OVERVIEW

Zimbabwe's mining industry comprise of a diverse range of small to medium scale mining operations. The most important minerals produced by Zimbabwe include gold, asbestos, platinum, chromite, coal and base metals. The mining industry contributes approximately 8% towards the country's GDP. The Zimbabwean mining industry accounts for between 35 – 45% of the country's foreign earnings

Due to the general small scale nature of mining activities in Zimbabwe, there is AN estimated 100 – 300 000 informal miners active throughout Zimbabwe. The volatile commodity prices have had an adverse effect on these small-scale operations and as a result several operations have closed down. 35 different metals and minerals are produced, with the formal mining industry employing some 57 000 people although there have been significant job losses as a result of low commodity prices.

The country is facing its worst economic challenges since independence in 1980. Potential and continuing foreign investment is unlikely to come to Zimbabwe in the foreseeable future. The mining industry has also suffered due to shortages of diesel although the supply has improved significantly in the past three months.

Most of Zimbabwe is covered by Archaean granite greenstone terranes, which contain most of Zimbabwe's gold and diamonds. Chromite and platinum group elements are hosted within the Great Dyke, a massive intrusive body that has similarities to the Bushveld Igneous Complex in South Africa. Proterozoic and Karoo age formations occur in the northwest of the country hosting base metals, tin and coal.

Recognizing that there are mineral resources that can be worked profitably by small-scale workers, the Government has put in place facilities that are geared towards the development of this sub-sector, which in turn would yield great benefits in terms of employment creation, alleviation of the social and financial status of indigenous Zimbabweans.

The Mines and Minerals Act was enacted in 1961 and a number of amendments have been made since then. All minerals are vested in the President and one requires rights to work mineral deposits through an application to the Mining Commissioner. Mining activity is open to both local and foreign individuals and companies.

RISK AND MITIGATION

There are several risks inherent in the operations of the mining industry. Some of the risks are specific to tributors whilst others cover the whole spectrum of mining in Zimbabwe. Some of the risks associated with lending to this industry are listed below. This list however, is not exhaustive and hence individual project appraisals will cover them when applications are made.

International Commodity Prices: - The prices of commodities are determined on the international markets of which the local producers have no significant influence over. A fall in the prices may render mining activities unviable ventures, which may result in closure. A thorough analysis of the products and markets would need to be done at project/loan appraisal stage to ascertain the levels of risk associated to commodity markets and prices.

Management Risk: – Most of the tributor operations are one man or family ventures without the requisite skills depth. The risks associated with such operations include lack of succession planning, financial management skills, record keeping and adequate capitalization to acquire the necessary equipment.

Labour: – Adequate financial resources are also a constraint for the small-scale mining operations to retain skilled manpower. This hinders their operations from realizing the full potential of their claims. Linked to resources is also lack of transport or prohibiting transportation costs for small-scale mining operations.

Unique Risk – Most of the small-scale mining operations are dependent on one product line and when the product is not fetching the right prices, the mining operations will be in distress. This is further compounded by the fact that these prices are exogenously determined. Since mines are price takers, they are vulnerable to the fluctuations in the international commodity prices making planning difficult.

Foreign Exchange Regulations: - Since miners are exporters, the exchange rate or exchange regulation like the foreign currency retention policy has a direct bearing on the profitability of mining operations.

Seasonal: - Most small-scale mines are seasonal in their operations. Most of the mines are open cast and as such, are closed during rainy seasons. The miners do not have the equipment to drain the water, which would have filled their open cast mines and will have to wait for the end of the rainy season. This would make it impossible for such operations to amortise their loans on a monthly basis. The structure of these loans will therefore have to be in line with this consideration.

Risk Mitigation

- Gold, chrome and platinum has a ready market. Chrome and platinum are marketed through mining houses like Zimasco, Zimalloys and Zimplats. These products would need to be processed before being delivered to their markets and these are marketed only through MMCZ. Side marketing is eliminated, as the tributors do not have the facilities to process the chrome or platinum. The bigger mining houses thus provide a ready market for the tributors.
- The lending to groups of tributors or co-operatives would help in improving the skills base and continuity of the operations. It would however be best to register these small-scale miners as companies to ensure continuity.
- Working with the ZMF to determine creditworthiness and eligibility of applicants. ZMF could also be engaged in recovery.
- Record keeping and financial management would also be a prerequisite for future lending. Beneficiaries will be required to adopt it.

SECURITY

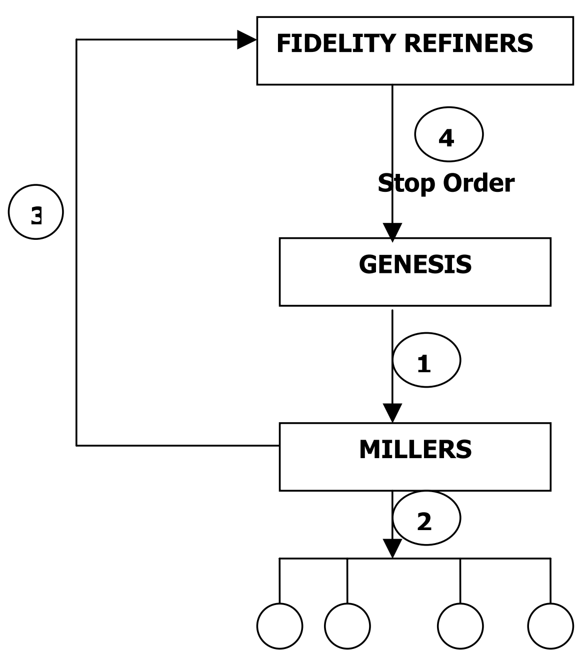
- Specific Bonds (NGCB)
- Power of Attorney to pass bonds
- Mortgage Bonds
- Cession of Insurance Policies and Book Debts
- Lien over cash balances
- Lien over foreign currency balances

