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Decrypting Illicit Gold Trade in Zimbabwe

Mukasiri Sibanda

Southern Africa Resource Watch

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Southern Africa Resource Watch
President Place
1 Hood Avenue / 148 Jan Smuts Avenue (corner Bolton Road)
Rosebank
PO Box 678,
Wits
2050
Johannesburg
South Africa

www.sarwatch.org

Edited by: Claude Kabemba and Veronica Zano
Design and Layout: Charcoal Ink
Cover Photography: Martin Addison

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Acronyms and abbreviations

ASGM	Artisanal and small-scale gold mining
ASMers	Artisanal and small-scale miners
CoMZ	Chamber of Mines Zimbabwe
GDIF	Gold Development Initiative Facility
GMTC	Gold Mobilisation Technical Committee
FPR	Fidelity Printers and Refiners
GMTC	Gold Mobilisation Technical Committee
HLP	High-level panel on IFFs out of Africa
IFF	Illicit financial flow
LBMA	London Bullion Market Association
LSM	Large-scale mining
MMMD	Ministry of Mines and Mining Development
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement (currency system)
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
Zanu-PF	Zimbabwe African National Union Patriotic Front
ZMF	Zimbabwe Miners' Federation
ZRP	Zimbabwe Republic Police

1. Introduction

This report is a preliminary investigation of Zimbabwe's illicit gold trade, covering activities for the three years from 2017 to 2019. The primary objective of this investigative report is to shed more light, and to offer a fresh perspective on the nature and extent of the illicit gold trade in Zimbabwe. The report attempts to come up with estimates of gold production, gold smuggled out of the country, and gold smuggled into the country. It provides a textured understanding of why the illicit gold trade numbers are elusive and what government needs to do to redress the challenges. The report takes special interest in the nature of artisanal and small-scale miners (ASMers), identifying the diverse attributes of this special group of miners who are usually all painted with the same brush.

Over the past three years, the state of Zimbabwe's gold industry transformed rapidly: (i) official gold deliveries from artisanal and small-scale gold mining (ASGM) eclipsed gold deliveries from large-scale mining (LSM); (ii) United Arab Emirates (UAE) emerged as a leading gold export destination; (iii) with the shrinking of the dominant role that South Africa used to play, malignant currency woes impacted negatively on official gold deliveries because foreign currency retention thresholds eroded value for gold producers; (iv) the discordant role of foreign gold buyers and widespread violence in the ASGM sector. Interestingly, the key developments in the gold industry coincided with the changes in government in November 2017. New actors assumed the reins of government, and these actors had a longstanding but allegedly murky history of involvement in the illicit gold trade.

A focus on the nature and extent of illicit gold trade in Zimbabwe is very timely in view of the fact that the country is basing its plans for socio-economic recovery and growth on the mining sector. Gold is expected to contribute US$4 billion earnings per annum by 2023, a third of the US$12 billion target for the entire mining industry in the same period. Evidently, gold provides the propulsive growth to the country's mining sector. Mineral-dependent economies, as highlighted in the report of the high-level panel (HLP) on illicit financial flows (IFFs) out of Africa, are quite prone to revenue leakages via trade mispricing, overly generous tax incentives, under-invoicing, and badly negotiated contracts. Ominously, the recent report by United Nations Conference on Trade and Development (UNCTAD) on IFFs out of Africa singled out gold, along with diamonds and platinum, as the commodities most vulnerable to IFFs. As in many developing countries, the impact of Covid-19 has exacerbated the already precarious attempts to mobilise domestic resources to invest in the realisation of UN Sustainable Development Goals (SDGs) by 2030. This rapid investigative study is useful to assist with measured policy responses to maximise the potential of mining, gold being key, to propel post-Covid-19 recovery and the building of resilience.

The report combines a literature review and key informant interviews with primary stakeholders in the gold industry – including relevant government institutions, artisanal and small-scale miners (ASMers), gold buyers, gold custom millers, and journalists. By nature, illicit activities are very secretive because they seek to hide wealth generated to try to escape the long arm of the law, an inherent limitation of this study. However, people interviewed were free to share information, some on condition that the researchers would guarantee their anonymity. As part of the research ethics, interviewees were informed that they would be treated as anonymous, and that they were free to respond or leave out any questions that they were not comfortable with.

2. The Architecture of Gold Mining in Zimbabwe: Key Actors in ASGM

The Ministry of Mines and Mining Development (MMMD) administers the Mines and Minerals Act [Chapter 23:05], the principal legislation governing the mining sector. Basically, the Act deals with acquisition, maintenance and forfeiture of mining titles (among other things). Gold trade issues are governed through the Gold Trade Act, under the ambit of the Reserve Bank of Zimbabwe (RBZ) via its subsidiary Fidelity Printers and Refiners (FPR). The role of these two institutions will be discussed later in this report as well as other important actors such as the Gold Mobilisation Technical Committee (GMTC), artisanal and small-scale miners (ASMers), and gold buyers.

2.1 ASMers working on fixed and registered mining claims

> ASMers are generally seen as a highly mobile group – quite nomadic and difficult to control. However, a closer examination of ASMers shows that they are not a homogenous group[1].

There are a considerable number of ASMers who work on fixed locations. They achieve this via loose partnerships or joint venture arrangements with mining title or tribute holders and sponsors who provide equipment and working capital. Several groups of ASMers can work at one claim making use of different mining pits. As a rule of a thumb, the production share happens after deduction of operating expenses[2]. The sharing ratios vary, but generally all parties are getting an equal share, that is a third of the pie. After that, ASMers split their share equally among themselves. To crush gold-bearing rocks and recover the gold, several methods are used. These include the use of small hammer mills or ball mills that are either bought from local producers or from the Chinese. Because jaw crushers are hardly used, ASMers break the gold-bearing rocks into smaller pieces using hand hammers, then feed smaller rocks pieces into small hammer mills. Groups of women will be waiting to scavenge for residue that they will further process using the Serengeti method, with full exposure to mercury, wearing hardly any protective clothing. The dump tailings are further reprocessed by the owner of the claim using elution plants to recover fine gold that is not trapped during the milling process, on average getting more than what is recovered during gold milling. Another method of gold ore milling is done using gold custom millers. Mining is generally stopped when ore is taken to the mill as ASMers will be attentive at each stage of the crushing and recovery of gold through mercury (amalgam), toasting[3], and smelting of gold[4].

There are several grey areas that characterise this arrangement. There are hardly any written agreements, and the record-keeping of operational costs is minimal so the risk of inflating the cost is very high[5]. Since ASMers have no legal right to possess and sell their gold, their production share is converted to cash by the

[1] Grasian Mkodzongi and Veronica Zano, SARW, May 2020, Political Economy of Artisanal and Small-Scale Gold Mining in Zimbabwe: The problem of formalisation.
[2] Interviews conducted with ASMers from Zvishavane and Mberengwa, 11 to 12 September 2020.
[3] When amalgam gold is heated using fire, toasted gold is produced.
[4] Toasted gold is then smelted using gas torches to remove further impurities.
[5] Interviews with ASMers, sponsors and gold buyers from Zvishavane and Mberengwa, 11 and 12 September 2020.

sponsor at below market price. In some instances, the claim owner gets the gold and short-changes both the sponsor and ASMers by failing to dispose the gold using market rates. These challenges create simmering tensions that can at times turn out to be violent as ASMers feel cheated. For example, when a mining pit gets high gold ore grades, vultures will be waiting to pounce. The owner of the claim normally shifts the goal posts to try and get a larger share than initially agreed because of the increased bargaining power. Some sponsors also try to undercut the existing sponsor by offering to take over sponsorship for a lower production share because of small risks and high rewards.

