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# THE EXTRACTIVE INDUSTRY IN ZIMBABWE

An Evaluation of Trends in Corporate Social Investments, Taxes Paid, Stakeholder Participation and Linkages to Service Delivery of Local Authorities (2009 – 2014)

Supported by

OXFAM

Consortium Members

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| | |
|---|---|
| ACR | Africa Capacity Report |
| AU | African Union |
| CSI | Corporate Social Investment |
| CSR | Corporate Social Responsibility |
| CSOT | Community Share Ownership Trust |
| EITI | Extractive Industry Transparency Initiative |
| GDP | Gross Domestic Product |
| GFI | Global Financial Integrity |
| GRI | Global Reporting Initiative |
| IEE | Indigenization and Economic Empowerment |
| LA | Local Authorities |
| PBT | Profit Before Tax |
| RRDC | Runde Rural District Council |
| SVF | Special Vehicle Fund |
| TRDC | Tongogara Rural District Council |
| UCAZ | Urban Councils Association of Zimbabwe |
| URDC | Umguza Rural District Council |
| ZELA | Zimbabwe Environmental Law Association |
| ZIMCODE | National Code of Corporate Governance in Zimbabwe |

# EXECUTIVE SUMMARY

This report presents the findings of a research supported by Oxfam which sought to establish trends in Corporate Social Investments, taxes paid by extractive companies, and linkages to Local Authorities revenue and service delivery in Zimbabwe. The research covered major extractive companies operating in Midlands, Matabeleland South, Bulawayo and Harare provinces. The findings generated specific, practical policy and legislative recommendations which can be adopted for the natural resources extractive sector to contribute to meaningful social and economic development in Zimbabwe.

Zimbabwe is endowed with natural resources which could be extracted for sustainable development and service delivery. The mining sector contributes approximately 22% to the GDP, 52% (US$1,9 billion) of total exports, and on average over 45 000 people. However, there is very little evidence to demonstrate positive impacts of the sector on community development, poverty alleviation and service delivery in some host mining communities in Zimbabwe. Some host mining towns have faced varying difficulties prior to, during and post mining operations. While mining companies continue to proclaim Corporate Social Responsibility/Investment (CSR/I) initiatives and Community Share Ownership Trust/s (C.S.O.T). There remains a widening gap on the absence of adequate national data trends on quantified CSI monetary values, priorities of the CSI and taxes being paid to Government. These limitations have a direct impact on transparency and accountability issues in this sector and its value chain systems. In addition this research established that institutional arrangements in Zimbabwe (policies, laws and organisational arrangements) related to mining are silent on how mining companies are expected to report on their impact on local authority service delivery, stakeholder participation and ESG issues and how these impact local sustainable development.

The study presents very useful findings and raises issues related to (i) social and economic constraints faced by mining settlements, (ii) the effects of mining on local authorities and communities, (iii) data on values of CSI and taxes paid by mining companies, as well as iv) mining sector transparency and accountability challenges for local and national development. Results in the study show a downward trend of taxes paid from 2009-2014 while the quantified monetary value of CSI had an upward trend within the same period. The level of disclosure was low or non-existent from locally listed companies compared to their foreign counterparts. In addition, the results point to weak service delivery contributions by extractive companies, low flows of revenues to local authorities, institutional overlaps and at times contradictions (including lack of resource flows) in service delivery, and that Community Share Ownership Trust's (CSOT's) appear to be non-operational or are at the least not fully understood and made use of by local communities. The operations of CSOTs showed symptoms of management and accountability deficiencies. Overall, in all sub themes, the study unearthed that stakeholder engagement, gender and youth participation was limited and was not taken as a priority.

CHAPTER
1

# BACKGROUND TO THE RESEARCH

## 1.1. Background

The natural resources extractive sector is a major driver of economic and social development in Africa. Over 30% of the world's global extractive reserves are found in Africa, yet less than 5% of the total global mineral exploration and extraction budget is invested on the continent. Many countries in Africa have either recently introduced or are working on new mining laws that seek to attract investment to support social and economic development. All the efforts are aimed at the creation of a sustainable extractive industry that has the potential to contribute significantly to sustainable economic growth and employment prospects within poor rural communities where the extractive companies are located.

Zimbabwe is no exception to these challenges in relation to natural resource extraction where citizens expect better livelihoods, infrastructure and economic wellbeing. Many companies in the country have been struggling to understand why a heavily mineral endowed country continues to be characterized with poor economic and social development. While initiatives like corporate social responsibility (CSR), community share ownership trusts (CSOT) and local authorities (LA) partnerships have been proclaimed by extractive companies, the extent of economic and social development in extractive communities has raised a number of questions warranting this research to inform policy or legal interventions for the sector to contribute towards meaningful development and services delivery in Zimbabwe.

The International Monetary Fund (IMF) estimates that Zimbabwe's real gross domestic product (GDP) grew by about 4.4% in 2012 compared to 2011, with an estimated GDP of $9.8 billion (IMF, 2013). Of his GDP value includes the diverse mineral output which includes about 9% of the world's diamond production (by volume), an estimated 6% of the world's platinum production, and about 4% of the world's palladium output (IMF, 2013; Kimberley Process Certification Scheme, 2013; Loferski, 2013). This reinforces the role of the extractive industry in Zimbabwe, though this is not translating to sustainable development and poverty reduction. There is a general simplified thought that when minerals are in abundance it means improvement of the general welfare and service delivery to the public. This has not been the case in most instances in Zimbabwe.

In Zimbabwe, the Ministry of Mines and Mining Development manages the minerals sector in accordance with the Mines and Minerals Act (chapter 21:05); the Mining (General) Regulations, 1977; and their amendments. Mining operations also are regulated by sections of the Environmental Management Act of 2002 (chapter 20:27) and its 2007 amendment, the Explosive Act, the Forest Act, the Parks and Wildlife Act, the Public Health Act, and the Suppression of Money Laundering Act. The Ministry of Youth, Indigenisation and Economic Empowerment monitors extractive industry's operations for compliance with the Indigenization and Economic Empowerment Act of 2007, Indigenization and Economic Empowerment Regulations (Statutory Instrument 21 of 2010). These legislations are meant to ensure resources from extractive sector benefit communities and the national economy.

Historically, the mining sector in Zimbabwe has been associated with positive economic benefits especially with the opening of employment opportunities, taxation, infrastructural development and local enterprise development. However, the primary weakness in Zimbabwe's extractive sector is that the country has functioned for decades without an accurately documented mining strategy or policy that would guide sustainable extraction and distribution of benefits. The reason is that institutional arrangements in Zimbabwe related to the extractive sector evolved from the pre-independence period where mines and mining in general was lightly regulated and generally elite-slanted. Central government regulation tilted more towards shielding the sector from both private and public scrutiny. Post 1980 reforms have not gone far enough and changes to align sector regulation to the rights enshrined in the 2013 National Constitution of Zimbabwe remain to be finalized. Other changes introduced including, but not limited to the Indigenization and Economic Empowerment Act, together with structures like the Community Share Ownership Trusts (CSOT's), are yet to be fully operationalized. Mining policies, which are expected to spell out the co-ordination of government efforts and initiatives in the development of the industry, and at the same time serve to inform investors of the government's medium- and long-term plans regarding the various issues pertinent to the development of the sector, local communities and contribution to the national economy.

From a societal perspective, the existence of the natural resources sector is best evidenced by the extent to which economic benefits and service delivery is realised. Trends of community resistance to extractive activities has been emerging in Zimbabwe due to unfulfilled social and economic development promises, lack of accountability, information and stakeholder inclusion. While a number of extractive companies proclaim that they have made contributions through corporate social investment initiatives and taxes, little information is available on quantified monetary values of CSI, as well as priorities and the extent of stakeholder involvement even in Community Share Ownership Trusts (CSOTs). Furthermore, clarity is still necessary to understand the gender dimension in corporate actions in the extractive sector, and linkages to service delivery of local authorities.

With this background, the research is guided by the following objectives set to:

I. Ascertain the extent of public participation and gender inclusion in Corporate Social Investments/Corporate Social Responsibility priorities, Community Share Ownership Trust activities and Local Authorities service delivery systems;
II. Determine the extent and disclosure of Corporate Social Investment /Corporate Social Responsibility priorities and monetary value contributions by extractive companies;
III. Establish trends of taxes paid by extractive companies;
IV. Evaluate impacts and effectiveness of Community Share Ownership Trusts;
V. Identify Local Authorities' revenue sources, collection mechanisms and service delivery trends;
VI. Draw a conclusion on whether there is a link between extractive companies' contributions and Local Authorities service delivery.

## 1.2. Conceptual Approach of the Research

The research adopted a conceptual approach in which natural resources and corporate actions through corporate social investment/responsibility initiatives (voluntary) and tax paid (statutory) are visualized as instruments or frameworks for natural resources sector corporate contribution to the economy, social development and service delivery. The study builds on the ongoing local, national and global debate on transparency in the extractives sector. The debate has been pursued within the context of citizen expectations in terms of benefiting from natural resource extraction. The benefits combine access to employment and associated benefits, delivery of social services, physical infrastructure (e.g. roads) and environmental sustainability.

