Chiadzwa Diamonds: Zimbabwe's potential economic recovery option

Makochekanwa, Albert

University of Pretoria

15 July 2009

Chiadzwa Diamonds: Zimbabwe's potential economic recovery option

By

Albert Makochekanwa
PhD in Economics Finalist
Department of Economics
University of Pretoria
South Africa
almac772002@yahoo.co.uk

Keywords : Chiadzwa diamonds, economic recovery, US$8.3 billion

JEL classification: L71; L72; Q3; Q4

Abstract

The research was motivated by the need for Zimbabwe's financial assistance to kick-start the recovery of its economy from the meltdown it has been for more than a decade. Since the formation of the government of national unity (GNU) on February 13, 2009, government of Zimbabwe's (GoZ) begging bowl for US$8.3 billion financial assistance has been extensively preached to both southern African countries and the world over. This study presents a totally different financial avenue, Chiadzwa diamond. Using the two estimated monthly revenue sales of US$1 billion and US$1.2 billion from Chiadzwa diamond, the study argues that the country's immediate financial requirements of at least US$8.3 billion can be wholly met with proceeds from this mine field only if the new unity government has a political will. Partial projections presented in this paper shows that, once diamond revenue sales are harnessed by the government for the benefit of the whole economy as opposed to the current situation where the few revenues are only benefiting few politicians and their relatives, the country's GDP can jump from the 2008 level of US$3.2 billion to at least US$16.7 billion starting 2009. The paper also suggested management frameworks that the GoZ can consider implementing in the management of Chiadzwa diamond.

1. Introduction

Then ***(1980*** *[independent from Britain]****)***

Annual inflation was 11.8%, while *month-on-month* rate was -0.50%; the highest *Zimbabwean dollar denomination* was Z$20; the mostly widely used currency (in more than 95% of all transactions) was the Zimbabwean dollar; the *official exchange rate* was US$1: Z$0.6540; the *parallel (black) market exchange rate* was US$1:Z$0.6475; *GDP growth rate* was 10.7%; *GDP per capita* was US$ 755; *unemployment rate* was less than 30%; *life expectancy* was 60 years; and the country was the *bread basket of Africa*.

Now **(2009 January** *[under the colonial power of hyperinflation*]**)**

Annual inflation is 489 000 000 000; while *month-on-month* underestimated 'official' rate is above 231 million percent and the independent analysts' rate is estimated to be 6.5 quindecillion novemdecillion percent (that is 65 followed by 107 zeros) (as of 30 January 2009); the highest *Zimbabwean dollar denomination* is Z$100[1] trillion; the *mostly widely used currencies* are US dollar, South African rand, UK pound, Euro and Botswana Pula (99.99%); the official exchange rate is US$1: Z$4 million (as of 30 January 2009*); UN exchange* is US$1: Z$35 quadrillion (or $35x10^9$) while the *parallel (black) market* exchange rate is US$1:Z$200 trillion (as of 30 January 2009) and RTGS's exchange rate is at least US$1: Z$ 100 quadrillion (100 and 15 zeros) (as of 30 January 2009); *GDP growth rate* is -6.1%; *GDP per capita* is US$402; *unemployment rate* is 94%; *life expectancy* is 36 years; and the country is the *bread beggar of Africa*.

It is common knowledge that Zimbabwe as a nation has been (and is currently) in a state of complete meltdown in all its economic, social, political and legal facets of its systems since 2000 to date (2009). IMF (2009) allude to the fact that economic disruptions mainly as a result of chaotic hyperinflation and a significant deterioration in the country's business environment has resulted in a whooping 14 percent decline in real GDP in 2008 alone, over and above the 40 percent cumulative decline during the period covering 2000 to 2007. Thus, for the 9 year period, 2000 to 2008, Zimbabwe's real GDP has contract by more than half that is by more than 54 percent. The economy's supply-side especially in providing basic needs have become non-existence to such an extent that country could not provide the five basic needs of food, clothing, water, housing and electricity, and health. Even the government of Zimbabwe (GoZ) pointed to the fact that:

---

[1] This really means 1 000, 000,000,000,000,000,000,000, 000. That is 1 Octillion (i.e., 1 and 27 zeros), taking into account the 13 zeros Zimbabwe's central bank has lopped off since August 2006 (3 zeros were chopped off on August 1st 2006 and further 10 zeros were chopped off on August 1st 2008) as a means of trying to make the country's currency somewhat more manageable.

> "At the epicentre of the (Zimbabwe) economic crisis, have been unprecedented levels of hyper-inflation, sustained period of negative Gross Domestic Product (GDP) growth rates, massive devaluation of the currency, low productive capacity, loss of jobs, food shortages, poverty, massive de-industrialization and general despondency" (GoZ, 2009).

Table 1 presents the countries economic and social indicators since its independence in 1980. As shown, the country enjoyed positive economic growth for nearly 18 years, with the exception of 1984 and 1992 due to severe drought in those years. This growth trend, however, changed for worse since 1999 until today as economic growth rates became continuously negative.

Table 1: Zimbabwe's economic performance (1980 – 2008)

