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Aid, Governance and Public Finance Fraud: Evidence from Zimbabwe¹

Abstract: The purpose of this case study article is to explore the process of public finance fraud resulting in an unjust enrichment of local ruling elites in Zimbabwe, a resource-rich yet paradoxically fragile state characterised by decades of rule by Robert Mugabe. The article examines the phenomenon of political corruption occurring in Zimbabwe and translating into the mismanagement and misuse of public revenues from natural resources for the sake of private gain and power consolidation. Furthermore, the article looks at the link between corruption and illicit financial flows by examining complex organisational networks and mechanisms created for the sake of diverting public assets with the help of front companies. Finally, since political corruption is inherently connected to the quality of governance, the author explores the impact of governance on human development as well as the effectiveness of foreign aid channelled to Zimbabwe. The article was written on the basis of an analysis of secondary sources including a review of relevant literature and existing evidence. The findings of this research coincide with a general academic standpoint supporting the narrative that both natural resources and aid have negative consequences for governance, the rule of law, and, consequently, human development, especially in countries governed by unscrupulous leaders.

Keywords: Africa, corruption, Zimbabwe, resource curse, foreign aid

JEL Classification Codes: O13, O15, P48, F35, Q32

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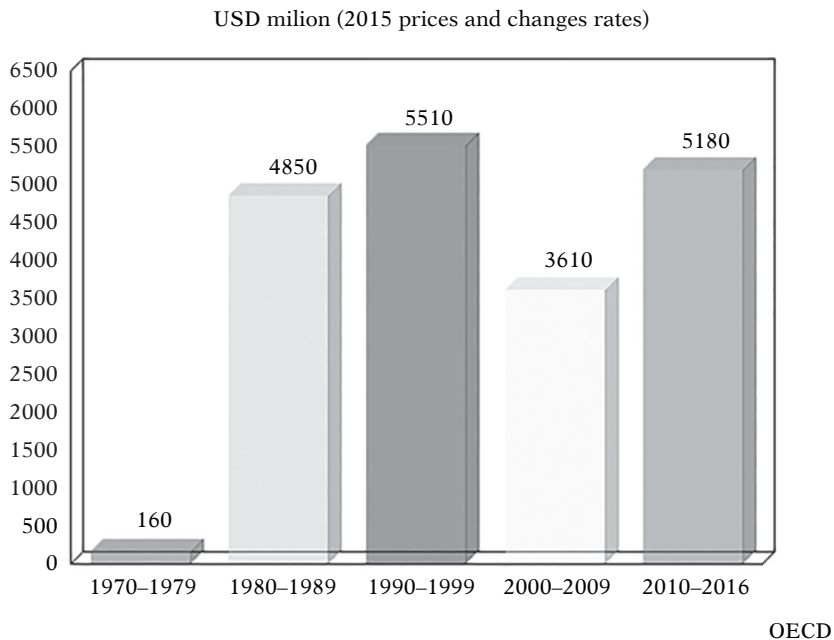
Introduction

Zimbabwe is a landlocked country generously endowed with natural resources such as diamonds, coal, gold, platinum, copper, nickel, tin, clay, and numerous metallic and non-metallic ores [CIA, 2018]. It ranks as one of the biggest diamond exporters worldwide. In terms of carats, Zimbabwe accounted for 9 percent of the world's supply of diamonds in 2012 [Burgis, 2015]. In spite of having abundant minerals in its soils, Zimbabwe remains extremely undeveloped and poor. Its gross national income (GNI) per capita stood at current USD 900 in 2014 after having recovered from its worst dip ever in 2008 [World Bank, 2018]. Moreover, foreign direct investment (FDI) inflows have been falling in recent years due to political uncertainty, while the government's protectionist policies have been criticised for hitting the most vulnerable and for exacerbating corruption [UNCTAD, 2018; Ndlovu, 2017; Donga et al., 2018]. Despite qualifying for the UN Least Developed Country (LDC) status, Zimbabwe has declined to be included in the LDCs list, questioning the validity and accuracy of data presented by the UN Committee for Development Policy [UN, 2015].

The country's economy is predominantly propelled by contribution from mining and agriculture [CIA, 2018]. These sectors have proved prone to instability due to volatile global prices of minerals as well as unpredictable weather patterns. Furthermore, the seizure of many white-owned farms by the government since 2000 has contributed to damaging the country's agricultural sector, once the backbone of Zimbabwe's economy [Fletcher, 2017]. Having experienced record hyperinflation in 2008, due to routinely printing money to fund the budget deficit, the country in 2009 adopted a multi-currency regime in an attempt to stabilise its economy [CIA, World Bank, 2018]. However, persisting challenges such as poor infrastructure and regulatory deficiencies—notably the absence of property rights regulations, a poor investment climate, a large public debt, and extremely high government wage expenditures—contribute to the country's poor economic performance [CIA, 2018]. Zimbabwe, which possesses massive natural resources, is an example of a “resource-cursed” country. The resource curse refers to a situation where resource-rich countries “fail to benefit fully from their natural resource wealth” and “governments in these countries” fail to “respond effectively to public welfare needs” [NRGI, 2015]. The country's excessive reliance on volatile business sectors, exacerbated by economic mismanagement, neglected infrastructure, low institutional capacity and bad governance, lead to a persistently low level of human development and endemic poverty of its population [World Bank, 2018].

Aid to Zimbabwe

Figure 1. Net ODA to Zimbabwe



Source: adapted from OECD.

According to data published by the OECD, net official development assistance (ODA) channelled to Zimbabwe from 1970 to 2016 totalled USD 19.3 billion (see Figure 1) [OECD, 2018]. The 2016 data on allocation per sector shows that the bulk of the ODA tends to finance social infrastructure, followed by humanitarian aid, production, programme assistance, and multi-sector and economic infrastructure [OECD, 2015]. The top five donors in 2016 were the United States, the Global Fund, the United Kingdom, European Union institutions, and Germany. Moreover, the United States, the largest bilateral donor, channelled to Zimbabwe approximately USD 3.8 billion between 1954 and 2016 (in constant 2016 US dollars) – see Table 1.

An analysis of historical data on American foreign aid – regarding the hierarchy of priorities when granting aid to specific sectors in Zimbabwe between 1954 and 2016 – reveals a trend similar to that identified by the OECD methodology. Generally, priority was given to supporting the country's development and social infrastructure, i.e. combating food insecurity, supporting child nutrition, combating diseases as well as demining [USAID, 2016]. However, substantial amounts of funds were also designated to finance military support and training provision.

