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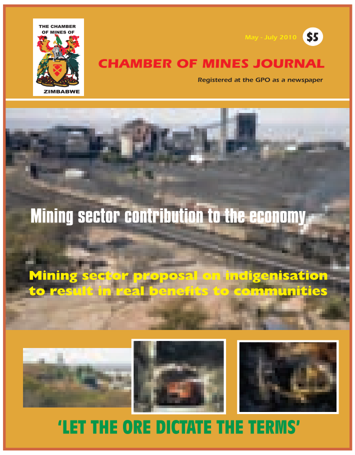

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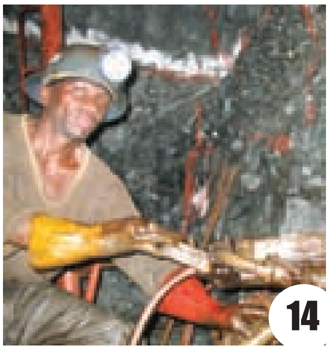
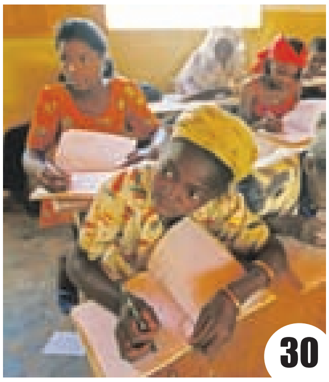
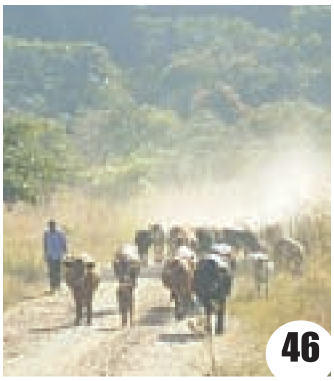






ABOUT THE CHAMBER OF MINES OF ZIMBABWE (COMZ)

The Chamber of Mines of Zimbabwe (COMZ) is a private sector voluntary organization established in 1939. Its members include mining companies, suppliers of machinery, spare parts, and chemicals, service providers including banks, insurance companies, consulting engineers and various mining related professional bodies as well as individuals. The member mining companies of the COMZ produce about 90 percent of Zimbabwe's total mineral output.

The activities of the COMZ are guided by its constitution and strategic plan, with the primary objectives being to advocate and lobby in order to promote, encourage and protect the interests of the mining sector, and to encourage the growth of the mining industry in Zimbabwe. In so doing, activities are concentrated in the fields of economic policy, mining sector policy, investment promotion, labour and industrial relations, legal matters related to the industry, representation of the views of the industry to Government and other stakeholders, and the provision of a variety of services aimed at promoting health and safety, manpower training, environmental protection and the support of mining associations.

Many advisory and service functions that are best handled on a cooperative basis are undertaken under the COMZ banner on behalf of the mining industry.

Governance

The policy making body of the COMZ is the Council which must meet at least once a year, immediately before the Annual General Meeting. Policy and the general running of the affairs of COMZ are the responsibility of the Executive Committee which is appointed by the Council. The Executive Committee is headed by office bearers consisting of President, Senior Vice-president, Junior Vice-president, and immediate past President. The implementation organ is the COMZ Secretariat headed by a Chief Executive Officer.

Membership and Funding

Membership of the Chamber is open to every company or body, or individual, interested in the mining or processing of minerals or in the exploration for minerals, or anyone who shares an interest related to mining. The Chamber of Mines is funded entirely by subscriptions from its members, the amount of the subscription being based on the class of membership in which a member is placed.

2010 First Quarter Review and a Glance At The Future

ZIMBABWE'S economic activity remained sluggish across most sectors of the economy constrained by several intertwined factors that combined to negatively impact on recovery. The factors impinging on recovery include:

- Electricity supply interruptions to productive sectors of the economy
- Dearth of working capital or funds for recapitalization
- Additional uncertainty due to promulgation of the indigenisation law
- Punitive costs of domestic borrowing

Thus, the pace of economic recovery continues unevenly, with the food and beverages sub-sectors experiencing much more visible capacity utilization, estimated to be in excess of 60%. Generally, most sectors are experiencing capacity utilization levels ranging between 30 and 40%. The constrained domestic borrowing environment coupled with high interest rates, continues to negatively impact on both working capital and capitalization efforts.

Inflation Developments and Outlook

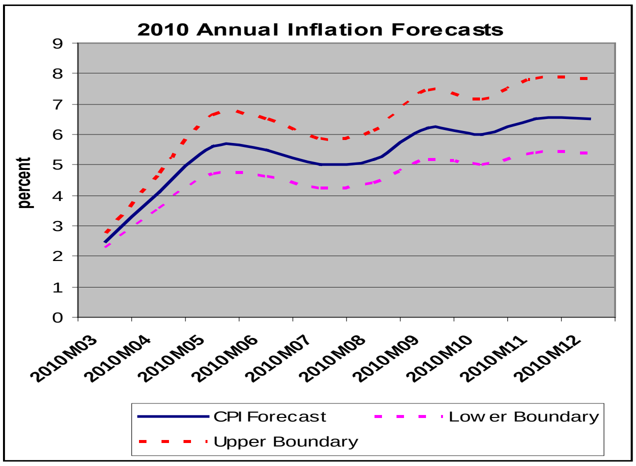
The economy is emerging from the deflation that immediately accompanied the official introduction of the use of multi currencies in February 2009.