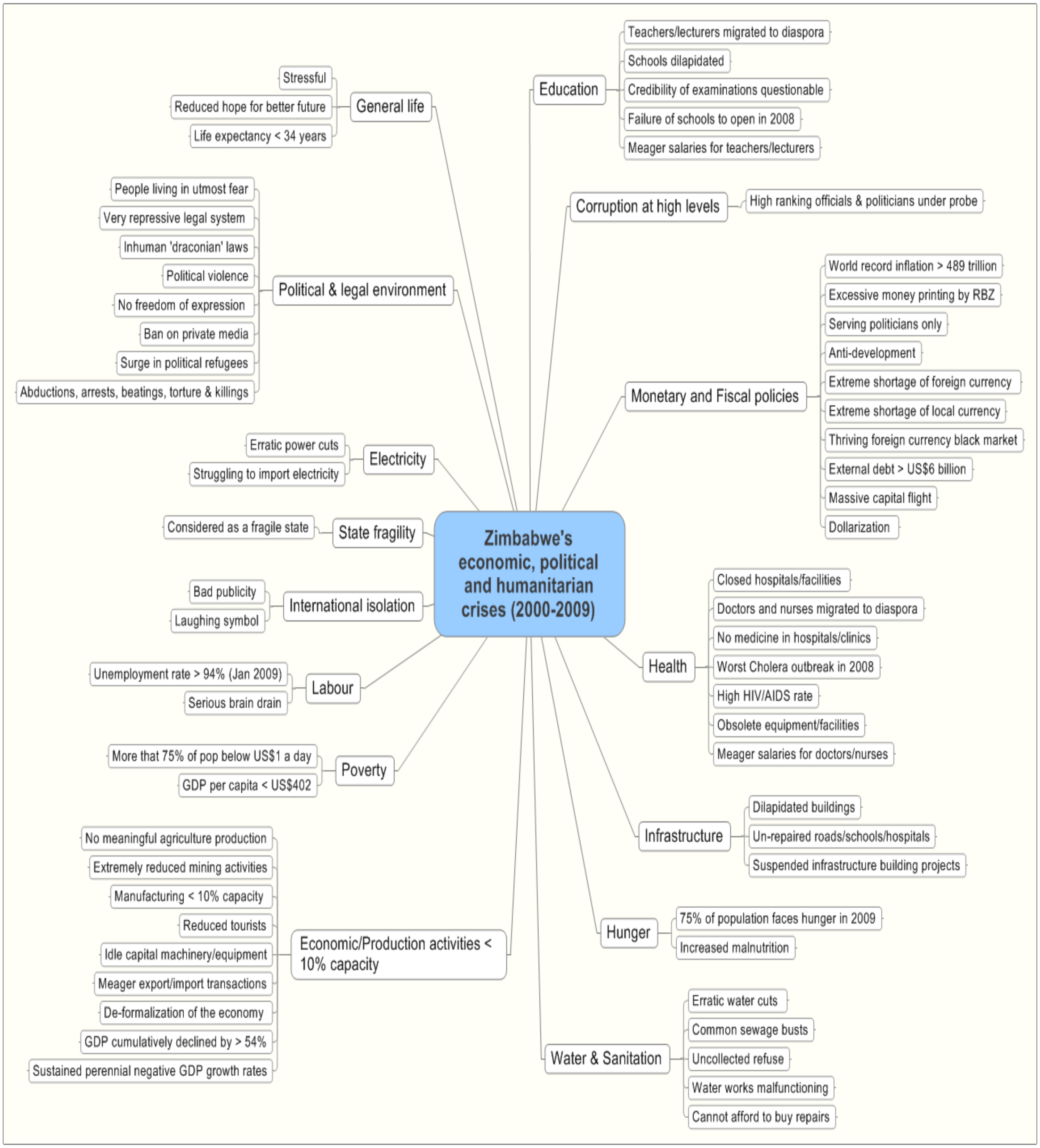
Year	GDP		GDP per capita	Annual Inflation
	US$ billions (current)	% Growth	US$	%
1980	5.4	10.7	755	7
1981	6.4	12.5	881	11.8
1982	6.9	2.6	902	16.8
1983	6.2	1.6	794	21.8
1984	5.1	-1.9	635	14.3
1985	5.6	7.0	673	11.4
1986	6.2	2.1	719	13.5
1987	6.7	1.1	754	9.9
1988	7.8	7.6	851	10.1
1989	8.3	5.2	873	15.1
1990	8.8	7.0	897	15.5
1991	8.2	7.1	810	46.5
1992	6.7	-8.4	648	46.3
1993	6.5	2.1	608	18.6
1994	6.9	5.8	618	21.1
1995	7.1	0.2	620	25.8
1996	8.8	9.7	735	16.4
1997	9.0	1.4	762	20.1
1998	6.3	0.1	532	46.7
1999	6.0	-3.6	508	56.9
2000	5.7	-7.3	489	55.2
2001	5.7	-2.7	490	112.1
2002	5.6	-4.4	478	198.9
2003	5.1	-10.4	433	598.7
2004	5.0	-3.6	430	132.7
2005	5.0	-4.0	427	585.8
2006	4.9	-5.4	417	1,281.1
2007	4.7	-6.1	403	108,844.1
2008	3.2	-14.1	< 402	489,000,000,000

Source: IMF, World Economic Outlook database and IMF (2009) for 2008 figures

Also since 1999, GDP per capita, a rough estimate of citizens' social and economic well-being have been continuously declining from a figure of US$755 at independence to figure of below US$402 as of 2008. On the inflation front, annual inflation rate was below 10 percent for 16 years after independence. The rates however, lipped into three levels since 2001 and enter four-digit in 2006 before settling at 12-digit by end of 2008.

Figure 1 provides a snapshot of the country’s multi-faceted meltdown across all its economic, political, and social spheres within a period of less than decade that is 2000 to 2009. Such meltdowns have been akin to countries in civil wars, acute political conflict or full-blown war.

Figure 1: State fragility - Zimbabwe's economic, political and humanitarian crises: 2000 – 2009



Source: author compilation

1.2 Getting Zimbabwe moving again

The above brief background to the country's dark ages has motivated the new inclusive government to get Zimbabwe rising from its skeletons and start moving again. The new government's recent economic recovery blue print, the STERP (GoZ, 2009: 20) considers the following as some of the issues to be addressed to get country rise from its economic, social and political quagmire into a new Zimbabwe with hope and future.

i. Social protection measures meant to mitigate poverty and suffering by resuscitating public services delivery, as well as strengthening humanitarian assistance, particularly focusing on Targeted Vulnerable Groups;
ii. Support for the revival of productive sectors;
iii. Creation of a conducive investment climate in the country;
iv. Establishing a sound macroeconomic environment conducive for stabilization through demand side management measures in particular capacity expansion in all sectors;
v. Strengthening the regulatory environment of the financial sector; and
vi. Finalizing the national employment policy.

One of the strategies of the new government of raising the necessary funds to finance the above priority areas and others has been to engage the international community, from bilateral donors, to countries and to group of countries to mobilize financial package to kick start the country's economic recovery journey. Since February 2009 to the time of writing, newspapers across the world are awash with news preaching the begging bowl of Zimbabwe. Just few quotations from newspapers testify to this begging agenda.

> 'The government says it needs $8.5 billion for an economic recovery plan over the next two to three years, with $1 billion for budget support and a $1 billion credit line' (Independent Online Newspaper, 3 April 2009).
>
> 'The administration has said its short-term emergency recovery programme STERP will require $8.5-billion over the next two to three years. It will depend heavily on help from Western donors and Harare wants financial assistance from countries in the regional grouping SADC' (Independent Online Newspaper, 4 April 2009).
>
> 'The Southern African Development Community is sending a delegation to Washington next week to urge the U.S. government, the International Monetary Fund and the World Bank to help members of the regional organization fund Zimbabwe's economic recovery plan'. (The Zimbabwean Newspaper, 19 April 2009).

Even the GoZ's STERP policy document point to the fact that:

> "Addressing the above priority areas will require huge financial resources in excess of US$5 billion as outlined under the section on "Funding of STERP" below and underpinned by consistent implementation of respective policies and other measures" (GoZ, 2009: 20)

Every rational person submits to the fact that the country is in die need of money for this economic rebuilding journey. In all the intensions to revive the economic system, no mention was done of engaging and using the country's own resources. It is therefore the intention of this paper to present a different approach (to that of begging for money) to the country's economic recovery agenda. This study argues that the country is currently stocked with enough resources which can quickly generates more than US$8.5 billion even in less than a year. The only lacking issue is political will to manage the country's valuable resources for the benefit of the country.

