

*Investing in people for Social and economic Justice*

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**PEOPLE'S RESPONSE TO MBADA DIAMOND'S PRESS  
STATEMENT PUBLISHED ON 18 MARCH 2014**



## **Introduction**

Issues to do with transparency and accountability in Zimbabwe have raised so many questions than answers. Most of economic activities in Zimbabwe are shrouded in secrecy. In the mining sector, transparency and accountability issues are topical issues. In a bid to improve transparency, Mbada Diamonds has managed to disclose its revenue earnings in a press statement since it began its operations about 6 years ago. This should be the normal practice for all companies in the extractive sector since this sector is at the heart of Zimbabwe's development as indicated in the government's economic blueprint, Zimbabwe Agenda for Sustainable Socio Economic Transformation (ZIMASSET). This statement echoes together with the community voices regarding issues of transparency and accountability in light of the collection, disbursement and usage of diamond revenues in Zimbabwe. Issues of concern arise from the fact that people's livelihoods are deteriorating, the state of social service delivery is appalling and the government is withdrawing support from critical social services such as education while companies in the extractive industry such as Mbada Diamonds are posting profits.

Zimbabwe Coalition on Debt and Development (ZIMCODD) commends its partner, Zimbabwe Environmental Lawyers Association (ZELA) for coming up with an informative analysis and critic of the Mbada Diamond statement. As a member of ZiNAIF, ZIMCODD supports ZELA's lead and here under gives a people's response to the Mbada Diamond statement. It calls for all other mining companies to publish what they are getting from the extractive industry and on government to put in place public resources management frameworks that foster transparency and accountability.

### **Summary of Mbada Diamonds Press Statement**

On 18 March 2014 Mbada Diamonds published in the news papers (Newsday, Daily News and the Herald) that they had surpassed the \$1 Billion dollar threshold in total revenue within 4 years of operations. Below is a breakdown of revenue expenditures for Mbada Diamonds:

- \$424 million was channelled towards taxes, dividends and government advances,
- \$33.9 million towards mineral social responsibility
- \$214.5 million was for capital expenditure,
- \$225.6 million for direct production related expenditure
- \$138 million accounted for the company's operational costs.

Some of the proceeds had been used to renovate local schools, equipping them with furniture, text books and uniforms. Mbada Diamonds claims that the vast of their revenues are consumed in honouring their tax obligations and governmental pay outs.<sup>1</sup>

Though Mbada Diamonds has taken a step in trying to enhance transparency and accountability, its statement is presented with lacunas. It is important to note that the statement did not clarify on the exact taxes paid as there are many tax heads. The notion that Mbada Diamonds paid dividends to government also raises questions. Government

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<sup>1</sup><http://www.newzimbabwe.com/business-14914->



advances were also not indicated and the article failed to show production and export volumes of the diamonds to the public.<sup>2</sup> The Minister of Finance complained that in 2013 no dividends from diamond sells were remitted into the state coffers<sup>3</sup> and also the statement was also void of the actual amounts remitted as dividends. Out of the seven mining companies namely: Anjin Investments, Diamond Mining Company, Gye Nyame, Jinan Mining Private Limited Kusena and Marange Resources and Mbada diamonds, it is only Mbada Diamonds which is half owned by the government and private investors that has managed to declare publicly its mining revenues. If indeed Mbada diamonds paid dividends to government it should be established how the money was used as people did not benefit from the revenue raised from the diamonds. Social service delivery did not improve from 2008 to date, the government failed to put the economy on the recovery path, companies continued to close down with government failing to recapitalise them, while infrastructure development throughout the country, especially in outlying areas remained marginalized.

### ZIMASSET and mineral resources

In a bid to foster socio economic development and revenue raising, the government sought to focus on domestic resources mobilisation. The mining sector has emerged as one of the main source of domestic resource mobilisation. As enshrined in the ZIMASSET, the mining sector continues to be a major foreign currency earner and has potential to become the pillar for economic growth through value addition and beneficiation. Revenue from the mining sector is expected to increase to 11.4% by end of 2014.<sup>4</sup> Ideally, an increase in revenue collection implies an improvement in service delivery both from central government and local government. Improvements in the standards of living are also expected. However, the mining sector continues to be constrained by energy and transport infrastructure challenges, depressed international mineral prices and shortage of utilities among other factors. Therefore, there is need to ensure that the government is better capacitated and equipped to tap as much tax as possible from the extraction industries and redistribute the resources in a progressive manner so that the citizens enjoy their social and economic rights as enshrined in the new constitution. Currently, revenue collection for the first quarter is falling short of 6%<sup>5</sup> therefore greater efforts are required to ensure that revenue leakages are minimised.

### Socio economic justice and the Constitution

As enshrined in the Constitution, every Zimbabwean citizen is entitled to enjoy their socio economic rights as provided by the duty bearer who is the state to the rights holders who are the citizens. The constitution has provisions that touch on the promotion of socio economic development, public debt and mineral resources. Below are the major socio economic rights each citizen of Zimbabwe is entitled to.