Table 1. US Foreign Assistance to Zimbabwe

Assistance Category	Sum of Obligations 1954–2016 (Constant USD)
U.S. Agency for International Development	1 937 530 806
Department of Agriculture	1 005 875 524
Department of State	666 483 279
Department of Health and Human Services	83 534 201
African Development Foundation	28 262 446
Peace Corps	18 453 489
Department of Defense*	10 403 163
Department of the Interior	3 127 155
Department of Defense*	313 903
Grand Total	3 753 982 966

* According to the data the Department of Defense has designated USD 10.4 million as military aid whereas USD 313,903 as economic one.

Source: USAID.

Conceptualising aid and good governance

Scholars such as Rodrik [2013] and Collier [2008] emphasise the importance of state institutions in developing a country's ability to rise out of poverty. Yet, despite the emphasis placed by the donors in the late 1990s on the existence of sound policies in recipient countries and on the role of aid in promoting such policies, this approach has turned out to be a mixed success. The *ex ante* conditionality of aid commonly used as an incentive for governance improvement has been criticised for promoting the recipient's disobedience of rules and regulations and for impacting institutional accountability [Collier, 2008]. The research of Buch et al. [2015] shows that aid channelled to developing countries in order to foster institution building has shown a broadly counterproductive outcome because, in the absence of concrete targets set by donors, aid-dependent countries tend to select easily achievable ones. Smith [2007] maintains that aid undermines good governance by creating an environment where the influx of aid tends to erode government legitimacy. Bräutigam and Knack [2004] have demonstrated that high dependence on aid reduces government incentives to collect revenues from taxation. Meanwhile, Knack's [2001] analysis has provided evidence of high aid levels eroding the quality of governance in the context of bureaucracy, corruption and the rule of law. Morrison [2009] as well as Bueno de Mesquita and Smith [2010] conclude that aid, similar to oil, tends to inhibit regime transition, while Ahmed [2012] maintains that aid decreases the likelihood of government turnover in autocracies. Alesina and Weder [1999] have found out that, according to some measures of aid, more corrupt governments receive more aid than less corrupt ones, and that in reality multilateral donors who have popularised the "*good governance*" discourse pay no attention to the level of corruption in the receiving country. Moyo [2010], by referring to the "*vicious*

cycle of aid,” advocates against giving aid to African countries as a means of supporting their development. Speaking in the same tone, Collier [2008] maintains that in the case of Africa aid was intended to supply free public capital, not private capital needed to boost economic growth. Consequently, aid halted economic growth because private capital and investment tend to bypass the most capital-scarce countries due to a high risk of investment associated with poor governance [Collier, 2008]. What’s more, Collier and Hoeffler, cited in Collier [2008], estimate that around 40 percent of military expenditures in Africa have been financed by aid. Military spending is argued to be especially important as a means of pursuing narrow political interests [Conrad et al., 2013; Kono, Montinola, 2012]. Thus, aid appears to have contributed to supporting bad governance.

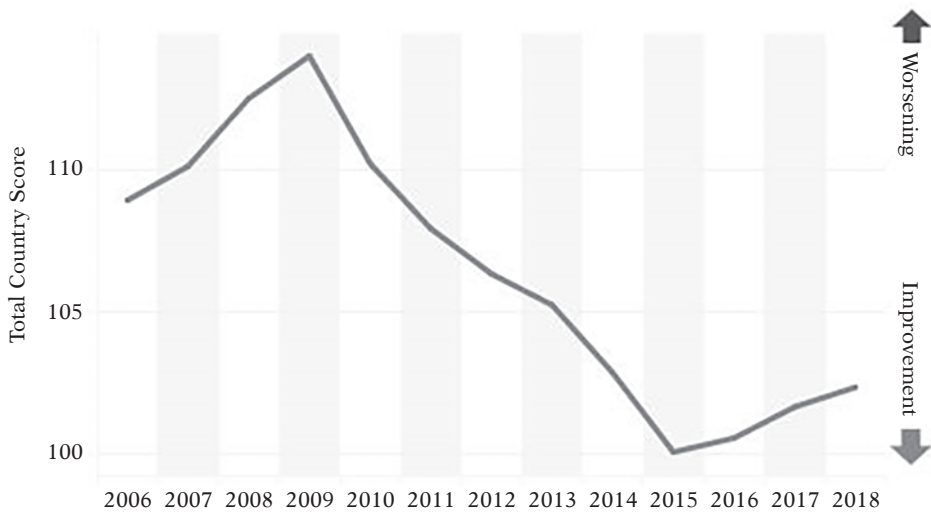
Some economists are less pessimistic about aid and corruption. Jeffrey Sachs is known to be one of the strongest advocates of foreign assistance as a panacea for persistent poverty [Kaplan, 2013]. He refers to a moral obligation of developed countries to supply poor nations with aid [Sachs, 2005, cited in Tarp, 2012]. Arndt et al. [2010, 2015] find evidence of a long-term positive impact of aid on growth, structural change, social indicators and poverty reduction. Menard and Weill [2015] find no significant evidence of how aid might impact corruption and how corruption levels influence donor decisions. Smith [2007] mentions the existence of a “*revisionist*” view of corruption speeding up procedures, bypassing red tape, buying political access for the excluded, and even producing more effective policies, while Bill Gates, one of the most generous private donors of aid worldwide, claims that corruption is an inevitable “*tax on aid*” [Kenny, 2014].

Governance and corruption in Zimbabwe

Zimbabwe ranks 10th among 178 countries in the 2018 Fragile States Index (FSI), with a score of 102.3 out of 120 points [FFP, 2018]. The FSI is the most prominent index published by the Fund for Peace (FFP), attempting to assess a state’s vulnerability to collapse. While there was a temporary improvement phase between 2009 and 2015, chiefly due to an economic rebound, the general downward trend captured by the FFP indicates the country’s deteriorating situation in terms of tackling different internal pressures (see Figure 2).

Moreover, during the last 12 years, Zimbabwe has been among countries scoring low in Transparency International’s (TI) influential Corruption Perceptions Index (CPI), which measures corruption in the public sector (see Table 2). The public sector is where civil servants, state officials and politicians have a lot of incentives and opportunities to act in a corrupt and unethical manner. In the 2017 CPI, Zimbabwe ranked 157 among 180 countries, with a score of 22 out of 100, where 100 means practically nonexistent corruption [TI, 2018]. The country’s score indicates the existence and persistence of rampant corruption. The overview of trends provided by the FFP and TI clearly points to stagnation in terms of governance improvement and tackling corruption in Zimbabwe.