2.2 ASMers working on fixed but illegal areas, usually on mines that are closed or under care and maintenance

In Zimbabwe, there are many gold mines that are closed, or under care and maintenance, or operating below capacity. For instance, the Zimbabwe Mining Development Corporation (ZCDC), a state-owned enterprise (SOE), owns a significant number of old gold mines[6], although some have been disposed recently. These mines have been traditional hotspots for illegal mining, court disputes, violence, political interference and perpetual safety disasters. Some are privately owned, such as Durban mine[7] in Bubi and Gaika mine[8] in Kwekwe.

2.3 Nomadic ASMers using gold detectors, and not respecting property rights

Another group of ASMers that is highly nomadic goes into partnership arrangements with owners of gold detectors who double up as sponsors providing food and transport. Using cars provided by the owners of gold detectors, this group of ASMers is always on the look-out for gold rushes, with some traveling from Mberengwa to faraway places like Mount Darwin or Umpfurudzi Park, Mashonaland central province, more than 635km per single trip[9].

This group of ASMers is generally referred to as rippers because they are ready to dig whenever a gold detector sniffs possibilities of gold. This type of arrangement

6 Jena, Sabi and Evington gold among others.
7 Pamela Shumba, Chronicle, 19 September 2016, Durban mine standoff enter day six, illegal miners refuse to budge https://www.chronicle.co.zw/durban-mine-standoff-enters-day-six-illegal-miners-refuse-to-budge/
8 Blessed Mhlanga, The Standard, 12 May 2019, illegal miners defy soldiers at Gaika mine https://www.thestandard.co.zw/2019/05/12/illegal-miners-defy-soldiers-gaika-mine/
9 Interview with a sponsor, Zvishavane, 12 September 2020.

rarely depends on mining titles; they prospect and mine gold in claims that are not being utilised, on farms or any other space they want, even if it means destroying graveyards or homesteads in search of alluvial gold[10]. This type of mining is highly prone to violence especially during gold rushes as sponsors hire the services of machete gangs to violently displace some ASMers and give preferential access to others for a fee. The average depth of pits they dig is 1m. At times they start bush fires to easily use their gold detectors, causing massive environmental degradation by destroying vegetation. The sharing arrangement is that proceeds are equally split between the owner of the gold detector and the ASMers after deduction of expenses.

However, if the gold is found at someone's farming plot, the plot owner is also given an equal share and rehabilitation of the plot is done[11]. It can get tricky at times. The traditional chief of the area and the Zimbabwe Republic Police (ZRP), especially the Criminal Investigation Department (CID) or the Minerals Flora and Fauna Unit (MFFU), can demand their share of the proceeds[12]. In the end, the proceeds can be shared by five different partners.

> Officials from ZRP allegedly get their share by bargaining with ASMers that they will not be arrested for illegal prospecting and mining of gold, an offence which can attract a minimum two-year jail sentence[13].

If the officials from ZRP suspect that they are being short-changed, they send their colleagues to arrest the ASMers for illegally prospecting and mining gold without valid permits. The arrests are allegedly used as a bargaining chip for the miners to compensate the ZRP officials for the suspected loss suffered. The entire justice system can be involved – ZRP investigation officer, public prosecutor, lawyer and magistrate, each demanding a bribe to set free the ASMers. The bribes are not fixed, and they depend on a case by case basis, and could amount to US$800 for all parties involved.

10 Rodrick Moyo and Mukasiri Sibanda, NewZwire, 02 October 2019, I have lost my home: latest gold rush reveals need for mining reforms, https://newzwire.live/feature-i-have-lost-my-home-latest-bubi-gold-rush-reveals-need-for-mining-reform/
11 Interview with a sponsor, Zvishavane, 12 September 2020.
12 Interview with an ASMer, Zvishavane, 11 September 2020.
13 Interview with an ASMer, Zvishavane, 11 September 2020.

2.4 The Gold Mobilisation Technical Committee

There is a joint committee – the Gold Mobilisation Technical Committee (GMTC) – which in theory is entrusted with harmonising the work of different government institutions that have a stake in compliance issues in the gold sector, and the mandate (among other things) to plug gold leakages. It is not exactly clear when the GMTC was formed but RBZ attributed increased gold deliveries from ASGM in 2015 partly to the efforts of the GMTC[14]. Initially, the GMTC comprised of RBZ, MMMD and the ZRP department formerly called the Minerals Border and Control Unit (MBCU), now called the Minerals, Flora and Fauna (MFF) unit. After the military-assisted change of government in November 2017, the military, through its investment arm, Nkululeko-Runinguko holdings, is now part of the GMTC, and in fact is its de facto leader[15]. GMTC is also involved in the vetting and final approval of gold buying licence applications[16]. There are now stationed units of the GMTC in each province that regularly monitor the activities of gold producers – large-scale and ASMers[17]. Their interest covers record-keeping, gold production returns, remittance of gold to Fidelity Printers and Refiners (FPR), and other compliance issues as required by the Mines and Minerals Act, the Gold Trade Act, and the Environmental Management Act.

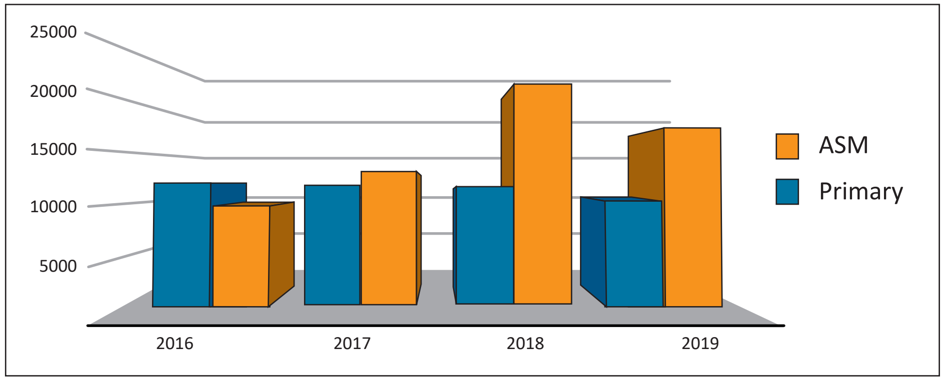
> There is a strong feeling among ASMers that the GMTC is corrupt and extracts routine rents ranging from US$50 to $500 per month[18].

This makes GMTC complicit in the illicit gold trade.

