

ISSUE PAPER: MINING SECTOR ILLICIT FINANCIAL FLOWS (IFFS); A focus on Manicaland Province

SEPTEMBER 2024



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INTRODUCTION

The Issue Paper on Mining Sector Illicit Financial Flows (IFFs) in Manicaland Province, Zimbabwe, aims to address the concerns regarding the impact of IFFs on local communities and economic development in the mining sector. The paper will analyse the socio-economic implications of IFFs, highlight the opportunity costs of excluding local mining activities from development plans, and provide recommendations for policymakers and sub-national authorities to promote transparency and accountability in the mining sector. The document focuses on existing literature and case studies, shedding light on corruption, tax evasion, and regulatory capture within the mining industry, specifically in Manicaland Province.

Background and context

The mining sector plays a crucial role in the economy of Manicaland Province, Zimbabwe. However, concerns have been raised regarding illicit financial flows (IFFs) and their impact on local communities and economic development. Corruption and illicit financial flows have significant and far-reaching effects on the mining sector, undermining transparency and accountability. This allows for the misrepresentation of financial information and tax evasion, resulting in substantial revenue losses for the government and negatively impacting public services and economic development. Illicit financial flows further exacerbate the situation by diverting valuable resources from the country, reducing investment in essential sectors such as education, healthcare, and infrastructure. These activities perpetuate inequality and hinder long-term sustainable development. Additionally, the mining sector, pivotal to Mutare's economy, faces severe consequences as corrupt practices and illicit financial flows deter much-needed investment and tarnish the sector's reputation, ultimately hampering its ability to contribute positively to the country's economic growth and stability.

The increase in diamond production by the Zimbabwe Consolidated Diamond Company (ZCDC) suggests potential growth in the country's diamond industry. This could positively affect Zimbabwe's economy, including increased revenue from diamond sales, job creation, and community development where these operations occur. However, community members and civil society conclude that the operations of the diamond company fall short of operating ethically and transparently to avoid issues such as resource exploitation and environmental concerns.

The other diamond company in Manicaland is Anjin. Anjin is embarking on a re-building exercise after its operations were disrupted in February 2016. The company resumed on-site operations in 2020, and from January to December 2020, it produced 724 497.92 carats. For 2021, the company did not produce anything and was focused more on exploration activities. However, the company can produce 7 million carats annually at its peak³. On the other hand, there is Alrosa, which has yet to commence production but has been actively involved in exploration work in the Chipinge and Bubi Districts at the time of the issue paper.

The smuggling of diamonds is a common occurrence in the area. The communities in the mining area note that diamond panners usually operate at night, and the diamonds are allegedly smuggled through the Mozambican corridor. Members of civil society indicated that this was orchestrated by a well-known syndicate operating in Mutare, and the police were called upon to apprehend the syndicate. The situation is complicated because Zimbabwean law does not recognise artisanal diamond mining.

Within the gold sector, a key area in Manicaland is Penhalonga. Gold mining has been carried out around Penhalonga for a considerable period, and the Mutare River ('river of metals') that flows down from the Penhalonga Valley has rich alluvial gold in its gravel beds. There is plenty of evidence of ancient alluvial gold workings along the Mutare and its tributaries, the Imbeza and Tsambe Rivers.

In the Penhalonga area, a key mining player is the King's Daughter Mine, a subsidiary of Metallon Gold, the largest mining company in the area. The company has both underground operations and surface sand/slime retreatment operations. It uses cyanide in its gold-processing operations. The other major company, DTZ-Ozgeo – a joint venture between the Development Trust of Zimbabwe and Russia's Econedra – was forced by the Environmental Management Agency (EMA) to stop its operations in 2013, due to an outcry from us regarding the environmental catastrophe it was causing along Mutare River⁴.