The main objective of this study is to present Chiadzwa diamonds as the possible source of the money needed for the recovery program. When properly managed and with all corruption removed, Chiadzwa diamonds can provide at least US$1 billion per month and in 8 months; the US$8.5 billion can be accumulated. This option will also have the following advantages, among others: the country will not incur or accumulate any debt, there will be no strings attached, there will be no conditions (as the case with donor funds), the country will be free to use the revenues according to its prioritised projects and the country will not be a nation to be laughed at by other countries.

2 Brief background to Chaidzwa diamonds

Whilst this section will attempt to give relevant details about Chiadzwa diamonds, it should however be noted that currently there are no scholastic references on Chiadzwa diamonds, this study being the first article to the best knowledge of the author. The information on these diamonds is currently in bits and pieces and scattered in daily newspapers across the globe. It is also important to note that since the discovery of diamonds and until the time of writing, the area has become a sacred, with heavily Iraq-equivalent strong army having deployed to fully guide the area since November 2007. Even genuine native people who are currently staying in other parts of the country or cities such as Harare, are required by 'law' to have v*isa rekuenda kumusha kuChiadzwa kwa Marange* (traveling visa to go to their native home in Chiadzwa area of Marange) to visit their relatives and friends or even to attend funerals. Also the Chiadzwa diamonds fields are currently political to such an extent that very little information is provided to fellow citizens regarding their national and common resource. To this end, only information which is general and relevant for the objective of this study will be briefly presented.

The 170 acre Chiadzwa diamond fields are situated in the Chiadzwa and Charasike areas of Marange District, about 60 kilometers southwest of Mutare. The area is also located on the border with Mozambique. Whilst discovery of diamonds in this area (comprising Chiadzwa and Chirasike) is not exactly known, it is however believed that the diamonds were discovered in September 2006. The estimated Chiadzwa diamond resources are currently believed to be around 16.5 million tones according to Reserve Bank of Zimbabwe (RBZ).

Although before the discovery, the Chiadzwa and Marange areas were not known at all, nor did geographers bothered to find them a place on the map of Zimbabwe, after the discovery, the name Marange has become an international name, especially in the diamond arena. In fact, Hove (2009) allude to the fact that Marange and Chiadzwa are now international destinations, with diverse "tourists" and visitors including Israelis, Lebanese, Belgians, Afrikaners, Japanese, Americans, national political heavyweights and businessmen. According to Hove (2009), all sorts of diamond gladiators who sniff the air for wealth have been seen visiting the once-neglected Chiadzwa, Marange. Because of stringent regulations required for one to visiting the area, some diamond smugglers and crooks (both local and foreigners) are know to have been seeking marriageable girls of Chiadzwa.

In terms of ownership, reports say that the Chiadzwa diamond fields were owned by a British company, Africa Consolidated Resources (ACR) which had mining concession (rights) for the area as well as exploration contract. The company argues that it was through its exploration which led to the discovery of the deposits of industrial diamonds in Chiadzwa (The Zimbabwean Newspaper, 5 April, 2009). Nevertheless, the company indicates that the government cancelled the mining concession in December 2007 as the government argued that the 'license could have been issued in error'(New Zimbabwe Online Newspaper, 12 February 2008). Beginning 2009, the state-run Zimbabwe Mining Development Corporation (ZMDC) has since taken over mining operations at the diamond fields. Latest reports to the mining activities of ZMDC as of March 2009 indicates that the parastatal was only realizing between 50 000 to 60 000 carats of diamonds a week, with a daily diamond output of US$600 000 (The Zimbabwean Newspaper, 5 April, 2009).

Since the discovery of these diamonds until today (2009), more than 99.9 percent or all Chiadzwa diamond revenues have been pocketed by individual politicians[2], moguls, barons and business tycoons without any revenue going to the state or government coffers. According to one source, whilst the official plan since the discovery of diamonds in 2006 was for the then government to mine at Marange, unfortunately and without any need to account to anyone, government left mining of Chiadzwa diamonds for the benefit of senior government and Zanu (PF) officials and those close to them, with little income returned to the government (The Zimbabwean Newspaper, 5 April, 2009). According to one minister, even the government's own employees deployed to 'guard' the Chiadzwa diamonds, the police and soldiers, whose official conduct is guided by command are refusing to be transferred:

[2] High ranking politicians and officials from ZANU-PF political party are among the most notorious diamond benefactors.

> 'Most security forces members deployed at Chiadzwa are now refusing to be transferred from the diamond fields some have even threatened to take my ministry to court. The reason why they don't want to leave the place is because there are involved in corrupt activities. There are looting diamonds which there are selling to foreigners from South Africa and Nigeria' (The Zimbabwean Newspaper 22 March 2009).

Generally, Zimbabwe government's mode of diamond mining has been deplored as "haphazard" by the Reserve Bank of Zimbabwe (RBZ). Internationally, mining of Chiadzwa diamonds has quickly attracted the attention of the United Nations (UN) Kimberley Process (KP) which normally monitor the trade in so-called "blood diamonds" and this organization has visited the area twice since diamond discovery, both in 2006 and in March 2009. This body's two visits within a short interval have been prompted by reported mass killings of 'illegal' diamond diggers in the area. Another global diamond certification body, the World Federation of Diamond Bourses (WFBD) has ordered a ban on trade in diamonds from Zimbabwe's Chiadzwa diamonds over concerns about human rights violations (The Independent Online Newspaper, South Africa, 3 April 2009).

Thus, this paper argues that if the current government can take control of Chiadzwa diamonds and run it for the benefit of the majority, then its economic recovery can be at any accelerated rate and without any need at all for continuing with its current financial begging gospel.

3 Financial potential of Chiadzwa diamonds

Currently there are two figures circulating pertaining the potential financial revenue which can be grossed by the state after diamond sales. The RBZ estimates that Chiadzwa diamonds 'should provide over US$1 billion per month in revenue'(Roger, 2008), while another source laments 'that lack of proper institutional, orderly and legal framework for diamond miners has results in the country loosing at least US$1, 2 billion per month' (Unknow). Although some analysts consider these monthly diamond revenue sales from Chiadzwa diamonds as conservative, simple calculus means that, if Chiadzwa diamonds is properly managed for the benefit of the country and without any corruption activities as is the case currently, the country will be able to get at least US$12 billion per year. This figure from diamond alone will be greater than any previous GDP figures for Zimbabwe even during good years of the 1980s and 1990s.

Thus, if there is political will to stop corruption and manage the diamond properly, even starting June 2009, the country will be able to get at least 70 percent of the US$8.3 billion it is begging for its economic recovery programme. So why not use Chiadzwa diamonds and stop begging. Unlike begging, Chiadzwa will be advantageous in that, there will be no strings attached, freedom to use the money on the country's prioritized recovery projects, no incurring debts which will become burdensome for future generation, creation of employment in the mining of the diamond, and lastly, the country will not be a laughing symbol.