[14] RBZ Monetary Police Statement, January 2016, page 75.
[15] Interview with a ZRP official, Zvishavane, 12 September 2020.
[16] Interview with a representative of ZMF, 26 September 2020.
[17] Interview with an ASMer, Mberengwa, 11 September 2020.
[18] Interview with a local representative of small-scale miners, Mberengwa, 12 September 2020.

3. Cracking the code for illusive gold production

Figure 1: Gold Production, contributions by formal and informal sectors



Source: Author, compiled from RBZ's monetary policy statements (2017 to 2020)

The above graph showing gold deliveries to Fidelity Printers and Refiners (FPR) depicts how they have been dominated by artisanal and small-scale mining (ASM) for the past three years, from 2017 to 2019. Gold deliveries from large-scale mining have been fairly consistent from 2016 to 2018, with a sharp decline of 12.3 per cent (1 428.56kgs) in 2019 compared to 2018. Tellingly, gold deliveries to FPR are frequently quoted officially when productivity in the gold sector is being referred to, rather than actual gold production data[19]. Also records from the Chamber of Mines of Zimbabwe (CoMZ) on gold production by both primary producers and ASM matches FPR's gold delivery data[20]. In addition to gold production by LSM and ASM, platinum mines are also secondary producers of gold. In 2016, 2017 and 2018, gold from secondary producers amounted to 1 747kgs; 1 657kgs; and 1 766kgs respectively[21]. FPR gold delivery statistics, however, exclude gold from secondary producers.

It is noteworthy that every miner, according to Section 251 of the Mines and Minerals Act (Chapter 21:05), is required to submit monthly mineral production and details of mineral disposal returns to the Ministry of Mines and Mining Development (MMMD). Complying with this requirement might be easier for large-scale miners, despite the allegations of under-declaration of quantity and quality of

[19] Relevant government institutions involved in the mining sector like Ministry of Mines and Mining Development and the Zimbabwe National Statistics agency failed to provide data on gold production, even annual gold production data for large scale or primary producers during the course of the research. Interviews with an official from MMMD, Harare, 23 Sept 2020.
[20] Chamber of Mines of Zimbabwe, Annual Reports, 2016 to 2018.
[21] Chamber of Mines of Zimbabwe, Annual Reports, 2016 to 2018

mineral production – a major IFF risk associated with the mining sector[22]. That said, even official data on gold production from large-scale mining is not publicly available except for gold deliveries. Informality, which pervades the ASGM sector, makes record-keeping quite a difficult exercise[23]. Even if the record-keeping challenge was to be addressed, the sheer number of players and the illegality of the sector would overstretch the administrative capacities of MMMD[24].

"In Manicaland province alone, MMMD officials disclosed in September 2020 that they are handling more than 1000 applications for prospecting licences per week." CEO, ZMF

MMMD is also struggling to cope with the processing of mining titles, with some applicants in ASGM waiting for more than three years[25]. Monthly gold production returns submitted to MMMD by ASMers are not consistent and reliable. At its headquarters, MMMD does not rely on collating monthly production returns submitted to provincial offices, but works with data on gold deliveries to FPR[26]. ASMers are not happy with the distance and the cost of submitting monthly gold returns to provincial offices[27]. For instance, a miner in Mberengwa would have to travel around 400km to and fro to submit monthly gold returns to MMMD provincial offices in Gweru. Although there are penalties that miners are supposed to pay for each month if they default on submitting the returns, the amount for fines pegged in ZWL$ was heavily eroded by inflation and it is not deterrent enough – at ZWL$100, the fee is equivalent to US$1 at black market rates. It is not uncommon for ASMers to bring returns for 5 months at one time to MMMD and happily pay the fine for not submitting the returns on time[28]. Apart from informality challenges, the illicit gold trade is a critical component of ASGM. Operations are therefore shrouded in secrecy out of the desire to hide wealth and to smuggle gold out of the country.

"If I declare my full gold production, I will attract trouble from corrupt and greedy senior government officials and politicians. Issues like claim ownership disputes easily surface, violence and illegal mining activities can fester easily."[29]

[22] UNECA's Report of the HLP on IFFs out of Africa identified the natural resource sector in Africa, mining included, as the sector that is highly vulnerable to IFFs, and under-declaration of mineral production given as one of the major challenges.
[23] Interview with a leader of a local small-scale mining association, Mberengwa, 11 September 2020.
[24] Interview with ZMF CEO, Harare, 26 September 2020. [25] Interview with an ASMer, Mberengwa, 11 September 2020.
[26] Interview with a MMMD official, Harare, 23 September.
[27] Interview with an ASMer, Mberengwa, 11 September 2020.
[28] Interview with an official from MMMD, Harare, 23 September 2020.
[29] Interview with an ASMer, Zvishavane, 12 September 2020.

It is very difficult under such circumstances to come up with accurate estimates on gold production in ASGM. Other challenges associated with the estimation of ASGM production revolve around the nature of varied operations and the geological complexities involved. For instance, other than mining of reef gold, there is widespread use of gold detectors to discover alluvial gold nuggets in most parts of the country. It is important to raise a red flag on operations undertaken by ASMers using gold detectors; under Section 368 of the Mines and Minerals Act (Chapter 23:05) it is a criminal offence for anyone to search for gold without a valid prospector's licence. The result is widespread gold panning activities that make prediction of gold recoveries difficult.

"There are over 300 gold detectors used by ASMers in Zvishavane. Gold recoveries vary significantly per each daily shift. Sometimes we fail to get any gold, and at times we can get around 10 grams, if we are lucky one can recover more than 1 or 10 kgs of gold."[30]

There are frequent gold rushes recorded annually in Zimbabwe, with gold recoveries from such operations rarely filtering into the formal market because of illegality and criminality in the sector. Registered players in ASGM are the ones who try to comply with the requirements of submitting gold production and gold disposal returns to MMMD for the purpose of renewal of mining titles and to keep the prowling Gold Mobilisation Technical Committee (GMTC) off their backs. The alleged rent-seeking behaviour of GMTC was discussed earlier in this report. Even though some registered ASMers comply with the requirement to submit returns, there is massive under-declaration of gold produced and sold.

Box 1: Official declaration by ASMers

From several interviews conducted with ASMers, gold buyers, associations of ASMers and custom millers, registered ASMers are most likely to officially declare and officially sell 10 to 30 per cent of their produce to FPR. This can be helpful to deduce overall gold produced by registered ASMers at least because the official gold deliveries to FPR are publicly available.

Source: Interviews

[30] Interview with an ASMer, Zvishavane, 10 September 2020.

Considering that the number of registered ASMers, now around 40 000 according to ZMF, with around 1.5 million unregistered ASMers[31], reliance on official gold deliveries to FPR to compute gold leakages is minimalistic at best. Another huge disadvantage of using official gold deliveries as the basis for computing gold leakages is that, at one point, there were strong risks of recycling gold deliveries[32] – that is, buying and reselling of gold to FPR, a similar challenge to that confronted by the Grain Marketing Board (GMB). It is alleged that some unscrupulous senior Zanu-PF politicians would masquerade as millers. They would buy maize from the GMB at a subsidised price of $250 per tonne, repackage it, and resell the maize back to GMB at the market price of US$390 per tonne[33]. GMB is a state-owned enterprise (SOE) with a monopoly to buy and sell maize, just as FPR has a monopoly to buy and sell gold. As discussed later in this report, gold meant for value addition by jewellers was bought from FPR using Real Time Gross Settlement (RTGS). With few accountability mechanisms in place, there were arbitrage opportunities to buy and resell the gold back to FPR to earn US$, the profit being accrued from manipulating the skewed foreign exchange regime. Also, gold delivered to FPR classified as from ASMers might be from unauthorised persons[34]. This creates risks that gold from outside the country or from large-scale mining (LSM) might be presented as coming from ASGM.