In addition to the large-scale mining operations, numerous small-scale miners are from outside the community in Penhalonga. Several mills in the area use mercury and cyanide to recover gold. The rise in small-scale miners has increased conflicts between miners and farmers because of encroachment into the farming lands.

OVERVIEW OF THE MINING SECTOR IN MANICALAND PROVINCE

Description of the mining industry

According to GlobalData, Zimbabwe was the world's seventh-largest producer of diamonds in 2023, with output up by 15% in 2022. Over the five years to 2022, production from Zimbabwe increased by a CAGR of 0.49% and is expected to drop by a CAGR of 1.25% between 2023 and 2027¹.

For 2020, the Zimbabwe Consolidated Diamond Company (ZCDC), which operates in the Marange in the Manicaland province, produced 1 375 455 carats of diamonds. Production increased during the first half of 2021, with production levels yielding 1 410 570 carats of diamonds. By the 30th of November 2021, ZCDC had produced 3 691,731 carats².

1 <https://www.mining-technology.com/data-insights/diamond-in-zimbabwe/?cf-view>
2 Parliament of Zimbabwe (2022) Report of The Portfolio Committee On Mines And Mining Development On A Self-Assessment Of The Diamond Sector In Zimbabwe

3 Parliament of Zimbabwe (2022) Report Of The Portfolio Committee On Mines And Mining Development On A Self-Assessment Of The Diamond Sector In Zimbabwe
4 Centre for Natural Resources Governance CNRG (2018). Penhalonga and Tsvingwe Community Protocol 2018

UNDERSTANDING ILLICIT FINANCIAL FLOWS (IFFS)

Definition and types of IFFs in the mining sector

IFFs in the mining sector refer to money that is illegally earned, transferred, or utilised. These flows often involve tax evasion, corruption, bribery, smuggling, and criminal activities. IFFs can have severe implications for the economy and local communities, undermining economic stability, hindering development efforts, and negatively impacting financial systems. Addressing IFFs involves enhancing transparency, strengthening financial regulations, and promoting international cooperation to prevent illicit activities. Factors contributing to IFFs in the mining sector include lack of transparency in financial transactions, weak regulatory frameworks, and corruption and bribery.

Implications of IFFs on the economy and local communities

The impact of illicit financial flows (IFFs) on mining communities is multifaceted. Economically, IFFs can result in a loss of potential revenue for local businesses, reduced investment in infrastructure, and limited access to essential services. Socially, these flows may exacerbate inequality, contribute to social unrest, and weaken community cohesion. Environmental implications include ecosystem damage, pollution, and inadequate ecological management practices.

The concept of Illicit Financial Flows (IFFs) can be illustrated using the example of cattle theft. When a villager steals cattle from another and keeps them within the village, the total number of cattle remains the same, but wealth distribution becomes unfair and unequal within the village. If the stolen cattle are transferred to another village, the original village experiences a decrease in the number of cattle, leading to the unjust distribution of wealth not only within the village but also with other villages that benefit from the stolen cattle.

The consequences of these actions extend beyond just the loss of cattle. They lead to reduced farming capabilities during droughts, loss of important manure and organic fertilizers for agriculture, diminished collateral, decreased future heifer and calf production, increased insecurity and instability in the village, and various other challenges. This movement of capital across borders is critical in defining IFFs, much like stolen cattle being transferred to different villages. If the losses are contained within the same village, it is considered corruption rather than IFFs.

From the illustration above, Illicit financial flows have significant implications for community development. They exacerbate inequality and hinder economic progress by depriving communities of vital resources. Reduced farming capabilities, loss of agricultural resources, and increased insecurity can impede the growth of rural economies and perpetuate poverty. Additionally, IFFs undermine the stability of financial systems and weaken the capacity of governments to provide essential services and invest in public infrastructure. Addressing illicit financial flows is crucial for fostering sustainable development, promoting economic stability, and reducing poverty. Addressing IFFs in the mining sector requires a comprehensive approach. This involves strengthening regulatory frameworks at national and international levels, implementing mechanisms to ensure transparency and accountability in financial transactions, and fostering collaboration between government, industry, and civil society. By doing so, we can work towards mitigating the adverse effects of IFFs and promoting sustainable development within mining communities.