The introduction of multi currencies effectively ended the hyperinflation era that had been triggered by the excessive printing of money by the Central Bank.

The immediate post hyperinflation era was characterized by deflation as prices realigned and successive negative inflation was recorded over the five months from January to May 2009. Subsequently, month-on-month inflation recovered into positive territory, rising to 0.5% by December 2009. Domestic price declines in 2009 were also reinforced by the removal of duty on all food imports and the subsequent avalanche of food imports, mainly from South Africa and Botswana. The annual inflation rate was — 7.8% in December 2009, reflecting the strength of the deflation that occurred at the beginning of the year.

During the 2010 first quarter, inflation resurged, albeit at low levels. The future direction of month-on-month and annual inflation will be conditional on several interrelated domestic and exogenous factors, particularly trends in international food and oil prices. The table below shows actual and our forecast inflation up to December 2010.

The graph below shows inflation forecasts, upper and lower boundaries.



Headline inflation is forecast to end 2010 around 6.5%, with an upper and lower end of about 7.8% and 5.4% respectively.

Headline inflation trends outside these ranges have a low probability, unless unanticipated domestic or international developments trigger significant price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build ups in the economy. However, the economy has upside risks of inflation, through factors such as low aggregate demand and greater domestic competitive trends have so far countervailed any visible upward drift in prices. The pace of price formation in 2010 is likely to be influenced by the following factors:

- Wage adjustments;
- Productivity Gains;
- Domestic costs of borrowing;
- Increases in capacity utilization;
- Domestic and international food prices;
- International oil prices;
- Duty on Food Imports; and
- The status of the South African Rand vis a vis the United States dollar

Anticipated wage adjustments in January 2010, in part fuelled price increases during the first quarter, particularly food prices. Productivity gains remain low across most sectors, hence the need to align wage adjustments with productivity.

Domestic borrowing costs remain high with interest rates for short term borrowing (less than 3 months) varying between 15 to 40% per annum for most banks. High interest rates impact on working capital and financing costs, firm order book and inventory cycles. Firms are constrained to keep short inventory cycles and hence amplified variation in prices as new stocks potentially incorporate price adjustments.

Increases in capacity utilization imply that fixed costs are spread over increasing output, lowering per unit costs, moderating upward price pressures.

Food price developments have the potential to increase the risk of inflation, particularly in the light of evident cereal deficit in the country. Domestic food price pressures could however, be moderated by imports from surrounding countries in the region, provided grain surpluses obtain in the region.

International oil price pressures have subsided considerably over the past 12 months, and there is no evidence of imminent resurgence.

Government review of duty on food imports would impact on inflation. As is most likely, basic foodstuffs are likely to remain duty free as the economy

grapples with persistent food deficits.

Economic Activity

The economy is projected to record positive growth for the second successive year. Overall economic growth is forecast at about 5.5% for the year. Recovery, however, remains fragile across all sectors, hamstrung by several factors, as highlighted before. Constrained electricity supply, as well as financing challenges have combined to impact on firms' capacity to expand production. For instance, most mines recorded an average of 250 hours of power cuts during the quarter.

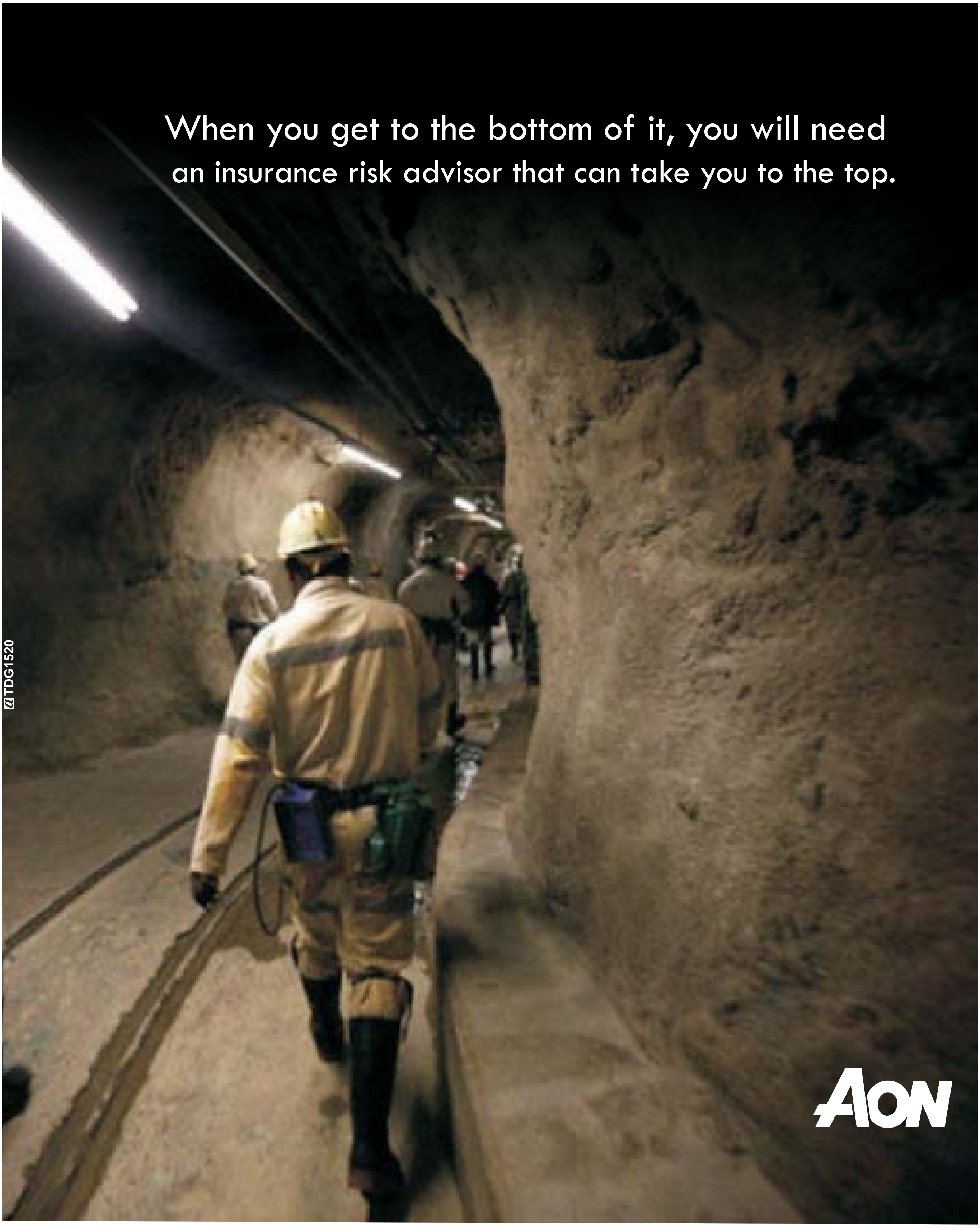
An additional factor relates to the recently promulgated indigenization law that has had the effect of creating more uncertainty about the immediate future of foreign controlled businesses. Pending clarity on the revision of these measures, many firms halted expansion plans or injection of new capital.

