scale mining (ASM), is the largest contributor to mining-generated foreign currency earnings. For the past three years, (2017 to 2019), gold deliveries from (ASM) to Fidelity Printers and Refiners (FPR) eclipsed deliveries by large scale mining (LSM). In 2019, ASM accounted for 63 percent (17 478,74kg) of total gold deliveries (27 650,26kg) to FPR. Zimbabwe can take advantage of increases in the prices of gold on the world commodity market to raise huge amounts of foreign currency to support Covid-19 response.

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The opening of China's industry after a long lockdown rejuvenated the demand for raw materials including minerals from countries such as Zimbabwe. This is the other reason why Zimbabwe took the decision to continue with and upscale mining activities even during local lockdown measures.

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Zimbabwe's decision to reopen its mining sector was triggered by South Africa's demand for raw gold and platinum. Under the first phase of South Africa's lockdown, gold and platinum refineries significantly scaled down their operations. The Rand Refinery of South Africa that processes gold from African countries including Zimbabwe was closed during South Africa's first lockdown period which expired on the 9th of April 2020. However, South Africa later relaxed the measures giving mining companies permission to resume operations at 50% capacity and in the process, refiners have expanded their operations. The government may have wanted to use this window to increase its gold and platinum production and boost its export earnings.

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In Zimbabwe, the elites derive huge incentives from the mining operations especially in the gold ASM sector. There is high possibility that the decision to allow mining, including ASM to resume or upscale mining activities was also motivated by the economic interests of these elites. Research conducted by CNRG in 2013 revealed that top government officials are gold barons who illicitly sell the gold in neighbouring countries, especially South Africa.

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There is a high possibility that the opening of the mining sector especially the gold ASM will heighten money laundering, illicit financial and mineral flows. The high demand and limited supply of forex has also been a push factor of gold smuggling because the mineral can easily be used as a substitute currency. Given the scarcity of foreign currency and the restrictions of accessing foreign currency from RBZ, corruption can manifest in the gold market, as well as foreign earnings retained by government largely from mineral revenues. ZELA and CNRG are working with communities in mineral rich areas to follow the cases of corruption, mineral revenue mismanagement and facilitate online whistle blowing and digital activism.

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The conditions for mining set in SI 94/2020, fuel criminalisation of ASMs who do not have capacity to institute health and safety in their operations. There is likelihood that artisanal miners who fail to meet the conditions will be arrested or be compelled to bribe law enforcement agents. ASM players who conduct mining without adequate protection and sanitation are exposed to COVID-19, which they can spread to their families and communities.

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Some mining companies have weak safety, health, environment and responsible sourcing standards and compliance levels. ZELA's Mining Sector Situational Report ( 31 March – 8 April) showed that a number of small to medium mining companies had not complied with COVID-19 measures despite having been instructed to do so by the Ministry of Mines and Mineral development during the first lockdown period. ZELA and CNRG will be monitoring compliance by mining companies to COVID-19 prevention measures.

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Mining is one of the sectors that the “Zimbabwe is open for Business” Mantra is supposed to deliver on. However, for a government that seeks to be a game changer leveraging on the Zimbabwe is open for business agenda, it is fundamental to eliminate secret deals in the mining sector which facilitate corruption, erode public confidence and create mistrust. ZELA, CNRG and the Publish What You Pay Coalition (PWYP) are advocating for the adoption of the Extractive Industry Transparency Initiative (EITI) as a measure to improve transparency and accountability in the mining sector. Citizens must see clear linkages between upscaling of mining activities, mobilisation of resources to fight COVID-19 in the short term and social service delivery in the medium to long term.

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In Zimbabwe, natural resource governance is conjoined with politics. ZELA and CNRG are advocating for de-linking of the two. COVID-19 provides an opportunity for government and communities to self-introspect on the relevance of local mineral resources in funding solutions to crisis situations and responses to disasters, rather than funding political campaigns and personal expediencies of the elites.





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