Underlying the debate are questions on the adequacy of policy and other institutional safeguards meant to ensure companies extracting natural resources in specific communities reduce socio-economic and environmental harm whenever and wherever is possible, and where such harm occurs, measures are competently and timeously taken to address the damages. This can be achieved through disclosure of CSI, taxes paid and Environmental Social and Governance issues by extractive companies.

The research acknowledges that Local authorities are sub-tier government established to deliver services to communities and residents within mining communities under their jurisdiction. Their efficiency and effectiveness in service delivery is largely determined by the extent to which they interact, incorporate and respond to the needs and demands of the communities and stakeholders, including those of local mining companies and businesses. This role is then complimented by the Central Governance which is expected to play a part in enforcing public participation, responsiveness and accountability by the extractive companies.

Vehicles such as Community Share Ownership Schemes or Trust are a shareholding instrument for extractive sector host communities participation in identifying and implementing service delivery according to shared priorities in their communities. CSOTs are supported by extractive companies in their compliance with statutory requirements through corporate social investments. However, critical to their implementation is the role of local authorities and issues of gender inclusion.

## 1.3. Structure of the Report

Following this background contained in this Chapter 1, the rest of the research is structured as follows:

Chapter 2: Review of Literature
Chapter 3: Research Methodology
Chapter 4: Research Findings
Chapter 5: Conclusion and Recommendations

CHAPTER
2

# LITERATURE REVIEW

## 2.1. Introduction

The natural resources extractive sector has been a subject of attention in many countries around the world. Academics and researchers have also explored different perspectives of the sector in areas such as disclosure, accountability, responsiveness and governance, while governments and sector associations have developed standards and guidelines for the sector to contribute towards human welfare, economic development and service delivery. This chapter discusses critical issues and contextual developments on the subjects of the research objectives.

## 2.2. Corporate Social Investments and Disclosure

Corporate social investment is defined as a contribution that is either monetary or resources which brings benefits over and above those directly associated with business activities. In most cases, the approach has been voluntary while in major extractive economies there are national and international frameworks or legislative guidance because of high environmental and social impacts of the sector. Under international practices, CSI initiatives and taxes paid should be disclosed in company annual reports for the purpose of accountability, transparency and responsiveness. The extent to which extractive companies are involved in CSI and paying taxes could relate to the extent to which service delivery is provided.

Mining companies during this period of globalisation have been noted to have contributed towards improved social development, through jobs, paying taxes, building an industrial base, enhancing efficiency, earning foreign exchange and transferring technology. However, they have been linked publicly to interference in sovereign affairs, deepening disparities in wealth, poor labour conditions, corruption, transfer pricing, pollution incidents, health and safety failings, and the disrespect of human rights.

In respect of the above, Warhurst and Lunt (1997) argued that when mining takes place where regulation is weakly developed or enforced, mining companies should develop their own models of environmental and social responsibility that go beyond acting within their more narrowly defined legal obligations. In light of this, CSI and CSR has been implemented by many companies as a measure to consolidate the above.

Corporate social investment originated from philanthropy when the value it added to the reputation of the organization was recognised. Previously, the terms CSI and CSR were used interchangeably, but have now been defined separately. CSI refers to an organization's total financial contribution towards corporate social responsibility initiatives in the business environment in which it operates. CSR describes the broader solution to triple-bottom-line matters of the 3Ps – profit, people and planet. CSI is one of the sub-components of CSR and aims to uplift communities in such a way that the quality of life is generally improved and safeguarded (Wikipedia, 2015).

Sathyanarayanal (2015) is of the opinion that CSI is something that is integrated into the business model of a company. Success or failure of the initiative would have a huge impact on the business as a whole.

It, therefore, has to be embedded within the system and get an equal buy-in across functions and personnel throughout the company - working for the common CSR goal identified. According to the World Bank (2010), one of the reasons why extractive companies engage in CSI is that the mining industry has become a very technologically complex sector which employs considerably fewer people than in the past and, therefore, needs to provide other benefits to local communities “in order to obtain a ‘social license’ to operate”.

Baxter M (2010) defined CSR as the commitment of business to contribute to sustainable economic development, working with their employees, their families, the local community and society at large to improve their quality of life in ways that are good for business and for development. However, CSR has been largely regarded as voluntary in nature. Although voluntary, in most developed and some developing countries, CSR has been guided by international guidelines that have been developed on business ethics and performance, as well as sustainable development. Such guidelines include, the OECD Guidelines for Multinational Enterprises (adopted 1976, revised 1979, 1982, 1984, and 2000) which are recommendations from 33 governments to multinational corporations to cover areas which include respect for human rights to environmental protection.

Global disclosure practices of corporate social responsibility and investment initiatives has been guided mainly by frameworks and guidelines such as the Global Reporting Initiative (GRI,2014), ISO26000 Guidance on Social Responsibility (2010), Integrated Reporting, UN Global Compact and Mining Sector specific disclosure guidelines in stock exchange. The guidelines require disclosure of environmental and social impacts and opportunities which should be supported by quantitative and qualitative data. The frameworks are meant to promote transparency and accountability in the sector. However, the Extractive Industry Transparency Initiative (EITI, 2003) has been making great strides in driving global standards for transparency, accountability and improved governance in oil, gas and mining. It supports the verification and publication of company payments and government revenues.

While there has been significant developments in guiding and driving extractive sector corporate disclosure of corporate social investments and responsibility, there has been significant developments on adoptions of guidelines and framework for disclosure of CSR. In 2015, Zimbabwe launched the National Code of Corporate Governance in Zimbabwe (ZIMCODE) which carries provisions requiring sustainability and integrated reporting. Similarly, the Zimbabwe Stock Exchange listing rules also require disclosure of sustainability information. All these developments have implications for the extractive sector to comply. However, Maphosa (1997) noted critical legislative deficiencies to drive corporate social responsibility in Zimbabwe as was the case for the past decades across sectors including the extractive sectors. Such transparency deficiencies create expectancy gaps between what society expectation on service delivery and what extractive sector companies are obliged to do.

## 2.3. Taxation and the Extractive Sector

### 2.3.1. Mining Taxation System in Zimbabwe

The mining sector has arisen to be one of the highest contributors to the Zimbabwean Economy, contributing 22% of the GDP and 52% (US$1, 9 billion) of total export receipts, (Mobbs, 2014).

The current taxation model entitles the Zimbabwe Revenue collection Agency to collect operational taxes which are then administered by the consolidated Fund and distributed at the discretion of the government. The taxation system is generally inclusive of various aspects from operation to production. Some of the mining taxes and fees generally include royalties, PAYE, additional profit tax VAT, capital gains tax, withholding tax, non-residents shareholder’s tax, presumptive tax for small-scale miners, customs duties, marketing commission, licensing fees, environmental charges, local authority charges (Chamber of Mines; 2012). (See Table 1). Despite these taxes, the Zimbabwean mineral tax regime trends to offer tax incentives to mining companies in the quest to lure investors. Recent events have seen growing suspicion that mining companies are legally and illegally short changing the taxation system in Zimbabwe. This is so despite the fact that available tax regulatory and management mechanisms have been struggling to minimize tax avoidance and leakages on exports. The Chamber of Mines Annual Report (2014) points out that the mining sector, through an efficient taxation system, has the capacity to ignite socio-economic development through the bottom –up approach. The current mining taxation regime requires companies in the mining sector to pay a number of taxes to different statutory bodies such as the Local Government authorities, Environmental Management Agency, Radiation Authority of Zimbabwe, among others.

**Table 1**

**Mining Tax Heads and Collection Agencies**

| Tax Head | Rate | Collection Agent |
|---|---|---|
| Royalties | 1-15 % of Gross Revenue | MMCZ |
| Export Tax on unprocessed platinum and diamonds | 15% of Gross Revenue | ZIMRA |
| Marketing Commissions (MMCZ) | 0.875% of Gross Revenue | MMCZ |
| EMA Charges | 2% of Gross Revenue | EMA |
| Corporate Income Tax | 25% | ZIMRA |
| Value Added Tax | 15% | ZIMRA |
| Customs Duty | 0-60% | ZIMRA |
| PAYE | Up to 45 % | ZIMRA |
| Capital Gains Tax | 15-20% | ZIMRA |
| Local Authority Charges | Vary with Local Authority | Local Authorities |
| Mining License Fees | As per S1 of 2011 | Ministry of Mines |

*Source: Chamber of Mines Zimbabwe, Annual Report 2014*

### 2.3.2. Tax Revenue Collection, Management and Distribution in the Mining Sector in Zimbabwe

Mineral resources have continued to be discovered in various areas of Zimbabwe but failure to efficiently and effectively collect, manage and distribute mineral resource revenue has left the vast majority of populace in the host mining towns in poverty (ZELA, 2012). The availability of these resources has not translated into meaningful poverty reduction interventions by those extracting the resources. It has thus become imperative to rationalise the relationship between the natural resources governance, revenues management and poverty reduction. This is because successful harnessing of extractive resources for growth, poverty reduction, and social development depends on good governance and sound management practices.