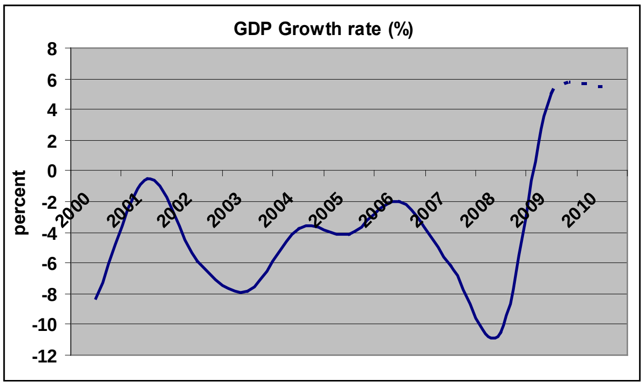
The domestic financial markets are characterized by low deposits, markedly insufficient to realize enhanced growth prospects of the economy.

Preliminary indications are that major sectors of the economy are likely to record positive growth, but the growth rates will be lower than the potential growth path.

Mining has potential for double digit growth and the liberalized marketing environment had capacity to increase impetus for growth. The challenges remain as outlined above — uninterrupted electricity supply, financing and uncertainty caused by the promulgation of the indigenization and economic empowerment law.

The table below shows real GDP growth trends.


When you get to the bottom of it, you will need
an insurance risk advisor that can take you to the top.
AON

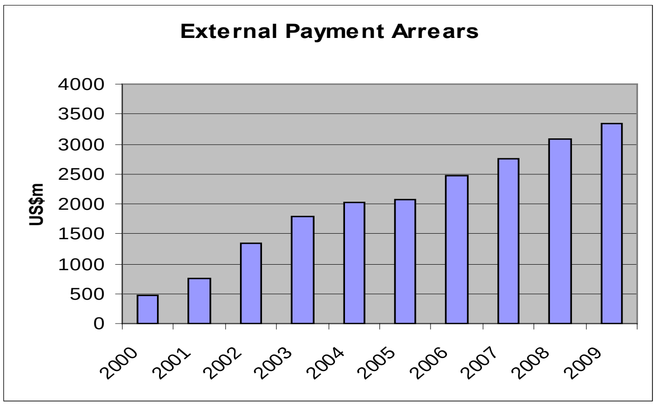


External Payment Arrears & Debt Strategy

The economy is hamstrung by an overarching debt overhang whose resolution will go a long way to assist economic recovery and growth.

Since independence, the Government of Zimbabwe borrowed extensively to undertake development projects, budget and balance of payments support. Government borrowing increased during the Economic Structural Adjustment (ESAP) years from 1991 to 1995.

The Government started accumulating arrears on external debt in 1999, with total arrears amounting to US$109 million. By 2009, arrears to all types of borrowing — multilateral, bilateral and commercial, amounting to US$3.3 billion. Currently, arrears have escalated to US$4.3 billion and will be significantly higher after accounting for penalty charges.



The escalation of arrears reflects the overall deterioration in the balance of payments due to cumulative contraction in economic activity over the past decade. Thus, sanctions or no sanctions, there is sufficient economic reason for the country to fail to access international capital. As a direct result of arrears, all budget and balance of payments support was suspended and capital in-flows sharply declined, further constraining economic activity. The most visible impact of the debt overhang has been the extent to which Zimbabwe has been cut off from access to international capital markets because of its high risk rating. Thus, since 2007 Zimbabwe has been borrowing through short term collaterised loans, at very high interest rates.

