The Impact of Dollarisation on the Gold Mining Sector of Zimbabwe

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INTRODUCTION

Since the adoption of the multi-currency system, many mining companies in Zimbabwe’s gold mining sector have embarked on a number of programmes, amongst them the acquisition of capital equipment to replace the outdated equipment that was in operation or that had ceased operation, aimed at recapitalising the sector, and downsizing and retrenchment to reduce operational costs. The period after dollarisation to mid-2016 emphasized that the measurement and analysis of the mining companies performance was crucial for the continuity and major decision making in the mining sector. Measuring performance enables firms to understand the factors that affect their organisations’ operations (positively or negatively) and this allows companies to evaluate whether there is value creation in the entire process. Therefore the motivation of this chapter is to analyze the impact of dollarisation on the gold mining sector in Zimbabwe.

The new era after dollarisation has seen organisations making out capital expenditure either to replace outdated machinery inherited from the pre-independence era or equipment for expansion to meet the greater demand for local products (Hopkins, 2010). Mining companies (e.g. Zimplats), organisations in the telecommunications sector (e.g. Econet) and the beverages industry (e.g. Delta) have been involved in multi-million dollar capital outlays to enhance capacity and realise economic gains in the more stable environment compared to yesteryears. Currently, the local gold mining companies face operational challenges due to high production costs related to antiquated plant and equipment, power shortages, and lack of working capital, among others (Hanke, 2008). The loss of skills and the lagging behind of training institutions has exacerbated the labour market.

According to Robertson (2010), the Zimbabwean gold mining sector has been operating below capacity, with CZI (2015) disclosing capacity utilisation levels of 34.3 percent as of October 2015. CZI (2015) goes on further to say this has been as a result of ageing equipment, liquidity challenges, high labour costs and unreliable and erratic water and electricity supplies and with unemployment levels as high at above 80 percent. The tight liquidity situation in the economy has also resulted in banks taking advantage to quote punitive short-term interest rates of up to 30 percent, which has discouraged most firms from borrowing. With antiquated...
production equipment, local companies have failed to produce at low cost or to compete with low priced gold supply by other countries (Hanke, 2008).

The mining sector is a potential engine for Zimbabwe's economic growth strategy because it can employ more than 50 percent of the total labour force according to Bloch (2010) and the sector formally employed 46,000 in 2012, according to the Chamber of Mines (2013). This is far too low compared to the 65,000 in the 1997/98 economic peak (Chamber of Mines, 2010). The revitalisation of the mining sector through the acquisition of new plant and equipment will result in an improvement in the Gross Domestic Product (GDP) and thus increase the wealth of both the country and those of its citizens through enhanced living standards (Robertson, 2010). This will also facilitate the country to export which will therefore develop our balance of payments (BOP) which has been aggravated during the hyper-inflationary era. Due to escalating costs of production, adverse operating circumstances over the years and reduction in the market for products as a result of high levels of unemployment, low incomes and government policy, Zimbabwe has been experiencing de-industrialisation over the past years (Hanke, 2010). Therefore with numerous companies having moved to neighbouring countries (such as South Africa) and most mining operations closed, there is need to examine the effect of dollarisation on the gold mining sector of Zimbabwe.

The mining sector has the potential and the prospective to develop economic growth and add value. According to the Chamber of Mines (2013), the mining sector has connection with different sectors of the economy consisting of small and medium industries, manufacturing, construction and infrastructure. Mining is the major beneficiary of foreign direct investment (FDI) and it currently accounts for nearly 65 percent of exports, up from 50 percent in 2009 (Chamber of Mines, 2013,) and 48.6 percent in 2008, compared to the average of 20 percent before 2000 (Chamber of Mines, 2010). The mining sector has however been operating below capacity. Its GDP contribution for the period 2009 to 2011 averaged 4.2 percent, compared to a peak of 13.3 percent in 2008 (Chamber of Mines, 2010). Twisted macroeconomic policies including extensive periods of overrated exchange rate and unsustainable foreign exchange surrender needs at 75 percent, pessimistically influence investment in the mining sector. Production fell significantly in the period 1996-2009 specifically for gold mining.