Table 2 and corresponding Figure A1 and Figure A2 in Appendix, presents projections of the effect of Chaidzwa diamond revenues on the country's GDP and GDP per capita using 2007 as the base year. Whilst diamonds were discovered late 2006, the assumption is that if there was any political will on the part of the then government to harness this valuable resource for the benefit of the country, the state should have started collecting meaningful diamond revenues beginning 2007. The scenario projections are partial statistical simulation and do not show economy-wide impacts which can only be shown using techniques such as economic general equilibrium (CGE) modeling. Thus, these projects are the minimal potential GDP direct impacts of Chiadzwa diamond revenue. In other words, the benefits from this diamond field, if properly managed for the benefit of the whole country, will be by far greater than what is presented in Table 2.

As alluded before, given that two different revenue figures, that is US$1 billion and US$1.2 billion, have been estimated to be the potential monthly revenue sales from Chiadzwa diamonds, the projections in this section incorporates these two figures separately. Thus, US$ 12 billion (= US$1 billion x 12) and US$14.4 billion (=US$1.2b x 12) are added to each of the projected years' potential GDP figures. Case 1 refers to a situation were both growth rates for GDP and population are assumed to remain constant, while case 2, which is a much more realistic situation where growth rates for the above mentioned two variables are assumed to be changing.

As indicated in the table, in the situation where GDP and population levels are assumed to remain as there were in 2007, the country's GDP and per capita income will remain the same at US$4.7 billion and US$401 even until 2015 in the case where diamond activities and sales revenue are not harnessed for the benefit of the country. However, if the new government decides to properly manage and mine the Chiadzwa diamond for the development of the country, without any sales revenue leakages, then the country's GDP and per capita income could be US$16.7 billion and US$1 423 if one uses diamond revenue estimates of US$12 per year. These projections could be even higher, amounting to US$19.1 billion and US$1 628, respectively and annually since 2008 to 2015. If there was political will to utilize this valuable resource for the betterment of the country, these diamond augmented figures might have started in 2007.

Thus, even assuming this unrealistic assumption of zero growth in GDP in 2009, if the new government decides to manage and harness Chiadzwa diamond properly, then there will be no need to continue with the begging bowl, looking for financial aid to kick-start the country's economic and developmental agenda. Sales from Chaidzwa diamond will be MORE THAN ENOUGH. In fact there will be an added advantage of that, rather than having the money in trenches of say US$2 billion in 2009 and other trenches the following years as has been suggested by Zimbabwe's finance ministry during the fundraising tour, the country can have more than US$8.3 billion which it seeks in just one year and not in more than three years. Even standards of living, judging by per capita income for Zimbabwe will lip-frog from US$401 to more than US$1 423.

Table 2: Zimbabwe's nine-year scenario with Chiadzwa Diamond Revenues

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Case 1: No changes in GDP and population									
GDP figures									
GDP (US$ billions) (No Diamond Rev)	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
GDP + Diamond extra US$12 billion Revenue	16.70	16.70	16.70	16.70	16.70	16.70	16.70	16.70	16.70
GDP + Diamond extra US$14.4 billion Revenue	19.10	19.10	19.10	19.10	19.10	19.10	19.10	19.10	19.10
Per Capita Income figures									
Per capita (US$) (No Diamond Revenue)	401	401	401	401	401	401	401	401	401
Per capital income (US$) (with extra US$12 billion)	1,423	1,423	1,423	1,423	1,423	1,423	1,423	1,423	1,423
Per capital income (US$) (with extra US$12 billion)	1,628	1,628	1,628	1,628	1,628	1,628	1,628	1,628	1,628
Population (millions)	11.73	11.73	11.73	11.73	11.73	11.73	11.73	11.73	11.73
Case 2: Growth changes in GDP and population									
GDP figures									
GDP % change	-6.1	-14.1	9	8	8.5	7.5	6.5	6	6.2
GDP (No Diamond revenue)	4.70	4.75	5.17	5.59	6.06	6.52	6.94	7.36	7.81
GDP + Diamond extra US$12 billion Revenue	16.70	16.75	17.17	17.59	18.06	18.52	18.94	19.36	19.81
GDP Diamond extra US$14.4 billion Revenue	19.10	19.15	19.57	19.99	20.46	20.92	21.34	21.76	22.21
Per Capita Income figures									
Per capital income (No diamond revenue)	401	425	461	495	534	572	606	639	675
Per capital income (US(US$) (with extra US$12 billion)	1,427	1,457	1,484	1,517	1,547	1,575	1,601	1,631	1,423
Per capital income (US$) (US$) (with extra US$12 billion)	1,632	1,660	1,687	1,718	1,748	1,774	1,800	1,829	1,628
Population (0.5 % growth from 2009)	11.73	11.73	11.79	11.85	11.91	11.97	12.03	12.09	12.15

Source: author projections

The realistic case 2 where both GDP[3] and population are assumed to grow during the projected time period shows even more promising and better figures. If Chiadzwa diamond revenue sales are managed for the benefit of the country, tabulated figures indicates that GDP figures will grow from US$17.2 billion in 2009 to around US$19.8 billion by 2015 when one assumes that the country gets US$12 billion annually (or US$1 billion per month) from Chiadzwa diamond sales. Otherwise, these figures will be US$19.6 billion and US$22.2 billion, respectively, if the country manages to sale US$14.4 billion worth of Chiadzwa carats, annually. Corresponding growth will be

[3] The GDP growth rates are assumed mirroring the rates which the country achieved in the years soon after independence in 1980 (as presented in Table 1.

witnessed in GDP per capita, rising from US$401 to US$1 423 (when US$12 billion diamond revenue is added) and to even higher figure of US$1 628 (when US$14.4 billion diamond revenue is added

Thus, either Chiadzwa diamond sales, amounts to US$12 billion or US$14.4 billion annually when the field is fully managed by the state and for national benefit, the fact remains the that country this valuable resource endowment presents the best self-sufficient economic recovery route for Zimbabwe. Given the above projections, this strongly paper argues that there is no need for Zimbabwe to continue running around either in southern Africa region or around the world with its financial begging bowl preaching the gospel of seeking funds to kick start the country's economic recovery journey when the country is resourced with valuable Chiadzwa diamonds, which are currently benefiting few politicians, among other elites.

4 Policy suggestion on how best Zimbabwe can manage Chiadzwa diamond

This section briefly presents some few management issues which Zimbabwe's new government, the GNU; need to consider should it decide to harness the diamond field for the betterment and sustainability of Zimbabwe's future economic growth and development. The main objective of this section is to for-warn the GoZ and avoid what Kaunda once lamented:

> 'We are in part to blame, but this is the curse of being born with a copper spoon in our mouths'(Keneth Kaunda, former President of Zambia, Quoted in Sarraf and Jiwanji, 2001)

But rather, the study desires a situation where:

> 'Natural resource wealth, properly managed, can provide enormous benefits. Mismanaged or abused, it can also accompany untold suffering'. (The 13th International Anti-Corruption Conference Newspaper, 1st November 2008, Issue, 03).