Lately, the government of Zimbabwe, in principle, has approved a hybrid debt relief initiative (HIPC Plus). Under this arrangement, Zimbabwe will be under a Staff Monitored Programme (SMP) with the IMF and the donor community which will likely, all other things being equal, put in place a programme to assist Zimbabwe repay its Multilateral debt. Part of the bilateral and commercial arrears will be subject to cancellation on the basis of progress on specific performance benchmarks.

SMPs typically require sound and prudent macroeconomic policies and are associated with stringent fiscal benchmarks and targets to ensure the country lives within its means.

HIPC initiatives also require expenditure switching towards pro-poor social sectors — with specific targets for Government spending in health, education and other social sectors. Many voices in Government had been advocating resource pledging as a solution to the debt problem, but it is evident that such a route is fraught with challenges. Zimbabwe does not have information on the scale and magnitude of own, proven mineral resources as no meaningful exploration has been undertaken over the past 15 years.

The few countries that have undertaken resource pledging such as Angola and DRC are resource rich and have proven reserves, not estimates. These countries have however pledged resources that were 7 to 8 times the amount of facility they acquired. It is inherently an expensive route for the country, especially given the rising prices of commodities.

Arrears clearance will benefit the country through several channels:

- Firstly through access to fresh international

MINING activity at Zimplats

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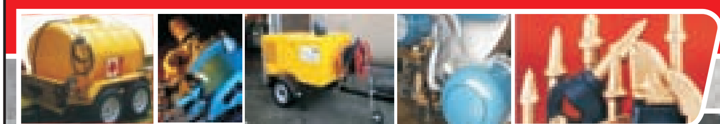


MINING PERSPECTIVE

PRESENTING the 2010 Budget in December 2009, the Minister of Finance, Hon.Tendai Biti stated that the contribution of the Mining sector to the fiscus was very low, accordingly Government would thus undertake major tax reforms aimed at enhancing overall tax efficiency and increasing sectoral contribution to the Fiscus.

Enhanced sectoral contribution to the fiscus is a central theme for which there is consensus and convergence of minds between the private sector and Government — that key sectors of the economy need to play an increasing role in recovery, growth and contribution to economic development.

From a policy point of view, since early 2009, progressive policies have indeed transformed the production value chain in mining and other sectors of the economy. Importantly, however, account has to be taken of the cumulative effects of the decade long adverse economic policies; that impacted negatively on the economy and the mining sector in particular.

The mining sector in Zimbabwe, already in decline since 2000, was withered by the hyperinflation, resulting in nearly all mines under care and maintenance by 2008. The mines were thus left debt ridden and significantly undercapitalized with progression in working capital depletion. In charting the way forward, it is necessary to take into cognizance the full extent and effects of the decade long attrition on the mining sector capital base.

For instance, the export sectors faced steep surrender requirements since 1997, and for the Gold subsector, accounting for nearly half the mining sector, the surrender requirements were 100%. In 2000, the gold sector thus obtained local currency equivalency at a fixed rate of ZW$55 per US dollar. In the same year, mining houses faced parallel market costs for inputs at 1.5 times the revenue.

In 2001, the mining houses revenue flows were determined at the same fixed exchange rate as in 2000, but the parallel market driven input costs had risen to 6.5 times — a result of the parallel market drift. In 2002, mining houses input costs had escalated to 27 times, against a revenue stream still fixed at the 2000 exchange rate level. Significantly, mines closed in large numbers, especially those operating at the marginal cost curve.

The mines that remained operational, only managed to do so by substantial cuts in capitalization, equipment replacement and maintaining shoestring working capital budgets, wilted ever progressively by the unremitting hyperinflation. Mines are yet to recover fully from these effects.

Added to that, the substantial amounts of foreign exchange owed to mines by the Reserve Bank, were converted into gold bonds, which can not be readily redeemable, unless they are steeply discounted. Accordingly, by 2008, nearly all mines were under care and maintenance, bereft of capital, equipment and even working capital.

Since the Multicurrency in early 2009, the mining sector stemmed the downward spiral, and recovery efforts are underway, with steady progress on output, employment and exports.
Recovery efforts are hamstrung by a host of abiding challenges – principally, recurring power outages and financing challenges. Both working capital and recapitalization funding are significant present challenges.

The domestic financial market is atrophied following the hyperinflation. A paltry US$1.3 billion deposit base, by December 2009 is insufficient to meet even 10 percent of the country's financing requirements. Working capital availed from the local banking system is short term and incomparably expensive, with interest rates in excess of 30% per annum.

To put things into perspective, a single project in the energy sector, such as the Batoka or Gokwe North would require in excess of US$2 billion each, for completion in 4 to 5 years. As such, it is evident that financing for capitalization and capital projects has to be sourced from regional and international capital markets. Abroad, capital is relatively cheaper following wholesale global monetary easing and the subsequent interest reductions in light of the global financial crisis. Added to that is the effect of the trillion dollar plus, Chinese international reserves in international capital markets. Thus, capital abroad is comparatively cheaper and readily accessible for many emerging markets.

The challenges regarding access to capital mainly evolve around the country's risk profile, compounded by uncertainty related to governance, property rights, and the question of the rule of law emanating from protracted court disputes on agricultural farmland and mining rights.

The reduction in country risk through the restoration of confidence in national governance, property rights and rule of law are imperative for the mining sector realizing optimal growth and impetus for economy wide recovery and growth.

The country risk profile can also be enhanced by a comprehensive external debt arrears clearance program, within the context of comprehensive macroeconomic reforms.

The indigenisation and empowerment initiative as presently structured has further compounded the challenges of raising capital abroad. Uncertainty has been further amplified and mining houses planning for project expansion or new projects are reviewing their potential investments in light of the current indigenisation initiatives.