Figure 2. Zimbabwe Overall Trend 2006–2018



Source: FFP.

Table 2. Zimbabwe in Corruption Perceptions Index ranking

Zimbabwe in CPI 2006–2017	
Year CPI	Rank
2006	130
2007	150
2008	166
2009	146
2010	134
2011	154
2012	163
2013	157
2014	156
2015	150
2016	154
2017	157

Source: adapted from TI.

Evidence from Zimbabwe

Zimbabwe is characterised by rampant and systemic corruption that is present in both the economy and political life. Corrupt practices in the country take various forms, ranging from petty, bureaucratic and political corruption to grand corruption involving top political actors [Chêne, 2015]. There is

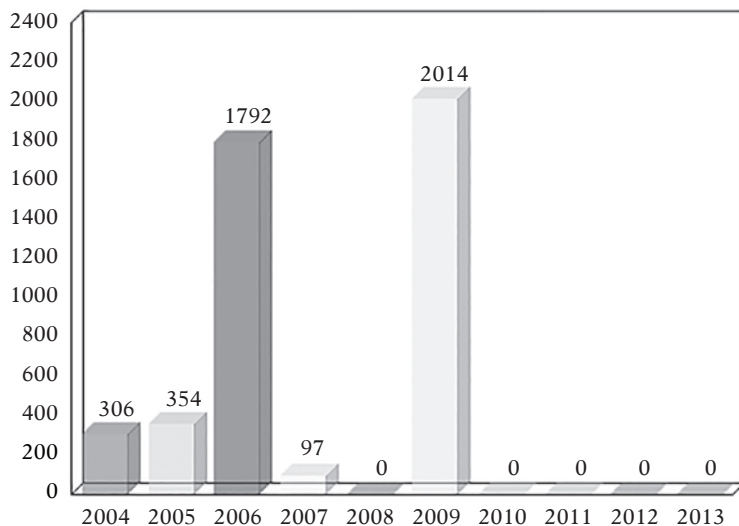
also a well-established system of nepotism, abuse of power and ruling party patronage championed by the Zimbabwe African National Union – Patriotic Front (ZANU-PF) as well as extortion and repression by the ruling elites [GAN Integrity, 2016; Chêne, 2015]. Corruption in Zimbabwe remains widespread and endemic due to years of no checks and balances, institutional dysfunctionality and selective enforcement mechanisms promoted by Robert Mugabe's government to target the opposition [GAN Integrity, 2016]. Numerous practices of nepotism, cronyism and patronage as well as cases of abuse of power have occurred among the top political actors connected predominantly to Mugabe in spite of the existence of a theoretically inclusive coalition-based government between 2009 and 2013. Despite efforts by the opposition, clientelistic networks and deeply entrenched party patronage systems, based on the redistribution of public goods and repression, secured Mugabe a tight grip on government institutions for more than 37 years. Consequently, corruption in Zimbabwe flourished due to prioritising power retention and consolidation over anti-corruption efforts.

Zimbabwe has an extensive body of regulations put in place in order to deter corrupt activities of any nature and to criminalise them. Transparency International lists at least 12 different laws that theoretically address corruption [Chêne, 2015]. The 1983 Prevention of Corruption Act criminalises active and passive bribery, extortion and money laundering in the public and private sectors, while the 2004 Criminal Law and the Criminal Procedure and Evidence Amendment Act set up frameworks for corporate criminal liability. What's more, the Zimbabwean constitution has established the Zimbabwe Anti-Corruption Commission (ZACC) with a mandate to investigate offences as well as the National Prosecuting Authority, which sets the framework for public officers and civil service conduct [Chêne, 2015]. The problem is that these internal laws have been hardly enforced or used exclusively to silence the opposition. Furthermore, in 2007, Zimbabwe ratified the United Nations Convention Against Corruption (UNCAC) aimed at international cooperation focused on preventing corrupt practices and recovering stolen assets [UNTC, 2018]. The country is also a signatory to the SADC Protocol as well as the African Union Convention on Combating Corruption [Chêne, 2015]. The country's performance in 2016 in terms of anti-money laundering and terrorist financing systems was qualified by the Financial Action Task Force (FATF) as compliant to standards [FATF, 2017].

Nonetheless, two persistent major issues in the country's anti-corruption legal regime can be identified. First, there is no asset and income declaration system for public officials in Zimbabwe even though the country's constitution sets out the basis for such a system in its Article 198 [Duri, 2016]. The Zimbabwean parliament worked on a draft Asset Declarations Register in 2016 [Duri, 2016]. However, there is by far no evidence of such a register being implemented and enforced [Majoni, 2018]. Second, there is no adequate legal framework to regulate information disclosure on beneficial ownership of corporate vehicles registered in Zimbabwe under the Companies Act [Duri, Matasane, 2017].

Global Financial Integrity (GFI) estimates that Zimbabwe lost USD 276 million annually on average in illicit financial flows from 2004 to 2013 (see Figure 3). The estimation takes into account trade misinvoicing as well hot money flows, i.e. leakages in the balance of payments [GFI, 2015].

Figure 3. Illicit financial flows from Zimbabwe, 2004–2013 (in USD million nominal)



GFI

Source: adapted from GFI.

Robert Mugabe, Zimbabwe's former president, remained in power for 37 years thanks to relying on a small coalition of supporters and taking control of strategic industries. Consequently, public wealth ended up being consistently looted and distributed among narrow groups of loyal regime supporters. This was additionally exacerbated by economic mismanagement, leading to skyrocketing inflation that left the once prosperous nation practically destitute. Despite the existence of a solid legal framework preventing corrupt practices, Mugabe incorporated the usage of state resources in order to cultivate private patronage networks and award loyalty. Tendai Biti, a politician with the opposition Movement for Democratic Change party who served as finance minister in the country's coalition government from 2009 to 2013, once said: "My problem was not only the millions that Mugabe had stolen, but the billions that disappeared in other channels. Today we know that about \$15 billion disappeared during my tenure alone" [Biti, cited in Cascais, Mwakideu, 2017]. The wealth of Robert Mugabe and his family was estimated at over USD 1 billion in 2001 [US Embassy Harare, 2001]. Most of the assets were rumoured to have been stashed abroad and included secret bank accounts in Switzerland, the Channel Islands and the Bahamas as well as the ownership of cast-

les in Scotland. Another source of information dating back to 2002 estimated Mugabe's assets (cash and property) held abroad at USD 100 million [*Financial Times*, cited in TI, 2002].