**GOLD MINING IN ZIMBABWE**

Progressive policies have changed the production value chain in mining and different sectors of the economy since 2009. The cumulative impact of the decade long unfavourable economic policies had an effect on the economy and the mining sector specifically has to be put into consideration. The mining sector in Zimbabwe was already deteriorating since 2000 and it was withered by the hyperinflation resulting in nearly all mines under care and maintenance by 2008 (RBZ, 2009). Thus mines were left in arrears and significantly undercapitalised with progression in working capital diminution.

The export sectors, for example, experienced tremendous surrender needs since 1997 as for the gold subsector, accounting for nearly half of the mining sector (57
percent in 1993-2003 and 24 percent in 2004-2011), the surrender needs were 100 percent (RBZ, 2012). According to the Chamber of Mines (2010), the gold sector got local currency equivalency at a fixed rate of ZW$55 per US dollar in 2000. Mining houses experienced parallel market cost for inputs at 1.5 times the revenue within the same year. Input costs for mining houses had increased in 2002 as far as 27 times alongside enduring revenue flows at the 2000 exchange rate level. Most mines with high cash cost per ounce closed. Most of the mines that were in operation managed to do so through huge cuts in machinery replacement and observing severe working capital budgets, wilted increasingly by the unalleviated hyperinflation and mines still need to improve from these effects.

Investments in the gold sector placed the Zimbabwean economy in the top three in Africa and top ten in the world until around 2000 (Saunders, 2008). Although the gold mining industry endured a decade long of underinvestment (utilising 25 percent of the total deposits) as the economic crisis took a toll on the mining sector, investment changed the situation. The massive expansion programmes and recapitalisation have resulted in the acquisition of new plant and machinery, the embankment of new capital projects. The gold mining sector received above $100 million FDI from Canada, UK, South Africa and Australia between 1991 and 1999 (SADC, 2002). Since then, the foreign mining investors have been involved in mergers and acquisitions rather than new projects. The adoption of the multi-currency system generally brought with it real and perceived benefits for most economic sectors in the country including the mining sector. Some researches and presentations have been done regarding the multi-currency system in Zimbabwe, probably due to the fact that it is the regime that rescued the country from the world record galloping inflation or as a result of the continued debates on the benefits of the multi-currency system. Research by Noko (2011), particularly centred on the financial sector; Chikoko (2014) on the impact of dollarisation and the lack of liquidity by commercial banks and the IMF (2010) on Zimbabwe’s challenges and policy options after the hyperinflationary environment. The Zimbabwe Chamber of Mines (2010) also authored some papers on the effect of dollarisation on the mining sector as a whole. Whether or not the dollarisation has improved the performance of the gold mining sector remains a grey area. Although gold is one of the major contributors to the mining sector, little has been done, academically, to test or ascertain the effect of dollarisation on this precious yellow metal, thus motivating this research. Given the above background, the main objective of the chapter is to make an assessment of the impact of dollarisation on the gold mining sector of Zimbabwe.

**METHODOLOGY**

Quantitative and qualitative methods were utilised in this chapter to assess the impact levels of the multi-currency system on the general performance of the gold mining sector, the mining sector, regulatory context, market price fluctuations and contribution to the Zimbabwean economy. The authors used the quantitative method to examine the levels of mining exports, output and employment and assess influence against overall mining sector performance before and after the multi-currency system. The qualitative feature concentrated on attitudes, opinions
and the understanding of the model on mining policies, regulatory context and societal benefits from relevant institutions and/or groups including the Mineral Marketing Corporation of Zimbabwe (MMCZ), gold mining companies, the Zimbabwe Mining Development Company (ZMDC), Zimbabwe Investment Authority (ZIA) and the Chamber of Mines.

The chapter sampled 140 individuals (aiming for a response rate of at least 55 percent to keep the sample statistically significant and large). The interviewees included mine managers, geologists, miners, a representative from the Chamber of Mines Zimbabwe, and a representative from Ministry of Mines and Mineral Development. The interviewed people were concentrated in Harare and some from gold mining areas such as Shamva, Chinhoyi and Kwekwe. In this chapter, the sample quality, not quantity, ascertain the quality of outcomes. The chosen participants (gold mines, mining associated firms and policy makers) supplied research information through utilising questionnaires. Ten year period (five years before and five years after dollarisation) information directed towards gold mining and mining sector development indicators was sampled and collected.