Chances of attracting significant capital inflows are markedly diminished for as long as the framework is not substantially revised to take into account; investor concerns. For as long as the Inclusive Government, appears to dither over what are clearly disproportionate empowerment regulations, assuredly investors can be counted to be on the side lines, until issues are clarified to their satisfaction.

Mining — capital and labour intensive

MINING SECTOR:

CONTRIBUTION TO THE ECONOMIY

THE Mining sector's contribution to the economy occurs on several interrelated layers: contribution to GDP, employment, foreign exchange generation, social infrastructure development and the fiscus. What is often not included in the discourse on mining sector contribution to the economy is the downstream multiplier effects of all economic activities directly or indirectly deriving sustenance from the mining sector.

The Government's perspective is that the mining sector has not been contributing significantly to the economy, particularly in view of the low direct taxes, as the sector is subject to several capital allowances, and other exemptions. Significantly, however, it has to be acknowledged that at a macro level, the mining sector's contribution to the economy, through several layers of economic activities, has been rising and remains very substantial.

Contribution to GDP

The Mining sector's contribution to GDP is officially stated at about 4% by the Central Statistical Office

(CSO) on the basis of the sectoral contribution at 1990 Constant Prices GDP. In reality, the mining sector's direct contribution to GDP, is at least 15%, on the basis of recent balance of payments data and foreign exchange earnings trends.

Firstly, the structure of the economy has evolved and changed considerably to reflect the cumulative effects of the decade long decline. The economy has greatly informalised, reflecting the distortions during the period and hyperinflation has decimated businesses across all sectors of the economy. Different sectors responded differently to the distortions era, as much as they are responding unevenly to the multicurrency and stabilization era.

The net effect of the above is that the economy has mutated over the years, and a comprehensive sectoral review is necessary to determine current sectoral contributions.

Evidently, the mining sector's share of GDP cannot be at the same level as 1995 or 1996, when all sectors of the economy, were growing at near long term growth trends. There is considerable evidence to suggest that the mining sector's share of GDP is now many times the suggested official threshold. The table below shows recent balance of payments sectoral data.

Sectoral Exports US$(m)

Sector	2008	% of Total	2009	% of Total
Agriculture	465	33	442	34
Manufacturing	220	16	152	12
Mining	681	49	647	50
	1400		1300	

Source: RBZ & MOF, MOECPIP

The total GDP for Zimbabwe has been variously estimated at between US$3.1 billion and US$4.5 billion. For analytical purposes, the consensus is generally US$4 billion. This figure is about half the GDP of about US$8.7 billion realized in 1996/97, when the economy performed at near optimal levels.

Plausibly, the economy has lost as much as 54% of its productive potential over the past decade. The loss in production potential represents the reverse outworking of all three intertwined factors typically underpinning endogenous growth —capital depletion, unemployment and total factor productivity declines.

All three factors have declined unevenly across the sectors of the economy. Typically capital intensive sectors such as mining would potentially experience total factor productivity decline at levels significantly less than other sectors, in light of the relatively larger initial capital stock, in comparison to other sectors.

From the data in the table above, exports account for about a 33% — 35% of GDP, while the Mining sector accounts for about 48% — 50% of total exports. This would imply that Mining contribution to GDP is currently about 15% — 16%, as shown in the table below.

Sector	2008	Share of GDP (%)	2009	Share of GDP (%)
Total GDP (US$m)	4000	34.1	4000	31.0
Agriculture	465	11.6	442	11.1
Manufacturing	220	5.5	152	3.8
Mining	681	17.0	647	16.2

Source: RBZ & MOF, MOECPIP

The structure of the economy has changed considerably over the past decade, with implications for overall GDP contribution.

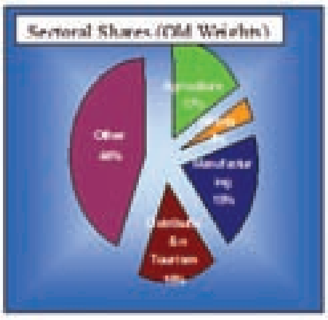
The above facts also show that both manufacturing and agriculture share of GDP has declined, as reflected by the decline in share of exports. Manufacturing share of exports averaged 5% of GDP in 2008 and 2009 – not surprising as all industries were virtually at a standstill by 2008. Agriculture's share of exports has declined to about 11.5% of GDP.

While both agriculture and manufacturing have a considerable share of non tradable output — and therefore not reflected in export statistics, the analysis would still confirm that both shares of GDP have declined, over the past decade. Only the magnitudes of declines may be subject to varying estimates, but not the sectoral performance trend.

During the same period, mining share of exports to GDP increased to average 16.5% for 2008 and 2009. Accordingly, mining share of GDP has also significantly increased during the period under review. It is inconceivable that mining exports would account for 17% of GDP, while the overall mining sector contribution accounts for only 4% of GDP.

Assuming a 50:50 domestic and export market share, the manufacturing share would be about 10% of total GDP. Agriculture share would be about 11- 12.5% of GDP. Both, the land reform and the 2007 industry price blitz, have negatively affected agriculture and manufacturing more markedly than other sectors.

The Chart below shows the sectoral shares to GDP as per old and new weights.



Sectoral Shares (New Weights) Sectoral Shares (Old Weights)

At its peak in 1996/97, the economy had a total GDP of about US$8.7 billion. Over the next 12 years, the economy declined by a cumulative total of 54%. That would imply a GDP level of about US$4 billion by end of 2008.