The proliferation of unregistered small hammer and ball mills being used to process and recover gold at mine sites owned by ASMers has further complicated monitoring activities, thereby creating huge gaps for leakages[35]. There is an ongoing crackdown on "illegal mining activities" that is resulting in the indiscriminate confiscation of hammer and ball mills by ZRP as they are classified as illegal tools of trade. ZMF is fighting hard to ensure that ZRP does not confiscate registered hammer and ball mills. In addition, ZMF is encouraging its members to regularise self-gold-milling by registering their operations with MMMD[36]. In addition to the challenges posed by proliferation in the use of small hammer or ball mills, ZRP and FPR officials may be stationed at gold custom milling centres and gold elution plants, but they are poorly paid and can be easily be bribed to facilitate under-declaration of the gold produced[37].

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31 Interview with, ZMF official, Harare, 26 September 2020.
32 This arbitrage opportunity was confirmed by RBZ in its Monetary Policy Statement, February 2018; and the Midterm Monetary Review Statement, October,2018.
33 Blessed Mhlanga, 20 September 2017, Newsday, GMB faces a $280 million loss in looting scam, https://www.newsday.co.zw/2017/09/gmb-faces-280m-loss-looting-scam/
34 FPR introduced a measure to buy gold on a no questions asked basis as a way to decriminalise artisanal mining and to promote gold deliveries via official channels.
35 Interview with ZRP official, Zvishavane, 10 September 2020.
36 Interview with a ZMF official, 26 September 2020.

As alluded to earlier in this report, the illicit nature of ASGM obscures attempts to know exactly how much gold is produced and smuggled out of the country. There are varied estimates, which all point to the fact that illicit gold trade is huge in Zimbabwe. According to the current Minister of Home Affairs, Hon Kazembe, Zimbabwe is losing US$100 million dollars each month through gold smuggling[38]. This adds up to US$1.2 billion per year, a figure more or less equal to Zimbabwe's total gold export earnings; US$964 million and US$1.3 billion in 2019 and 2018 respectively.

4. Chaotic and inconsistent regulatory framework for buying, selling and marketing of gold

Gold trade in Zimbabwe is not liberalised. The Reserve Bank of Zimbabwe (RBZ) via Fidelity Printers and Refiners (FPR), enjoys a monopoly on buying, refining and exporting gold. The principal legislation governing the trade of gold in Zimbabwe is the Gold Trade Act [Chapter 21:03), which seeks primarily "…to prohibit the possession of gold by unauthorised persons and to regulate dealings in gold, and for other purposes connected with the foregoing." It is critical to note that the Act does not touch on issues to do with liberalisation or monopolisation of gold trade. However, in the past decade, Zimbabwe experienced a see-saw gold trade policy thrust, between liberalisation and a government monopoly. The Treasury made a policy U-turn on liberal trade of gold and subsequently granted a monopoly to FPR via RBZ starting 1 January 2014. At the same time as the gold trade monopoly was announced, an export ban on unrefined gold was announced. FPR resumed gold refining from 17 December 2017[39]. A further explanation was given by RBZ: the new gold trading framework would allow FPR to apply for accreditation with the London Bullion Market Association (LBMA) once they refined gold in excess of 10 tonnes per annum. The advantages of re-joining LBMA according to RBZ were that the country would be able to directly export its gold to the international market, build gold reserves, and rejuvenate its domestic jewellery industry[40]. Zimbabwe lost its LBMA accreditation in 2007 after gold refined by FPR fell below the minimum required threshold of 10 tonnes per annum.

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37 PACT and The Chamber of Mines of Zimbabwe, A Golden Opportunity: Scoping Study of Artisanal and Small Scale Gold Mining In Zimbabwe, June 2015 and Interview with a custom gold miller, Zvishavane, 11 September 2020.
38 Mashudu, Netisanda, 07 September 2020, Chronicle, US$100 million of gold smuggled outside Zimbabwe, https://www.chronicle.co.zw/us100-million-gold-smuggled-out-of-zimbabwe/
39 Treasury, 2014 National Budget Statement, page 172 – 173.
40 RBZ Monetary Policy Statement, January 2014, page 48.

Directly, FPR has buying offices in Harare and Bulawayo. However, its tentacles are spread in all towns located in (or in proximity to) gold-producing areas because of FPR's partnership with ZB bank, that utilises its banking halls for gold buying. On top of that, in towns and remote gold-producing areas, FPR has agents at corporate and individual level who are legally licenced to buy gold on its behalf. Such buying agents have set up bases for buying gold in towns, normally in residential areas, and other satellite bases exist in remote gold-producing areas.

A licenced gold buyer is authorised to work with 10 agents, although in practice corruption and payment of bribes doesn't limit the number of agents to 10.

For individuals or corporates to get a gold buying licence, the following requirements must be met; (a) police clearance for individual buyers and for company directors or agents; (b) propose under the current licence or make a commitment of gold quantity targets to be bought per month; (c) for companies, a company profile and directors' names and physical addresses; (d) passport size photo for the principal licence holder and company directors; and (e) current tax clearance certificate for companies. All custom millers are FPR gold buying agents in terms of section 3 of ***SI 178 of 2005***.

To plug gold leakages allegedly promoted by licenced gold buyers, FPR introduced a new requirement that all large gold buyers must be large-scale gold miners producing not less than 50kgs of fine gold per month. The purpose was to close the space for foreign gold buyers who only invested in gold buying and were being fingered for fuelling illicit gold trade. Because of the new changes, RBZ has now partnered with another major bank, Commercial Bank of Zimbabwe (CBZ), to buy gold from ASMers via Freda Rebecca, one of the largest gold mines in Zimbabwe.

Box 2: A case of an Australian Businessman

An Australian businessman with strong political connections and links to the ruling party, the Zimbabwe African National Union Patriotic Front (ZANU-PF)[41] has a long-standing history of buying gold in Zimbabwe as an agent of RBZ.