It is however important to note that these management frameworks presented in this section are not exhaustive, neither are they exclusive, but rather they can be fused together in one way or another. Further, it should also be emphasized that there is no 'one-size-fit-all' management style when it comes to the successful management of natural resources. Literature on management of diamond mining implicitly dichotomizes the management of the mineral into two categories. The first category involves management of issues surrounding ownership, actual mining and selling of the mineral proceeds (for instance, selling of carats in the case of diamond mineral). The second category deals with management of the use of the revenue or sales proceeds from the mineral (carat) sales.

In these two categories, both recently experimented as well as established management frameworks will be presented. In the latter category, much reliance will be from Botswana's established framework given that most authors identifies it as the only African country to be an exception to the general pattern of poor economic performance in diamond rich economies (Poteete, 2009; and Auty et al, 1999) such as those witnessed in diamond endowed countries such as DRC, Sierra Leone and Liberia. According to Poteete (2009), Botswana's success when compared, not only to diamond or mineral rich countries, but even to oil countries rich countries is evidenced in the following four things: (i) the relative stability of its real exchange rate; (ii) its accumulation of foreign reserves; (c) a relatively balanced pattern of growth; and (iv) the survival of its multiparty electoral system.

4.1 Management of ownership, mining and selling of diamonds

4.1.1 Botswana's case

Botswana's diamond mining is owned and/or controlled by Debswana Diamond Company Limited which is a 50/50 joint venture between the government of Botswana and DeBeers Centenary AG (Coakley, 2004). Rather than leaving the control and mining of diamond to private entities, the country decided to have a stake in the mineral. Thus, because of this ownership and control arrangement, the country has manage to formulate its budgets year after year with guarantee that whatever its diamond revenues projects will be, it will be able to have enough control. The marketing of Botswana diamonds is strictly monitored and is done through the De Beers Diamond Trading Company (formerly the Central Selling Organization) located in the United Kingdom (UK). Thus, in the Botswana diamond industry, no individual have a diamond claim, and it is even a crime according to the country's laws for an individual to be found in possession of diamonds. These enforced rules have helped the country to fully enjoy proceeds from diamond sales for the benefit of the country and not individuals, as the current case with Zimbabwe's chiadzwa diamonds.

Botswana's diamond management is thus exclusively under government control. The country's management style under this category is in sharp contrast to other styles exhibited in such countries as DRC and Liberian, were the term "blood diamond" has often been used to described diamonds from such countries as these diamond has fuelled civil wars, causing numerous deaths in these nations. It is however unfortunate that Zimbabwe's Chiadzwa diamonds at the time of writing has been described as 'blood diamonds'. Nevertheless, once there is political will to manage the field, this can be swiftly reversed.

4.1.2 Integrated Diamond Management Program (IDPM)

In an attempt to bring Sierra Leone diamonds from 'blood diamond' category into the legal system, the United States Agency for International Development (USAID) invented and experimented with IDPM on the former country's diamond industry. IDPM was designed to take account of the fact that, Sierra Leone diamond industry, unlike Botswana, is 'considered as one large mine with the exporters as the owners' (Even-Zohar, 2003). Since the implementation of IDPM framework, USAID (2005) claim that the management framework has been working quite well for Sierra Leone given that 'considerable progress has been made in bringing the more diamonds into the legal system, while increasing the value of diamonds exported' (USAID (2005: iv).

Figure 2 presents a possible management framework that Zimbabwe can adopt, wholly or partly, for management of Chiadzwa diamond. The framework has five major management components.

1) <u>Improved GoZ diamond management systems</u>

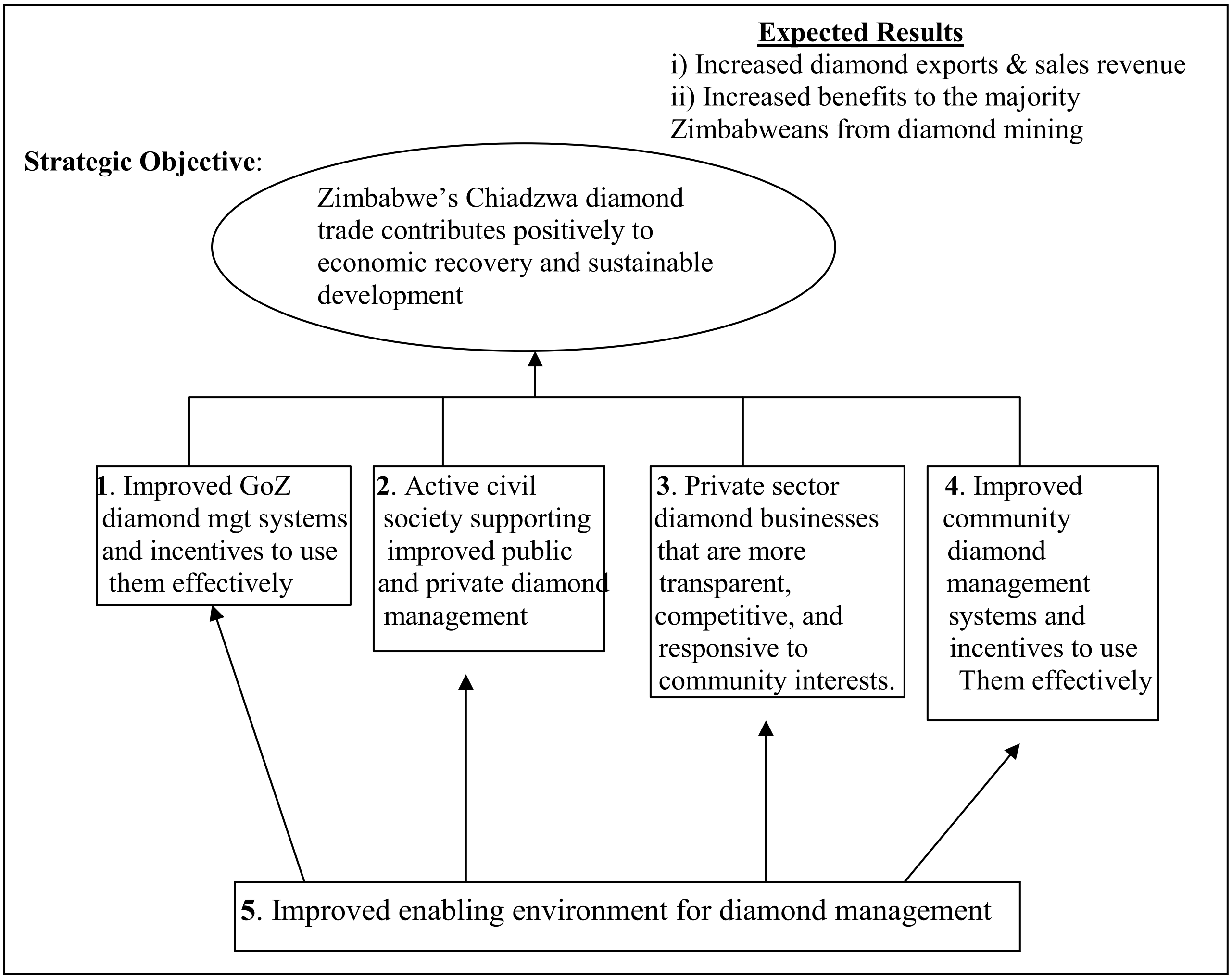
   There is serious and argent need for the Government of Zimbabwe (GoZ) to make concrete policy changes to enable diamond management, especially with partners such as the Kimberly Process (KP) and the international community. In light of the current and existing corrupt and looting of Chiadzwa diamond sales as of today; this may require even vigorous international pressure to ensure that significant changes can be implemented in a sustainable manner. Such changes will have the potential to reduce corruption, and smuggling of diamonds. Thus, the Ministry of Mines or other relevant statutory board has the duty to ensure that standards are set with respect to:

   - Rational (Chiadzwa diamond) mining investment rules
   - Transparent business transaction records
   - The onus of "know your customer" being placed on diamond dealers and exporters
   - Ensuring accountability for the above.

2) <u>Active civil society supporting improved public and private diamond management</u>

   There is also need to involve civil society organizations in supporting and/or monitoring both public and private diamond management. Given that most civil societies are composed of enlightened members ranging from lawyers, political activists etc, they have the capacity to diffuse and bring to light any corruption and mismanagement which may happen in the diamond industry. Their involvement in a country like Zimbabwe is even paramount given a long history of corruption in the country's management, not only of mining activities, but also across a number of sectors.

Figure 2: Chiadzwa Diamond's Integrated Diamond Management Program (CDIDPM)



Source: Constructed using USAID's (2005) IDPM framework

3) Involvement of private sector diamond businesses

This framework considers involvement of private sector businesses in diamond industry. In the case where government decides to involve private sector, then such businesses should be transparent, competitive and responsive to community interests. This implies that the new GoZ should shun and immediately do away with involving private sector controlled by few politicians as is currently the case with most mining activities in gold, platinum etc where politicians and their relatives from the former ruling ZANU-PF political party controls most, in not all, private entities in the mining sector.

4) Improved community management systems and incentive to use them effectively

This concept is premised on the principle of internal self–monitoring with strict procedures[4] and external oversight. Given that the objective of this whole management framework will be to convert Chiadzwa diamond resource from a source of corruption and 'blood diamond' to a foundation of economic recovery and sustainable development, this section should ensure that management of Chiadzwa diamond can:

- Have a transparent, fair, and safe local or international market
- Maximize benefits of local miners, diggers, and their communities and the country at large
- Track diamonds from earth to export
- Minimize corruption
- Mobilize local surveillance and monitoring

5) Improved enabling environment for improved diamond management

GoZ will need to ensure that that its Chiadzwa diamond production processes are brought in line with the Kimberley Process so as to ensure that the country's diamond industry meets the Kimberly Process Certification Scheme (KPCS)

Overall, given the above two frameworks, the study suggest the first (Botswana) framework as the possible best option for Zimbabwe's particular situation. This will, however, work successfully when the new government decides to take control of the country's diamond fields.

4.2 Management of the use of diamond revenues

'We have prudently used the revenues from diamonds to build a modern nation and a vibrant economy'. (Former President Mogae of Botswana, 7th June 2006, available at: www.diamondfacts.org)

'There can be no doubt that diamonds have played a major part in the transformation of our country's fortunes and the lives of our citizens…Revenue from diamonds has enabled Government to fund virtually 100% of basic education, provide virtually free healthcare, build infrastructure that has supported our economic activity and to fund 80% of the anti-retroviral drugs that have give

[4] Zimbabwe is not new to this system of internal monitoring as it has a well-established similar program in management of wild animals, called Communal Areas Management Program for Indigenous Resources (CAMPFIRE) which has been successful as the communities have significantly monitored animal poaching in their respective areas.

hope to our fellow citizens living with HIV/AIDS' (Former President Mogae of Botswana, 13th November 2006, available at: www.diamondfacts.org)

Poteete (2009), Makochekanwa (2009), Sarraf and Jiwanji (2001) and Transparency International (undated) are among the various authors who have praised Botswana as one of the countries which has avoided a number of the usual pitfalls that bedevil resource boom countries. Thus, the country has successfully managed the diamond mineral boom. Botswana's success was (is) however premised on the design, existence and effective implementation of a barrage or arsenal of both prudent monetary and fiscal policies which were (are) tailor-made to specifically deal with revenue proceeds from the diamond industry. This section is therefore modeled along Botswana's proven diamond revenue use framework which has been practically implemented and has had very successful results which cannot be disputed by any analysts.

1. Control over expenditures

Botswana managed over the years to save a large fraction of revenues, avoided excessive increases in expenditure, and sustained high recurrent surpluses. Over the years the government of Botswana (GoB) decided not to increase spending whenever revenue increased. Rather, the country based its expenditure levels on longer-term expectations of export earnings and government revenues. Thus, even during 1981/82 and 1994 when there were falls in diamond export earnings, surpluses declined while expenditure levels were maintained (Sarraf and Jiwanji, 2001). In recent months, since the start of the current financial global crisis (in 2008), the country has managed to avoid drastic cuts in expenditures when revenues decreased. This ability to maintain expenditures has ensured that the country's long term growth had been reinforced.

2. Building of foreign exchange reserves

As alluded to above, GoB avoided increasing spending whenever diamond revenue increased. The country refused the temptation to spend everything in the treasury and instead, any excess revenue was used to build up foreign exchange reserves at the Bank of Botswana. These reserves were thus available to be used mostly in years when revenues were low. The country managed to maintain average reserves which covered more than 20 months worth of imports for the larger part of the time period since diamonds were discovered. The import cover even peaked in 2005 when they reached 40 months (Poteete, 2009) and the country's international reserve import cover was 28 months as of April 2009.

3. Avoidance of external debt

Botswana has managed to avoid external debt since it started mining the diamond more than 30 years ago. Even faced with the current global financial crisis which has paralyzed countries across the globe, from big and rich countries such as USA to small and poor countries of Sub-Sahara Africa (SSA), Botswana is not considering borrowing any money. Rather, the country is considering utilizing its accumulated foreign exchange reserves.

4. Encouragement of economic diversification

The country has been implementing product diversification over the year after realizing that relying on one export commodity can be disastrous. Whilst the share of manufacturing value added in GDP is small, accounting for slightly above 4 percent in 2006, its growth has been very dynamic, especially when compared to the average growth of the manufacturing sector in Sub-Saharan African countries or upper-middle income economies. The country's growth of the service sector (in its broadest definition) has resulted in this sector contributing more than 30 percent of the country's GDP, slightly below mining's 36 percent.