According to a ZIMCODD report ⁵, illicit financial flows (IFFs) have three main implications. First, they stifle Zimbabwe's socio-economic development by hindering progress in social and economic aspects, leading to a majority of people remaining in poverty. Second, IFFs undermine political institutions, weakening public institutions and domestic private sector development. Third, IFFs also undermine political institutions, resulting in their weakening.

The Case of Manicaland Province

In discussing illicit financial flows in Manicaland Province, a classic case is the televised interview on the eve of his 92nd birthday on 28 February 2016, when the then President of Zimbabwe, Robert Mugabe, publicly admitted that \$15 billion was looted from diamond revenue by mining companies since their discovery in Manicaland province in 2008.

President Robert Mugabe's admission that \$15 billion from diamond revenue in Manicaland Province was looted has significant implications (although it was later disputed as not being an admission). It highlights the extent of illicit financial flows and corruption within the mining industry. This revelation raises questions about the accountability and transparency of mining companies operating in the region and the government's oversight of natural resource revenues. Additionally, it underscores the need for stronger regulations, anti-corruption measures, and transparent governance to prevent such large-scale financial misconduct.

More recently, a report by the parliament of Zimbabwe (2022)⁶ noted allegations that members of the security services deployed in Marange were involved in corrupt activities; after that, they took bribes to facilitate the illegal panning of diamonds during the night.

Shumba (2016) ⁷ unearthed the issue in a chapter in his thesis on Marange Diamonds and Militarised Accumulation. In his thesis, he points out that the military's participation in diamond mining has been central and has compromised transparency and accountability and facilitated corrupt activities under the "protection" of the security services. He mentioned, "There were soon allegations that soldiers, too, were digging in the secured zone..."⁸

Contrary to the richness of the province, a USAID (2020) report⁹ notes that the situation in the province has left some households in a state of poverty. During focus group discussions (FGDs), participants indicated that they use a variety of indicators to assess poverty at the community level. These indicators include the Lack of access to food to feed the household adequately, Absence of kraal or fowl run at poor people's homes due to the lack of livestock (both large and small stock, including chickens), Children not attending school, Wearing torn clothes without shoes, Living in dilapidated houses with insufficient accommodation, Household members of different sexes sleeping in one room, which serves multiple purposes, and Presence of widows, orphans, elderly, disabled, and the chronically sick.

5 ZIMCODD (Year Unknown) Community voices on illicit financial outflows

6 Parliament of Zimbabwe (2022) Report Of The Portfolio Committee On Mines And Mining Development On A Self-Assessment Of The Diamond Sector In Zimbabwe

7 Shumba J (2016) Zimbabwe's Predatory State: Party, Military and Business Complex. University of Witwatersrand

8 Ibid p.g 136

9 Chingarande et al. 2020. Zimbabwe Market Study: Manicaland Province Report. Research Technical Assistance Center: Washington, DC.

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AND THE INTERNET.**

To further profile the challenges communities of this resource-rich province are facing, it's important to consider some of the issues raised by communities in Marange and Arda. These include the need for written agreements for the relocation program, which makes it difficult to hold companies accountable for unpaid compensation. They also highlighted insecurity about the future in Arda Transau due to the need for title deeds for houses, limited access to basic amenities, and housing repairs needed. There is also a shortage of essential facilities and a need for vocational training in Chirasika, Arda Transau. The failure of ZCDC and Anjin to fulfil corporate social responsibility programs and concerns about their limited engagement with the community was also mentioned. The communities also complained about the erosion of funds meant for the Community Share Ownership Trust (CSOT) and the need for an audit to account for all disbursed funds. They also expressed concerns about a change of chieftainship and allegations of corrupt activities in the mining concessions of Chiadzwa. Finally, they noted reports of decreased human rights abuses but expressed concerns about restricted freedom of movement due to security presence in the area.