Whilst the government is engaging in sanctions-busting strategies, there are fears that this has also extended to evasion of paying debts securitised against earnings from the gold and platinum sector. An IMF report pointed out that gold proceeds from Zimbabwe to South Africa get to be divided between paying securitised debts and actual foreign currency flows back to Zimbabwe[42]. The Australian businessman is among the selected licenced gold buyers who are allegedly involved in illicit gold trade with the state's blessing to optimise the country's foreign currency earnings by evading loan repayments[43]. Due to the illicit nature of such operations, transparency and accountability mechanisms are very weak, so corruption festers easily. It is not clear when the businessman actually started to buy gold but his role as a gold buying agent is presumed to have probably started around 2006. A gold buyer in Zimbabwe is ordinarily required to provide the money to buy gold but it is alleged that the businessman gets cash from RBZ[44] – that he is given advance cash to buy gold by RBZ. Such allegations are not farfetched. At one-point a senior RBZ official was brought before the courts to answer charges of criminal abuse of office after he unfairly approved a higher US$ cash withdrawal limit for another prominent gold buyer, Suzan General Trading[45]. In an environment where liquidity is scarce, giving preferential cash withdrawal limits to gold buyers is tantamount to advancing them with float. At a time when daily cash withdrawal limits were pegged at US$10 000, Suzan General Trading was allowed a daily withdrawal limit of US$195 000.

As a gold buying agent of FPR, the businessman was accused of buying gold in US$ from ASMers at a time when his principal, RBZ, had foreign currency retention thresholds – splitting payments between foreign currency and US$. Obviously, this points to illicit gold trade because it makes no business sense to buy gold using cash in foreign currency, dispose the gold and give part payment in US$ and another part in local currency (RTGS). The businessman uses a vast network of gold buyers located in towns near where gold mining is taking place, Kadoma, Kwekwe, Zvishavane, Bulawayo and Gwanda, being among the most prominent ones.

Source: Interviews

[41] Interviews with a gold buyer and a journalist, Harare, 10 August 2020.

[42] IMF Country Report No 20/82, March 2020
[43] Interview with a journalist, Harare, 26 September 2020
[44] Interview with a gold buyer, 03 September 2020.
[45] Desmond Chingarande, 07 December 2018, Newsday, RBZ executive in the dock https://www.newsday.co.zw/2018/12/rbz-executive-in-the-dock/

4.1 The gold trading framework: a see-saw affair

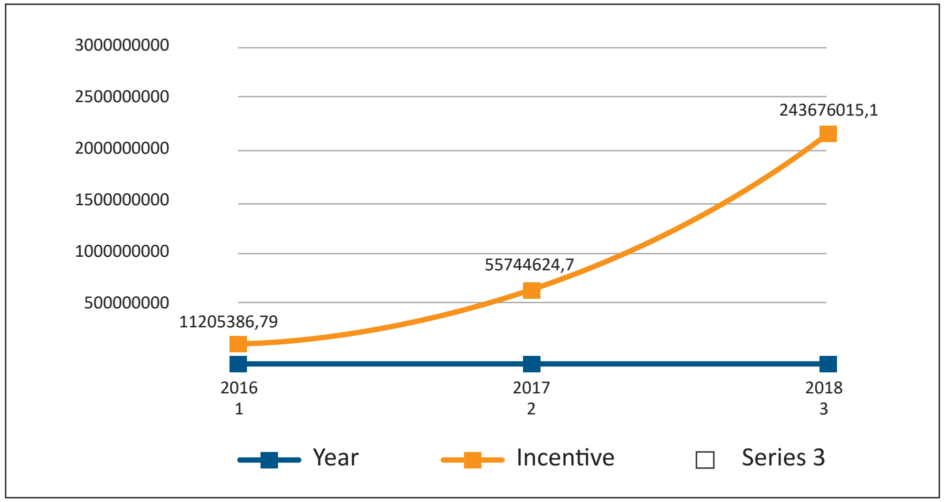
Policy inconsistencies are prevalent in mineral resource governance frameworks in Zimbabwe. The gold price framework has not been spared either. When FPR gained its monopoly on gold trade, it embarked on a charm drive by offering to transparently benchmark the price of gold with daily prices offered by the London Bullion Market Association (LBMA). Taking advantage of information and communication technologies (ICTs), FPR sent (and continues to send) daily text messages and WhatsApp messages on the price offered by LBMA and its buying prices. It was all rosy when the multi-currency regime was functioning well. Trouble started in May 2016 when foreign currency challenges forced government to introduce export incentives aimed at boosting gold production[46]. The incentives were backed by bond notes, a local pseudo-currency which was officially traded at par with the US$. Simultaneous with the introduction of export incentives was the local content requirement on foreign currency retention thresholds that were backed with incentives to favour gold producers.

As foreign currency challenges continued to worsen, the parallel market emerged, discounting the value of the bond note against the US$ contrary to the official position of one as to one.

Initially, large-scale gold producers and ASMers were required to retain, respectively, 30 and 70 per cent of their foreign currency earnings, the remainder being converted by RBZ to RTGS funds which were officially traded at par with US$. The foreign currency retention thresholds were then revised to 55 per cent, applicable to both large- and small-scale miners in February 2019[47]. In May 2020, FPR announced new retention thresholds in a bid to reverse the continued plunge of gold deliveries. Large-scale gold producers can now retain 70 per cent of their foreign currency earnings and ASMers can retain 100 per cent[48].

[46] https://www.rbz.co.zw/documents/publications/notices/notice-on-export-bonus-scheme-which-is-supported-by-bond-notes.pdf
[47] RBZ, Monetary Policy Statement, February 2019.
[48] https://www.zbcnews.co.zw/govt-introduces-a-new-gold-trading-framework-to-incentivise-gold-producers/

Figure 2: Gold export incentives: collateral damage outweighed benefits

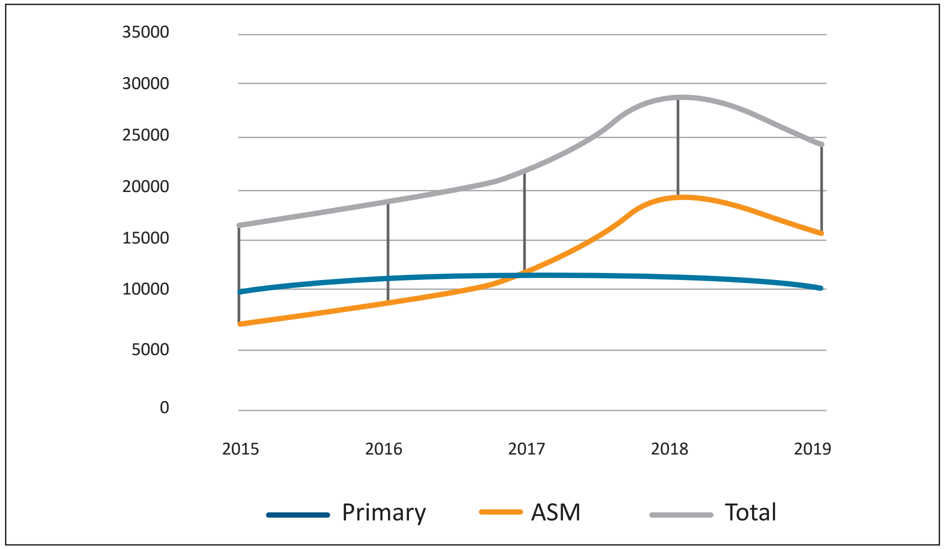


Source: Author, compiled from RBZ, midterm monetary policy statement, October, 2018, page 23

From the graph above, it can be seen that there was a massive year-on-year jump of gold incentives by 497.48 per cent to $55 744 624.70 in 2017 from $11 025 386.79 in 2016, followed by a 437.13 per cent spike from $55 744 624.70 in 2017 to $243 676 015.08 in 2018. Since the export incentives were introduced, among other objectives, to stimulate gold production, the relationship between export incentives and performance of gold deliveries to FPR deserves special interest over a similar period. Whilst the relationship between export incentive and gold deliveries is an important one to explore, we must not lose track of other important influencing factors. RBZ is on record as saying through its monetary policy statements (MPS) that, along with export incentives, the impact of GMTC and Gold Development Initiative Facility (GDIF) played a crucial role in boosting official gold deliveries.