Section 255 of the Zimbabwe Mines and Minerals Act stipulates that miners should make certain payments to local authorities. It also specifies that "The Minister responsible for the mining sector, acting with the approval of the Minister responsible for finance and after consultation with the Minister responsible for local government and any organization which the Minister considers represents mining interests, may by statutory instrument, require any miner of a registered mining location, or any class of such miners, to pay a specified sum at specified intervals to any local authority within whose area the registered mining location is situated". Sub section 2 instructs that "The Minister may specify a sum for the purposes of subsection (1) as a lump sum or as a percentage of the value of the output of the mining location concerned, or in such other manner as the Minister may think appropriate". Although payments are supposed to be made to local authorities as specified in the MMA, it is the Minister who has the powers to charge the sum of the amount to be paid.

## 2.4. Community Share Ownership Trusts and the Extractive Sector

### 2.4.1. Formulation, Inception and Implementation of CSOTs in Zimbabwe

The concept of Community Share Ownership Trusts emerged from the Indigenization and Economic Empowerment Act (chapter 14:33) of 2008. The act carries provisions for foreign owned companies including those in the extractive sector to cede 51% of share ownership to indigenous Zimbabweans. The concept of CSOTs was meant to develop vehicles for communities to be directly involved in service delivery in the communities in which minerals were being exploited. The intention was to ensure communities benefit from various sectors of the economy including the extractive sector (Tsvakanyi 2012). The figure below provides an extract of the Act's provisions:

**Figure 1**

**IEE Act Extract**

- 'To economically empower the previously disadvantaged Zimbabweans by increasing, mainly through economic expansion, their participation in the economy so as to create wealth and eradicate poverty.
- To create conditions that will enhance the economic status of the hitherto disadvantaged Zimbabweans by facilitating their contribution to and benefit from the economic development of the country'.

*Source: Indigenisation Economic Empowerment Act, - 2008*

Despite the significance of CSOTs, the implementation has been marred by a number of challenges in the initial stage, including exclusion of certain members of the community, lack of stakeholder participation and political interference (Tshuma, 2011). Further, some trusts faced legitimacy questions due to failure to achieve legal recognition and status. As such, many CSOTs have failed to obtain share certificates after extractive companies had made pledges to fund the formation of the CSOTs.

### 2.4.2. CSOT and Service Delivery

While the establishment of CSOTs had significant societal expectation on social and economic development in their communities, it was clear that provision of service delivery by extractive companies was literally being transferred to CSOTs to manage. According to NIEEB reports, CSOTs countrywide have received capital injection worth up to US$114 million (NIEEB 2013). These funds have been applied in the development of community projects such schools, clinics, and roads which used to be provided by local authorities and extractive companies. Section 14 of the Indigenization and Economic Empowerment (General) of 2010 provides for the fact that revenue realized from the community share ownership scheme is used for community projects such as hospitals, schools, and irrigation schemes among others (IEE General-2010). While the implementation of CSOTs had significant impacts on services delivery of local authorities due to potential conflicts, success stories of CSOTs in Zimbabwe have been largely attributed to the extent of stakeholder participation and inclusivity by extractive companies in establishment, implementation and management.

According to a research by the Zimbabwe Environmental Law Association (2014), a sense of community ownership in CSOTs is barely felt by most members because of lack of awareness and understanding of the Trusts functions and operations. The same report points out that there was also minimal community involvement across the whole value chain of service delivery from policy, planning, implementation, monitoring and evaluation for both CSR and COST activities.

### 2.4.3. CSOTs Management and Gender Inclusion

One of the stated legislative objectives of the IEEA was to economically empower the previously disadvantaged Zimbabweans with particular attention to women by including them in mainstream economic activities (IEEA-General 2010). This is against the background that women bear the substance of negative social impacts of mining such as health, safety & environmental risks. However, participation in CSOTs by women suffered a number of challenges (Tshuma, 2011). A number of CSOTs were formed by companies with the intention to meet legal compliance, as such, extractive companies would exert influence on who can be identified to participate and their significance to project the CSOTs as meeting legal requirement.

Despite the existence of mechanisms and methods of participation such as elected representation, there are only few women being appointed in positions of authority, with allegations of deliberate exclusion by male counterparts. In addition, Tsvakanyi (2012) points out that most of the stakeholders who make up the board of trustees do not have a background or expertise of community development programming. ZELA (2014) points out that due to the traditional set-up systems in most rural areas, women are at a disadvantage in relation to access to information relating to CSOTs. This is despite the fact that projects undertaken by COSTs have a footprint of gender sensitivity with women and children being direct beneficiaries.

## 2.5. Local Authorities and Service Delivery in Zimbabwe

In Zimbabwe, there are 91 councils, i.e. thirty one (31) urban councils and sixty (60) Rural District Councils (RDC) (CHRA 2010). Urban councils are further divided hierarchically into cities, municipalities, towns and local boards with a function to provide service delivery to their areas of jurisdiction. Provision of services by these local authorities to the residents is directly linked to revenues they collect. According to Coutinho (2010), councils, or local authorities, in Zimbabwe are legally empowered to enact by-laws that allow them to raise revenue from various sources.

In addition to financial resources, the relationship between central government and local government structures determines the effectiveness of the Local Authorities in fulfilling the mandate of providing services. Mushamba (2010) noted that in Zimbabwe, the relationship between local authorities and the Ministry of Local Government (MLG) has historically been informed by the fact that the central government defined the legislative framework for local government.

According to Coutinho (2010), most local authorities face the insurmountable challenges in raising funds as a result of charging sub-economic tariffs, poor payment enforcement, and failure to repay and account for previous loans, leading to drastic reductions in new loans.

Section 96 of the Rural District Councils Act provides for the imposition of a 'land development levy' on owners of rural land within the council area, or on owners of 'mining locations situated on rural land within the council area', or on 'licensed dealers who carry on the business on rural land within the council area'. The Act in terms of Section 97 also empowers the council to impose 'special levies in rural areas' to cover expenses incurred as a result of any 'development project or service within the council area' or for expenses occasioned by 'unusual circumstances or conditions or from an unequal demand on services provided by the council'. However, there is a complex relationship between local and national rights to mineral wealth and the other benefits brought about by mining.

## 2.6. Stakeholder Participation and Gender Perspective in the Extractive Sector

Stakeholder engagement has been acknowledged as one of the strategies in improving relationships between mining companies, government and the communities at large. Stakeholder engagement by extractive companies minimizes social conflicts associated with lack of sufficient consultation and dissemination of accurate information on mining impacts, differing expectations of social and economic benefits, environmental concerns, disputes over land use and economic reparation (World Bank, 2010). This has been the main reason that, to this day, stakeholder engagement has evolved to become part of corporate strategy in a number of companies.

While gender issues in the extractive sector tend to receive less attention, the sector has been regarded as being gender insensitive (WoMin 2010). Women's economic disempowerment presents itself in two ways, mainly the erosion of existing livelihoods or economic activities by extractives through displacements, loss of land and natural resources; as well as pollution of water supplies (Kabeer 2012). In addition to the above, women are also affected through the lack of opportunity to invest in industrial mining for profit making or to obtain employment in extractive companies and businesses that are willing to support them in upstream or downstream economic activities. The second scenario can be traced to what Moyo (2010) termed historical imbalances in terms of women's access to education predominantly in science and engineering fields.

Mining companies and other stakeholders should consider taking up the gender dimension during stakeholder consultations. Stakeholder related risks can cost a company a lot of money if not managed well. However, stakeholder engagement is not complete without inclusion of the gender dimension. This research has taken the issue of participation of women and youths in particular in the sub themes to ensure a balanced analysis on the level of participation of the group in all spheres.

CHAPTER
3

# RESEARCH DESIGN AND METHODS

## 3.1. Introduction

The overall research explores trends in corporate social investments, taxes paid and linkages to service delivery by local authorities. Further, the extent of stakeholder and gender participation in corporate actions such as community share ownership trust and local authority services delivery is explored. The research objectives (outlined in Chapter 1) are addressed by providing quantified monetary values of corporate social investment, taxes paid and identified CSI priorities over a 5 years period from 2009 to 2014. Others objectives are addressed by investigating the extent of stakeholder and gender participation, and local authority service delivery mechanism to understand whether there is a link between extractive sector corporate actions and the extent of service delivery in host extractive communities. With these objectives in mind, consideration was taken in designing a practical research approach. The rest of this chapter outlines the research approach, data collection and analysis, ethical considerations and limitations.

## 3.2. Research Approach

The research addresses subjects which have been receiving limited national statistical research attention in Zimbabwe on understanding quantitative trends of corporate social investments, priority topics and taxes paid by natural resources extractive companies operating in Zimbabwe. Therefore, the research considered an explorative approach to the subjects. A descriptive approach was considered to assess the extent of stakeholder and gender participation, and service delivery mechanisms of local authorities. The research design is such that establishing quantitative trend in monetary value, taxes paid and CSI priorities would be conducted through a desk review using content analysis to a survey of 12 major extractive companies' annual reports from 2009 to 2014. The year 2009 was selected as a base year because the year marked the beginning of a new economic system that introduced a multicurrency economic regime to address years of hyperinflationary economy. From 2009, all companies were required to report financial information and trade in United States dollars as the functional currency.