The Rimbi Community in Chipinge expressed concerns about Alosa Private Limited's exploration activities in their area. They felt that the company did not comply with the country's laws and failed to engage the community and local government authorities adequately. They emphasised the need for involvement from the beginning as per the Mines and Minerals Act. Alosa assured that they adhere to international best practices and will apply these principles in Zimbabwe once mining operations begin.

According to CRD ¹⁰, The alluvial mining by DTZ-OZGEO has completely destroyed the local ecosystem of the Mutare River and has potential to affect the local hydrology. Small-scale miners have also contributed towards this in no small measure with hill slopes traversed by deep trenches that cause tremendous erosion into Mutare River. In addition the water contamination by the acid drain from the mine dumps at Redwing Mine should also be considered. Members of the community did not consider degradation by small-scale miners and gold panners as environmental degradation because it was done in pursuit of livelihood and that at Redwing because the mining has not affected them.

FACTORS CONTRIBUTING TO IFFS IN THE MINING SECTOR

Lack of transparency in financial transactions

Manicaland diamond mining is known historically for its secrecy and inability to make information publicly accessible. In 2013, the MDC-T Finance Minister in the coalition government complained that diamond mining companies were not paying enough tax to the treasury, while Anjin had not paid anything since it began trading ¹¹. This has been the story of diamond mining.

The lack of transparency in the diamond mining sector has been sustained by the involvement of security services as explained above. According to Global Witness ¹², Secret documents indicated that the CIO is believed to have a stake in a Marange diamond mining company, Kusena Diamonds.

10 Centre for Research and Development (CRD) (date unknown) Socio-Economic and Environmental Impacts of Gold Mining with Examples from Penhalonga Manicaland Province Zimbabwe
11 Centre for Research and Development, Workshop, 6 May, 2013
12 <https://www.globalwitness.org/en/press-releases/zimbabwes-vast-diamond-riches-exploited-secretive-political-and-military-elites-report-shows/>

The company's diamonds have been traded in Antwerp and Dubai, circulating freely on international markets despite the risk they may have funded human rights violations. This may continue, with the company now merging into the new, government-backed mining company, Zimbabwe Consolidated Diamond Company (ZCDC).

The report further noted that Zimbabwe's military partnered with a Chinese investor to establish a diamond mining company called Anjin Mining. Evidence indicates Anjin's diamonds were likely sold in Antwerp in violation of European Union sanctions against another company's owners, linked to the Zimbabwe military. Mbada Diamonds held the most significant concession in Marange, yet the owner of a 25% stake in the company has remained a secret.

The involvement of security services in the mining sector can impact transparency and accountability. While they play a role in protecting operations, their activities may lack transparency, making it challenging to monitor the environmental and social impacts. Additionally, their presence can be associated with human rights abuses and conflicts with local communities, eroding trust within the sector. Collaboration and adherence to human rights principles are essential to ensure security measures do not compromise transparency and accountability.

Weak regulatory framework

The regulatory framework in Zimbabwe's mining sector is currently weak, leading to significant challenges such as tax evasion, concealment, misrepresentation, fraud, and illicit financial flows. This weak framework allows for corruption to thrive, undermining transparency and accountability in the sector. The lack of robust regulations and monitoring mechanisms has enabled unscrupulous activities, resulting in substantial revenue losses for the government. Addressing this issue requires implementing and enforcing more stringent regulatory and enforcement mechanisms, promoting transparency and accountability in financial systems, and strengthening legal enforcement and penalties for engaging in corrupt activities.

Additionally, there is a need for independent auditing of financial records, technology for transparent resource tracking, and establishing a whistleblower protection program to combat corruption and illicit financial flows effectively. Strengthening the regulatory framework is crucial for Zimbabwe's sustainable development, economic prosperity, and the well-being of its citizens.