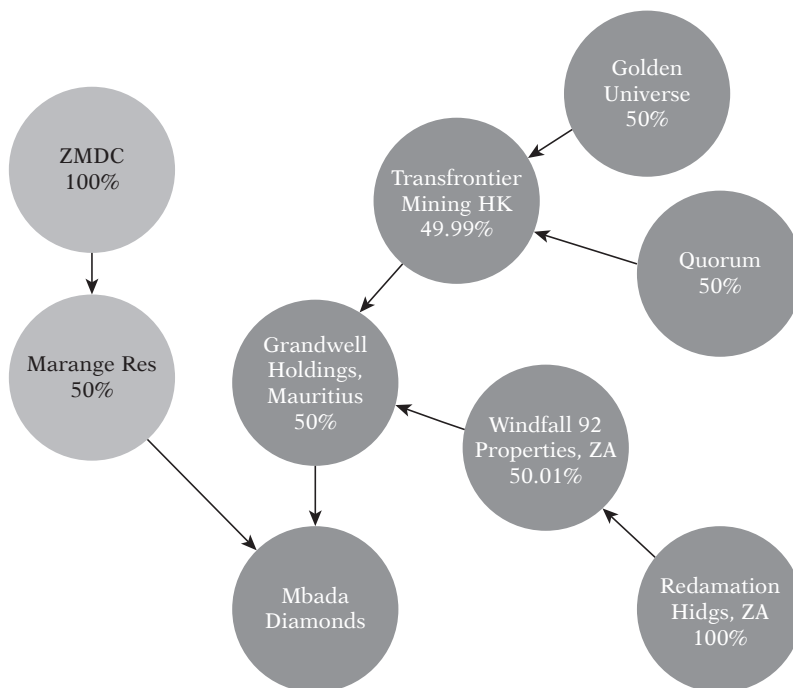
Swiss Leaks findings show that some of Mugabe's close aides and ZANU-PF colleagues held financial assets in the Swiss branches of the HSBC bank. These included Aguy Clement Georgias, a ZANU-PF senator and a deputy minister for economic development, and Josiah Tungamirai, the late air force commander and party boss [Choto, 2015]. In March 2002, following sanctions imposed by the European Union and the United States, the Swiss foreign ministry informed the public about "*freezing assets belonging to Mugabe and his immediate entourage*" [Swissinfo, 2002]. This appears to confirm that other ZANU-PF members, including Mugabe himself, possess or may have possessed financial assets in Switzerland. According to Swiss Leaks, approximately USD 272.2 million deposited in 302 bank accounts belonged to 198 Zimbabwean clients including politicians [ICIJ, 2018]. However, there are only a few known cases of fraudulent activities that could be linked directly to Robert Mugabe and his family. This is because Mugabe is believed to have turned a blind eye to the corrupt activities of his ministers, while keeping a low profile himself. Consequently, many individuals connected to him in one way or another faced sanctions imposed by the Western world [News24, 2002].

Zimbabwe is ranked among the biggest diamond exporters worldwide. Measured by carats, Zimbabwean diamonds accounted for 9 percent of the world's supply in 2012 [Burgis, 2015]. Mugabe, who back in 2008 had to share his power with the opposition, used armed forces loyal to him to terrorise small-scale miners and take over the country's vast Marange diamond fields in October 2008 [Global Witness, 2012]. The Marange diamond fields are believed to be among the world's richest [FoEI, 2017]. In 2008, Mugabe's ZANU-PF party retained control of key security institutions including the Central Intelligence Organisation (CIO), the Ministry of Defence, the Ministry of Home Affairs, and the Ministry of Mines and Mining Development [Global Witness, 2012]. However, Mugabe was unable to take full control of government revenue from the diamond trade because his political opponents held two strategic government positions, with Morgan Tsvangirai as prime minister and Tendai Biti as finance minister. Taking the Marange diamond fields away from the Zimbabwean people by force was Mugabe's way of financing a parallel government behind the opposition's back. At the same time, he sought to undermine the opposition's credibility to govern effectively and worked to build a network of loyalists amid plans to recapture absolute power in the next election [Burgis, 2015]. Consequently, according to Biti, only 10 percent of the USD 800 million revenue from official diamond exports between 2010 and 2012 made its way into state coffers even though the government theoretically owned large stakes in mining enterprises [Burgis, 2015].

Diamond extraction in Zimbabwe requires government concessions. All companies seeking a concession must form a joint venture with Marange

Resources, a vehicle representing the Zimbabwe Mining Development Corporation (ZMDC), which aims to safeguard the government's interest in deals [Global Witness, 2017]. However, there is glaring evidence that practically every company that has been granted a lucrative concession to mine diamonds has had severe due diligence issues and a track record of either being linked to Mugabe and his ZANU-PF cronies or being used as a vehicle to siphon money out of the country [Burgis, 2015]. These companies include Kusena Diamonds, Anjin Investments, Jinan Mining, the Diamond Mining Corporation (DMC), and Mbada Diamonds.

Figure 4. Mbada Diamonds case



Source: researcher's construct.