In assessing stakeholder and gender participation, and service delivery mechanism of local authorities, the research also conducted a field research of case studies in extractive host areas such as Harare, Bulawayo, Matabeleland South and Midlands. Appropriate data collection mechanism was designed to survey significant stakeholder groups and key informants to manage the limited resources for the research.

### 3.2.1. Research Population and Sample

The research was conducted from a sample of 12 major extractive companies operating in Zimbabwe through a scoping exercise. The companies were selected on the basis that they were either publicly listed at a Stock Exchanges in or outside Zimbabwe, or secondly there were involved in major extractive operations in Zimbabwe. Due to the nature of the research's primary attention to transparency and accountability, considerations were made to focus on major extractive companies because they had obligations or business case for public disclosure and accountability particularly when they are publicly listed on a stock exchange or being a public interest by nature. However, the selected companies were also assessed for geographical coverage of operations. Table 2 below provide the list of mining companies covered by the research:

Table 2

**Sample Extractive Companies**

| Nature of Companies | No of Companies |
|---|---|
| Locally Listed Companies | 6 |
| Foreign Listed Companies | 5 |
| Non-Listed Major Company | 1 |
| **Total Sample** | **12** |

*Source: Author Compilation*

Research case studies were conducted from communities that had functioning Community Share Ownership Trust (CSOTs) established by extractives companies. CSOTs considered included Tongogara Community Share Ownership Trust (regarded as success case) in Zvishavane, Umguza Community Share Ownership Trust – Bulawayo, and Mabvuku/Tafara Community Ownership Trust – Harare. These Trusts provided the basis for assessing stakeholder participation and gender inclusion in corporate initiatives through corporate social investments and service delivery of local authorities.

Local Authorities considered for the research were Harare, Bulawayo, Zvishavane, Mberengwa and Runde because they are host to major extractive companies with significant operations for assessing service delivery. These authorities were seen as significant to provide an assessment of funding and service delivery mechanisms.

### 3.2.2. Gender Perspective

The research was designed to consider gender as a cross cutting issue bearing in mind sensitivity in all subjects covered in the research. Primary focus was on assessing involvement and participation of women in local authorities' budgetary process, service delivery and CSOTs management. Men, women and children have differential needs and are affected differently by environmental aspects from extractive and mining processes, hence considering integration of gender analysis in the research.

## 3.3. Data Collection

The research objectives require establishing trends and findings, therefore, data collection to address these objectives was designed such that quantitative and qualitative data is collected. Desk Review was a used to collect quantitative data from secondary sources. A Field research was employed to collect qualitative data from primary sources.

### 3.3.1. Primary Data

Primary data collection involved interviews, questionnaire surveys and focus group discussions with communities from host extractive communities and selected local authorities. The research conducted interviews in local authorities' district hosting extractive activities and CSOTs. Interviews were based on face to face and telephonic through a partially structured approach to ensure flexibility while obtaining valid information from the respondents. Telephonic interview were conducted only to key informants who could not be available during field visits.

Focus Group Discussions were conducted to investigative community experiences and views around stakeholder participation and gender inclusion in CSI priorities by extractive companies, CSOTs management, and service delivery mechanism of local authorities. The concepts of rights holders' participation in budgeting and CSI prioritization, engagement of all stakeholders and expectations were critical points of the research. A balanced FDG was maintained around the 15-20 range with gender balance being core in terms of both presence and participation.

### 3.3.2. Secondary Data

Secondary data was collected through content analysis in collating quantitative figures of amount spend on corporate social investments, taxes paid and identify priority topics for CSI initiative by extractive companies. The data was collected from annual reports of companies from 2009 to 2014. Quantitative data on CSI investments was extracted from Statement of Comprehensive Income (Profit and Loss) or notes to the financial statements while priority topics were extracted from Sustainability Reports or narrative section of the financial statements. Taxes paid were extracted from the Cash Flow statement of the financial statement rather than the Profit and Loss. The primary focus on taxes paid was on actual cash paid in that particular year as presented in the case flow as compare to provisions of taxes to be paid.

The research also examined the National Constitution of the Republic of Zimbabwe (2013), Policies, Laws and government publications relating to natural resources sector for additional adding information.

## 3.4. Data Organisation and Analysis

The research developed a matrix for identifying whether a company made disclosure on CSI, provided an amount, total revenue, profit after tax, CSI amount, Tax paid and identify CSI topic of activities for the year. The matrix aided the quantification and analysis of the latter. Indexes were developed from the analysis to identify trends. Qualitative data from interviews, focus group discussion notes and statements were synthesized to provide narrative findings and case studies. Both quantitative and qualitative results were analysed for possible causal links between CSI, taxes paid and service delivery of local authorities. Findings of the analysis are presented (Chapter 4) based on subjects covered in the research objectives.

## 3.5. Research Ethics

Research ethics were taken into consideration in the design and conduct of the research. Desk Review of extractive company was based on publicly available information with the view of assessing transparency and accountability by natural resources extractive companies. On the other hand, there is a business case for transparency and accountability by extractive companies in addition to compliance with laws and regulations. Therefore, the research opted not to impose or demand any information. Further, the research made sure that interviewees and focus group discussion participants consented to the research and granted authority on whether they would want their name to be mentioned or not. As such, mention of names is restricted in the presentation of research findings.

## 3.6. Limitations

Assessment of the overall research and data collection process had little significant impact on the outcomes and findings of the research. The research's primary focus was to build a case of policy or legal interventions. Only one foreign listed mining company could not make available detailed annual reports of its operations in Zimbabwe through its website or local head office. Further, one foreign extractive company could not provide segmented reporting of taxes paid in different countries, but an aggregated figure of all taxes paid to regions outside the domain country. An analysis of these limitations showed limited impacts to alter findings from aggregated data for the research. Focus group discussions were conducted at an assembled function. However, the participants remained key people appropriate for the nature of the research. Due to political sensitivity, regulatory staff in one of the topics could not be available for interview. However, the missed interview had limited impacts to alter the research findings and potential influence.

CHAPTER
4

# RESEARCH FINDINGS

## 4.1. Introduction

This chapter presents of results and findings from data collected and analysed to understand whether corporate social investment activities, priority topics and taxes paid by natural resources extractive companies are related to service delivery of local authorities and whether stakeholder and gender inclusion is significant. The results and findings are presented according to thematic topics addressing objectives outlined in Chapter 1 to inform Chapter 5 on conclusion to be reached and recommendations provided.

## 4.2. Corporate Social Investment (CSI)

### 4.2.1. Trend in Corporate Social Investment Monetary Values (2009 – 2014)

The monetary quantification of corporate social investment by mining companies in Zimbabwe was an innovative formulation meant to establish the trend informing a CSI index. The results are based on a population of 12 major mining companies. The research covered non-listed local companies and companies listed in Zimbabwe, South Africa, Canada, Australia and United Kingdom. The analysis adopted 2009 as a base year for the index. The year 2009 was selected because the Zimbabwe adopted a new monetary policy of abandoning the local currency (ZW$) and allowing use of multi-currencies, with the United States Dollar being the major currency. Overall results are presented in the table below:

**Table 3**

**CSI Index 2009 -2014**

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| CSI Monetary Amount | 665,779 | 1,425,450 | 6,002,870 | 12,025,100 | 14,150,655 | 16,083,508 |
| Index | 100.0 | 214.1 | 901.6 | 1,806.2 | 2,125.4 | 2,415.7 |
| Companies | 1 | 2 | 4 | 2 | 3 | 2 |
| % of Revenue | 0.2% | 0.2% | 1.4% | 0.8% | 1.2% | 1.5% |
| % of PBT | -32% | 0.5% | 1.4% | 4.7% | 9.3% | 9.9% |

*Source: Author Compilations*

**Based year= 2009.**

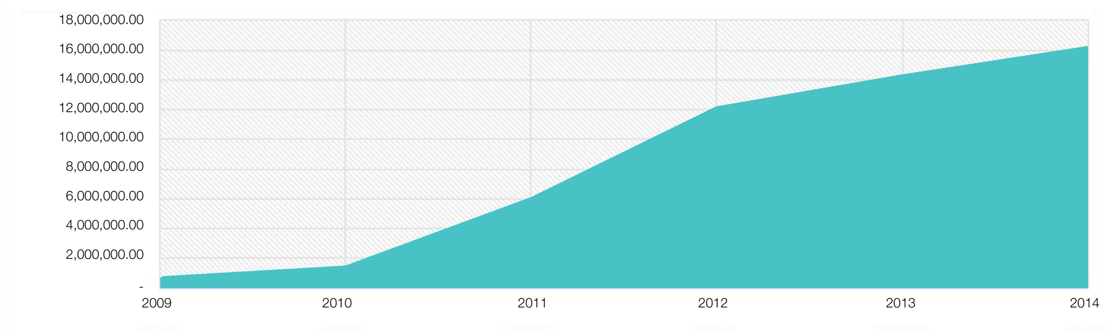
The results show very few companies disclosing monetary value of their corporate social investment. This result could be attributed to the absence of legal or a national regulatory framework on corporate social investment or responsibility for disclosure and accountability. Overall observation showed that monetary disclosure was mainly by foreign listed mining companies which could be driven by regulatory requirements from their countries of domain in comparison to local companies. Blanket Mine which falls under the Caledonia Group listed in Toronto, Canada discloses its monetary value and CSI. The reason is that Canadian government supports Sustainability Reporting (SR) and has made it mandatory. The Canadian Government also supports the companies with a SR Toolkit (availed in 2003) and provides national training workshops on CSR. In addition, the government joined the Extractive Industries Transparency Initiative (EITI), a mechanism to publish and verify company payments made to governments and government revenues received from oil, gas, and mining.