Corruption and bribery

Prusa (2023)¹³ makes some critical observations citing various sources on corruption in Zimbabwe, including the fact that public and private sector corruption is endemic and systemic. The data shows corruption severely undermines public service delivery and hamstringing all state functions. The IMF (2022, p.20)¹⁴ concluded in the country's periodic assessment that "Zimbabwe's institutional weaknesses have jeopardised growth and social outcomes and contributed to fragility".

The Zimbabwean government's assessment acknowledges public service incapacitation due to corruption. The 2021-25 National Development Strategy (NDS) identifies high levels of corruption and low citizen participation in democratic and governance processes as major factors behind the poor-quality delivery of public services (Republic of Zimbabwe 2020, p.21)¹⁵.

13 Vaclav Prusa (2023) Corruption and anti-corruption efforts in Zimbabwe: Tracking developments and progress
14 IMF. 2022. Zimbabwe: 2022 article iv consultation-press release; staff report; and statement by the executive director for Zimbabwe (imf.org)
15 Republic of Zimbabwe. 2020. National development strategy 2021-2025. Harare.

CURRENT ISSUES THAT INCREASE THE RISK PROFILE FOR IFFS

The Parliament of Zimbabwe's 2022 self-assessment revealed some important key findings for this issue paper. The report indicated that ZIMRA officials at Forbes Border Post were trained on the KPCS requirements, but other agencies, such as the Immigration Department, had not gone through the same training. Additionally, border officials highlighted that they were not trained to identify the features of a diamond. To address this gap, MMCZ indicated that it intends to post some of its officials at the border posts.

Furthermore, Forbes Border Post and Robert Gabriel Mugabe International Airport did not have scanners to detect diamonds and other precious minerals. The Airport Authority informed the Committee that plans were underway to purchase the appropriate scanners in 2022.

Forbes Border Post had yet to record any official export of diamonds to other countries. All the diamonds were being exported through the Robert Gabriel Mugabe International Airport. Additionally, Forbes Border Post officials were unaware of the features of an export certificate used in diamond trading. The customs officials requested that MMCZ supply them with a copy so that officials would not be caught off-guard if diamonds were exported or imported through that border.

Moreover, the security personnel at the Forbes Border Post indicated that they had not recorded any incidents of diamonds being smuggled from that gateway. ZIMRA officials at Robert Gabriel Mugabe International Airport also requested KPCS officials to train them to identify tampering of diamond seals.

Lastly, the authorities at Robert Gabriel Mugabe International Airport highlighted that the facility and infrastructure, including the security system, were being upgraded to curb the smuggling of diamonds and other precious metals.

The findings from the Parliament of Zimbabwe's 2022 self-assessment have significant implications for Illicit Financial Flows (IFFs). The lack of training for officials from various agencies, such as the Immigration Department and border security personnel, on identifying and monitoring the trade of diamonds could potentially lead to loopholes and vulnerabilities that can be exploited for illicit financial activities.

The absence of scanners at Forbes Border Post and Robert Gabriel Mugabe International Airport to detect diamonds and other precious minerals poses a significant risk for potential smuggling activities, which could contribute to IFFs. The fact that all diamonds are being exported through the airport, with no official exports recorded at the border post, raises concerns about the transparency and monitoring of the diamond trade, which could facilitate illicit financial flows.

Furthermore, the lack of awareness among border officials about the features of an export certificate used in diamond trading and the need for training to identify tampering of diamond seals at the airport indicates a gap in the enforcement and oversight of diamond exports, creating opportunities for illicit financial activities.

The ongoing upgrades to the facility and infrastructure, including the security system at Robert Gabriel Mugabe International Airport, are positive steps toward addressing

these vulnerabilities. However, it is essential for comprehensive training, coordination among agencies, and the implementation of robust monitoring mechanisms to effectively combat the potential for Illicit Financial Flows related to diamond trading in Zimbabwe.