Mbada Diamonds is known to have held the largest concession for mining in the Marange fields and to have publicly celebrated reaching USD 1 billion in turnover [Global Witness, 2017]. Mbada Diamonds was formed as a joint venture consisting of an affiliate of South Africa's (New) Reclamation Holdings scrap metal group and the state-owned Marange Resources company, a subsidiary of ZMDC (see Figure 4). However, the ownership structure of Mbada Diamonds changed after Hong Kong's Transfrontier Mining took over 49.99 percent of its share in Grandwell Holdings in 2011 [Global Witness, 2012]. The ultimate owners of Transfrontier Mining are unknown and obscured behind a complex network of front companies stretching from South

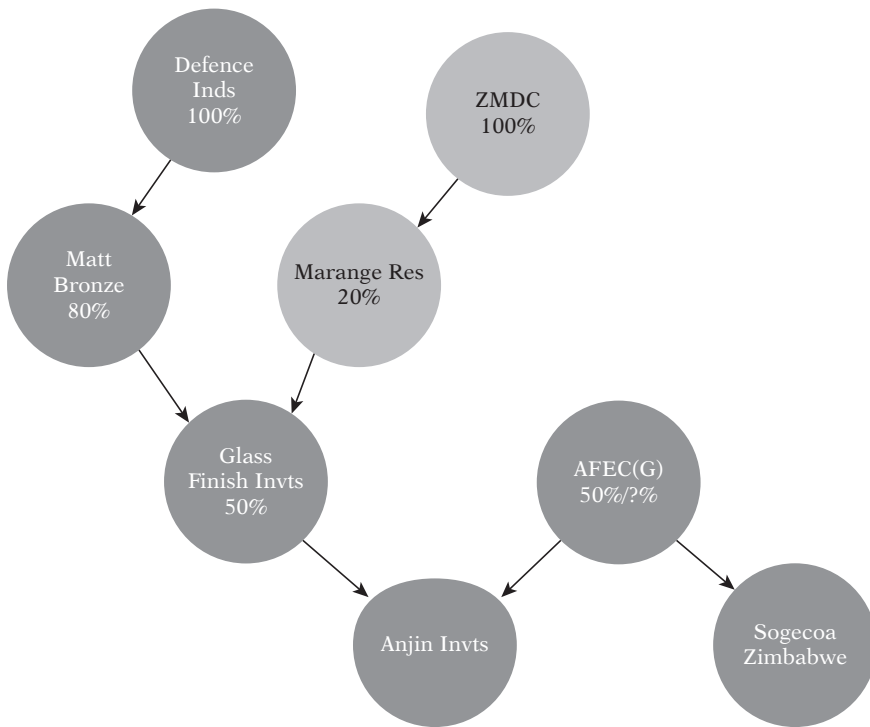
Africa, Mauritius to Hong Kong and beyond [Global Witness, 2017]. South Africa's Liparm Corporation has referred to Hong Kong-based Transfrontier Mining as its sister company. Liparm Corporation CEO Robert Mhlanga is chairman of Mbada Diamonds. Transfrontier Mining owns 49.99 percent of Mauritius-based Grandwell Holdings, which, in turn, holds 50 percent of Mbada Diamonds. This, according to Global Witness [2017], appears to indicate that Mhlanga controls or owns 25 percent of Mbada Diamonds through Transfrontier Mining.

Mhlanga is a retired Air Vice-Marshal in the country's air force and a man closely linked to Mugabe. He serves as Mugabe's personal pilot [Global Witness, 2017]. Another investor in Grandwell Holdings, with a 50.01 percent stake, is South Africa's Windfall 92 Properties PTY, a company 100 percent controlled by Reclamation Holdings PTY. Another source claims that Obert Mporofu, a former Minister of Mines and Mining Development and Minister of Transport and Infrastructure Development, entered into partnership with Mbada Diamonds, allocating 50 percent of the stake in the mining firm to the (New) Reclamation Group, which controls Grandwell Holdings through Windfall 92 Properties PTY [Nehanda Radio, 2014]. The source states: "*Evidence suggests that Zimbabwe's natural resources are financing South African real estate shopping sprees and top-end Dubai office space apparently used to carry out covert diamond deals*" [Nehanda Radio, 2014]. Indeed, Liparm Corporation is known to have established a commercial office in the Almas Tower in Dubai. The tower is home to the Dubai Diamond Exchange, where Mhlanga and a former Permanent Secretary of Mines and Mining Development, Francis Pedzana Gudyanga, play important roles [Global Witness, 2017].

Anjin Investments is another high-profile case of secret exploitation of Zimbabwe's diamond sector by a company connected to top politicians. Anjin Investments, which claimed to be the world's biggest diamond company, was formed as a joint venture between an obscure Zimbabwean company called Matt Bronze Enterprises and China's Anhui Foreign Economic Construction Group (AFECC) – see Figure 5 [Global Witness, 2012]. The Zimbabwean board members of Anjin Investments included retired and active senior military and police officers, among them a Permanent Secretary at the Ministry of Defence, two commissioners in the Zimbabwe Republic Police, the ZANU-P Director of Publications, and some officers of the Zimbabwe Defence Forces [Global Witness, 2012]. While military and police control of one of the major diamond companies clearly created opportunities for securing off-the-books funding for the security sector, the ownership of the shareholder company Matt Bronze Enterprises remained hidden. There has been speculation about this last company being a front set up by the Ministry of Defence and the Zimbabwe Defence Forces through Glass Finish Investments PVT [Mambo, 2017]. The military reportedly holds an 80 percent stake in Glass Finish Investments, while ZMDC owns the rest [Global Witness, 2017]. Tendai Biti, the opposition finance minister, complained in 2012 that Anjin Investments, a global

diamond industry giant, contributed nothing to state coffers [Zimbabwe Independent, 2012]. Interestingly, an affiliated company financed a USD 7 million school construction project by the Grace Mugabe Foundation between 2011 and 2013 [Mambo, Manayiti, 2017]. In order to conceal the fact that de facto public money was used to benefit a private foundation, an AFEECC subsidiary called Sogecoa Zimbabwe took out an intercompany loan to finance the project. Sogecoa Zimbabwe is known to have been involved in the financing of commercial enterprises and hotels in Zimbabwe [Mambo, Manayiti, 2017]. This may point to a public money laundering scheme.

Figure 5. Anjin Investments case

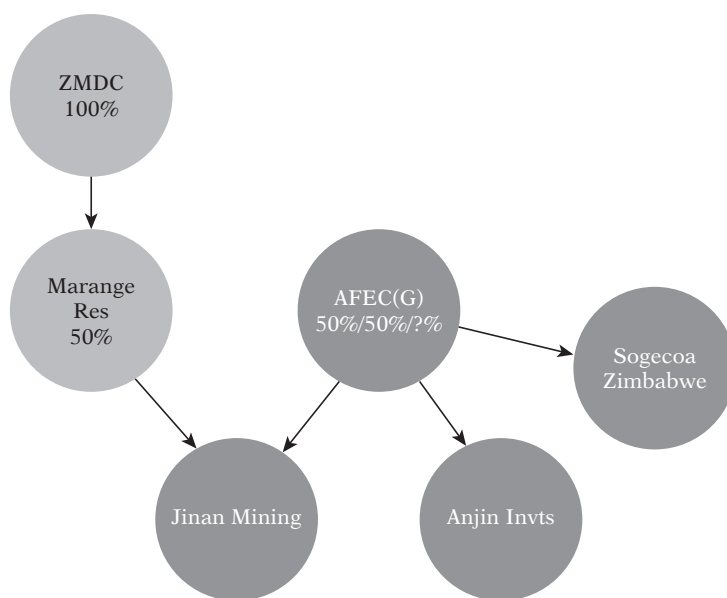


Source: researcher’s construct.