The results also showed that though more 75% of the 12 companies indicated that they were involved in corporate social responsibility; they did not disclose the monetary value of their activities. Such a position presents legitimacy challenges on the disclosures. Only a very small number of companies as indicated in **Table 3** above provided the monetary values of their investment in social and environmental initiatives.

The number of companies reporting on their corporate social investment was 75% of the total research population of 12 mining companies. The disclosing companies were mainly international mining companies or companies with international investors. The result could be attributed to companies that adhere to international standards or are required to do from their countries of domain. The overall results show non-disclosure by many companies which can be attributed to lack of local regulatory drivers.

**Figure 2**

**Corporate Social Investment Monetary Value Trends**




*Source: Author Compilations*

The trend of monetary value contributions to corporate social investment significantly increased over the period to 2014 from 2010 by 1,028% despite the low number of companies disclosing their monetary value of the corporate social investment. This trend is also associated with companies that were working towards meeting regulatory requirement under the Indigenization and Empowerment Act through community ownership trusts. It is important to note that some CSI are tax allowable, hence could influence the upward trend **(Figure 2)**. This has a direct effect on taxes paid to government.

### 4.2.2. Trend of Corporate Social Investment Priority Topics (2009 – 2014)

The results of the analysis identified 14 priority corporate social investment activities and initiatives. The priorities were identified from disclosure by companies in their annual reports. The result of the priority list is presented in **Table 4** below. It was notable that most mining companies prioritized health care support. Mining is a labour intensive, and requires healthy work force. Another highly ranked priority was community development, which could be attributed to the empowerment drive initiated by Government. However, it was notable that most of the corporate social investment initiatives were predominantly in mining areas or town.

From the community's perspective, the CSR programs of mining companies provide a mechanism of compensation for the social and environmental costs associated with mining. These costs are usually associated with environmental impact, higher food and housing costs, and social impacts from an increase in the number workers living in the area. However, it was important to note that CSI priority topics are mainly driven or influenced by extractive companies. Observations showed that priority topics seem to address issues which are linked or have direct implication to the company or its image.

Table 4

**CSI Priorities**

| Rank | CSI Activity Priorities | Frequency Score |
|---|---|---|
| 1 | Healthcare | 49 |
| 2 | Community Development-Entrepreneurial | 38 |
| 3 | Education-Basic | 37 |
| 6 | Environment | 34 |
| 5 | Infrastructural Development | 33 |
| 4 | Water and Sanitation | 31 |
| 7 | Community Agricultural Development/Assistance | 25 |
| 9 | HIV/Aids | 24 |
| 8 | Sponsorship of corporate events | 21 |
| 10 | Community Sport and Recreation | 19 |
| 11 | Education-Tertiary | 13 |
| 12 | Local Authorities and Government Institutions | 10 |
| 13 | Handicapped (4), Orphanage/Children's Home (3), Relief Aid (2), Animal Care (2) and old People (1) | Below 10 |

*Source: Author Compilation*

The results also showed that Old People were at the bottom of the CSI priority list support. It is important to highlight most of these old people are former employees of these extractive companies. Animal Welfare was slightly above old people in the list. The reasons for the Aged, the handicapped, Orphaned and Vulnerable Children (OVC) being within the bottom half shows that CSI is targeted at investment that is somehow linked with the productive continuation of the extractive companies.

## 4.3. Extractive Companies Taxes Payments

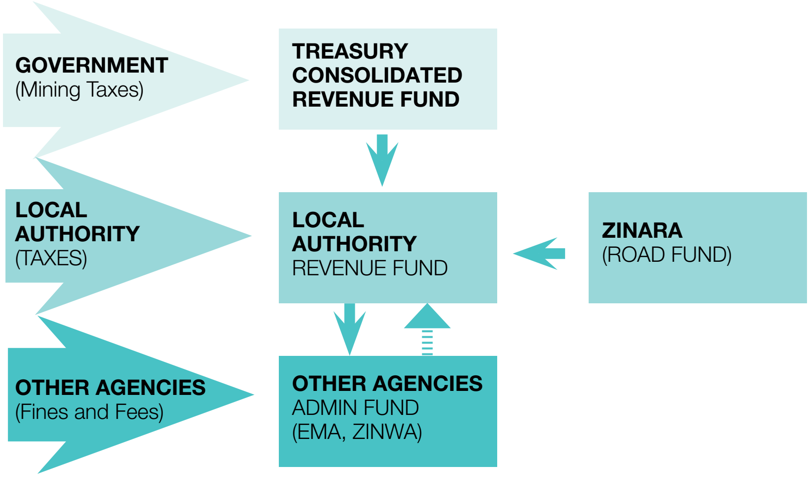
### 4.3.1. Extractive Sector Taxation Mapping

The results of the mapping of taxation in the extractive sector showed that mining companies are taxed at two levels, with a third being avoidable where a company complies with regulations and laws. The taxation system allows companies to pay taxes and fees to government and local authorities. Further, mining companies pay fees and penalties to other agencies for operations and non-compliance. A mapping flow chart presented in **Figure 4** below shows that besides primary taxes through Central Government Agency – ZIMRA and Local Authorities, there are secondary taxes and fees paid to other agencies such as ZINARA for road and toll fees. The flow chart present the flow of funds collected.

Interviews and mapping results showed that local authorities and some regulators such as EMA and ZINWA clash on the same sources in collecting fees and other revenue. For instances EMA collect fines and penalties from extractive companies on non-compliance with environmental laws while ZINWA charges fees on water usage. Local authority by laws also allows local authorities to collect fines and fees from the same. However, the EMA Act supersedes the Local Authority Act. Research data shows that these regulators use the collected revenue for their administrative purposes. This finding is reflected with a broken red arrow in the flow chart. An assessment on ZINARA showed that the agency appropriate funds collected to Local Authorities for infrastructure development and road maintenance.

**Figure 3**

**Extractive Sector Taxation Flow Chart**




*Source: Author*

### 4.3.2. Trend of Taxes Paid

The research explored establishing trends of taxes paid by mining companies to the Zimbabwe Revenue Authorities (ZIMRA) and Local Authorities. The research shows that there has been a decline since 2010 on taxes being paid. The tax index has dropped by 138% from 2010 to 2014. Tax figures in this analysis were based on actual taxes paid as reflected in the cash flow statement not accrual tax figure disclosed in the income statement or balance sheet.

**Table 5**

**Tax Payments 2009 - 2014**

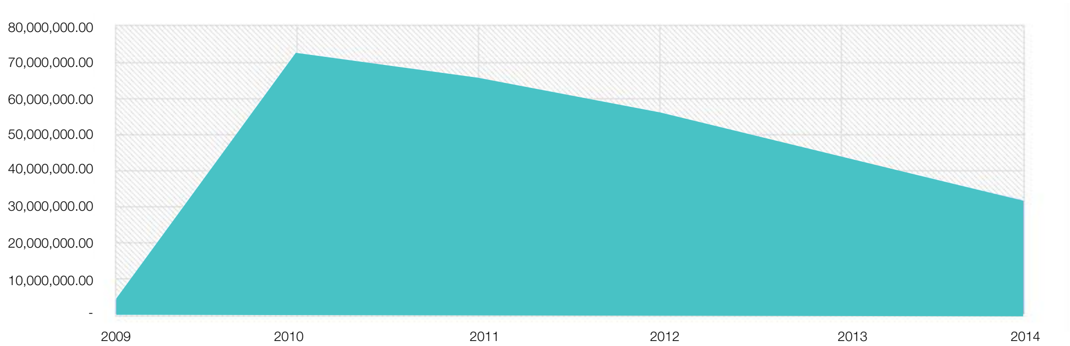
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Amount of tax paid | 3,469,828 | 72,117,032 | 65,234,814 | 55,586,231 | 42,805,699 | 31,609,251 |
| Index | 100.0 | 2,078.4 | 1,880.1 | 1,602.0 | 1,233.7 | 910.97 |
| % of Revenue | 1.1% | 8.6% | 4.6% | 3.7% | 3.7% | 3.0% |
| Total Revenue | 315,741,378 | 840,273,665 | 1,419,713,830 | 1,494,315,598 | 1,172,462,355 | 1,056,818,408 |

*Source: Author Compilation*

The total tax payment disclosed show that they represent an average of 4.1% of total revenue of attributable mining companies participating in this research. However, there were 2 companies who could not publish attributable revenues and taxes relating to Zimbabwe specifically.