4.2 Collateral damage of gold export incentives

Figure 3: Export incentive links to illicit gold inflows



Source: Author, compiled from RBZ's monetary policy statements

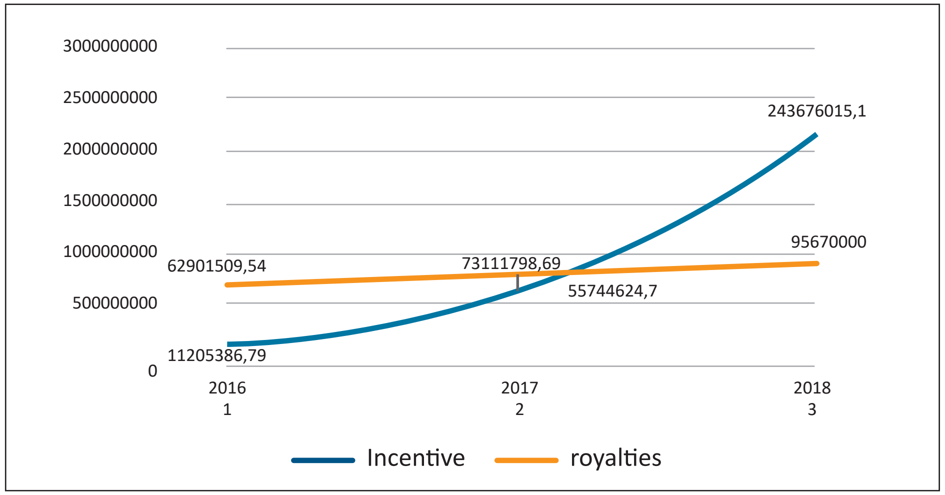
The graph above shows that total gold deliveries to FPR steadily increased between 2015 and 2017 and a spike in gold deliveries was experienced in 2018 before a plunge in 2019. Notably, the increase in gold deliveries to FPR coincided with the introduction and subsequent increase of gold export incentives that also rose sharply in 2018. However, when overall gold deliveries are dissected, the performance of primary producers was largely unresponsive, and a reverse situation happened to ASM gold deliveries. There is strong speculation that ASM gold deliveries were not stemming from a commensurate increase in gold production from the same sector.

One industry expert questioned why the increased gold deliveries from ASM were not resulting in commensurate economic spill-overs in ASM gold-producing communities. He alleged that the export incentives and foreign currency paid to ASMers on a no-questions-asked basis in Zimbabwe was attracting gold from the Democratic Republic of Congo (DRC)[49]. One of the media briefings from Caledo-

[49] Interview with industry expert, 07 September 2020.

nia, owners of one of the largest gold mines in Zimbabwe, Blanket mine (located in Gwanda, Matabeleland South), had resonance with the views expressed by the industry expert. Lamenting the loss of earnings from export incentives, an executive with Caledonia expressed the opinion that the export incentives were attracting illicit gold flows into the country (although the source was not specified).

Figure 4: Gold incentives an economic albatross



Source: Author, compiled from monetary policy statements and ZIMRA's annual revenue performance reports

Clearly, from the graph above, it can be discerned that export incentives linked to the gold sector outweighed the total royalties received from the entire mining sector in 2018 by 255 per cent. In 2017, the gold export incentives heavily discounted the total mineral royalties by 76 per cent, whilst in 2016 the export incentive discount to royalty stood at 18 per cent.

It is critical to highlight that mineral royalties are a reliable revenue stream for government, and government literally surrendered its right to collect royalties and in effect went on to subsidise the gold sector by shifting the tax burden unfairly onto citizens.

To paint a clearer picture of the development impact of gold export incentives, in 2018 the total export incentives were almost half of the total budget of US$486.6 million allocated to the health sector. The IMF lambasted government for reintroducing the gold export incentive scheme, which was not budgeted for and was a major contributor to inflation[50]. This analysis of the development impact of tax export incentives has focused on the gold sector because of the special interest this report has in gold, but export incentives were also awarded to other minerals.

4.3 Non-monetary incentives for ASMers to deliver gold to the formal market

In the bid to harness gold from artisanal and small-scale mining (ASM), the Treasury differentiated royalty obligations for large or primary gold producers and ASM[51]. Additionally, Treasury directed that ASM must be decriminalised to bring it into the mainstream economy. As a result, RBZ announced a measure to buy gold from ASM on a no-questions-asked basis in 2015, in line with the position adopted by Ministry of Finance and Economic Development (MoFED) to decriminalise artisanal gold mining[52].

Box 3: No-questions-asked basis

"Decriminalization of gold possession - In order to increase gold deliveries to Fidelity Printers and Refiners (FPR) from small scale and artisanal miners that have for a long time been disenfranchised due to the criminalization of many of their activities as a result of stringent laws, the Bank is putting in place the following measures which are compliant with the responsible gold trading scheme. i. Fidelity Printers and Refiners to buy gold from artisanal miners on a 'no questions asked basis' through mobile buying centres to be deployed across the country; ii. FPR to issue permits to buyers to cover mining areas that have high activity of artisanal miners; and iii. FPR, shall in the process, gradually develop a database and account for production by artisanal miners."

Source: RBZ, Monetary Policy Statement, January 2016, page 77

[50] IMF Country Report No 20/82, March 2020.

[51] The Treasury made an observation that ASM gold deliveries to the formal market was hampered by a huge royalty burden of 7 per cent, similar to what was being paid by large-scale gold producers. To address this challenge, gold deliveries from ASM for a maximum threshold of half a kg per month were to attract a 3 per cent royalty fee. Treasury, National Budget Statement, page 231.

[52] MoFED argued that decriminalising gold possession would allow artisanal mining to contribute to the economy formally by freely selling their gold to government, National Budget Statement, 2014, page 145

Buying gold on a no-questions-asked basis was, in fact, contrary to the requirements of the Gold Trade Act, Section 3, which prohibits possession and trade of gold if one is not a registered gold buyer, licensed, or an agent of authorised persons or entities.

IMF warned RBZ to guard against buying gold from unauthorised persons as such a practice was violating the Gold Trade Act.

After the move by FPR to buy gold on a no-questions-asked basis, on the ground, the Zimbabwe Republic Police (ZRP) continued to arrest artisanal and small-scale miners (ASMers) for not having the required legal permits to explore, mine and sell gold. It was not until 2017 when outreach visits were conducted jointly by RBZ, ZRP and Zimbabwe Miners Federation (ZMF) to ASM hotspots to assuage the fears of arrest by ASMers when trying to dispose of their gold on the formal market. This uneasy relationship persisted until January 2020 when ZRP announced a ban on illegal mining in response to machete gang violence in ASM communities.