The table below shows GDP by Industry for both old and new weights.

The implications of sectoral configuration of weights as shown above are:

a. For a given base of US$4 billion in 2008, New Weights show a higher GDP for both 2009 and 2010.
b. New Weights show that for the same sectoral growth rates, the real GDP is higher in 2009 by 1.1% (5.5% compared to 6.6%).
c. New Weights show that for same sectoral growth rates in 2010, real GDP is higher by 0.2% (6.8% compared to 7.0%).

Employment

Mining being a capital intensive sector has relatively lower employment levels compared with other sectors of the economy, such as agriculture, manufacturing, tourism, or services.

At its peak in 1997/98, the sector employed about 65 000 workers in primary activities, but with substantial downstream employment in related industries, such as the mining suppliers subsector, the number was higher.

Presently, employment levels are estimated at about 45 000, with as much as 15000 downstream jobs. The sector therefore contributes directly to

GDP By Industry (US$m)

	Weight	New Weight	2008 Dec	2008 Dec	2009 Dec	2009 DEC	2010 Dec	2010 DEC
Agriculture	16.1	11.0	644	440	708	484	786	537
Mining	3.8	15.0	152	600	158	625	177	700
Manufacturing	18.6	9.5	744	380	804	410	882	451
Electricity & Water	1.9	2.0	76	80	77	82	81	85
Construction	2.4	2.2	96	88	98	90	100	92
Finance & Insurance	7.2	7.5	288	300	301	314	324	337
Real Estate	2.8	2.5	112	100	114	102	117	104
Distribution & Tourism	16.1	20.3	644	812	683	861	728	918
Transport & Communication	8	7.7	320	308	327	315	334	321
Public Administration	3.4	3.3	136	132	139	135	141	137
Education	6.5	7.0	260	280	267	288	274	296
Health	1.3	1.5	52	60	54	62	55	63
Domestic Services	1.4	1.2	56	48	57	49	59	50
Other Services	4.5	5.5	180	220	184	225	187	228
Less Imputed Bank charges	-4	-4.0	-160	-160	-159	-159	-158	-158
GDP at factor cost	90	92.2	3600	3688	3812	3881	4086	4160
Net taxes on production	0.3	0.3	12	12	12	78	12	83
GDP at basic prices	90.3	92.5	3612	3700	3824	3958	4097	4244
Net taxes on products	9.7	7.5	388	300	396	306	410	317
GDP at market prices	100	100	4000	4000	4220	4264	4508	4561
					5.5%	6.6%	6.8%	7.0%

the fiscus, through PAYE, in respect of workers' remuneration. Preliminary estimates for 2009 show that PAYE contribution was approximately US$6.7 million.

Other Government Taxes — Customs Duty, VAT

In 2009, PAYE contribution to total revenue was 15%; VAT was 37% and Customs duty, 20%. The mining sector alongside, other sectors contributes to all the above revenue heads. The mining sector contribution to the fiscus is therefore much more than the direct taxes. Both VAT and Customs duty rise in tandem with rising imports.

In 2009, imports were disaggregated as follows: Agriculture 13%, Manufacturing 10%, and Mining 31%. The Mining sector contribution to Customs and VAT would be typically lower to reflect the zero rated VAT and also the duty rebates on capital equipment. Other consumables such as oil and cyanide are however, not zero rated, and therefore contribute to VAT.

The above notwithstanding, the overall taxation for mining sector in Zimbabwe, incorporating the various direct and indirect tax heads including royalties, approximates 40%.

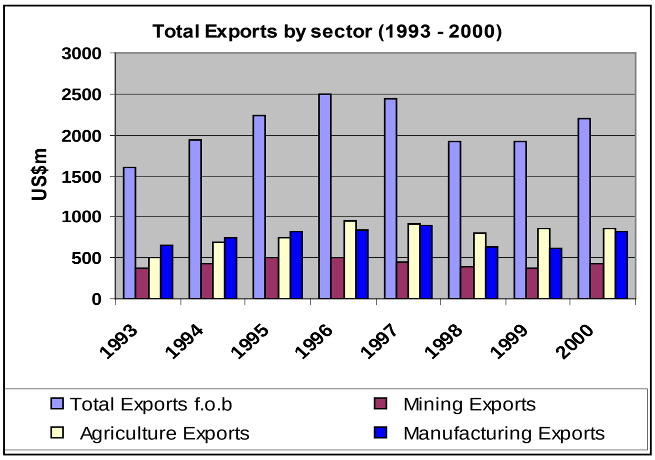
Foreign Exchange Earnings

The mining sector continues to play a significant role in foreign exchange earnings. Mining currently accounts for nearly 50% of exports, compared to much less than a third of exports, over the past two decades.

Since 1991, following the inception of the Economic Structural Adjustment Programe (ESAP), agriculture, manufacturing, and mining were the main export income generating sectors, with agriculture as the largest single category, increasing from US$500 million in 1993 to peak at US$950 million in 1996.

Manufacturing was the second largest category, increasing from US$650 million in 1993 to peak at US$900 million in 1997. Mining exports ranged from US$350 million to US$500 million during the same period. The mining sector share of exports to GDP was about 6%, while its sectoral GDP share was 4%.

The graph below shows this trend from 1993 – 2000.