**Figure 4**

**Tax Payments Trend 2009 - 2014**




*Source: Author Compilation*

Observation from the **Figure 3** show that 2010 mining companies paid more in term of taxes amount relative to the revenue generated on the year. It was also notable that taxes paid were not separated by taxes category paid by mining companies. Mining companies are at law expected to pay taxes and fees such as royalty (to the MMCZ), corporate tax, value added tax, as well as pay as you earn (PAYE) to the Government. Unit tax is paid to rural local authorities only according to the law. Taxes such as corporate tax are variable taxes that depend of profit generated while pay as you earn is mandatory on what is paid to employees. As such, without mining companies providing the analysis, it was difficult to separate what paid in various taxes including payments to local authorities for service delivery. CSI expenses are tax allowable, which reduce taxes and fees being paid by mining companies to government. The decline of the taxes being paid in government can be a result of the increase of tax incentives and exemptions due to the increase in CSI as noted in **Figure 2**.

### 4.3.3. Revenue Collection Mechanism Implications for Taxes Paid

Interviews with the tax regulatory authorities indicated major concern on transfer pricing, trade mis-pricing, over invoicing of imports and under invoicing of exports by extractive companies as major issues contributing to tax avoidance. The regulatory authority felt that the collection system had loopholes and the law itself was lenient to tax fraud. The practice impacts on natural resource capital tax bracket. There was a call for effective and efficient revenue collection system to insulate the hard impact of illicit financial flows particularly by multinational extractive companies. While the regulator noted challenges in collecting taxes from extractive companies, there was need for capacity development and collaboration with other agencies/actors in the extractive sector.

## 4.4. Community Share Ownership Trust (CSOTs) Management Framework

The concept of Community Share Ownership Trust (CSOTs) was developed through the Indigenization and Economic Empowerment Act, Regulation 201 (No.2) which the research sought to understand the framework for management, implementation modalities, gender perspective, major trust activities and community experiences. This section provides findings of both secondary and primary data.

### 4.4.1. Regulatory Framework of CSOTs

The regulatory framework for CSOTs places a lot of emphasis on managerial responsibility to be organized at community level bearing in mind interlink with other existing regulatory frameworks in managing communities and natural resources, providing infrastructure maintenance, service delivery and environmental reclamations. Key managerial framework is provided in the below extracts from the Act:

- *'A CSOT/s should constitute of residents of the Rural District Council established under the Rural District Councils Act whose natural resources are being exploited by a qualifying business which in case are mining.*
- *It should be made up of residents of one or more wards of RDC'S specified in CSOT/S whose natural resources are being exploited by qualifying business.*
- *Should be made up of a distinct community of persons as defined in CSOT who are affected by the exploration of the natural resources in or adjacent to their place of residence'.*

The provision in the regulation to appoint distinct persons can be a limiting gender factor for participation in CSOTs given the country's long history of community women not having had opportunity to be technically equipped to be distinct.

### 4.4.2. Implementation Gaps

An analysis of the regulation relating CSOTs from the Act provide regulatory gaps presented in Table below:

**Table 6**

**I.E.E - Regulatory Gaps**

| Regulation | Thematic Reference | Findings |
|---|---|---|
| General Amendment, 2010 (No2) Section 14A | 'Indigenization Quota Target-Share Disposal' | The provision does not provide mining companies 10% share disposal to CSOT/S as a systematic mandatory way of meeting its Indigenization Quota but provides numerous other share disposal options. |
| General Notice 114 Of 2011 | 'Designated Share Disposal Recipients' | 10% threshold for CSOT mandate is not clearly regulated. Extractive companies have others options such share disposal through NIEEF, ZMDC, Indigenous Companies, Employee Share Ownership Trust or any scheme or trust that complies with Section 14; 14A or 14B. |
| IEE<br>General Amendment, 2010 (No2) | 'Pledged Amounts Misconception' | Only 5 have received the pledged funds in full out of 62 registered trusts. |
| IEE<br>General Amendment, 2010 (No2) | 'Share Certificates' | Out of the total sixty-one (61) CSOT/s registered at the Deed offices, Gwanda Community Share Ownership Trust (GCSOT) is legitimate shareholder who possess share certificate in mining company operating in their area. |

*Source: Author Compilation*

### 4.4.3. Community Participation and Gender Perspective in CSOTs

From a total of 30 questionnaires administered requesting knowledge on CSOTs on community participation and gender perspective., 96% of the respondents indicated that they had never been consulted in the management and decision making process of the CSOTs operating in their area. 3% indicated that they were consulted on the CSOTs priority listing, and 1 % of the respondents did not indicate whether they were consulted or not. There were indications that participation of women in management and decision making of CSOTs was limited. Some of the community participants indicated that they have never been consulted while others felt that matters they raise are never taken into account in the management and implementation CSOT activities.

Focus group Discussions noted a major concern that CSOTs tended to focus on Rural Districts at the expense of Town Councils despite the fact that these town councils are directly affected by extractive or mining activities of extractive companies. Cases were noted in Shurugwi and Zvishavane where significant developments were realized in the City Centre and not in the townships. Stakeholder consultations or engagement was also noted to be limited and communities recommended national protocols for extractive companies to engage community before, during and after extraction or mining. Cases were cited of environmental damage being left unattended after mine closure where former miners would not make themselves available any more.

### 4.4.4. CSOTs Case Studies

While there are regulatory challenges noted in the implementation and management of CSOTs, the research profiles some of the CSOTS currently running:

#### *4.4.4.1. Tongogara Community Share Ownership Trust (TCSOT)*

The Tongogara Community Share Ownership Trust is regarded as one of the most successful compared to others. The reasons for the success have been attributed to hard work and proper coordination on the part of the CSOT board and the TRDC. The Trust has a sustainability plan beyond extractive life of the mine in their area.

***Successes:***

*"Hard work and constant engagement has been the cutting edges of the TCST success. Community development entails community participation. Up to date The Tongogara Share Ownership Trust has built a school, a mortuary, and bought caterpillars which are rehabilitating roads in Shurugwi, drilled 35 boreholes, repaired 72 boreholes, bought Nestle store as a sustainability project and in 2014 each ward was given USD 25 000 after a participatory needs assessment "*

***Challenges:***

*"We are not shareholders because we don't have the certificates to show for that"*

#### 4.4.4.2. Mabvuku/Tafara Community Share ownership Trust

Harare East Mabvuku/Tafara Community Share Ownership Trust is said to have started operating in 2013 according to Tafara District Office but failed to commence up effectively since then. It is also known as the Mabvuku /Tafara Community Share Ownership Trust. The Trust got a pledge of its seed money from a US$1 million Special Purpose Vehicle (SPV) set up by the Extractive Company as part of its indigenization strategy in 2013. The Trust Community still has water shortage, lime dust problems, pot holed roads, inappropriate infrastructure and dilapidated community halls.

***Status***

*"The Harare East-Mabvuku/Tafara Community Share Ownership Trust will receive its first disbursement of US$300 000 that will enable it to resume operations. The trust will become the third community share to benefit from the US$1 million Special Purpose Vehicle (SPV) set up by cement maker Lafarge as part of its indigenization strategy. The SPV houses three trusts and Uzumba Maramba Pfungwe and Goromonzi share trusts have already received their first disbursements"*

*Challenge:*

#### 4.4.4.3. Umguza Community Share Ownership Trust

The Umguza Community Share Ownership Trust had some significant successes. 5% of its funds are set aside for youths assist in educational needs. The CSOT take gender issues seriously such that, so far has been able to construct Waiting Mothers Shelters for pregnant women and has a gender focal person. The CSOT participate in gender activism. Focus group discussion noted that the extractive company operations cover wide areas which may require the CSOTs fund to be split to other communities.

*"The fund has focused on a number of development projects, which included drilling of over 65 boreholes using a rig that was bought for $75000, bought a 7t lorry for $102 000 that is being used to transport seeds and various goods for the community, an administration vehicle was bought for $38 000 and the CSOT has a permanent Administrator, Construction of school (ward 7) and repairing of damaged roads in and around the URDC."*

#### 4.4.4.4. Zvishavane and Mberengwa Community Share Ownership Trust

Zvishavane Community Share Ownership Trust appears marred by controversies over the distribution of the funds. There was a demand noted in 2013 that Zvishavane Community share ownership trust cede half of the $10 million contributed in 2012 by two extractive companies to Mberengwa Community Share ownership Trust because they operate in both jurisdiction of Zvishavane and Mberengwa. As such, both districts should equally benefit under the 'Indigenization and empowerment' plan. Concerns were noted of political interference. Despite the initial challenges, the CSOT had built a mortuary. Community engagement was noted to be limited on women and youth participation.

'The Trust had constructed a clinic, scooped dams, reconstructed damaged dam walls for commercial dams, refurbishment of district road networks, and electrified several schools. The trust has also constructed classroom blocks across the district for $845 000. The trust received the first tranche of $3 million in February 2012 and another $1 million in June 2013, enabling it to complete the first phase of development projects'.