4.3.1 Funnelling of LSM Gold as ASM To Gain Favourable Market Treatment

One prominent ASMer alleged that some large-scale gold miners were funnelling their gold, misrepresenting it as being from ASM, working in cahoots with some ASMers. Their motivation, it was alleged, was to gain favourable foreign currency retention thresholds and to attract a lower royalty fee of 1 per cent compared to at least 3 per cent paid by large-scale producers. This line of thought was partly corroborated by the Treasury when royalties for gold produced from ASM were raised to 2 per cent from 1 per cent to narrow arbitrage opportunities[53].

The fact that FPR was buying gold on a no-questions-asked basis to attract gold from ASMers raises the risks of traceability of gold, the know your client (KYC) rule critical to combat money laundering and terrorism financing. To complicate matters, gold production records for ASM kept by the Ministry of Mines and Mining Development (MMMD) are inaccurate, incomplete and not up to date. From an ASM gold production angle, therefore, without getting a fairly accurate picture of ASM gold from ASM, it is difficult to authoritatively conclude that ASM gold production increased sharply in Zimbabwe. Reliance on gold deliveries, as is cur-

[53] Treasury, Midterm Budget Statement, October 2019.

rently the case and which is not backed by the KYC rule, does very little to counter the argument that illicit gold flows into the country occurred.

Another issue is that in 2014 the Treasury categorised monthly gold deliveries below a half a kilogram of gold per month under small-scale production, to attract a royalty fee of 3 per cent which was further reduced to 1 per cent in 2016. Is FPR guided by this definition to classify gold deliveries, or can one bring gold deliveries above this threshold and still be classified under ASM? From interviews conducted with ASMers, it emerged that one can deliver well over 0.5kg per month and still get to be treated as a small-scale miner judging by foreign currency retention thresholds and royalty fees charged.

4.4. The jewellery industry and loopholes for illicit gold Trade

Government supports value addition in the gold sector, a policy position that stemmed from the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET), 2013-2018. Challenges though were encountered that pointed to illicit gold trade from the support framework of the domestic jewellery industry.

> Jewellers were allegedly buying gold from FPR using Real Time Gross Settlement (RTGS), and then selling back to FPR to get foreign currency[54].

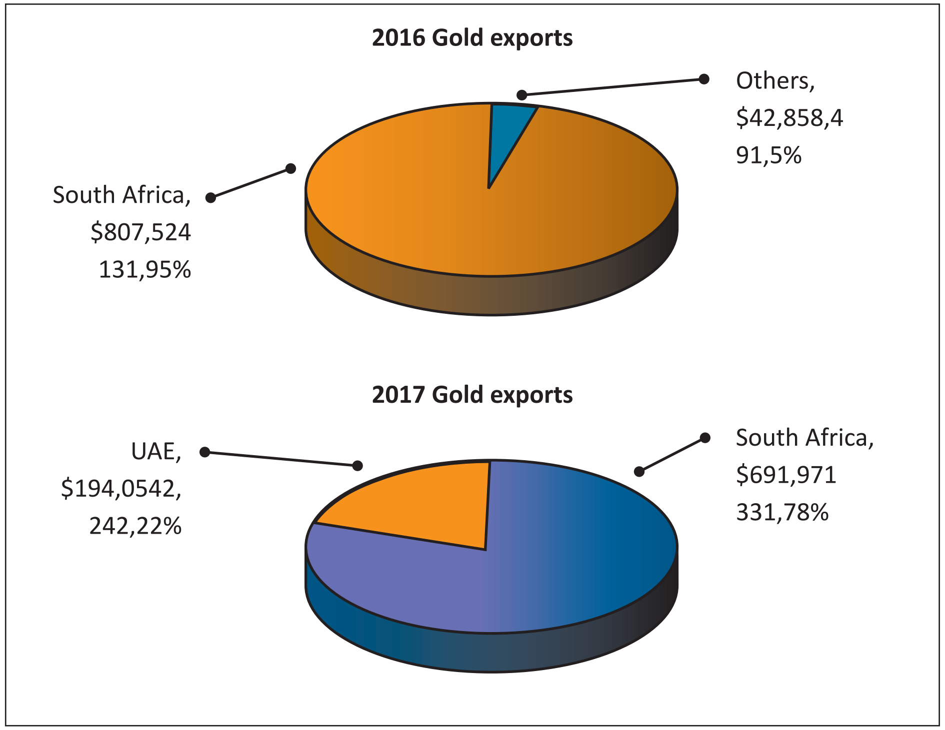
In short there were arbitrage opportunities for jewellers to manipulate the crooked currency regime as the RTGS that officially traded at par with the US$ was heavily discounted in the parallel market. RBZ gave hints of abuse by putting a cap on the gold availed to local jewellers and a proposal to safeguard the facility against abuse[55]. Another control measure put in place by RBZ was to direct jewellers targeting the export market to buy gold from FPR in foreign currency and then retain 100 per cent from the proceeds.[56] Prior to this, jewellers were retaining 35 per cent from their foreign currency earnings, with the rest transferred to RBZ to meet national requirements[57].

[54] Interview ZMF representative, Harare, 22 August 2020.
[55] Approved jewellery manufacturers were to be allocated by FPR not more than 3kgs of gold per quarter. RBZ, Monetary Policy Statement, February 2018, page 48.
[56] RBZ, Midterm Monetary Policy Statement, October 2018.
[57] RBZ, Midterm Monetary Policy Statement, October 2018, page 8.

4.5 New gold refining and export routes: the emergence of Dubai (UAE)

Although Zimbabwe has the capacity to refine its gold to a bullion status[58], FPR utilises the Rand Refinery of South Africa for that purpose. Zimbabwe officially exports its gold via South Africa's Rand Refinery. Thereafter, what happens is that the proceeds are split between paying securitised debts and foreign currency earnings flow back to Zimbabwe. However, the emergence of Dubai as a main gold export destination for Zimbabwe, one that also has approved bullion status refining capabilities, throws into doubt whether all gold exports from Zimbabwe are refined via the Rand Refinery.