- Paragraph 75 focuses on the right to education. Section (1) (a) states that “Every citizen and permanent resident of Zimbabwe has a right to a basic State-funded education”
- Paragraph 76 is on the right to health care. Every citizen and permanent resident of Zimbabwe has the right to have access to basic health-care services, including reproductive health-care services. The right also extends to emergency medical treatment in any health-care institution.
- Paragraph 77 talks about the right to food and water. Every person has the right to safe, clean and potable water; and sufficient food; and the State must take reasonable legislative and other measures, *within the limits of the resources available to it*, to achieve the progressive realization of this right.
- Paragraph 82(c): People over the age of seventy years have the right to receive financial support by way of social security and welfare and the state must take reasonable legislative and other measures, *within the limits of the resources available to it*, to achieve the progressive realization of this right.<sup>6</sup>

<sup>2</sup>[http://www.slideshare.net/ZELA\\_infor/reaction-to-mbada-diamond-revenue-disclosure](http://www.slideshare.net/ZELA_infor/reaction-to-mbada-diamond-revenue-disclosure)

<sup>3</sup><http://www.theindependent.co.zw/2013/11/15/opacity-haunts-diamond-minings-treasury-remittances/>

<sup>4</sup>ZIMASSET page 28

<sup>5</sup><http://www.businessdaily.co.zw/index-id-national-zk-34837.html>

<sup>6</sup>Zimbabwe Constitution

Whilst the socio-economic rights provided by the Declaration of Rights are progressive, the major shortcoming is the existence of claw back clauses on these rights. These clauses exhort the State to take reasonable legislative and other measures, within the limits of the resources available to it, to achieve the progressive realization of the rights. The constitution thereby gives rights by one hand and takes away the essence of those rights by the other hand. Since Zimbabwe is endowed with diamonds and other rich minerals, revenue collected from the extraction of these minerals must be allocated in sectors that promote socio economic justice such as water, education, health, food and social security fund for the vulnerable such as the elderly and pensioners.

### People's voices

After interpreting the implications of the statement given by Mbada Diamonds in the media to the people ZIMCODD managed to gather community responses to the statement. The voices reflect the reactions of the citizens after they were well acquainted with the statement. The voices are representative of ZIMCODDs cluster areas namely; education, health, disability, residents, informal traders and farmers in the rural areas.

### Major findings

#### **Diamond revenue must benefit the communities at large and the government**

The key issue emerging from the people's voices were that revenue from the extractive industries should benefit the communities where extractions are conducted and the government. The respondents argued that the local people from which the minerals are extracted should benefit more as the resources extracted are theirs. It is the community's environment that is degraded. Mining activities in Marange and other areas have displaced the local people and led to social disintegration. Ancestral lands and heritage and graves for relatives were destroyed. The local people have to benefit more as they are inconvenienced. Asked on how the government should benefit, the respondents said that mining firm's taxes must be raised so that government can tap more revenue. Furthermore taxes from mining industries must be remitted in the

*"Both the government and the communities must benefit from diamond mining. Diamond revenue must be remitted to the Treasury and be channelled to other economic activities to improve people's livelihoods. At the same time there must be economic and social development in the areas within which the minerals are extracted. There must be a change in the livelihoods of the local people in the communities where diamond is mined . Currently communities are not benefitting that much as noted from the high levels of commercial sex work exacerbated by poverty despite the country's endowment with vast resources. Mining corporations have not spared our communities of Land degradation and pollution. More so, the Corporate Social Responsibility must be unstructured, if the mining operations cease who will buy the text books and renovate the schools?" –Freeman Bhoso (Environmental sector)*

*"The communities must be the primary beneficiaries of the diamond revenue and then the nation at large through infrastructure development. Resources belong to all Zimbabweans and all citizens must benefit in the end" –Masimba Kuchera (Disability sector)*



**Published revenues are not trustworthy**

The respondents also expressed mistrust on the figures published by Mbada Diamonds. With growing cases of corruption activities in public institutions, illicit financial outflows, tax avoidance and evasion, the people believe that the figures were to be treated with suspicion. They believe that a lot of revenue has been leaked through corruption, tax avoidance and tax evasion. The citizens claimed that the revenues were not audited henceforth they do not give a reliable figure.

*“The given figures are not trustworthy. There is no clear formula involving independent bodies to verify the figures . Additionally, the figures are vague. The person on the street does not have anything to show that Mbada diamonds amassed 1billion USD in 4 years in Zimbabwe” – Arthur Taderera (Service delivery)*

**Lack of transparency and accountability**

Voices from the communities also reflected discontentment with the lack of transparency and accountability in the extractive sector. Communities believed that there were secret deals in the diamond industry leading to a lot of revenue leakages. The fact that out of the seven mining companies, only one company has managed to publicly publish its revenues is an eye opener to the lack of transparency and accountability in the sector. Credible sources such as the President, Ministry of Finance and the Ministry of Mines are also on record publicly saying that transparency and accountability is lacking in the diamond mining industry. There is also lack of transparency in terms of the process that awards mineral rights to potential mining companies.