#### *4.4.4.5. Gwanda Community Share Ownership Trust*

The reason why only GCSOT is the only legitimate shareholder compared to the other 60 Trusts can be attributed to the regulations and laws in Canada where Caledonia Mining Company that owns Blanket Mine is listed and originate. For instance the Public Accountability Statement Regulation (2004), The TSX Timely Disclosure (2004) and the Environmental Protection Act (1999) are Canadian regulations which are mandatory. These regulations require sustainability reporting and community accountability from Canadian mining companies in line with host government laws and regulations. Blanket Mine risked being delisted on the Toronto Stock Exchange (TSX) if it did not comply with the IEE Act in Zimbabwe.

#### *4.4.4.6 Legislative View on CSOT*

Varying degrees of success were noted in some of the CSOTS, warranting revisiting regulations and model for CSOTs.

*"The CSOT was imposed on mining companies without their input and the 51% issue was not done properly. The whole scenario has forced companies to forestall their CSR activities without indication. CSOT is more like legalized CSR."*

### 4.4.5. CSOTs Key Initiatives and Service Delivery*

Focus Group Discussion revealed major CSOTs activities being centred on service delivery such as education facilities, healthcare facilities, community development, infrastructural development, environmental protection, water and sanitation. It was also notable that there seems to be duplication of activities with local authorities. The Local Authorities focus group discussion indicated that their service delivery plan is guided by the budget and it is bounded by law. At the same time, extractive companies indicated that they do provide service delivery as part of their corporate social responsibility on similar issues covered under CSOTs and Local Authorities. In other words, indications also showed that CSOTs were gradually replacing company commitments to CSR. The CSOT focus group highlighted that under the indigenization law they are supposed to improve or built infrastructure (schools and roads) which creates confusion on what central government, local authorities and extractive companies are supposed to do respectively in service delivery.

## 4.5. Local Authorities Service Delivery Mechanisms

Service delivery of local authorities in host extractive towns is a critical part of the research in understanding how it is influenced by corporate actions of extractive companies through corporate social investments and taxes paid. The field research was meant to establish the framework, revenue mechanisms and services, potential opportunities and challenges, and the extent of stakeholder participation in service delivery. The research interviewed local authorities in Shurugwi, Zvishavane and Umguza in coordination with project consortium partners, Urban Council Association of Zimbabwe. Findings in this section are based in secondary and primary data analysed below.

The research noted duplication of responsibilities between councils and CSOT. It also established that CSI supported interventions often did not involve local authority let alone regional (provincial-metropolitan) and regional planning. This is one of the reasons why communities end up feeling neglected by companies and local authorities. Councils were unable to convince communities as they were also complaining of being side stepped by the revenue streams from extractive operations (**See Fig 5**). There is a direct link between revenue raised and the quality of service provided by local authorities. Questionnaire analysis reviews that the above reason is why local authorities provide weak services.

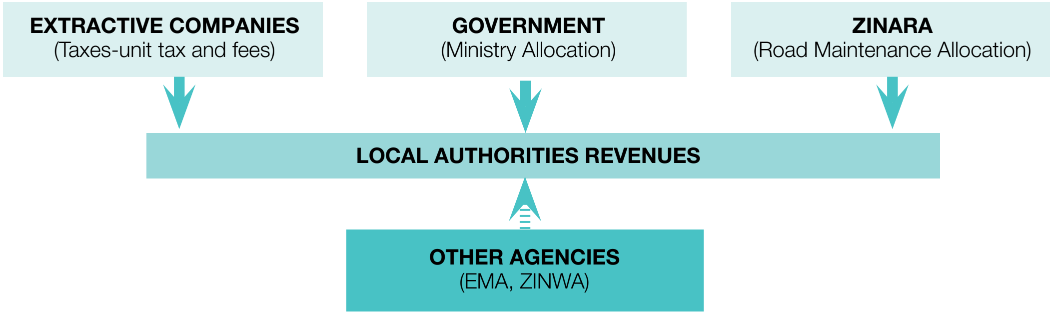
Another reason that was raised for a weak service delivery provision was that local authorities are currently facing competition from other state agencies like ZINARA, EMA and ZINWA whose collections from the sector are invariably called fines. The consequence is that responsibility for delivering services and regulating extractives becomes dissipated amongst different agencies some of which lacking effective local presence. There is lack of cooperation amongst the players and this leaves gaps. Therefore, legislated streamlining tax and royalty collection using relevant principles would improve the system and allow public participation.

### 4.5.1. Local Authorities Fiscal System

The regulatory framework for urban local authorities (City Councils, Municipalities, Town Councils, and Local Boards) are governed by the Urban Councils Act (29:15), while the Rural Councils under the Rural District Councils Act (29:13). These Acts empower the council to enact by-laws that allow the authority to raise revenue through various 'service charges  made for any services, amenities or facilities provided by council' and the 'fixing and imposition of a supplementary charge' on immovable property in its area to 'cover the expenses incurred by the council in the administration of the area to 'cover the expenses incurred by the council in the administration of the area concerned' and to impose fines and penalties for any breach of council by-laws ( Coutinho 2010).

**Figure 5**

**Local Authority Revenue Mechanism Flow Chart**




*Source: Author Compilation*

The mapping of the fiscal system of Local Authorities shows that the revenue fund is contributed buy extractive companies through direct taxes such as Unit tax and others, Government ministerial allocation local authorities and ZINARA through the Road maintenance funds allocation. Interviews with Local Authorities indicated that they do not receive any allocation from EMA funds on fines and penalties from non-compliance with the environmental regulations in areas governed by Local Authorities. This presents potential conflicts on who should be effectively policing environmental concerns caused by extractive companies. Concerns were noted on mining closure processes where mining shafts are left open and environmental rehabilitation does not take place after mining.

Extractive companies according to interviews should not be seen as service delivery institutions. Rather the Government at the appropriate level depending on the investment/development should be involved. For instance, in primary health facilities are the responsibility of local government /authorities. The same should be applicable to the educational sector and others for example different classes of roads fall under different authorities. State delivery institutions should be streamlined in line with the Constitution of Zimbabwe 2013 reducing overlapping within the spheres. Non-state service delivery institutions should therefore coordinate with the relevant level of government, which is responsible for planning and delivering the relevant type of service. As such, where an extractive company is sponsoring a primary school or health facility the local authority as the public institution responsible for that level/type of service should be involved. Ensuring that relevant state institutions take leadership will be part of strengthening them, improving equitable and inclusive development planning. involved well as the expectation that and according to their areas of interests is the most crucial Devolution of responsibilities as stated in the Constitution is critical to efficient and pro-poor service delivery by the state.

In addition according to responses from local authorities' representatives, it is the responsibility of the state for institutional arrangement for service delivery. The argument is that it is reinforced by the Principles of public financial management as stated in section 301 (3) of the Constitution of Zimbabwe, which states that not less than 5%of the national revenue raised in any financial year must be allocated to the provinces and local authorities.

### 4.5.2. Revenue Sources Analysis

**Table 7**

**Local Authorities Revenue Sources 2015**

| | Revenue Source (s) | Service Delivery | Analysis |
|---|---|---|---|
| 1 | Rates on property and land | • Property and land service. | • Constitutes 20-30% of total council revenue. |
| 2 | Revenue from service delivery | • Provision of water, refuse removal, sewer and affluent removal, provision of health services at various hospitals and clinics operated by councils. | • Water income constitute about 40% of council revenue. Sewerage and refuse removal fees constitute between 5-10%of total revenue. Income from health fees constitute between 1 and 5% of total revenues. |
| 3 | Fees charged | • Fees on various users of council amenities. | • Constitutes 2.6% of the total budget for urban councils. |
| 4 | Penalties and fines | • Breaches of council by-laws such as, unapproved development, illegal parking, and pollution. | • Enforcement and effective collection of fines and penalties is key challenge. |
| 5 | License fees | • Vehicle licenses, dog licenses, hawker's license, shop licenses and others. | • Poor enforcement and inaccurate databases key challenges. |
| 6 | Supplementary charges | • Levied on property owners in high density areas in lieu of property rates. | • Effective collection challenges. |
| 7 | Plan approval and development fees | • Councils derive income from approving any developments within the areas of jurisdiction, and these are pegged against the estimated values of promised developments. | • The funds raised through this source are normally credited to an Endowment Fund which is used for the development of an onsite and off-site infrastructure within the council area. |
| 8 | Revenue generating projects | • Projects include beer halls, breweries, farming and brick molding | • Often poorly managed and associated with adequate accountability systems. |
| 9 | Lease of land and sale of land | • Lease of free use land and sale of residential or commercial development to private individuals or organizations. | • Poor lease management Leases. |
| 10 | Rental on council properties | • Letting of properties such as houses, flats and commercial buildings. | • Rentals often not reviewed regularly. |

*Source: Author Compilation*

Interviews with Rural District's officials identified that major revenue sources were mainly from unit taxes and others levies on activities such as sale of sand to extractive companies. Major challenges were noted from operations of artisanal miners who prefer not to pay any fees despite wanting service delivery at the same time causing environmental damage. However, it was noted that extractive companies tend to come in to help local authorities with services delivery in aspects that affect their operations.