5. Domestic investment strategy

The optimal investment strategy for resource endowed countries is that the country should not invest beyond its absorptive capacity, but rather should consider all the recurrent costs associated with new investment programs and only invest when the expected rate of return is considerably above that which can be earned in risk-less foreign assets. In fact others propose that it is better to leave windfall gains in the hands of the private sector (Collier and Gunning 1996 in McMahon, 1997:38) while some scholars support the notion of pursuing investments with high social rates of return, particularly those in human capital and infrastructure (Seymour 2000). In the case of Botswana, given high level of savings emanating from diamond revenues surpluses, the country had to decide the proportions of surpluses to be allocated between domestic investment and accumulation of international reserves.

Botswana's domestic investments were based on expected intermediate and long term revenue flow, after taking account of the recurrent expenditure involved in each new development project. The country's prudent domestic investment strategy was designed in such a way as to avoid mistakes that most countries engage themselves once faced with a boom. According to McMahon (1997), most countries faced with resource boom often make irreversible government investment expenditure decisions without proper account of the recurrent expenditures associated with each new investment. As a result, once the boom is over and the revenue streams subsided, it becomes very difficult to adjust expenditures down to be at par with the new smaller revenues, and projects often have to be abandoned before completion. A case in point is Trinidad and Tobago where there was public pressure to share the benefits of the boom, which led to large subsidies for food, fuel, utilities, and loss-making enterprises. However, when the annual growth rate of GDP was actually negative in 1981, there was considerable political difficulty in making cutbacks (McMahon 1997).

In the case of Botswana, the government religiously and judiciously avoided undertaking any new development projects if there was no provision to cover the long term recurrent costs. In fact, GoB has consistently produced National Development Plans (NDP) which outlined its spending and according to the country's laws, once a plan was voted into force by parliament, it became illegal to implement any additional public projects without going back to parliament. Thus, because of this system, the country managed to effectively control its spending over the years and avoided the inception of a project for which no provision was made to cover the total costs over time (Sarraf and Jiwani, 2001).

6. No room for rent seekers

Rent-seekers, both within and outside of the public sector can influence implementation of inappropriate economic management whose effects are detrimental to the whole economy. Auty (1998) point out that existence of large resource rents can distract attention away from long-term economic development goals and towards rent seeking activity and patronage. Lane and Tornell (1995) further argue that a resource boom can lead to a "feeding frenzy" in which rent seekers fight for the natural resource rents. In the case of Botswana, the country has not allowed any room for maneuvers by rent seekers. Zimbabwe's mining industry is currently characterized by strong rent-seekers and most of them are either politicians or their relatives, even in the current setting of Chiadzwa diamond. Thus for any successful benefits to be extracted from Zimbabwe's Chiadzwa diamond field, the room for rent seekers should therefore be closed permanently.

7. Management of exchange rate

GoB has over the years intervened whenever necessary in the management of its foreign exchange rates. The country's management of Pula exchange versus currencies such as the US dollar and South African rand, among other currencies, has afforded the country to avoid real appreciation of the local currency, thus ensuring continued competitiveness of the country's non-diamond exports. The accumulation of foreign exchange reserves during boom periods which was refereed before was therefore consistent with this exchange rate management objective. Thus Botswana avoided a common problem of local currency appreciation which most countries experiences during export booms whose negative effect leads to a reduction in the competitiveness of other export products.

Overall, the study recommend Zimbabwe's new government, the GNU, to seriously consider the management style of diamond industry which has bee implemented by

Botswana over the years. Whilst, it may not be possible to replicate the whole management style, the GNU can at least borrow a lot of good advice from Botswana.

5 Conclusion

The research was motivated by the need for Zimbabwe's recovery financial assistance to kick-start the recovery of its economy. Since the formation of the government of national unity (GNU) on February 2009, the GNU had been on a begging mission, mostly within the southern Africa region, with its begging bowl, preaching the gospel of financial assistance to the tune of at least US$8.3 billion, with US$2 billion required immediately.

The study presented the potential financial ability of Chiadzwa diamond revenue sales in contributing towards the country's economic recovery and future sustainable economic growth and development. Using the two estimated monthly revenue sales of US$1 billion and US$1.2 billion from Chiadzwa diamond, the study argues that the country's immediate financial requirements of at least US$8.3 billion can be wholly met with proceeds from this mine field, only if the new unity government has a political will. Partial projections presented in this paper shows that, once diamond revenue sales are harnessed by the government for the benefit of the whole economy as opposed to the current situation where the few revenues are only benefiting few politicians and their relatives, the country's GDP can jump from the 2008 level of US$3.2 billion to at least US$16.7 billion starting 2009. Thus this study concludes that there is no need for Zimbabwe to continue begging for this small amount of US$8.3 billion given that the country has Chiadzwa diamond whose sales revenues can bring that amount in less than a year, ONLY if the GNU has political will to ensure that the national resources are used for the benefit of the whole country.

The paper ended by suggesting management frameworks that the GoZ can consider implementing in the management of Chiadzwa diamond. The management framework was divided into two: management dealing with ownership, mining and sale of diamonds; and management relating to the use of diamond revenues. In both frameworks, the study borrowed heavily from the proven and pragmatic management style of Botswana, the only African country to successfully manage diamonds for the betterment of its economy.

References

Auty, R. M. Mayer, J., Chambers, B. and Farooq, A. (eds). (1999): "The transition from rent-driven growth to skill-driven growth: recent experience of five mineral economies", *Development Policies in Natural Resource Economies*, 55-77.

Bate, R (December 11, 2008): "Blood Diamonds". National Review Online Article. Available at: http://www.aei.org/publications/pubID.29051/pub_detail.asp

Coakley, G. J. (2004): The Mineral Industry of Botswana

Even – Zohar, C. (2003), "Sierra Leone Diamond Sector-Financial Policy Constraints", Management Systems International (MSI)

Government of Zimbabwe (GoZ) (2009): "Short Term Emergency Recovery Programme (STERP): Getting Zimbabwe Moving Again".

Hove, C (2008): "The many diamonds of Chiadzwa", Available at: http://www.newzimbabwe.com/pages/mines44.19067.html

International monetary Fund (IMF) (2009): "Preliminary Conclusions of the IMF Article IV Consultation Mission", Facsimile addressed to Zimbabwe's Minister of Finance, 23 March 2009.

Independent Online Newspaper (SA) (April 3, 2009): "Zimbabwe appeals for aid to help homeless", Available at http://www.iol.co.za/html/news/zimbabwe/index.php

Independent Online Newspaper (SA) (April 4, 2009): "Zim sets 100-day target for economy", Available at: http://www.iol.co.za/html/news/zimbabwe/index.php

The Zimbabwean Newspaper (April 19, 2009): "Southern African Finance Chiefs Head to US Seeking Funds for Zimbabwe:, Available at: http://www.thezimbabwean.co.uk/index.php?option=com_content&task=view&id=20563&Itemid=103.