The analysis employed a mix of convenience, cluster and stratified random sampling techniques in order to provide for various gold mining firms in different places under different categories and other mining stakeholders. The convenient sampling technique was also utilised for this purpose as only those mines available and within the area accessible to the researcher and from which reasonable response was expected. To some extent snowballing was used especially to cover the informal sector of makorokoza (individuals who do not have proper authorisation documents such as permits, hence their gold mining activities are considered illegal). Due to the nature of their operations, they were not comfortable to be identified. As such, the leader of the group volunteered to administer the questionnaire to his colleagues on behalf of the research team.

**FINDINGS**

Out of 140 questionnaires distributed, 80 were returned, with the majority coming from the large scale miners. There were people from various categories who completed the questionnaires and according to the responses given by the respondents, 15 percent were small scale miners, 62.5 percent were large scale miners, 5 percent were policy makers and 17.5 percent were from specialist organisations (such as Chamber of Mines Zimbabwe, service providers/suppliers). Thus the majority of the respondents were from large scale miners and the minority were policy makers.

The chapter findings are hinged on four areas in which dollarisation impacted on the gold mining sector and these are (i) sector growth; (ii) gold production, (iii) gold exports and (iv) sector employment.

**Impact of dollarisation on gold sector growth**

The respondents were asked whether there has been growth (as measured by changes in output in consecutive years) in the gold mining sector since the introduction of dollarisation. The results are represented by Figure 12.1. It shows that 2.5 percent
of the respondents were not sure whether there was a positive growth or not, 5 percent indicated no growth, 80 percent stated a positive growth in the sector but contrary to that was a 12.5 percent indicating a negative growth. Majority of the respondents stated that there was positive growth in the gold mining sector.

The responses from interviews were confirmed by actual gold production growth rate data from formal sources as depicted in Figure 12.2. During the period 2000 to 2009, there were continuous annual declines in growth rate of the gold sector, with the exception of the year 2005. In 2008 the drop in the growth rate was recorded at minus 38 percent, as it coincided with peak inflation and political instability in Zimbabwe. Thus, before dollarisation the average percent of the growth rate in the gold mining sector was minus 10 percent.

Figure 12.1: Respondents’ perception of impact of dollarisation on gold sector growth

![Pie chart showing respondents' perception of impact of dollarisation on gold sector growth](image)

Source: Survey

Although the country dollarised in 2009, growth rate was also negative to the tune of minus 49 percent in that year. This mainly comes from the lag effects of dollarisation, where although dollarisation stated in February 2009, its impact on mining activities such as investment and eventual production output took time to be felt. As such, positive growth was witnessed from 2010 to 2013, before dropping to minus 5 percent in 2014. The drop in growth rate can be linked to lag political factors. In 2013, the tenure for the Government of National Unity (GNU) came to an end and elections took place, ushering a new government. After dollarisation there was an overall annual percentage growth rate of 21 percent. Thus with the introduction of dollarisation the growth rate of the gold mining sector went up.
The Impact of Dollarisation on Zimbabwe

Sources: Chamber of Mines, and Reserve Bank of Zimbabwe

Impact of dollarisation on gold production

The impact of dollarisation on gold production is shown in Figure 12.3. What is clear is that for the period 2000 to 2008, production activities as measured in kilogrammes were on a decline (with the exception of the year 2005). For instance in 2000, the country produced slightly above 22,000 kilogrammes of gold and by end of 2008, the production figure was down to 7,000 kilogrammes. The picture changed for a positive trend after dollarisation. Output increased from a low value of 3,579 kilogrammes in 2009 to the peak of 14,733 kilogrammes in 2013 before declining slightly to close at 14,000 kilogrammes in 2014. This positive and appealing trajectory in gold production is evidence of, among others, the impact of dollarisation.

Overall, it can be concluded that dollarisation has positively impacted on gold production output as seen by the increase in gold production tonnage from 3,579 kilogrammes in 2009 (the year of dollarisation) to 14,000 kilogrammes by end of 2014.

Impact of dollarisation on gold exports

Publicly available export figures for gold (Figure 12.4) show that although the value of gold exports were US$3 million in 2001, it then rose to US$221 million in

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2 Given that the results from the survey only show trends for the interviewed companies, and not a national picture, this sub-section used national figures from secondary sources.