Jinan Mining is another company with a mining concession that may have helped finance the regime’s repression apparatus and is believed to have channelled public funds for money laundering schemes. Jinan Mining is alleged to have been run as a sister company of Anjin Investments as part of the same partnership between China’s Anhui Foreign Economic Construction Group and ZMDC (see Figure 6). Both companies are alleged to have shared equipment, staff and field operations [Global Witness, 2017]. However, evidence exists that these two companies as well as affiliated Chinese-owned Sogecoa Zimbabwe have not solely been used to invest public funds for projects

of disputable legitimacy. Recent disclosures show that Sogecoa Zimbabwe and Jinan Mining were used as vehicles to siphon USD 255 million and USD 585 million respectively out of Zimbabwe in two separate scandals [Mambo, Manyiti, 2017; Mambo, 2017]. In the first scandal, the sister companies Jinan Mining and Anjin Investments transferred millions to Sogecoa Zimbabwe in order to externalise these funds at a point when the government started to ask these companies to pay taxes and royalties [Mambo, Manyiti, 2017]. The money movements documented on bank statements occurred between January 2011 and July 2016. In the second scandal, between January 2012 and July 2014, when Jinan Mining is alleged not to have been active in exporting diamonds, USD 585 million was siphoned off via the company’s transitory account to countries such as Botswana, Zambia, Sierra Leone, Mozambique, Dubai and China [Ndebele, 2017]. Both scandals were recently investigated by the Zimbabwean police’s serious fraud section [Mambo, Manyiti, 2017; Mambo, 2017]. However, no information appears to be available on the outcome of these investigations.

Figure 6. Jinan Mining case

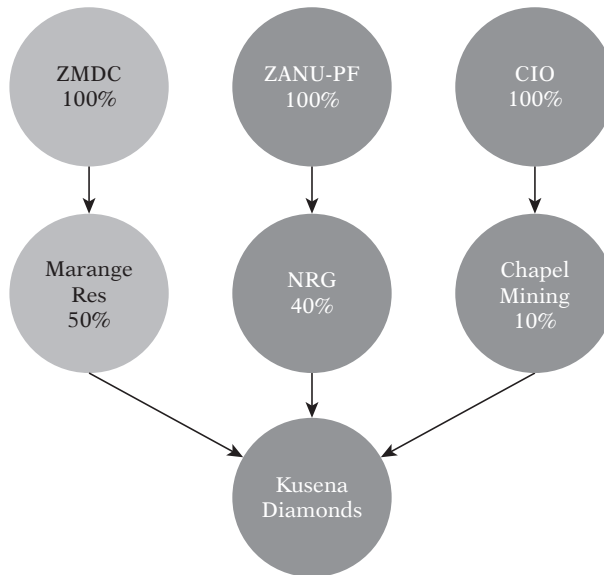


Source: researcher’s construct.

Kusena Diamonds is believed to have been wholly owned by the state through ZMDC, yet evidence suggests that the Zimbabwean Central Intelligence Organisation (CIO) held concealed stakes in the company to secure a source of off-budget financing (see Figure 7) [Global Witness, 2017]. This was apparently confirmed by a document unveiled by former CIO Director Happyton Bonyongwe. According to the leaked document, ZANU-PF, hidden

behind a company called the National Reconstruction Group (NRG), held a 40 percent stake in Kusena Diamonds, while Chapel Mining, representing the CIO's interests, owned 10 percent [Gibb, 2018]. This clearly indicates that Kusena Diamonds has been a front company set up to finance the country's leading party and its brutal security apparatus as well as possibly its key figures with funds skimmed from public resources. Human Rights Watch claimed that Bonyongwe was himself involved in serious human rights abuses against ZANU-PF's opposition [Mambo, 2017].

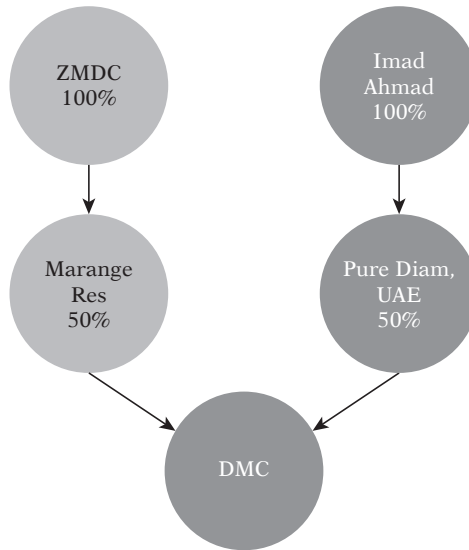
Figure 7. Kusena Diamonds case



Source: researcher's construct.

By granting a concession to the Diamond Mining Corporation (DMC), a fifth company officially engaged in mining operations, through ZMDC, the government entered into a partnership with an offender implicated in a network of diamond smugglers (see Figure 8). Imad Ahmad, owner of the Dubai-based Pure Diam company, which formed part of the deal, is believed to have run smuggling operations between Zimbabwe and Mozambique from 2007 to 2010 [Global Witness, 2017]. His illicit diamond trade is supposed to have involved local police, army and CIO officers at a time when Zimbabwe's diamonds were banned on international markets amid allegations of funding serious human rights violations [Global Witness, 2017].

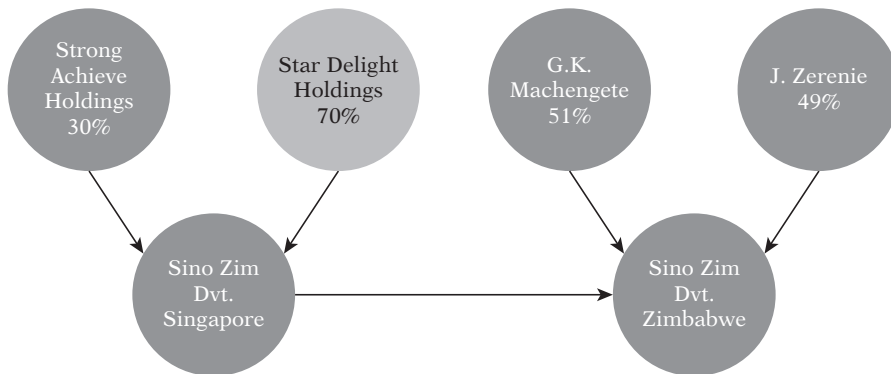
Figure 8. DMC case



Source: researcher’s construct.