INNOVATIVE FINANCING SCHEMES BY GENESIS

In line with Genesis vision of being a specialist bank, we have designed some structures for financing mining activities in Zimbabwe. Mining is a growth sector with the main minerals targeted for financing being gold, platinum and chrome. These minerals are prime foreign currency earners and their prices on the international commodities markets are firming. This sector is important to the economy for its foreign currency earning capacity, which is the reason why Genesis should play a leading role as a financier. The relationship is structured in a way that the Bank handles the export proceeds or importation for the projects it would have funded.

There are two broad phases, which we have designed for the purpose of financing mining activities. The first one, is for working capital finance only. this will be the basis for monitoring performance and establishing track record for use in lobbying the Government, the Reserve Bank and any other source of cheap finance. The second phase, the bank would finance millers for their capital expenditure requirements. The equipment acquired from this would then benefit the small-scale miners, as they would be able to access this equipment through hiring. "Tributor Financing" is the second structure, which is suitable for chrome, and platinum miners, where the bank would avail loans to the Mining House's approved tributors. The mining house in this instance would also serve as a collection agency for the bank.

B. SCHEMATIC: MILLER FINANCING



SMALL SCALE MINERS

C. MECHANICS

1. Genesis grants loans to millers who are developed miners under the normal lending terms and conditions of the Bank.

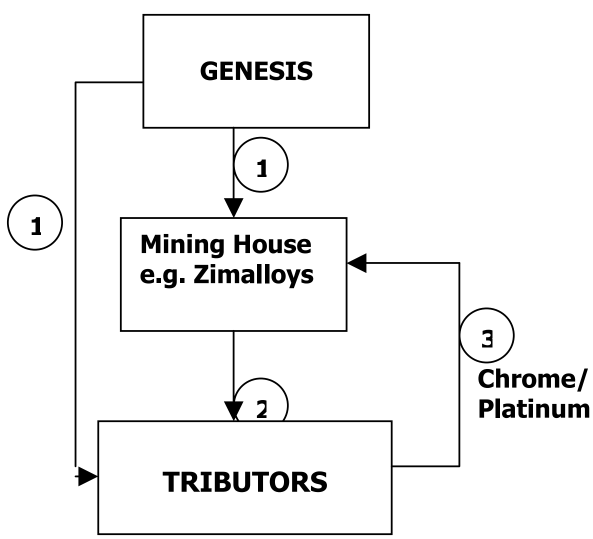
2. The millers buy equipment like excavators and compressors, which they then lease, to the small-scale miners. The small-scale miners will deliver the gold to the respective millers for sale.

3. The miller delivers the gold to Fidelity for sale.

4. Genesis will have a stop order arrangement with Fidelity for the purposes of recovering the funds lent. The bank will pass on the net proceeds to the miller after deducting its repayments.

   The tenure of the loans to the millers would have to be long term as they are for capital expenditure.

D. SCHEMATIC: TRIBUTOR FINANCING



E. MECHANICS

1. Genesis advances loans either directly to the tributors or to the Mining house for on lending to the tributors.

2. Where Genesis would have lent to the mining house, the mining house on lends to the tributors.

3. The tributors, under either arrangement, delivers the product to the mining house for processing and selling.

4. The mining house, acting as a collection agent, pays the installments due to Genesis and passes on the net proceeds to the tributors (miners).

F. <u>KEY SUCCESS FACTORS</u>

The following are important determinants for successful financing of mining operations in Zimbabwe:

- **Pricing** – The interest rate would have to be reasonably low as input costs are substantial since most of the miners have to hire most of the equipment they use.
- **Productive Capacity** – Most of the mining operations in Zimbabwe are small scale and as such do not have the capacity to fully utilize the machinery used in mining activities. It is because of this that the concept of group lending becomes attractive. Lending to Groups with "joint and several liability" forces the group members to "monitor their neighbours" and report poor performers and defectors (otherwise the entire group is excluded from the list of future beneficiaries). The bank will also benefit from working with mining houses as these have all the information on the tributors.
- **Zimbabwe Mining Federation (ZMF)** – ZMF will have to act as an enforcer to ensure that the eligible tributors are creditworthy. The ZMF membership would have to be a prerequisite for consideration for these loans.
- **Monitoring** – The institution of an effective monitoring process is critical for the success of the programme.
- **Fidelity Refiners –** The establishment of a stop order agreement with Fidelity Refiners would also go a long way in hedging against default risk.

DISBURSEMENT AND RECOVERY MECHANISMS

The mechanisms for disbursement and collection will depend on the level at which the financing facilities are extended. Primary level financing is that of Genesis to the Mining Houses. Secondary level financing is that of the bank directly to the tributors or small-scale miners. However because of the levels of risks associated with the tributors, the Bank will only lend to those tributors approved of by the mining house. The loans will be appraised just like all other loans and go through the Credit Committee. The marketing agent either Fidelity Refiners in the case of gold or MMCZ with the other minerals plays a vital part in the recovery process. The loans are to be disbursed by paying directly to the suppliers.

RESOURCES

The bank has identified a specialist to run with this portfolio. This specialist will be housed in the Corporate Banking department where support services will be availed to him.

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