The table below shows exports profile (US$ m)

	1996	1997	1998	1999	2000
Total Exports f.o.b	2500.8	2444.3	1914.4	1922.5	2191.7
Mining Exports	500	451.7	384.6	375.2	429.4
Agric. Exports	946	917	805.5	854.3	857.9
Manuf. Exports	845.8	899.7	629.4	609	815
GDP (US$m	8606.3	8709.58	8717.4	8395.2	7782.3

Source: MOF, MOECPIP, RBZ

The table below shows the sectoral shares of exports as a proportion of GDP

	1996	1997	1998	1999	2000
Total Exports f.o.b	29.1%	28.1%	22.0%	22.9%	28.2%
Mining Exports	5.8%	5.2%	4.4%	4.5%	5.5%
Agriculture Exports	11.0%	10.5%	9.2%	10.2%	11.0%
Manuf. Exports	9.8%	10.3%	7.2%	7.3%	10.5%

As is evident from the sectoral statistics above, the mining share of GDP as stated by the CSO at 4% in the 1990s; was within 3 percentage points of the mining exports share of GDP. In the same way, the share of mining to GDP at present must also reasonably approximate the sectoral export shares to GDP.

The fixed exchange rate regime in place from 2000 to 2003 and from 2005 to 2008 impacted on all exports, the policy was disproportionately more severe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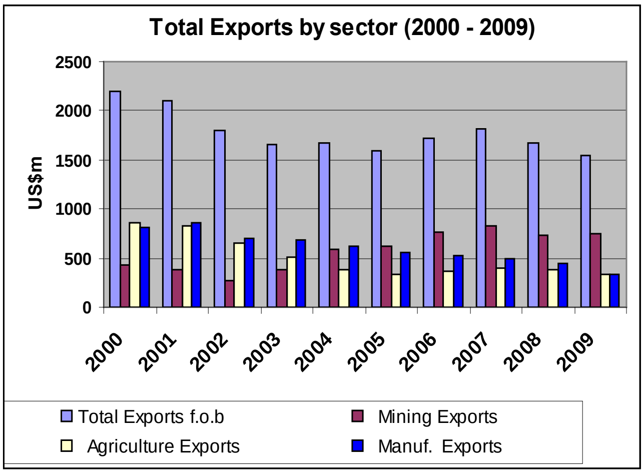
for the mining sector whose output is entirely for the export market, save for coal.

Exports data since 2000 also show the trend adjustment in sectoral contribution to GDP. Significantly, mining exports share steadily increased and in 2009, mining exports accounted for about 50% of total exports. The mining share of GDP is thus necessarily also increasing.

The graph below shows trends in export performance since 2000.



The graph above shows two concurrent developments occurring simultaneously. Firstly total exports are declining and within the context of exports decline, mining sector share of exports is however, increasing. Since 2005, the mining sector has had the largest share of exports.

The table below shows the trend of exports (US$ m).

	2005	2006	2007	2008	2009
Total Exports f.o.b	1587.7	1721.4	1818.9	1675.1	1543.8
Mining Exports	622.7	770.6	820.4	733.3	755.7
Agric. Exports	335.9	370.1	396.8	385.1	338.3
Manuf. Exports	555.1	526.3	490.8	443.8	331.3
GDP (US$m)	5541.9	5228.7	4941.6	4028.1	4233.5

Source: MOF, MOECPIP, RBZ

A third intertwined factor is that overall GDP is contracting at a faster rate than the decline in exports. Between 2001 and 2009, total exports contracted by an average of 3.6% per annum, while real GDP decline averaged 6.2% per annum, during the same period.

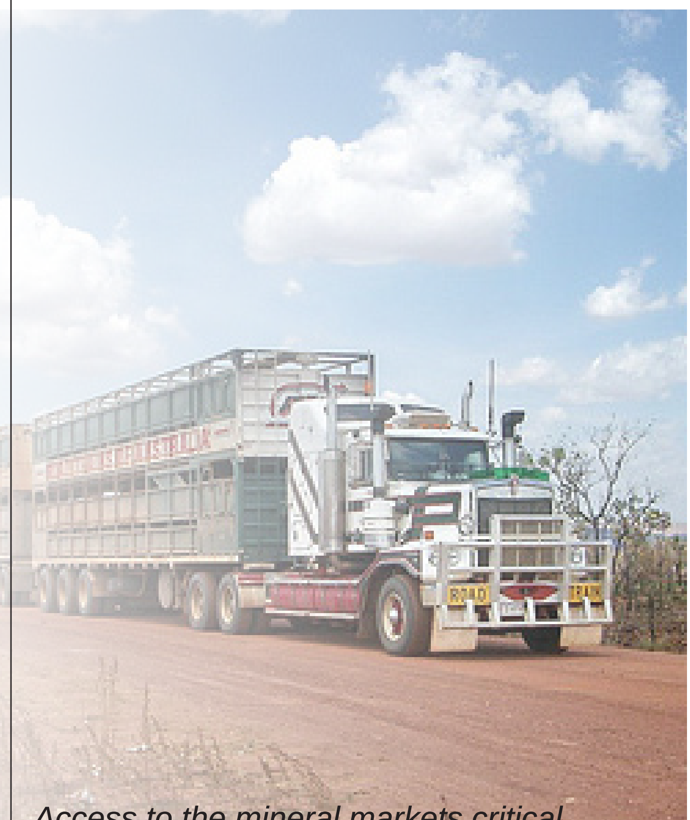
The table below shows sectoral export shares to GDP.