Xu Jinghua, a Chinese entrepreneur also known as Sam Pa, is alleged to have financed the CIO in return for being granted diamond mining and trading rights. It is believed that by early 2010 Jinghua had supported the Zimbabwean secret police with USD 100 million in funds, while also providing it with a fleet of pick-up vehicles [Burgis, 2015]. Two sister companies apparently played a role in the scheme (see Figure 9).

Figure 9. Sino Zim Development case



Source: researcher’s construct.

While Zimbabwe-based Sino Zim Development was granted a mining concession, its sister company based in Singapore and bearing the same name reportedly played a crucial role in transferring USD 50 million in funding for the CIO in 2009 [Burgis, 2015]. The CIO's Director of Administration Masimo Kamba was one of the directors of the Singapore-based entity and an authorised signatory to its shareholder company Strong Achieve Holdings, whereas other important CIO figures held directorial positions in the Zimbabwean company. Gift Kalisto Machengete, CIO Director of Finance at the CIO, held 51 percent of the company's shares, whereas Pritchard Zhou, another director at Sino Zim Development, was identified as an important CIO operative [Global Witness, 2012]. Interestingly, Kamba gave the CIO's office address as his domicile address for company registration purposes [Burgis, 2015]. Apart from being involved in diamond mining, from 2008 to at least 2011, Sam Pa was allegedly active in secretly buying Marange diamonds that were subject to an export embargo due to human rights abuses [Global Witness, 2012]. He smuggled them out of the country onboard his private Bermuda-registered jet that would land in Harare at monthly intervals [Sharife, 2013]. The next step would indicate a diamond laundering scheme by introducing undocumented gems to the legitimate market.

Human dimension

Thirty-seven years of Mugabe's rule have turned Zimbabwe, one of the top diamond exporters worldwide and once a prosperous economy, into a failed state. A system of extractive institutions designed and sustained by Mugabe and his ZANU-PF party—in order to consolidate and retain power in the hands of a narrow partisan elite—has facilitated the redistribution of public funds looted from the country's most profitable economic sectors as private goods for almost 40 years despite a theoretically solid anti-corruption legal framework in place. Consequently, the permanently scarce redistribution of public goods, exacerbated by economic mismanagement and eventually hyperinflation in 2008, has made the Zimbabwean nation suffer extreme poverty. The provision of basic services is believed to have collapsed because of a political and economic crisis the country faced in the first decade of the 21st century [World Bank, 2018]. At the same time, development aid continued to flow to Zimbabwe throughout practically the entire period of Mugabe's rule, making the country aid-dependent and leading to an increase in foreign borrowing as well as massive debt service costs the country was not capable of carrying [Dashwood, 2000, cited in Moyo, Mafuso, 2017]. Moreover, Zimbabwe has been dependent on aid conditioned on policy changes imposed by the donors. This translated into the Zimbabwean government's consent to implement structural adjustment programmes contingent on financial aid that made it more accountable and responsive to its donors instead of its people [Moyo, Mafuso, 2017]. With that said, aid dependency as well as *ex ante* aid conditionality hampered the

government's progress in implementing economic reforms aimed at tackling the country's structural issues. Ultimately, cutting off aid as a reaction to the country's controversial land reform in 2000 resulted in Zimbabwe's complete economic meltdown [Moyo, Mafuso, 2017].

Zimbabwe's per adult national income is estimated at EUR 3,096 [WID, 2017]. The inequality-adjusted HDI (IHDI) and the GINI index, the two most prominent inequality measures, are 0.368 and 43.1 respectively, both indicating substantial inequality [CIA, UNDP 2018]. Citizens up to 24 years of age make up 59.37 percent of society, which indicates a young population. It is growing at a rate of 1.56 percent per annum despite a high infant mortality rate, i.e. 33 deaths per 1,000 live births [CIA, UNDP 2018]. At the same time, 23.1 percent of the population does not have improved access to drinking water; 63.2 percent has no access to decent sanitation facilities; and 60 percent has no electricity [CIA, 2018]. Furthermore, Zimbabwe has one of the world's highest unemployment rates, at 95 percent [CIA, 2018]. The state's budgeted education expenditures range from 2.0 to 8.5 percent of the GDP, leading to over 86 percent of society being literate [CIA, UNDP, 2018]. Military expenditures from 2012 to 2016 ranged between 2.2 percent and 2.34 percent of the country's GDP. Given the circumstances of Zimbabwe under Mugabe, such a low rate may indicate that the bulk of military expenditure was indeed financed informally and illegally with funds generated from diamond-related enterprises connected to the military. Nonetheless, given the amount of foreign aid channelled to Zimbabwe over the decades, the country's social infrastructure leaves much to be desired.

Conclusion

During his time in office, Robert Mugabe used his authority to create a complex and opaque system of natural resource plundering. His decades-long institutional looting of revenues from diamonds, but also white-owned agriculture businesses seized by the government, has made him as well as his family and entourage extremely well off. The system has also helped Mugabe retain power as diamond revenues were used to finance the brutal ZANU-PF security apparatus he needed for his political survival.