The Zimbabwean Newspaper (5 April, 2009): "Mugabe offers Chiadzwa to Russians", Avalable at: http://www.thezimbabwean.co.uk/index.php?option=com_content&task=view&id=20192&Itemid=103

New Zimbabwe Online Newspaper (12 February 2008), "Zimbabwe government firm takes over diamond claim. Available at: http://www.newzimbabwe.com/pages/mines19.15899.html

The Zimbabwean Newspaper (5 April, 2009): "Mugabe offers Chiadzwa to Russians", Available at:

http://www.thezimbabwean.co.uk/index.php?option=com_content&task=view&id=20192&Itemid=103

The Zimbabwean Newspaper (5 April, 2009): "Mugabe offers Chiadzwa to Russians", Available at:
http://www.thezimbabwean.co.uk/index.php?option=com_content&task=view&id=20192&Itemid=103

The Zimbabwean Newspaper (22 March 2009): "Police, solders resist transfer from Chiadzwa", Available at:
http://www.thezimbabwean.co.uk/index.php?option=com_content&task=view&id=19854&Itemid=103

The Independent Online Newspaper, South Africa. (3 April 2009): "Zim diamonds a no-go". Available at: http://www.iol.co.za/html/news/zimbabwe/index.php

Makochekanwa. A (200): "An empirical test of the Dutch Disease hypothesis on Botswana's main exports", Available at:
https://www.gtap.agecon.purdue.edu/resources/download/4244.pdf

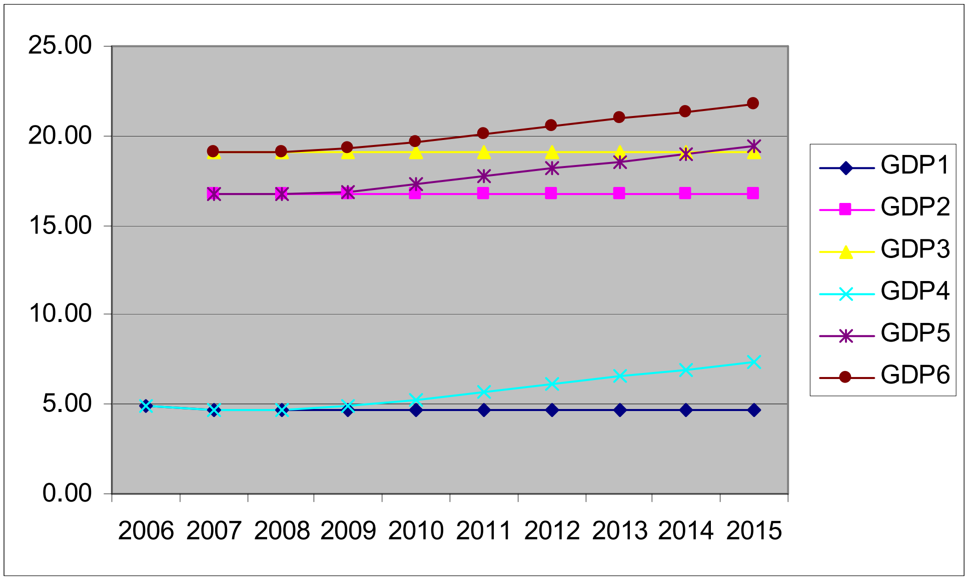
Sarraf. M. and Jiwanji, M. (2001): "Beating the Resource Curse: The Case of Botswana", *The World Bank Environmental Series Paper* No. 83.

Unknown 'Zimbabwe: Zim Loses Out As Chaos in Chiadzwa Rages On', Available at: http://allafrica.com/stories/200810310964.html.

Poteete, A. R (2009): "Is Development Path Dependent or Political? A Reinterpretation of Mineral-Dependent Development in Botswana", *Journal of Development Studies*, 45(4), pp 544 – 571.

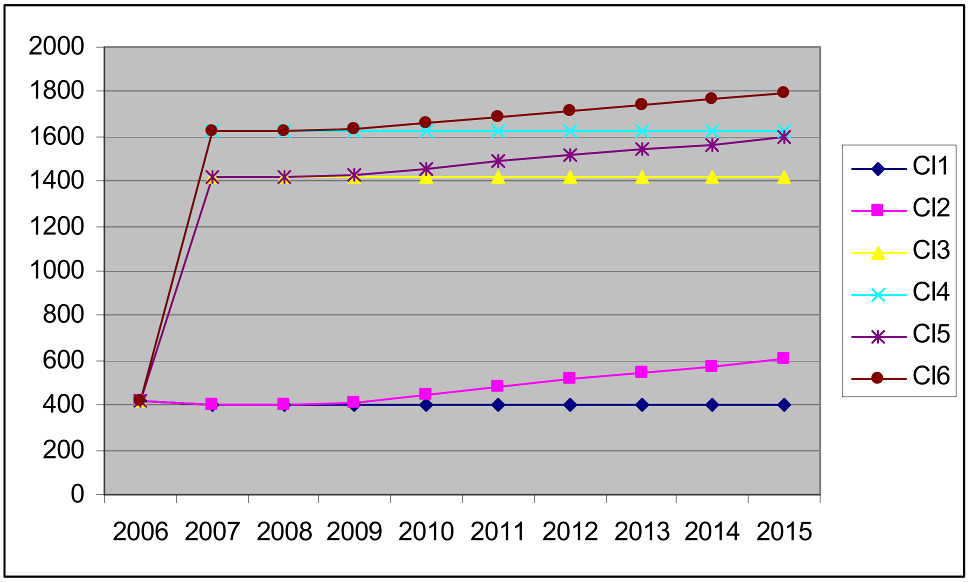
APPENDIX

Figure A1: GDP projections with and without diamond revenue



Key:
GDP1 = No changes in GDP and population growths, and no diamond revenue
GDP2 = No changes in GDP and population growths, plus US$12b diamond revenue
GDP3 = No changes in GDP and population growths, plus US$14.4b diamond revenue
GDP4 = Changes in GDP and population growths and no diamond revenue
GDP5 = Changes in GDP and population growths, plus US$12b diamond revenue
GDP3 = Changes in GDP and population growths, plus US$14.4b diamond revenue

Figure A2: GDP per capita projections with and without diamond revenue



Key:
CI = Per Capita Income (of GDP)
CI1 = No changes in GDP and population growths, and no diamond revenue
CP2 = Changes in GDP and population growths and no diamond revenue
CI3 = No changes in GDP and population growths, plus US$12b diamond revenue
CI4 = No changes in GDP and population growths, plus US$14.4b diamond revenue
CI5 = Changes in GDP and population growths, plus US$12b diamond revenue
CI6 = Changes in GDP and population growths, plus US$14.4b diamond revenue