	2005	2006	2007	2008	2009
Total Exports f.o.b	28.6%	32.9%	36.8%	41.6%	36.5%
Mining Exports	11.2%	14.7%	16.6%	18.2%	17.9%
Agric. Exports	6.1%	7.1%	8.0%	9.6%	8.0%
Manufacturing Exports	10.0%	10.1%	9.9%	11.0%	7.8%

Source: MOF, MOECPIP, RBZ

Plausibly, the mining sector's share of GDP can therefore be estimated at between 15% — 17.5%, applying the above export share trend analysis. In the same vein, agriculture share of GDP is estimated at about 10% — 12.5% of GDP, while manufacturing share of GDP would range from 10% — 11.5% of GDP.

The share of mining and other sectors, have therefore gained, from the decline of both agriculture and manufacturing. Account has to be, however, taken of the fact that, unlike mining, both agriculture and manufacturing produce for both the domestic and export market. Therefore, exports represent a partial output accounting for both sectors.



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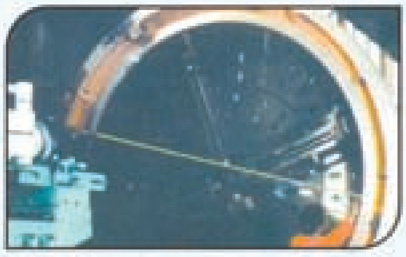

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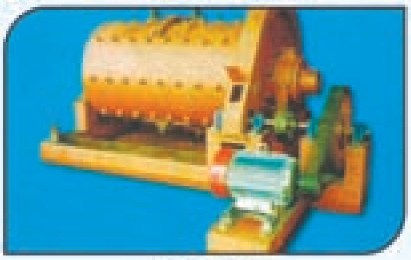

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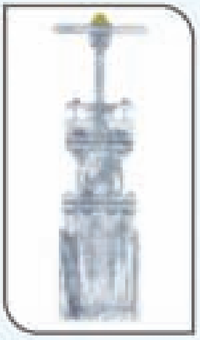

Valves

MINING SECTOR:
Policies and growth

Macroeconomic Stability

THE mining sector and the overall economy benefits from a stable and predictable macroeconomic environment that is characterized by low inflation, and stable, but market determined exchange rate. Macroeconomic Stability also encompasses policy consistency and constancy. Although the future is unknown, investors typically want assurance that policies put in place are durable and will obtain over the longer term.

Since the adoption of multi-currencies, the economy has been characterized by price stability, effectively ending the hyperinflation that had engulfed the economy since 2007.

The economy had also been characterized by a myriad of policy induced distortions and sustained policy reversals since 1997. STERP, introduced by Government in early 2009, has stabilized the macroeconomy and the launch of further measures is expected to consolidate the gains achieved and create the platform for sustained growth.

Fundamentally, going forward it is important that Government entrenches stability fundamentals. Residual inflationary fears persist, as well as the potential for policy reversals. Savings remain very low and insufficient to finance both working capital and capitalization.

Mining houses face the growing challenge of financing operations, as the domestic economy continues on a low depositor base threshold. Access to regional and international capital financing is hampered by perceptions of country risk, related to both political and settlements risk. The settlements risk implies the need for a holistic external debt and arrears clearance strategy.

The macroeconomic environment has improved considerably compared to 12 months ago, but vulnerabilities are evident. The banking sector is fragile, and capitalization levels are low, implying significant economy wide funding challenges.

The Central Bank is saddled with a huge debt overhang, in excess of US$1 billion. Heavily undercapitalized, the Bank is unable to perform its lender of last resort function and the occurrence of a systemic crisis remains a concern. Fraud and settlements challenges are additional risks.

Taxes and Royalties

The Government of Zimbabwe is undertaking a comprehensive tax review with the objective of improving tax administration and efficiency. The mining sector advocates for a globally competitive mining tax regime that has potential to attract critical foreign direct investment.

The mining sector is capital intensive, requiring that the economy taps into the global capital markets for long term funding.

Zimbabwe competes for global mining capital both at the regional and international levels. Accordingly, it is necessary that all taxes are aligned with both regional and international countries to retain competitive advantage.

The sheer endowment of mineral resources is no longer a big advantage given that enhanced exploration efforts in other countries are yielding rich mineable ores, giving investors broader choices.

Over the past two decades, substantial exploration capital has been invested in many Latin American economies that reformed their mining legislation to entrench property rights protection, an even playing field and strengthening of mining affairs administration. More recently, regional countries including Malawi, Tanzania and Mozambique have become attractive destinations for mining capital for the same reasons.

Zimbabwe, evidently requires proactive, forward looking policies in order to attract foreign investment, in an increasingly competitive global environment. Accordingly, it is imperative that the tax regime and the mining fiscal regime compliment other policies to attract investment into the mining sector and the overall economy.

Indigenisation and Empowerment

The principle of indigenisation has been embraced by business and investors. It is the methodology of implementation which has to incorporate the views and concerns of all stakeholders.

Indigenization and empowerment must be based on the principle of expanding the economy, not whole-sale and piece meal fragmenting of a shrinking economy. Growing the economy requires a concrete and integrated plan to mobilize both domestic and foreign savings and channeling these towards capital formation and investment.

The mining sector requires massive investment in exploration and long-term funding for capital projects and working capital to continue to contribute to the economy as it always has for the past century.

Joseph Mverecha, an economist at COMZ has provided expert insights on the country's economy in his articles in this journal

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