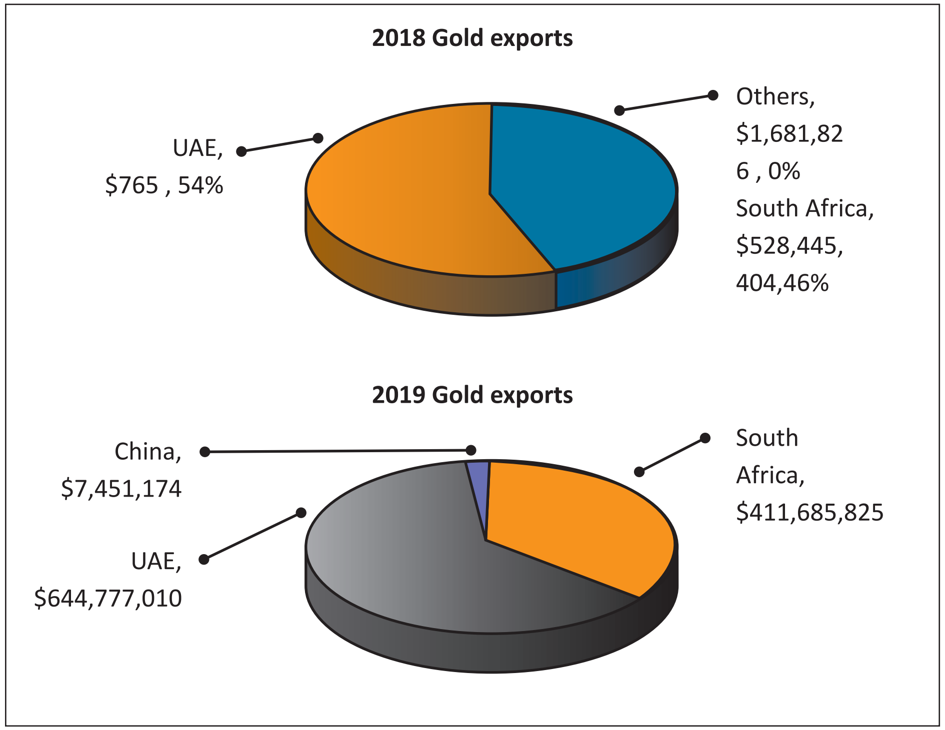
Figure 5: 2016 and 2017 Gold exports



Source: Author, compiled from Monetary Policy Statements

[58] FPR's website reveals the RBZ's subsidiary is able to refine gold to purities of 99.5% and above using various methods that include miller chlorination, electronic refining process, and Aqua regia refining process.

Figure 6: 2018 and 2019 Gold exports



Source: Author, compiled from Monetary Policy Statements

The above pie charts show that in 2016 South Africa was the dominant destination for Zimbabwe's gold with a 95 per cent share, whilst United Arab Emirates (UAE) had a meagre share of nearly 5 per cent among other gold export destinations. From 2016 to 2019, UAE's share as a destination of gold exports from Zimbabwe grew phenomenally, accounting respectively for: 22 per cent, 54 per cent and 61 per cent in 2017, 2018, and 2019. This period of growing prominence of UAE as a major gold export destination, surpassing South Africa in 2018 and 2019, coincided with the increased gold deliveries from ASMers, which surpassed gold deliveries from large-scale miners in 2017, 2018 and 2019. The trend is set to continue in 2020. Another interesting development is the change of government that took place in November 2017. There are strong allegations that the frequent travels by the president of Zimbabwe with his entourage using a jet hired from UAE, which is not searched, is an alleged risk to the smuggling of gold out of the country. The allegations appear not to be far off the mark, especially considering

that the president's cronies in politics and government (including Owen Muda Ncube, the Minister of State Security) are seen as key players in the gold sector.

5. Recommendations

- The parliament of Zimbabwe, and particularly the Parliamentary Portfolio Committees on Mining and Mining Development and the Budget Finance and Economic Development, must make a combined inquiry into illicit gold trade, to hold the executive accountable for illicit gold trade players who appear to be untouchable. Special focus must be on the jewellery industry and foreign gold buyers.

- The Zimbabwe Anti-Corruption Commission (ZACC) must take an active interest in curbing corruption and illicit gold trade, targeting public institutions like RBZ, FPR and MMMD, and gold buyers. Players in the ASGM feel unfairly targeted and not safe if they officially declare large gold production and sales volumes.

- MMMD must strengthen its capacity on record-keeping and collation of monthly gold production data from both LSM and ASGM operations, as required by the Mines and Minerals Act, rather than relying on gold delivery data from FPR.

- Gold incentives must be permanently abolished, and government must focus on fair payment for gold deliveries for competitiveness against the illicit gold trade

6. Conclusion

Getting a high-resolution picture of the illicit gold trade is, without doubt, a mountainous challenge. That said, nuggets of information are available for policy-makers to come up with well-sculptured policy measures to curb illicit gold trade in Zimbabwe. The culture of transparency and accountability must be fostered for a fighting chance against illicit gold trade. Government institutions involved in gold production and trade have lowered the bar for the illicit gold trade to flourish. It appears that policy-makers are aware of some of the key actors behind illicit gold trade, but tightening the noose around these illicit actors is proving to be elusive.

> At one point (in 2018), foreign gold buyers were lauded for increasing formal gold deliveries from ASGM, whilst they were also fingered for being involved in illicit gold trade.

Later on, government announced a new gold trading framework, which sought to weed out foreign gold buyers who were not heavily involved in gold production. For one to qualify as a large gold buyer, the bar was raised higher. Part of the requirements included monthly gold production of at least 50kgs of gold per month. Another red flag that RBZ raised (that has not led to bringing to book the culprits) involves the arbitrage opportunities exploited by actors in the jewellery industry. Jewellers once had the opportunity to buy gold in RTGS and sell the gold back to FPR to earn scarce US$, or to export jewellery, earn foreign currency, retain 35 per cent and surrender the rest to RBZ, making a huge profit in the process. Gold export incentives evidently had a huge collateral impact – illicit gold flows into the country, incentives outweighing tax revenue needed to finance development like royalties, and massive inflation. It is confounding that even the official data on gold production from LSM, and from the Chamber of Mines of Zimbabwe, refer to gold deliveries as production data. This lack of transparency and accountability creates huge opportunities for gold losses through under-declaration.

Whilst some of the challenges behind illicit gold trade are beyond government control, the picture painted above clearly shows that government can make huge progress to curb illicit gold trade through an enabling gold trading framework that is fair, stable, transparent and accountable.

SARW
Southern Africa Resource Watch

SARW Objectives

Monitor corporate and state conduct in the extraction and beneficiation of natural resources in Southern Africa, and assess to what extent these activities uplift the economic conditions of the region's communities.

- Generate and consolidate research and advocacy on natural resource extraction in Southern Africa.
- Create informed awareness of the specific dynamics of natural resources in Southern Africa, building a distinctive understanding of the regional geo-political dynamics of resource economics.
- Provide a platform of action, coordination and organisation for communities, activists, researchers, policy-makers, corporations, regional and global governing bodies in the watching and strengthening of corporate and state accountability in extractive industries.
- Engage with and support government on building accountable and transparent management of extractive resources.
- Build capacity for communities, civil society, parliaments, and media to hold governments and corporations to account, and to participate in decisions about resource management.
- Advocate and promote human rights and environmental protection in resource extraction activities.
- Support efforts to legislate mandatory public disclosure of and access to financial, social, environmental and regulatory compliance information in the extractives industry.
- Promote extractive industries that create wealth for local communities.

Southern Africa Resource Watch
1st Floor, President Place
1 Hood Avenue / 148 Jan Smuts Avenue (Corner Bolton Road)
Rosebank, Johannesburg 2001
South Africa

+27 (0) 11 587 5026
info.sarwatch@sarwatch.org

www.sarwatch.org

In partnership with
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