KEY CONCLUSIONS

The Issue paper can summarise the key conclusions as follows:

- I. Illicit financial flows (IFFs) significantly impact local communities and economic development in the mining sector in Manicaland Province, Zimbabwe.
- II. Excluding local mining activities from development plans results in opportunity costs that hinder the province's overall progress.
- III. Corruption, tax evasion, and regulatory capture pose severe challenges within the mining industry, particularly in Manicaland Province.
- IV. The smuggling of diamonds and the lack of recognition for artisanal diamond mining are significant concerns that must be addressed to combat illicit activities in the sector.

RECOMMENDATIONS

Strengthening regulatory framework

Based on the information provided in the Issue Paper, it is clear that there is a need to strengthen the regulatory framework in the mining sector. Here are some recommendations to achieve this:

- **Enhance Transparency:** Implement measures to ensure all mining companies operating in Manicaland Province are transparent in their financial transactions and disclose information regarding their revenues, taxes paid, and production volumes.
- **Strengthen Oversight:** Establish a robust oversight mechanism to monitor and regulate mining activities, including regular inspections, audits, and enforcement of compliance with environmental and labour regulations.
- **Establishing clear regulations and legal frameworks** to recognize and regulate artisanal diamond mining, thus bringing informal mining activities into the formal sector and subjecting them to oversight and taxation.
- **Combat Smuggling:** Take decisive action to address the issue of diamond smuggling by strengthening border controls, collaborating with neighbouring countries to prevent illicit cross-border trade, and cracking down on syndicates involved in illegal activities.
- **Capacity Building:** Provide training and resources to regulatory agencies and law enforcement to enhance their capacity to enforce regulations and combat illicit financial flows effectively.
- **Legislative Reforms:** Review and update existing mining laws and regulations to close loopholes allowing illicit financial flows and ensure that the legal framework aligns with international best practices.

Improving transparency and accountability

To enhance transparency and accountability, the issue paper recommends:

- Implementing strict monitoring and enforcement mechanisms to prevent the smuggling of diamonds and other precious minerals. This could involve increasing surveillance and law enforcement efforts to deter illegal activities.
- Enhancing collaboration between government authorities, mining companies, and civil society to address corruption, bribery, and embezzlement within the mining industry. This could involve establishing channels for reporting and addressing instances of corruption and ensuring accountability for those involved.
- Strengthening community engagement and participation in decision-making processes related to mining activities. This could include creating platforms for local communities to voice their concerns, participate in benefit-sharing agreements, and hold mining companies accountable for their social and environmental responsibilities.
- Improving transparency in revenue management and financial reporting within the mining sector. This could involve implementing measures to ensure that mining companies accurately report their revenues and pay their fair share of taxes and royalties to the government.
- Independent Oversight: Establish independent oversight mechanisms, such as anti-corruption bodies or independent auditors, to monitor financial transactions, contracts, and compliance with regulations within the mining sector. This can help identify and prevent potential avenues for illicit financial flows. Zimbabwe would benefit from a mechanism such as the Extractives Industry Transparency Initiative (EITI)

CONCLUSION

The mining sector in Manicaland Province, Zimbabwe, especially in diamond and gold mining, was expected to have a crucial role in the economy and community development. Illicit financial flows (IFFs) have significantly hurt local communities and economic development, including corruption, tax evasion, and regulatory capture within the mining industry. To tackle these challenges, policymakers and subnational authorities must promote transparency and accountability in the mining sector through effective policies and frameworks. Community engagement and involvement in local mining activities are crucial for sustainable development and to mitigate the adverse effects of IFFs. The recommendations provided in the issue paper aim to improve transparency, accountability, and community engagement in the mining sector, ultimately contributing to the socio-economic development of Manicaland Province and Zimbabwe.







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