*“When it comes to programmes like these the communities must be consulted and make an input. I believe this issue of diamond mining is shrouded in secrecy henceforth its originality is dubious. In all developmental programmes the government must make sure it has consulted the intended beneficiaries. At the moment we do not know how much has been deposited in the accounts and the signatories we don't know them” – Cephas Gwayagwaya (Displaced resident)*

*“Mbada disclosure of its revenues is due to civic pressure. We urge all the other mining companies to disclose their revenues and they must be explicit in terms of the exact amounts they paid as taxes, dividends or government advances” – Tatenda Simukai Mombayarara (Human rights and governance).*

**Mining companies are reluctant to honour their pledges**

Voices from the community also expressed disgruntlement with mining companies as they are failing to honour their pledges through contribution to community share ownership trusts. Mining companies pledged to support the development of the communities within which they conduct their operations, surprisingly some of them denied getting into agreements with the government that they will channel some of their proceeds to community developments.

*“Vanhu ivava vema company vanonyep a. Hapana zvarikuita zvinobati ka and havasiku bhadhara mari dzema community development. Maproblems achingoripo, maroads achiri akashat a ende zvikoro zvichiri zvishoma. Can you imagine va na vanobva kwa Dzoma nekwa Rambe kuuya kuchikoro ku Chishingwi. Tinoda zvikoro padhuze nezvipatara futi” – **Spive Machingauta (Arda transau resident).***

*“Nothing tangible is coming out from these mining companies. They are not honouring their pledges because hatisi kuona kana macommunity based projects avari ku sponsor. Tinoda maprojects ekuti kana madiamonds akapera maprojects anoramba aripo. Vakadzi vazhin ji tiri kutopona ne cross border trading tichinonohodha ku South Africa”. – **Grace Mariwo (Debt and Trade sector)***

### **Other findings**

Some of the issues that emerged were that the Marange people were given mining rights that would enable them to venture into the diamond business but various sections of the community did not fully understand how to capitalise the opportunity and they failed to capture the intended purpose or operations of the multi-million dollar trust. People said they were not aware of how the trust would be operated and managed. In displeasure at the trust, on September 20 villagers staged protests in Marange demanding to know why they were not being consulted on affairs of the trust.<sup>7</sup>

The people unravelled that the much celebrated US\$1 billion surpassed cannot be equated to degradation and the development of the Marange - Zimunya community. The area still lags behind in terms of development. The sprouting of illegal diamond miners also clearly indicates that the mining company has failed to provide enough employment for the local people.

### **Conclusion and Recommendations**

Based on the findings from the survey conducted, diamond revenues are not benefiting the communities within which the diamond is mined and the general populace of Zimbabwe. Both the government and the communities must benefit. Diamond mining is still shrouded in secrecy there by impinging on transparency and accountability. This lack of transparency and accountability paves way for illicit outflows of diamond revenue. The survey also revealed that diamond mining companies are reluctant in honouring their pledges. ZIMCODD believes that Zimbabwe has got enough resources to finance its own development. There is need for proper public finance management frameworks that foster transparency and accountability in Zimbabwe such that social and economic rights are adequately funded.

### **Recommendations to government**

- Increase taxes on mining companies this will cushion the poor and mobilise enough resource for social service delivery
- Ensure transparency and accountability through installation of tight monitoring and evaluation mechanisms of mining claims.
- Accounts for companies in which the government is party to must be audited and results publicly disseminated

<sup>7</sup>[www.newsday.co.zw/2012/11/29/community-share-ownershipwho-is-benefiting/](http://www.newsday.co.zw/2012/11/29/community-share-ownershipwho-is-benefiting/)



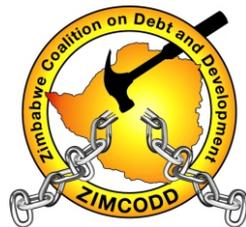
- Minerals Act must be reviewed to ensure that there is transparency and accountability. The act must open up the contract negotiation process and make it inclusive.
- Diamonds must be taken as strategic resources. They must be nationalised and put under the direct control of government and are exploited for the full benefit of all citizens.
- There is need to reduce/minimise revenue losses from the diamond industry through capacitating ZIMRA to effectively collect what is due.
- Communities must be engaged in making decisions or in programmes that involve them.

**Recommendations to mining companies**

- Mining companies must honour their pledges and must contribute to Community Share Ownership Schemes and trust
- Mining companies must stop tax avoidance and tax evasions and they must remit what is due to the government
- Mining companies must publish their revenues publicly
- Money should be channelled toward projects that promotes value chain system

*The resources in Zimbabwe are for Zimbabweans, they are for their future!*





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