Zimbabwe's new president, Emmerson Mnangagwa, a long-time loyal Mugabe ally with a track record of holding top management positions in the security forces, put corruption high on his agenda. He said: "*My government will have a zero tolerance towards corruption*" [Mnangagwa, cited in Sithole-Matarise, 2017]. One of his first moves was to announce a 100-day amnesty period for individuals to return any financial assets they have stashed abroad. According to Mnangagwa, at least USD 250 million of the estimated USD 1.3 billion has been returned since the amnesty was announced [Marima, 2018]. Furthermore, Mnangagwa created a controversial anti-corruption unit under his control that has been deemed unconstitutional and found undermin-

ing the authority of existing anti-corruption bodies [Kairiza, 2018]. His government has already moved forward with corruption charges against several former state officials, including ex-Finance Minister Ignatius Chombo, former Ministry of Mines and Mining Development officials Walter Mzembe and Walter Chidhakwa, and former Energy Minister Samuel Undenge [Sithole-Matarise, 2017; Zimeye, 2017; Chiyangwa, 2018]. While Chombo has been granted a temporary reprieve, court proceedings regarding Mzebi, Chidhakwa and Undenge are ongoing [Bhebhe, 2018; Chiyangwa, 2018]. Yet, given the fact that Mnangagwa has appointed to his Cabinet ruling party loyalists, including some of his military colleagues with a track record of corruption, one can conclude that his true intentions of tackling graft are questionable [Sithole-Matarise, 2017]. Martin Fletcher [2017], a British crisis reporter who has worked in Zimbabwe, asserts that Mnangagwa understands the urgent need for reform as long as he can pay the security forces and provide for his ZANU-PF comrades.

Recommendations

Two major recommendations can be made from the findings of this paper and based on academic research. First, it is recommended that Zimbabwe set up political institutions that are inclusive, transparent and accountable. Many prominent scholars support the idea of good governance and institutions being a precondition for any country's development [Acemoglu, Robinson, 2014; Rodrik, 2001; 2013; Collier, 2008; Moyo, 2010]. Acemoglu and Robinson [2014] maintain that extractive economic and political institutions tend to block the incentives and opportunities of the vast impoverished masses and thereby keep societies poor. They argue that the creation of inclusive institutions will give a voice to civil society. Collier [2008] emphasises the existence of governance and policies conditional upon opportunities. Rodrik [2013] highlights the importance of institutions as one of the fundamental capabilities needed by any country to grow in the long term. He [2001] maintains that domestic institutions, alongside foreign and imported ones, are essential to forging a domestic growth strategy. Moyo [2010], in turn, lists institutional factors as one of the main determinants of failure in generating meaningful and sustainable long-term growth in the African context. Zimbabwe under Mugabe vividly illustrates how the economic and social consequences of extractive institutions can cause a state to collapse.

The cautionary tale of Zimbabwe contrasts with the success story of Botswana, another diamond-producing and landlocked country in Africa. Botswana is a thriving democracy largely because, after gaining independence, it was able to set up inclusive political and economic institutions to breed political stability and pave the way for growth. Revenue from diamonds provided a strong fiscal base for Botswana's government to be redistributed in the form of public goods [Acemoglu, Robinson, 2013].

Thus, it is imperative for Zimbabwe to redesign its political institutions in such a way that power is not executed at the expense of the vast majority of people because only such political institutions will support inclusive economic institutions focused on growth and public goods provision.

Second, Zimbabwe should cease being dependent on foreign aid and curtail policies tailored to satisfy donor-imposed conditions. The effectiveness of foreign aid in Zimbabwe has largely been influenced by externally imposed reforms not aimed at effectively tackling domestic issues. This is so because in practice the government was not the “owner” of the reforms, and so it did not consider itself accountable for their fiasco [Moyo, Mafuso, 2017]. At the same time, it implemented them in order to keep receiving aid. It is argued that development assistance in Zimbabwe has promoted “*lazy, slavish and dependent mentality and culture across society from governments to villagers*” [Moyo, Mafuso, 2017]. Furthermore, empirical evidence on the effectiveness of aid shows that good governance is influenced by factors that have little to do with foreign aid flows [Lancaster, 2006]. On the other hand, there is ample historical evidence of aid supporting dysfunctional regimes and extractive institutions because this has been politically profitable for the donors [Payaslian, 1996; Milner, Tingley, 2013; Buss, 2015; Apodaca, 2017]. Therefore, it is important that aid is politically neutral and conditioned upon the good governance in its *ex post* form, i.e. that aid supports the visible and viable efforts of a country trying to reform its institutions in order to escape bad governance and poverty traps.

In order to make a difference, aid should be a means to an end, not an end in itself. It should be a means of promoting inclusive institutions and sound policies focused on fostering development and creating civil society. Moreover, it should be a means of attracting private capital and of incentivising pioneer investments because this is what developing countries need most. Aid should also help connect developing countries into the global economy by financing expensive projects such as building physical infrastructure and supporting urbanisation. In order to produce expected results, aid should be distributed consistently and on a long-term basis because economic development is a slow process. Foreign assistance can make an ad hoc difference in the lives of people in the developing world. Yet, it is good governance and efforts to advance sustained economic development that provide the best alternative for lifting poor countries out of poverty. This is what all donors should bear in mind.

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Pomoc rozwojowa, rządy i nadużycia finansów publicznych: dowody z Zimbabwe

Streszczenie: Celem niniejszego artykułu jest zbadanie procesów nadużyć finansów publicznych, prowadzących do bezpodstawnego wzbogacenia się elit rządzących w Zimbabwe – kraju bogatym w surowce naturalne, lecz – paradoksalnie – niestabilnym wskutek dziesięcioleci rządów Roberta Mugabe. Artykuł analizuje zjawisko korupcji politycznej występującej w Zimbabwe, przekładającej się na złe zarządzanie dochodem narodowym z zasobów naturalnych w celu osiągnięcia prywatnych korzyści oraz konsolidacji władzy. Ponadto, poprzez analizę złożonych sieci oraz mechanizmów organizacyjnych, stworzonych w celu wyprowadzenia majątku publicznego przy pomocy firm fasadowych, w artykule zbadane zostały powiązania pomiędzy zjawiskami korupcji i nielegalnych przepływów pieniężnych. W końcu, ponieważ korupcja polityczna z natury powiązana jest z jakością rządzenia państwem, artykuł analizuje wpływ tej ostatniej na rozwój społeczny, a także efektywność pomocy rozwojowej przekazanej do Zimbabwe. Artykuł napisany został na podstawie analizy źródeł wtórnych, do których zaliczają się istniejące publikacje oraz materiał dowodowy. Jego ustalenia pokrywają się z ogólnym stanowiskiem środowiska akademickiego, które utrzymuje, że zasoby naturalne oraz pomoc rozwojowa mają negatywny wpływ na jakość rządzenia państwem, praworządność oraz, co za tym idzie, na rozwój społeczny, szczególnie w krajach rządzonych przez bezwzględnych przywódców.

Słowa kluczowe: Afryka, korupcja, Zimbabwe, kłatwa surowcowa, pomoc zagraniczna

Kody klasyfikacji JEL: O13, O15, P48, F35, Q32

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