### 4.5.3. Challenges for Local Authorities in Collecting Revenues from Mineral Resources.

The following are the main challenges faced by local authorities in collecting revenues from local mining companies

**Table 8**

**Revenue Collection Challenges and Impacts**

| | Revenue Matters | Challenges |
|---|---|---|
| 1 | Unit Tax and Royalties | • Payment inconsistencies by extractive companies.<br>• Inaccuracy information for local authorities to calculate taxes.<br>• Royalties' payment is not backed by legislation making it difficult to collect. |
| 2 | Conflicting Legislations | • Inconsistences among Mines and Minerals Act, Environmental Management Act, Public Health Act, RTCP Act, Communal Land Act and the Traditional Leaders Act.<br>• Clashes in revenue under EMA act and RDC Act on penalties and fines on pollution and damage to the environment. |
| 3 | Debt and re capitalization | • None payment of levies by extractive town residences and mining companies.<br>• Lack of financial resources for replace service delivery equipment and facilities. |

*Source: Author Compilation*

## 4.6. Stakeholder and Gender Participation in Service Delivery Mechanism of Local Authorities

Interviews assessing the extent of stakeholder and gender participation showed deficiencies in practical implementation. Stakeholder engagement was noted mostly during Budget Consultative meetings and prior to reports, and being driven by local authorities. The Constitution of Zimbabwe 2013 requires that communities participate in full council meetings. The meetings are supposed to be advertised on billboards and other spaces for civic knowledge, and that the council chambers should have enough space for the public. The Constitution of Zimbabwe 2013 also requires that council meeting minutes be summarized in the local language and should be available freely or at a price affordable to many. However, it was noted that stakeholders do not know these constitutional requirements and tend to view council meetings as more of rituals as compared to a value addition process.

Assessments also showed mistrust between extractive companies and local authorities. The main reason is that many contributions do not get implemented by local authorities. Indications showed that local authorities make efforts for women and youth to participate in consultations. Local Authorities also participate in promoting gender activities such 16 Days Against Gender Based Violence (GBV). However, there were signs that stakeholder engagement as process is not highly structured or implemented in local authorities as a strategy for managing risk and identifying opportunities.

In summary, findings presented above to answer the research objectives set in Chapter 1 provide a basis for reaching conclusions in providing quantitative measure of corporate social investment, taxes paid and identified CSI priority topics for Zimbabwe. Field research provided insight for addressing objectives relating to CSOTs, stakeholder and gender participation in services delivery of local authorities. Furthermore, the findings provide a basis to assume that service delivery mechanism of local authorities is dependent on the extent of corporate actions and contributions of extractive companies in host extractive towns.

CHAPTER 5

# CONCLUSSION AND RECOMMENDATIONS

## 5.1. Conclusion

The research findings provide the basis to conclude that mature corporate disclosure on corporate social investments, priorities and tax payments is significant in foreign extractive companies from Canada, Australia and South Africa with strong disclosure requirements. The absence of strong national requirements on corporate disclosure on sustainability matters (environmental and social) is a contributing factor to weak transparency and accountability practices in the sector in Zimbabwe. The aggregate disclosure of taxes paid (to local authorities and central government) by extractive companies creates mistrust from stakeholders on the legitimacy of extractive sector contribution to the national economy and service delivery of local authorities.

Based on field research findings, the research concludes that stakeholder and gender participation is limited in corporate actions such as corporate social investment initiatives and community share ownership trusts. Observations show indications of potential strong influence on CSI priorities and CSOT management by extractive companies due to lack of an appropriate national framework or legislative guidance on stakeholder participation and gender inclusion in CSOTs and CSI.

While it is the responsibility of local authorities to provide service delivery in mining communities, centralization of taxes collection and distribution impacts on local authorities' revenue and ability to provide appropriate service delivery in host mining communities. The research findings on corporate social investment priorities and CSOTs activities show potential duplication of efforts in service delivery associated with ineffective stakeholder engagement and cooperation between extractive companies, CSOTs and Local Authorities which could ignite potential conflicts.

Overall findings provide an assumption that there is a link between corporate social investment initiatives, priorities, taxes paid and services delivery of local authorities in extractive sector communities. This conclusion is supported by identified corporate disclosure deficiencies, weak services delivery by local authorities, limited stakeholder and gender participation. Therefore, this research suggests that the natural resources extractive sector require policy, regulatory and legislative interventions.

## 5.2. Recommendations

Based on the findings and conclusion of this research the following interventions are recommended to provide a framework for a natural resources extractive sector that contribute to social and economic development, stakeholder participation and gender inclusion in Zimbabwe. The recommendations are presented to specific stakeholders based on analysis of research data:

### 5.2.1. Parliament of Zimbabwe

- There is need for a national framework or legislation to guide or set benchmarks on corporate social investments in relation to public participation and stakeholder engagement.
- It must be made mandatory for companies to involve the public through new and existing stakeholder engagement mechanisms when coming up with CSR priorities in order to achieve sustainable community development such as sharing the costs the society has to pay due to environmental degradation, transfer of technology from international companies to developing countries, environmental protection, and poverty alleviation in the communities.
- There should be an independent body or mechanism that should be mandated with evaluating whether implementation of CSOTs programmes are compliant with laid down provisions, procedures and transparent.
- Ensure there are requirements for CSOTs to make newspaper publications of their activities and their financial statements for accountability.
- Develop procedures or legislation that should ensure greater transparency, accountability and public disclosure of processes by mining companies embarking on CSOTs programme.
- Develop guiding indicators for evaluating CSOTs to ensure marginalized groups are taken into consideration in CSOTs programmes.
- Recommend Government to extend the role of the Auditor General's Office to cover CSOTs when carrying public entities audits.

### 5.2.2. Government of Zimbabwe

- Clarification or harmonization of the Indigenization and Economic Empowerment Act, Statutory Instrument for Community Share Ownership Trust, RDC Act, EMA Act, Mines and Minerals Act and the Communal Lands Management Act towards developmental approaches and provisions of the New Constitution of Zimbabwe 2013.
- Adoption of international guidelines that provides great transparency and accountability on taxes paid environmental and social impacts.
- Revisiting of the Model of implementing Community Share Ownership Trust to ensure it involves participatory processes, gender sensitive and inclusive of youths.
- There is need for a national focus on the Legal Framework for citizen participation and how this can contribute towards service delivery.

### 5.2.3. Local Authorities

- Legislative provision for requiring a Stakeholder Engagement as principle for public participation in the extractives sector. For example, Government, Rural District Councils (RDCs) and Extractive companies must establish forums for continuous engagement on best mechanisms for implementing initiatives and consulting on various matters.
- Local communities should be empowered to be the source of identifying development priorities in their communities.
- There is need for advocacy and awareness to the public and communities on the importance of participation in local authorities, 'full council meetings, budgets formulation, monitoring and tracking progress and outputs of such.
- Town Councils in mining areas should be included in the CSOTs since they shoulder the burden of the mining impacts. However, this must be done under a proper needs assessment for such town councils.

### 5.2.4. Regulatory Bodies

#### *5.2.4.1. Zimbabwe Revenue Authority (ZIMRA)*

◊ Efficient tax collection mechanism and administration from natural resources extractive companies.

◊ Encourage mining companies to provide a tax analysis between those for local authorities and Central Government.

◊ There is need for a simplified system where public institutions (national, provincial-metropolitan and local governments) receive resources (taxes and royalties) from the extractive sector so that they are able to deliver relevant public goods and services.

◊ Strong monitoring and tracking on institutional arrangements by law enforcement agencies need to be streamlined as the present set up raised risks of leakages.

◊ The collection body should build capacity within its staff so that they will be able to deal with complex issues such as transfer pricing.

#### *5.2.4.2. Environmental Management Agency (EMA)*

- ◊ There is need for alignment of EMA Act with other conflicting legislations in line with the New Constitution provisions.
- ◊ Enhance capacity for environmental policing.
- ◊ Provide high priority protection mechanisms for wetlands, trees and water bodies that benefits communities.
- ◊ Advocate for an Environmental Court that will handle cases of extractive company's violations and environmental crimes or non-compliances.
- ◊ Empower communities with responsibilities to protect their own environments while providing technical and legal support.
- ◊ Ensure Environmental Impacts Assessment reports and other information is easily accessible through local district office for local communities seeking to evaluate or monitor operations of particular mining companies in their area.

### 5.2.5. Extractive Sector Companies

- Great disclosure of taxes collected between those to Local authorities and Central Government;
- Incorporate stakeholder engagement practices in business operation in extractive community to ensure inclusivity;
- Extractive companies should consider working with their sector bodies like Chamber of Mines for Code that guide sustainable practices, inclusivity and accountability.

### 5.2.6. Civil Society and Host Mining Communities

- Effectively participate in stakeholder engagement process of extractive companies;
- CSO to capacitate and organize communities for stakeholder engagement;
- CSOs should play an effective role of monitoring and evaluating extractive sector corporate social investment initiative on behalf of communities.

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