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2002 before declining to just US$8 million by end of 2008. In average terms, the country was exporting an annual average of $106 million worth of gold between 2001 and 2008. However, after dollarisation, the export trend started on a rising trend, which saw the country’s gold exports rising from $102 million in 2009 to
the peak of US$625 million in 2013 before slightly declining to US$533 million in 2014. In average terms, the country was exporting around US$393 worth of gold exports annually between 2009 and 2014.

Overall, it can be concluded that dollarisation has positively impacted on gold exports given that exports rose from $102 million in 2009 to $533 million by end of 2014.

**Gold mining sector contribution to formal employment**

Primary data was collected to get responses regarding the impact of dollarisation on employment levels in the gold sector. The results are depicted by Figure 12.5, which shows that 5 percent of the respondents were unsure whether the gold mining sector had helped improve employment in Zimbabwe or not. 10 percent of the respondents disagreed that the gold mining sector had helped improve employment in Zimbabwe, 57.5 percent of the respondents agreed that the gold mining sector had helped improve employment in Zimbabwe and 27.5 percent of the respondents strongly agreed that the gold mining sector had helped improve employment in Zimbabwe. A majority representative of the respondents were in agreement that gold mining sector helped to improve employment in Zimbabwe.

The perceptions of the respondents regarding the positive contribution of the gold sector to employment in Zimbabwe are confirmed by existing formal data. Figure 12.6 shows that formal employment in gold production activities was averaging around 38,561 annually between 2004 and 2008. However, after dollarisation in 2009, the formal employment figures in the sector started to increase. In 2009, a total of 33,300 people were formally employed in gold mining activities, and the figure increased to 46,000 by end of 2014.

**Figure 12.5: Responses’ perception on gold mining’s contribution to employment**

Source: Survey

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1 These figures include only formal employment offered by registered firms. Given that it is estimated that there are more than 500,000 thousand individual gold miners (makorokozva) dotted throughout the country, the actual contribution of the sector to overall employment is very large.
Overall, both primary and secondary data confirm improved employment level as shown in both Figures 12.5 and 12.6. Thus, it can be concluded that dollarisation positively boosted employment in the gold sector as shown by the growth in numbers of those formally employed in the same sector from 33,300 in 2009 to 46,000 by end of 2014.

**Figure 12.6: Direct gold sector employment**

![Graph showing direct gold sector employment from 2004 to 2013](image)

*Sources: Chamber of Mines, and Reserve Bank of Zimbabwe*

**Benefits of using multi-currency in the gold mining sector**

The chapter also managed to determine whether there were benefits of using the multi-currency system in the gold mining system. From the above arguments of improved growth rates, improved gold production and improved employment levels and the primary data gathered depicted in Figure 12.7, shows that 100 percent of the respondents agreed with the notion that the gold mining sector benefited since the introduction of the multi-currency system. Thus all respondents indicated that the introduction of dollarisation had benefits to the gold mining sector. Dollarisation made procurement of inputs easier and convenient. It reduced transaction costs as there was no currency conversion if gold miners wanted to import inputs and raw materials. Dollarisation reduced brain drain from the mining sector as wages and salaries were now paid in a stable currency.
CONCLUSIONS

The objective of the chapter was to establish the impact of dollarisation on gold mining in Zimbabwe. The major conclusions are summarised in Table 12.1. Overall, both information collected from field surveys from key informants in the gold sector, as well as secondary data confirm the fact that dollarisation affected the performance of the gold mining activities in a number of areas. Tabulated summarised figures show that the annual growth rate of the gold mining sector averaged around minus 10 percent between 2000 and 2008. However, after the introduction of dollarisation in 2009, the average growth rate rose to 21 percent till the end of 2014.

Table 12.1: Annual average gold sector performance before and after dollarisation

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth rate (%)</th>
<th>Production output (kgs)</th>
<th>Employment</th>
<th>Exports (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>After dollarisation (2009-2014)</td>
<td>21%</td>
<td>14,938</td>
<td>38,600</td>
<td>106</td>
</tr>
</tbody>
</table>

Source: Author summary

Formal gold sector employment which averaged 36,561 between 2004 and 2008 increased to annual average of 43,200 after the introduction of dollarisation between 2009 and 2014. The same positive growth trend was witnessed in the annual gold exports which increased from an annual average of $106 million between 2001 and 2008 to a higher annual figure of $393 million between 2009 and 2014.
REFERENCES


Hopkins, I. (2010). Why Zimbabwe is one of the world’s least free countries. Cato Institute.
